WEALTH PROTECTION:

Building a fort around your assets

REASONS FOR CAPITAL PROTECTION

Preservation of capital rather than return on capital

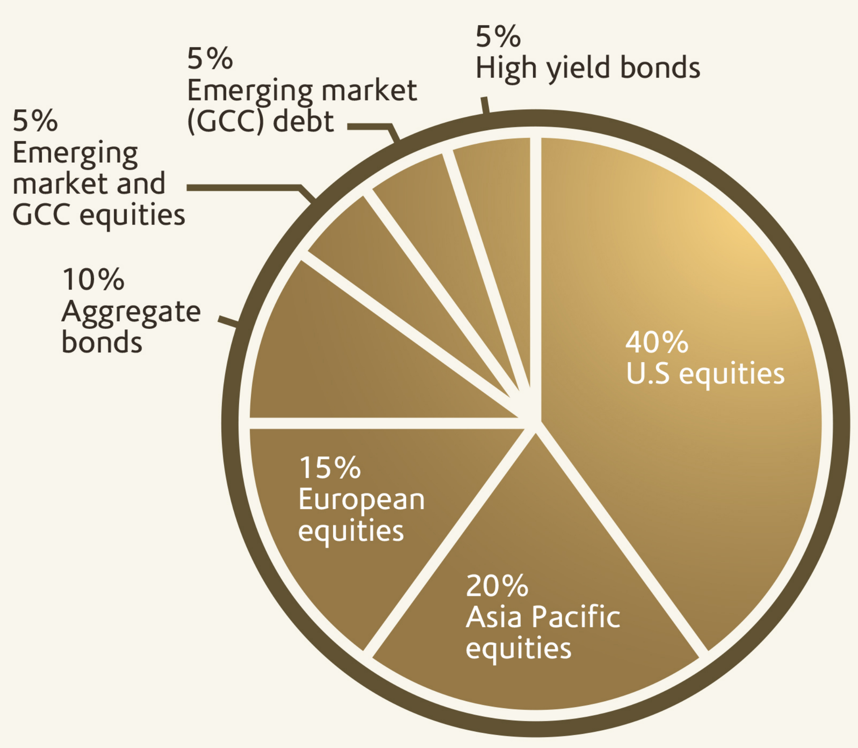
Planning for big projects - such as a major business acquisition, prolonged market downturn, or buying a home

Investors near retirement should aim to preserve capital rather than seek returns

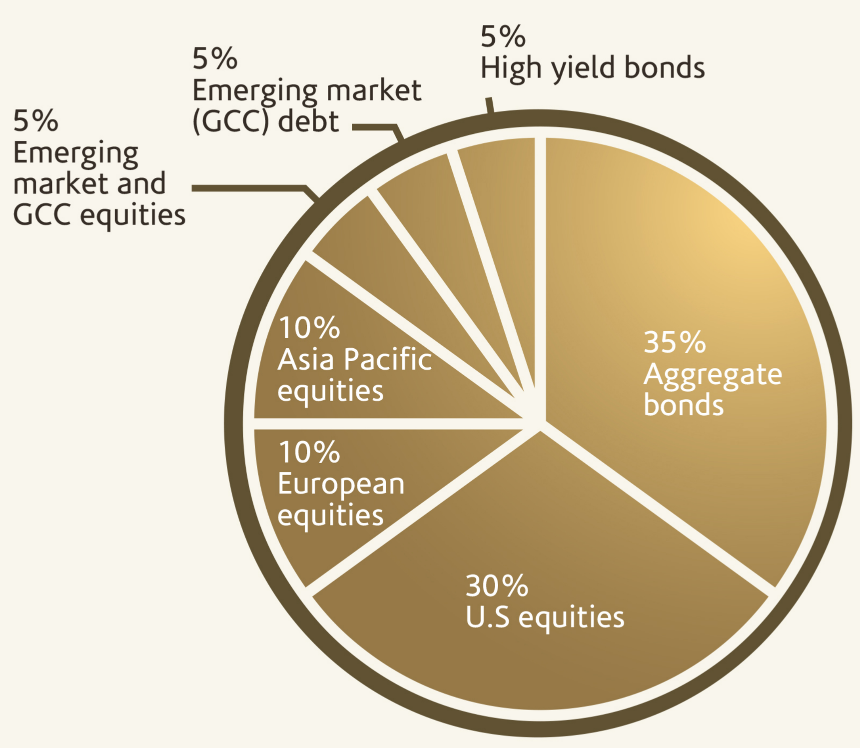
Cash is king – ready for opportunities that present themselves rather than tied up in illiquid assets

