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FINANCIAL INSIGHTS

by

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CONTENTS

WHAT IS A HOUSING BUBBLE?

If you're interested in the property market – or thinking of entering the market as a new homeowner or real estate investor – then you're likely to have come across the term 'housing bubble'.

In general, investing in property is considered a reliable, low-risk way to grow your money over time. However, like any asset class, the housing and real estate market is still subject to risk, with one of the biggest concerns in real estate investment being the existence of housing bubbles.

WHAT IS A HOUSING BUBBLE?

Also known as property or real-estate bubble. A housing bubble is a temporary event in which (due to various economic factors) house prices skyrocket to a point where the prices don't reflect the fundamentals of the property.

This period – which can last for several years – is inevitably followed by a crash, where the bubble 'bursts' or 'pops' and house prices plummet as a result.

One of the most well-known housing bubbles occurred after the dot-com bubble burst and the stock market collapsed. These events happened due to investors pouring money into Internet-centric start-ups. Driving the prices up higher before stock prices dropped as investors realised the value of the stock didn't necessarily reflect the value of the companies.

As a result, investors abandoned these stock market investments. Instead, they took to real estate, driving prices up in a housing bubble that eventually burst in the late 2000s.

HOW DO HOUSING BUBBLES HAPPEN?

Though the housing market isn't as susceptible to 'bubbles' as other financial classes, the property is such a large, significant and time-consuming purchase compared to a more inexpensive asset. They still happen – and tend to last for more extended periods than other bubbles.

Like any good or service traded in the free market, house prices – and housing bubbles – are strongly influenced by supply and demand. If there is high demand for property but not enough – a.k.a. supply – to meet this demand, house prices will likely rise.

However, many factors – and often a combination of these factors – can cause house prices to rise and the housing bubble phenomenon to begin.

For example, suppose the economy is booming. In that case, people may have a higher income, allowing them to invest in and purchase property when they may not have been able to before. Moreover, more lax mortgage requirements, low-interest rates or easy access to credit can encourage people to buy homes, all of which contribute to the demand for housing.

When the demand starts to outweigh the supply – a.k.a. the number of homes or properties available to purchase – house prices begin to climb.

Speculators (risk-taking investment strategists) usually enter the market at this point. They are taking advantage of the rising house prices to 'flip' properties for a profit at higher prices weeks or months down the line. Further increasing the demand and making house prices soar even higher.

During this time, more properties are built to cope with the increased demand, though this takes time, so supply remains limited.

At some point, the house prices become so high that the demand begins to stagnate, or even decrease, as houses become unaffordable. Moreover, suppose the economy is lagging or has taken a hit. In that case, this can be another factor that reduces demand, as prospective homeowners have less disposable income to spend on a property.

As a result of this stagnation, speculators will pull out of the market as they realise they won't continue taking advantage of rising house prices and demand drops even more.

Accompanying this drop in demand is an increased supply of houses built to accommodate the formerly high demand for homes. By this time, the supply well outweighs the demand and house prices plummet: the housing bubble bursts.

