Big bang of luxury

DRIVEN TO EXCLUSIVITY: The Lexus-LFA costs about 43 million baht. Thailand has two quotas out of 500 in the whole world to import it. Photo: James Stegbauer

Property Watch

By Bill Barnett

WELCOME to rainy season in Phuket. It's Friday morning as I ponder the sound of rain pelting down on the roof and it feels almost as if I'm in Syria taking incoming fire. My life is that of a minimalist. Give me a black t-shirt, shorts and a well worn pair of Sanuks. No watch, no jewelry, just an outdated Blackberry, which I make no apologies for.

At times though, I long for more. My wife always berates me for not bringing an umbrella outside on rainy days. Like today, as I sit here in my office after the heavens opened up and doused me like a water cannon on the mean streets of Istanbul. I've changed my status on Facebook to "Soggy". Is more better? Or is more just more?

Asia remains out of step with the larger world. It always has, and probably always will. Maybe the date line has something to do with it, pulling an all-nighter is never a bad thing. Keeps you edgy, like playing with broken glass. Over in Hong Kong, Edward Snowden is doing long stretches without sleep, though, sadly, Gitmo looks to be on his horizon. Silence the lambs in a nutshell.

But dammit, I'm here to talk about Asia's big bang of luxury and the tidal wave of "conspicuous consumption". A long time ago in the 19th century, economist Thorstein Veblen coined the term in his tome *The Theory of the Leisure Class*. He somehow peaked behind the curtain of time to see what would evolve later in the 20th century and beyond into the burgeoning middle class, or as those more cynically inclined would call it; the consumer class.

Though when Veblen coined the term conspicuous consumption his critique was aimed more directly at the upper crust world of the "haves". For those with money, suddenly objects of desire become cars, houses, second houses, travel and the finer things in life. Sure there was a blip in the 1960s and certainly Mao, Lenin, Castro and Uncle Ho tried to derail the gravy train, but the wall of consumerism was built on solid foundations well before the new millennium and there has been no looking back.

Here in Thailand, the surge of the upper class and a groundswell in the middle class has changed the world we live in forever.

Without doubt the poster boy for this episode is Steve Jobs, buy at higher prices, buy more and buy often.

Create the perception and feed the beast of consumerism. It's abjectly brilliant and I have to admit to owning an Apple MacBook Air, and yes my iTunes account is very active.

Phuket has its own class warfare, the ultra wealthy with their villas, mega yachts and private jets, and the aspirational emerging consumer class who love those Cs – cars, condos, country clubs, credit cards and smart cellphones.

Yet luxury remains a fickle giant, and though the island has garnered a massive inventory of high net worth individuals, the battle to stay on top is never an easy one. So much is being written about sagging infrastructure, mass tourism and chaos at the beaches. While the government and tourism leaders talk the talk of wanting high-end travelers; the changing world is seeing more a shift to smaller and less pricy.

To say Phuket has a split personality or is conflicted is a given. Cheap shoebox condo hotels gather steam, alongside luxurious multi-million dollar ultra-villas – can we see a merge of the tribes here and cater to the rich, the want to be rich and those on a budget? Tricky business. I spoke to someone who attended the trendy global chic travel show LE Miami and the feedback from the jet set is: that despite our Aman/Trisara/Andara/Sri Panwa foursome, the aisles were buzzing about Samui. Smaller, more exclusive, less crowded. Will the rich and famous leave us in our hour of need?

Probably not, as we have a mighty wind of new luxury brands opening hotels on the island over the next few years and Phuket is just such a strategic location. Yet on a broader canvas, conspicuous consumption now represents so much more than just real estate and travel – it's an insatiable appetite for more, faster, newer and glossier.

It's a different world we live in and I'm not entirely sure it's a better place. Except for iTunes of course; and MacBooks.

One rotten apple can spoil the whole barrel

Finance

By Don Freeman

AS OF the middle of June, the portfolios of many active managers of both mutual funds and hedge funds alike were badly under-performing the benchmark Standard & Poor's 500 index. In fact and despite a bull market that had seen the S&P index climb about 16% since the start of the year, over two-thirds of active managers were missing their benchmarks while active managers in general have had their worst performance since 1998. The major culprit? Apple.

Apple hit the US$700 level around the middle of September 2012 amid talk that shares would reach $1,000 by the end of the year or sooner. By the middle of June 2013, Apple had sunk to the $430 level and was sinking the performance of many active fund managers along with it because they were overweight in its shares.

Moreover, of the 30 most-owned stocks by hedge funds, Apple was the only one to have delivered a negative performance for the first quarter, and as of mid-June, it looked set to be one of only several to deliver a negative performance for the second quarter. Bedsides Apple, the hedge funds have also found themselves saddled with portfolios concentrated in low-returning discretionary and information technology stocks rather than cyclicals which started to perform better in late spring.

In other words, the "smart money" crowd bet too many chips on Apple as well as on the wrong sectors. While you or I can easily move in or out of investments, because we aren't managing billion-dollar portfolios or positions, it's very difficult for a big fund to add to or unload a sizable (e.g. one million share) position in the wrong stock or sector without seriously impacting share prices. This is another reason active fund managers are lagging and will probably continue to lag major indices for some months as they try to adjust their portfolios.

What are the lessons we can learn from the recent mistakes made by the smart money crowd? For starters, do no blindly follow the herd but don't try and stand in front of it either. For example, any short seller who bet against the herd by shorting Apple before last September likely found themselves on the losing side of a "short-squeeze" while investors in funds that short the market have been consistently loosing money year after year since the market bottomed after the financial crisis.

BAD APPLES: If you've invested in actively managed funds with large holdings in Apple, your entire portfolio may be suffering. Photo: Bjorn Olsson

Likewise, be very careful about buying into media or Wall Street hype surrounding any one particular stock, investment or sector, as the bulls can quickly turn into bears or vice versa. Case in point: do you remember all those bullish stories about Apple up until early autumn or so? When Apple's share price was rising and kept rising, the media and much of the investment community kept singing the company's praises and tended to attack its detractors, only to do a sudden u-turn when the stock or the company itself started to stumble.

However, unlike the managers of actively managed funds, the managers of exchange-traded funds (ETF) are not swayed one way or the other by hype because these funds are designed to track specific indices by having the same stock allocation as the indices they track. So instead of placing a bet on whether a manager of an actively managed fund can beat their index benchmarks, it makes much more sense to just invest in ETFs tracking indices.

With that said, there will still be a considerable amount of onus on you to have an investment portfolio with a properly diversified asset allocation between different types of investments (equities, bonds and cash) and sectors. This is much easier to do with ETFs or individual stocks or bonds than with actively managed funds. Why? Consider this: If the managers of all the actively managed funds you own are overweight in Apple, plus you own shares, then you are overweight in Apple and your portfolio has probably been suffering since last September. In other words, you may have knowingly or unknowingly followed the herd and are now paying a price with diminished investment returns all because of one stock.

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