Walking in the shadows of dinosaurs

Last Call
By Bill Barnett

AS NEW Year's lurks right around the corner, the question everyone has is what's in store for fourteen? My biggest challenge each and every successive drum roll of another 365 (or 366 in the case of leap years) is to remember to change the date on whatever I'm writing at the time. Typically things settle down by February but I've been known to stretch the numbers up to Songkran.

Once we manage to pass the Chinese New Year version as well, the Horse is set to take center stage. Given the gyrations this year, one can easily assume that a temperamental stallion will dominate the horizon versus the sedate posing of a show pony. With the year ending on a wild ride, it's hard to imaging things will dramatically change and the rock become more of a roll.

What doesn't kill you only makes you stronger is one of the self-obsessed's mantras but lets take a moment to take a peek around the corner to the dark side that threatens our rather pleasant lives in Phuket Paradise Incorporated.

Let's start off with CPR and in this instance does not mean pulling an ailing swimmer out of the Kamala surf and performing some mouth to mouth. No, it is of course the double whammy – currency and political risk. This year we have seen Asian currencies slide which have been triggered in many cases by speculation of the US Federal Reserve tapping the quantitative easing measures which prop up the consumption-mad Home of the Brave and Land of the Free. That's assuming they carry multiple credit cards.

The Fed is at it again and newbie Janet Yellen is here to show us the way. Once the green light is given for the floodgates of capital to open, inflows to Asia are at risk, and bingo exchange rates falter. While Asia is, with little doubt, a section of a bigger world, there is absolutely no doubt that what happens in Washington filters down to our little island in Southern Thailand.

Next comes politics, and all over the region, key elections are again another indicator of how rapid things can change. Here in Thailand, February 2 has been established as D Day, but this, as we all know, remains work in progress. Other major regional countries such as Indonesia and India will also tally up the popularity ratings. Thank goodness China doesn't have to deal with such trivial things as democratic processes.

Who or what will be the dark horse in the race of 2014? Photo: Alice-astro

We also have geopolitical risks, the nut job in North Korea (no not Dennis Rodman), the oil-grab island dispute between Japan and China, together with some smaller countries thrown in as bit players. But let's face it, as in all things catesphrophic and doomed, the things that may tear you apart often aren't those you are afraid of, but the ones that come out of nowhere.

On the bright side, there are the Winter Olympics coming up from February 7 to 23 in Sochi, Russia. I've not met anyone who actually knows where Sochi could be, like some sort of Borat sequel, a fabrication of the sporting community's imagination. Let's face it, Tiger remains tamed, Man United have been relegated to the amnesia brigade and sad, bad Lance broke all of our hearts.

And yet there does remain one bright and shining hope for the world in 2014 with the 2014 FIFA World Cup (except if you are English and for those of you reading this please go immediately to the pub and for God's sake don't bother watching, as the tears are already filling up in the giant reservoir in the sky).

In my case, I remain optimistic for the year to come. I of course, am not English, so have no fear of the World Cup, nor any interest in going to North Korea. Will we be headed for places we've already been in 2014 or find new stranger territory that even the Coen Brothers haven't arcanely imagined? There is only one way to find out, turn the next page please.

Bill Barnett is the Managing director of C9Hotelworks. he can be contacted through C9hotelworks.com

The lowdown on common ETF investments

Island Investor
By Don Freeman

GIVEN that so few managed funds are able to consistently beat important market benchmarks, Exchange-Traded Funds (ETFs) are great investments, because they track and replicate the performance of key market indices at a minimal cost. However, the popularity of ETFs has led to their proliferation with some being better investments than others. So what are the best ETFs to own and which ones should you avoid?

Without naming individual ETFs, here are some general rules of thumb for selecting the right ones for your portfolio:

Buy ETFs that track important indices

ETFs tracking big name indices or markets like the Dow Jones Industrial Average, the S&P 500 and the Nasdaq should form the bulk of your ETF portfolio, but don't overlook those that track other big indices like the Russell 2000 (small company stocks), those that track important sector indices (for example, the Dow Jones Utilities Average) and those that track important foreign stock indices like London's FTSE, Tokyo's Nikkei or the MSCI Emerging Markets Index. Moreover, don't forget about bond ETFs which, like bonds, tend to do well in recessions or bear markets.

Avoid ETFs tracking obscure sectors or indices

ETFs have proliferated to such an extent that Vanguard's founder John Bogle once sarcastically wrote in a Wall Street Journal op-ed: "Can you believe we now have an Emerging Cancer ETF?" That ETF, among others, has since closed after either failing to attract enough assets or after delivering poor returns to investors. You should also be aware that Bogle has said that individual sector and country ETFs are probably "too narrow for most" investors, but there might be times when such investments make sense.

Exchange-Traded Funds are a great way to diversify, lower expenses and grow your money. Photo: Rafael Matsunaga

Stick with plain vanilla ETFs

There could also be times where having a small position in so-called "inverse" ETFs (which short the market), leveraged ETFs (which use leverage in an attempt to generate outsized returns) or those tracking non-traditional assets (commodities) can make sense. However, you need to understand these ETF investments come with added and potentially significant risks while Vanguard's Bogle has gone so far as to say that inverse and leveraged ETFs are where the "fruitcakes, nut cases and lunatic fringe" can be found.

Avoid illiquid ETFs

A major problem with ETFs tracking obscure sectors or markets along with some inverse or leveraged ETFs is their lack of liquidity because not many investors or traders are buying or selling them. This lack of liquidity could lead you to pay too much to buy and sell them.

Read the prospectus

The good thing about most plain vanilla ETFs is that they are fairly straightforward investments – meaning even less experienced investors should be able to read the prospectus and understand what they are doing. However, if reading the prospectus leaves you confused or if the prospectus is not well explained in plain simple English, you should find another ETF to invest in.

Be very careful when investing in commodity ETFs

There are two types of commodity ETFs – one type owning the physical commodity (say, gold bars) and the other type owning commodity futures contracts – meaning you need to read the prospectus carefully to understand the risks involved. Moreover, be aware that since commodity ETFs do not invest in securities, they tend to be regulated differently or are less regulated than other investments.

Avoid high fee ETFs

Most big ETFs on the market today will charge fees as low as the 0.04% to 0.25% range but there are some ETFs out there, usually "managed" ones or those with more exotic investment strategies (e.g. they invest in commodities, short the market or use leverage) which might charge fees as much as 1% or 2% (or even more). However and given the wide selection of low cost ETFs available, there is little reason to invest in one that comes with such high fees.

In conclusion, EFTs are a great way to diversify, lower expenses and grow your money. If you are unsure of which ETFs to put in your investment portfolio and how to buy them, call me for a free consultation and get your portfolio invested in the most efficient way possible.

Don Freeman is President of Freeman Capital Management, a Registered Investment Advisor with the US Securities Exchange Commission (SEC), based in Phuket, Thailand. He has over 15 years experience and provides personal financial planning and wealth management to expatriates. Specializing in UK and US pension transfers. Call 089-970-5795 or email: freemancapital@gmail.com.