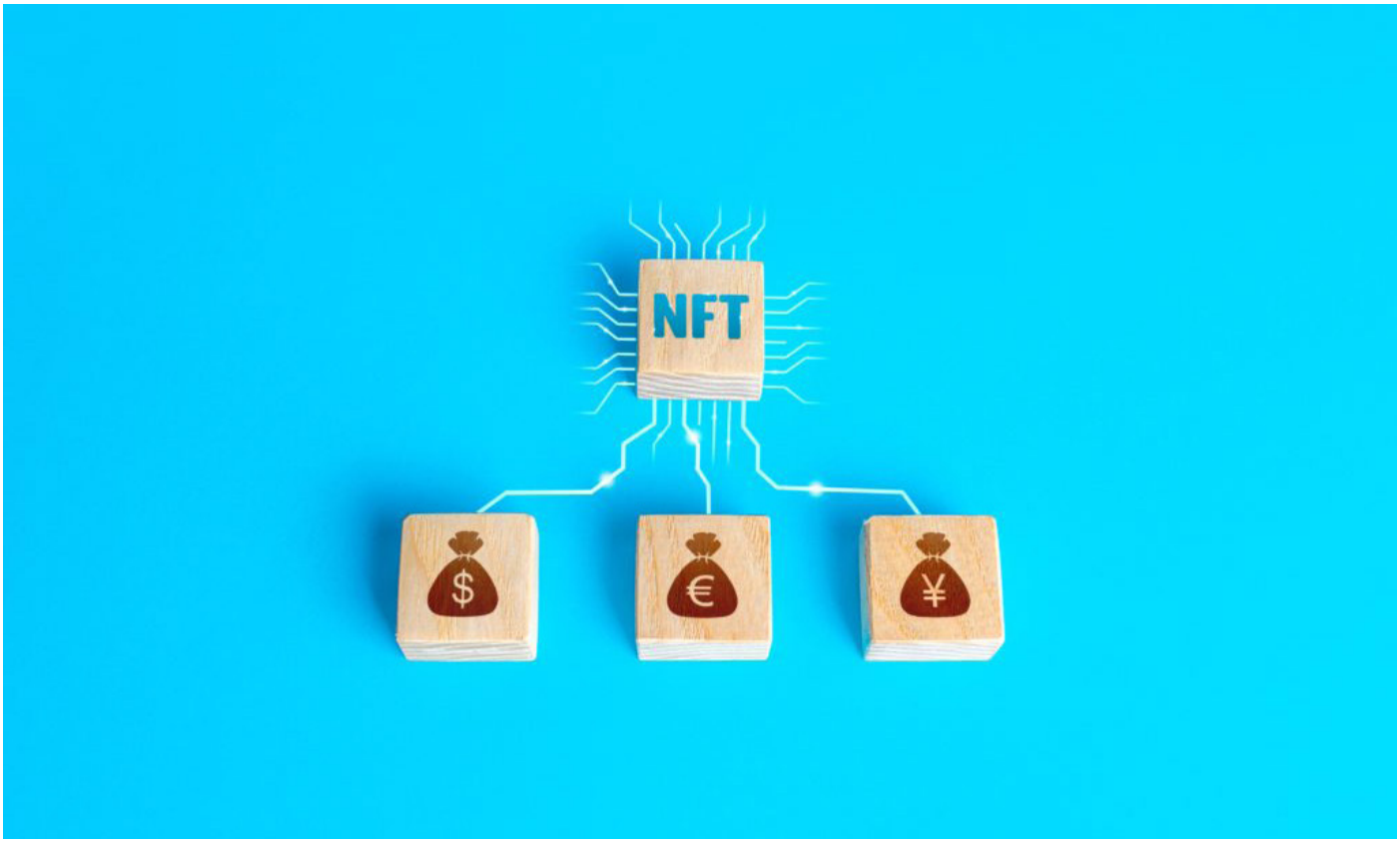
HOW DO HOUSING BUBBLES AFFECT HOMEOWNERS?

In addition to the obvious – housing prices increasing and making homes unaffordable for some buyers – a housing bubble on the brink of bursting, or that has already burst, can also make the homes of current homeowners difficult to afford.

Resulting in the increasing mortgage interest rates that often accompany a crash, in contrast to the often low-interest rates offered by mortgage lenders as the bubble grows. Leading to bankruptcy and foreclosure for some homeowners, while others will have to turn to their savings to keep their homes.

If you're considering investing in real estate, remember that, although the property is regarded as a low-risk investment, the market may enter a bubble-like any other asset class. So, it's a good idea to adequately research the market before purchasing to ensure you don't invest in a property whose price is about to plummet.

WHAT ARE NFTS?