PROTECTING YOUR WEALTH NEEDS A TAILORED APPROACH

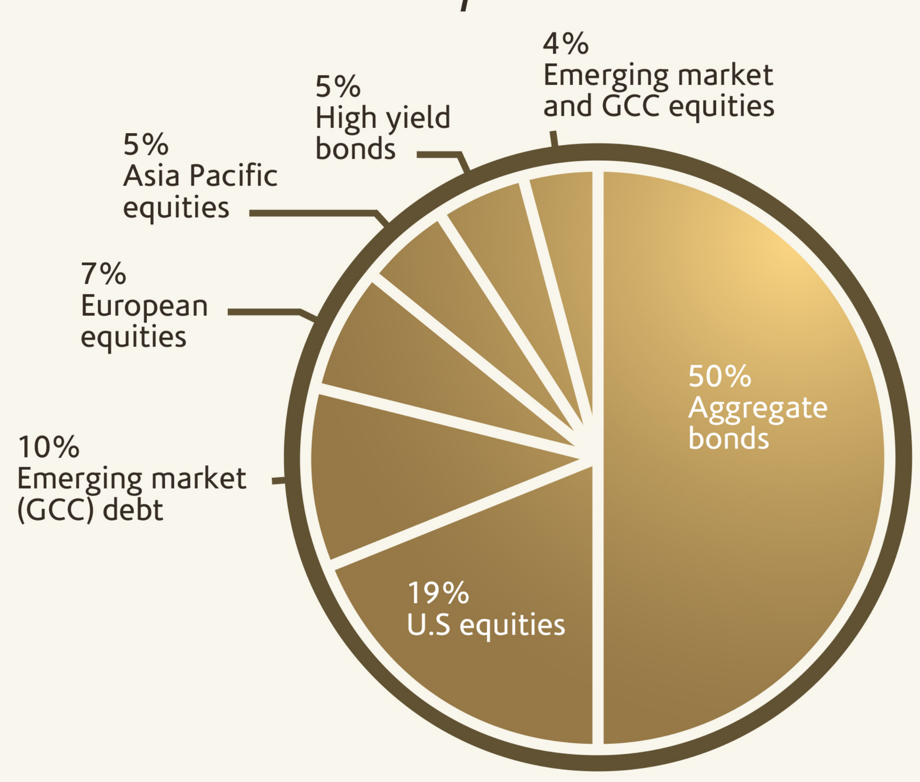
Aggressive plan



Balanced plan



Cautious plan



WEALTH PROTECTION: PLANNING FOR A POST-COVID 19 WORLD

This is the time to think carefully about safeguarding your wealth and mapping out a future strategy. There may even be opportunities to be had.

The COVID-19 pandemic has wreaked havoc across the world. Oil futures contract turned negative for the first time in history, global and local equity markets remain at record lows, liquidity is tight and business activity in the UAE – and almost everywhere else – is at a standstill.

In this context, mapping out a strategy to preserve wealth is of utmost importance. Furthermore, like in any crisis, there are opportunities, and seizing them will require thoughtful planning.

Time to plan ahead

The International Monetary Fund (IMF) warned on 20 April 2020 that global economic activity could decline on a scale unseen since the Great Depression. This year, it expects 170 countries will see income per capita go down –while only months ago the IMF was projecting 160 economies to register positive per capita income growth.

The short-term financial outlook undoubtedly looks tough. However, it's not all doom and gloom. Most governments and central banks are taking unprecedented action to rescue their economies, with fiscal measures totalling nearly US$8 trillion as well as massive liquidity injections. In the UAE, the Central Bank cut interest rates by 0.75bp on 16 March and on 5 April announced a stimulus package amounting to AED 256 billion (US$70 billion) to help mitigate the impact of COVID-19.

