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THE VIEW
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In search of a new golden age

Intense competition, razor-thin profits and emphasis on short-term performance may be good for discipline but it hinders creative thought

One of my finest hours – at least at the time – was dealing with a New Zealand client investing in a French stock in Hong Kong, for a London stockbroker owned by a Swedish bank, in the corner of a Chinese shirt maker's shop on a line that scratched and whistled, while using a mobile phone the size of a brick.

A quarter of a century ago, Hong Kong was a leading centre in investment management, with three major competitors – HSBC, Jardine Fleming (which I worked for) and Schroders.

A professional local pension fund industry developed from this base (which was sadly not the basis of the design of the Mandatory Provident Fund), with Asian mutual funds emerging around 1970 and money management for wealthy individuals during the '80s.

By 1990, Hong Kong was a global asset management centre that could manage Asian investor money all around the world and attracted foreign funds to invest in Asia. It was a golden age.

Fast forward 25 years, and investment management is in crisis. The industry commoditised investment strategies into standard products. Firms marketed themselves as product providers, not knowledge leaders such as lawyers or doctors, and hid their fees within the products they sold.

There are now so many competitors that fees have collapsed and profits are razor thin. The emphasis on short-term performance means that money is run by process, which is good for discipline but hinders creative thought.

Investment industry needs an iPhone-like game changer. Photo: AFP

Meanwhile, the actions of unscrupulous practitioners have led to mushrooming regulations and heavy compliance costs. Market professionals today get better training but poorer experience, so much so that some of those who reach senior management do not fully understand the industry in which they operate.

Hong Kong itself has shifted from being a truly global centre to an Asian regional hub, larger in size but smaller in status.

The growth of assets in the region compared with the poor growth of fund product sales suggests firms are selling a product investors no longer want. The longer-established asset managers are in a better position than the newcomers, who are hurting financially.

So what might the next 25 years hold? What is clear is that the biggest firms will get bigger, because managing money has great economies of scale – only they can survive with fees so low. Smaller firms can best hope to be specialist subcontractors. Large firms have the resources to grasp the future.

Investment is, at its core, a knowledge-based activity of how to provide the best return at the risk most tolerated by the investor concerned.

Investing in any particular asset should be irrelevant. Firms have to convince clients that they are better off paying for knowledge and provide them with competent advice on all asset classes. Some of this is happening through legislation in Europe and the US, but this seems unlikely to reach Hong Kong any time soon.

> **The industry will fight its final battle when interest rates go up**

The industry will fight its final battle when interest rates go up, as history tells us that this means carnage in most of the widely held asset classes, including stocks and bonds (the MPF and most hedge funds included), and indeed property.

Rising rates imply that investment portfolios will need to access asset classes that diversify and protect investors, like agricultural land, hard and soft commodities, insurance products, arbitrage funds, private equity, new technologies, and commercial property.

These investments are typically closed to all but the largest investors.

There must therefore be demand for an investment solution consisting of a portfolio of highly diversified asset classes that can be purchased by both institutional and retail investors at a reasonable cost.

The best example might be the mixed portfolios built by the sovereign wealth funds, like those of Norway or Singapore, which have a very broad, long-term brief.

If one big institution was to grasp the nettle and popularise such a knowledge-driven investment solution, it would be a game changer – akin to Steve Jobs and Apple. The rewards would be enormous.

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