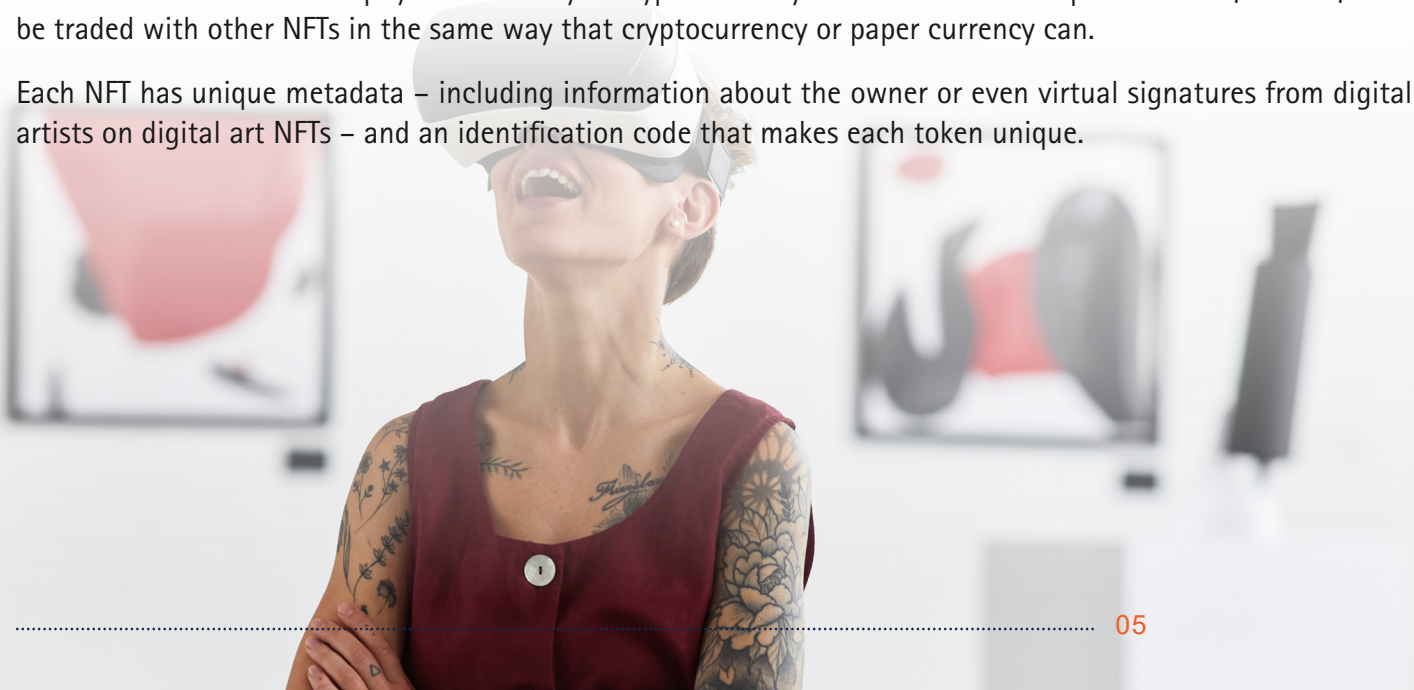
NFTs – or non-fungible tokens – have existed since 2014 but have reached new heights of popularity in the last year or two, primarily as a method of buying and selling digital assets such as digital art, GIFs, videos and more.

In the largest value NFT sale on record, which took place in March 2021, a digital artist known as Beeple sold an NFT comprising of 5000 artworks for over $69 million.

SO, WHAT EXACTLY IS AN NFT?

In essence, a non-fungible token is a digital representation of an asset. The non-fungible aspect of the NFT refers to the fact that – unlike the physical currency or cryptocurrency – each NFT has a unique value and, as such, can't be traded with other NFTs in the same way that cryptocurrency or paper currency can.

Each NFT has unique metadata – including information about the owner or even virtual signatures from digital artists on digital art NFTs – and an identification code that makes each token unique.



WHAT ARE THEY USED FOR?