A balanced portfolio

What we are experiencing today is a reminder that a balanced portfolio is always key to weathering a storm. If all your investments had been in the stock market recently after a strong rally, this year is probably one you'd rather forget. Over the years, Mashreq Bank has organised several seminars and communicated often about the importance of diversification amid heightened market volatility, and even in good times - as spreading your exposure and therefore limiting risk is always recommended.
A balanced portfolio looks like this:

- A varied mix in terms of asset classes: investments in equities, exchange-traded funds, government and corporate bonds, other fixed income assets, infrastructure, commodities (gold, other metals, raw materials), currencies, real estate funds, private equity, alternative investments (digital assets, art, stamps, vintage cars). It is important that assets do not correlate with each other, so if the value of one falls, another rises so that the portfolio is not wiped out by a single event.
- Within the same asset class such as equities, a mix of "defensive" and "cyclical" stocks. Defensive stocks act as a safety net in troubled times and come from companies that will likely always get business, such as consumer staples, utilities (water, electricity, telecoms, waste management) and pharmaceuticals. Cyclicals, on the other hand, include stocks that are more volatile as they are more exposed to the consumer cycle, or overall economic performance. They include retail, travel and tourism, and construction. These stocks could potentially offer higher returns when the economy recovers.
- A mix in terms of the liquidity of the assets held: financial assets and property, for instance. Equities, bonds and mutual funds can be quickly converted into real money in a matter of hours or days. Real estate, on the other hand, might take months.
- Investments in different geographies, including not only different countries and regions but also investments in both developed and developing economies. The latter can offer higher returns as they can grow faster – however, they are also riskier as developing economies can be less stable politically and offer less investor protection.
- A varied currency exposure, with a mix of domestic, foreign and traditional "safe haven" currencies sought by investors in a global downturn such as the US dollar, Japanese Yen or Euro. Overseas investments offer a hedge against a decline in any currency due to fluctuating exchange rates.

Understanding your investment profile

There is no one-size-fits-all solution to protect wealth in this crisis as every situation is unique. Attitude to risk is a factor. Are you happy just to protect your assets for the moment or are you willing to take risks to grab potential opportunities?
Your time horizon is another important consideration: Are you retired or looking to retire soon and enjoy the fruit of your hard labour in the next couple of years? Or are you at the start of your career, getting married soon and wanting to start a family, therefore needing money to invest in a family home? Are you saving money for your children? All these questions determine your investment profile.
Other considerations include purpose. What do you want to do with your wealth and how do you want to go about acquiring it? Your investments must reflect your value system – your convictions, beliefs and faith. Investors are increasingly considering assets that are ethical or making a positive impact.

ESG investing consists of selecting assets and funds that include environmental, social and governance practices. The market registered a record year in 2019. Islamic finance also continues to gain momentum, and the market should keep expanding in 2020

Helping You Identify opportunities

The saying goes that the Chinese symbol for "crisis" is a combination of "danger" and "opportunity", a valid metaphor to describe the current situation. Many assets worldwide have seen their valuation considerably impacted by the COVID-19 pandemic as their owners are forced to sell them. Many investors are also pondering which sectors bounce back once the economy restarts.

Now is not the time to panic or feel over-confident and make rash decisions about your investments. On the contrary, it is time to think carefully about how best to safeguard your wealth now and in the longer term. Mashreq aims to provide with the assistance required. This time period is not just about wealth protection and managing market volatility, but emerging stronger from the crisis by learning, growing and being better prepared for future shocks.

Thanks to its expertise and the vast range of financial instruments and solutions at its disposal, from fixed income and equities, to structured products, currency markets, Islamic finance, mutual funds and asset management, Mashreq Bank can help you navigate these troubled times by offering you and your family tailored solutions to protect your wealth and financial interests.

Our regular communications aim to give our clients the latest updates to support decision-making during a fast-moving and unprecedented situation.

So get in touch with us and find out more about how we can help you emerge stronger - and wiser - from this crisis.