Most commonly, NFTs are used to purchase and sell virtual 'collectables' such as digital artworks, GIFs, videos, sports cards and more – Twitter's CEO even sold an NFT containing his first-ever tweet.

The NFT's unique nature assures buyers that they own the original digital file.

In the past, items created digitally – such as artwork – could be duplicated and shared infinitely. Even if a party had the original digital file, there was no way to confirm this. Hence there was no way to monetise commodities such as digital art in the same way as traditional original paintings, which are so valuable due to being 'original' and 'one of a kind'.

NFTs provide a way to verify that a digital asset is the original, providing the 'one-of-a-kind' allure that a physical piece of art creates. As such, they have become an investable commodity.

What's more, NFTs can be programmed to allow an artist to receive royalties each time the NFT is sold, which is not typical of the traditional art market. They also cut out the middle man – removing the need for artists to go through galleries/auction houses instead of connecting directly to the customer.

This has the potential to disrupt several markets, as the elimination of the need for intermediaries can benefit both sellers and buyers.

CAN NFTS ONLY REPRESENT VIRTUAL ASSETS?

More than a tool for the sale of digital or virtual assets, NFTs can be used to represent ownership of tangible investments, such as physical art and even real estate.

For the most part, NFTs relating to physical assets represent fractional ownership of the investment.

While it's difficult to split up ownership of physical assets between many individuals, such as real estate or art – for example, you can't split a house up into a hundred small parts. NFTs make fractional ownership significantly simpler by assigning a percentage of the asset to the ownership of the NFT holder, who will receive a portion of the profit from the sale or earn a fraction of rent being paid by a tenant to live in the property.

This can open up real estate and art investment up to many more types of people, as these asset classes are typically dominated by the elite and difficult to enter into unless you have a large amount of capital at your disposal.

NFTs has the potential to make art and real estate investment affordable by splitting up the investment into less costly fractions, allowing people with lower incomes to enter into these formally elitist investment markets.

HOW DO YOU INVEST IN NFTS?

Anyone can buy or sell an NFT online.

Typically, you'll need to purchase NFTs with cryptocurrency. The type of cryptocurrency you'll need will depend on what your chosen NFT provider accepts.

Before purchasing cryptocurrency, which you can do using most credit cards, you'll need to acquire a digital wallet, which will allow you to store your cryptocurrency and NFTs.

You can purchase cryptocurrency on platforms such as eToro, Coinbase or even PayPal. After moving your cryptocurrency to your digital wallet, you'll be able to buy NFTs from NFT marketplaces such as OpenSea and Rarible.

HOW IS OWNERSHIP ASCERTAINED?

Like cryptocurrency, NFTs are backed by blockchain, the system that makes the use of cryptocurrency possible.

Blockchain stores records of transactions involving cryptocurrencies such as bitcoin, or the transfer of ownership of virtual assets such as NFTs, ensuring that ownership is protected.

The system is maintained by multitudes of computers worldwide, so records of ownership of NFTs can't be forged. This, coupled with the authentication built into the NFT, allows the owner to easily prove ownership of an NFT.

SHOULD YOU INVEST IN NFTS?

Although the NFT marketplace is booming, some experts predict that it's a bubble that is destined to burst.

NFTs may present a riskier investment. Unlike other asset classes, demand is the only significant factor that decides the value of an NFT, so selling/re-selling prices are unlikely to be indicated by other economic factors.

As such, the price is entirely decided by what the buyer deems it worth. In the future, it's possible that this could result in NFTs becoming unsellable, mainly because digital items such as art and GIFs can be reproduced and shared after being bought.

However, NFTs representing tangible assets may represent a permanent shift in how assets such as real estate and physical artworks are invested, making them an investment option with high potential for people with too little liquidity to purchase these assets outright.

ONE OF US

In 'One of Us', we share intimate conversations with colleagues, thought leaders, and financial experts to educate, enlighten, and entertain you.

This month we caught up with our Managing Senior Partner - James Colclough.

Q: Thank you so much, James, for taking the time to do this interview. Can we start by letting our audience know about your background and role with AMA?

A: Going right back to the beginning, in 2000, I was working in the UK as a Financial Adviser with Friends Provident when I was fortunate to make the acquaintance of an AMA client based in Dubai. He was so positive about his experience with his Consultant and AMA as a whole that he recommended I contact them to see if there were any opportunities to join them. I've never been one to let opportunities pass by, so I reached out to the clients' Consultant, who happened to be the Founding Senior Partner Greg Morris, and six weeks later, I was on a plane bound for Shanghai.

Twenty-one years later, I can look back at a fantastic journey with AMA. I've had the pleasure of working with exceptional colleagues and some inspirational clients, many of whom became great friends over the years. I've managed teams of Consultants, helping them to reach their full potential and opened new offices around the world, to name just a few things. In 2007 I became the Managing Senior Partner of The Austen Morris Associates Group of Companies, with full responsibility for the direction, strategy and financial position of the group as a whole. I'm still based here in the Shanghai office; however, with operations throughout Asia, Europe, the USA, South Africa, and Mauritius, this international role is very demanding but hugely rewarding. The AMA Group of Companies is now a leading International Consultancy helping over 10,000 clients worldwide to achieve their financial goals.

Q: Having been with Austen Morris Associates since 2000, what do you think sets AMA apart from the competition?

A: With a 27 year heritage, AMA indeed has stood the test of time, and while there are many reasons for that success, I believe the people in AMA make it the success it is today. We have an exceptionally stable team. The majority of our Consultants, Client Services Managers and Key Support staff have been with AMA for over a decade, some for more than two decades, which means that all of that experience is retained within the company. It also means that we all know each other very, very well, a close team with a huge amount of integrity and trust, a team that I'm proud of and a team I'm proud to be part of. This structure and longevity of the whole team make AMA what it is today. It's also this strong, loyal team that will continue to drive AMA forward to even higher achievements in the future.

Q: We know that you created AMA's custom wealth management system. Can you tell us a bit more about the 'Interactive Client Engagement System' and AMA's 'Investment Platform'?

A: Many of AMA's clients are ex-pats which means that most of our clients will move on from the country where they initially met their Consultant. The challenge was to create a system that allowed those Clients to continue to Interact with their Consultant and have the same experience from the other side of the world as they would if they were sat in the same room. This challenge led to creating our 'Interactive Client Engagement System', which has been a game-changer for maintaining relationships with our clients no matter where they are in the world. The ICE System is a host of tools available to both the Consultant and our clients to allow them to collaborate on achieving the clients' future financial goals and portfolio management. We can adjust the ICE system for each client to ensure they receive the bespoke level of service they require from their Consultant. This has led to an exceptionally high level of client retention because they know we are here for them, no matter where they are in the world, a truly global service.

Q: What impact did Covid-19 have on AMA and wealth management in general?

A: I'm sure everybody reading this has personal stories about how COVID has affected them. Like everyone else, we are constantly dealing with lockdowns, travel restrictions, employees getting ill, etc. It certainly has been a demanding couple of years; however, we were well placed to manage our way through as a company. I previously touched on our Interactive Client Engagement System, which due to COVID, became a vital system as we could no longer, or drastically reduced, see clients face to face. So due to our systems, the business could function relatively as normal, and our client could enjoy continuity of service. While video conferencing is a good option, I certainly miss getting to our other AMA offices to visit everybody and see the team face to face. This has been an adjustment to me personally, which hopefully will change in the not so distant future.

Q: Can you tell us more about yourself on a personal level? Do you have any hobbies or activities you do regularly?

A: I have four 'hobbies' to which I commit 99% of my 'Non-AMA' time, my children; the thought of a round of golf or other such activity seems like a distant memory. Living in Shanghai with a young family is so rewarding; they are always being exposed to great, constantly changing experiences. So when I'm not working, I'm very much a family guy spending time with my wife and children; I can't think of a more rewarding hobby to have.

Q: With Covid-19 and China shutting its borders, have you been able to travel recently?

A: Unfortunately not. We can travel within China; however, international travel is not possible. We know so many families that have been split up with part of the family in one country and the rest of the family in another, a heart-breaking situating and not a risk that we can take. So, for now, we will stay in China until things are more settled and international travel is more predictable.

Q: Let's say everything goes back to normal tomorrow when travelling. What are the top 3 places on your travel list?

A:

1. UK – to visit my family, it's been too long!
2. All AMA offices – video conferencing is great, but I want to spend some face to face time with our teams.
3. The Maldives – I miss the beach!!

WHAT IS RISK TOLERANCE AND WHY IT'S IMPORTANT

Before beginning to build an investment portfolio, you should consider the investment strategy you intend to adopt when purchasing assets – and risk tolerance is one of the most crucial factors to take into account.

Having a knock-on effect on the type of assets you should choose to invest in to build up your portfolio – and the respective allocations of your investment budget to each of these asset classes – knowing what your risk tolerance is will help you to build the portfolio most suited to you.

WHAT IS RISK TOLERANCE?

An investor's risk tolerance is their ability to endure risk when investing – essentially, the amount of potential loss they are willing to endure from the investments made in their portfolio.

There are three main types of risk tolerance:

CONSERVATIVE RISK TOLERANCE.

Investors want to take as little risk as possible when they have a conservative risk tolerance; they're willing to enjoy smaller returns from their investment portfolio in exchange for minimized risk, with a focus on preserving their investments.

Those with a conservative risk tolerance invest in assets such as money markets, bank certificates of deposit and lower-risk bonds.

MODERATE RISK TOLERANCE.

Lying between low and high-risk tolerance, moderate risk tolerance investment portfolios contain a mixture of low-risk and high-risk asset types.

Investors with a moderate risk tolerance will usually use either the 50/50 method or the 60/40 method – a.k.a. allocating 60% of their investment budget to higher risk assets such as stocks and 40% to lower risk assets classes.

AGGRESSIVE RISK TOLERANCE.

Investors with aggressive risk tolerance are willing to sustain the risk of great potential losses in order to open up the possibility of achieving huge rewards.

The portfolio of an investor with an aggressive risk tolerance will be comprised mainly – or completely – of high-risk assets such as stocks, which are more likely to reap greater rewards over time but are also subject to large downswings in value.

HOW DO YOU KNOW YOUR RISK TOLERANCE?

There are several factors that are likely to influence an individual's risk tolerance.

For example, older investors nearing – or already enjoying – their retirement are more likely to have a conservative risk tolerance as, typically, high-risk assets are best invested in over a long period of time.

In contrast, a younger person – with the advantage of the rest of their lives ahead of them – is more likely to enjoy the benefits of long-term growth that high-risk stocks can present.

Moreover, a person with a lot of wealth, plenty of disposable income or an array of other stable income sources may have a higher risk tolerance as the prospect of loss on high-risk assets won't really put a dent in their financial situation, regardless of age.

Or, if someone is saving for a short-term financial goal – such as affording the deposit on a house within a year or two – their risk tolerance should be low since they'll want to grow (but more importantly, conserve) the money they have to achieve that goal, rather than subject it to great risk.

However, the biggest deciding factor of an investor's risk tolerance is an investor's own sensibilities.

If an investor has a portfolio comprised of high-risk stocks, they need to be able to cope well with dips in the market and drastic changes in the value of their investments, especially when that value dips downwards.

If these things will cause immense stress and anxiety – and may potentially cause an investor to panic-sell their assets when the market is falling – they'd be better off building a portfolio that lends itself to conservative or moderate risk tolerance.

WHY IS IT IMPORTANT

TO KNOW YOUR RISK TOLERANCE?

Knowing your risk tolerance is crucial to ensuring you get the most out of your investments.

For example, if you were to build an investment portfolio comprised of high-risk stocks – without taking into account your own risk tolerance – then you may panic-sell your assets when the market is falling, when they may have increased in value over the long term, causing you to lose money where you might have made it.

Moreover, if you have specific, shorter-term financial goals that you need to meet – and have limited disposable income in order to meet those goals – then investing in a ton of high-risk stocks exposes you to risk that is unlikely to be worth the rewards in the short-term and may prevent you from meeting those financial goals.

On the other hand, if you're focused on long-term growth, and have enough disposable income to maintain your financial stability while investing – and you're not overly stressed about potential declines in the value of your investments – then building a portfolio comprised of investments with conservative risk may be a waste of the potential rewards that await you if you embrace your high-risk tolerance.

WHAT IS IMPACT INVESTING, AND IS IT A GOOD INVESTMENT STRATEGY?

In a world with quickly evolving priorities and a society becoming more socially aware and conscious about its impact on the planet, impact investing is becoming more popular as an investment strategy that considers each investment's social and environmental impact.

WHAT IS IMPACT INVESTING?

As described by the Global Impact Investing Network, impact investing comprises of "investments made to generate positive, measurable social and environmental impact alongside a financial return".

These investments can be made in renewable energy, microfinance and other financial inclusion-based firms, conservation, healthcare, education or sustainable agriculture.

Impact investing differs from philanthropy – the practice of donating capital to causes and companies – as investors expect some return from their investment, whether that's the preservation of their capital or its growth.

A principal type of impact investing is Socially Responsible Investing (SRI). The investor selects investments based on specific ethical specifications, motivated by personal values, religious reasons or politics.

Another route – though it's hotly debated as to whether this investment strategy can be classed as impact investing – is Environmental, Social and Governance (ESG) investing.

This strategy assesses social and environmental practices of investments in relation to how they might impact the financial returns of the investment. For example, a company using child labour will deter the socially conscious buyer and reduce the value of the investment.

With ESG, the primary concern is financial returns, while other impact investing strategies focus on the social and/or environmental benefits first, with financial gain as a secondary priority.

IS IMPACT INVESTING A FINANCIALLY VIABLE METHOD OF INVESTMENT?

One of the most common misconceptions of impact investing is that it doesn't generate healthy investment returns.

Yet, in a survey conducted by the Global Impact Investing Network in 2020, it was found that returns met or exceeded investors' expectations in terms of both the social/environmental impact and the financial reward they garnered.

67% of the participants in this survey reported receiving market-rate returns from their investments. In comparison, 18% received below-market-rate returns (yet close to the market rate), and 15% reported below-market-rate returns (closer to capital preservation).

It must also be noted that the motives of impact investors vary, with some aiming for lower returns in favour of achieving particular social or environmental goals.

While impact investing may not always yield as high returns as investing strategies that don't consider the social impact, the difference between returns is slight. There is an average 6.4% return on impact funds compared to a 7.4% from non-impact funds – yet the difference between the impacts these make on the world is vast.

WHO USES IMPACT INVESTMENT STRATEGIES?

All sorts of organizations might choose to use an impact investment strategy, including fund/wealth managers, financial institutions and banks, NGOs, pensions funds, individuals and private foundations.

One of the most well-known and esteemed foundations associated with impact investing is the Bill and Melinda Gates Foundation, with a fund of $2.5 billion directed towards investing in ventures aligned with the foundation's values – namely, improving health and education contributing to gender equality globally.

Traditionally, foundations, banks, fund managers, and other institutional investors have carried out impact investing. Though – more and more – individual investors choose to evaluate their investment choices based on the environmental and social impact their investments are likely to carry.

Impact investing appeals most prominently to the younger generations – primarily millennials – who are, overall, more interested in aiding social and environmental causes.

As the younger generations will eventually represent the most significant market influencers, it will be in the best interest of investment platforms to offer impact investing as an investment route. As such, many investment houses – including banks, asset management companies and even online investing platforms – have already begun to offer funds to allow socially conscious investors to make ethical investments through impact investing easily.

So, if you want to grow your money while contributing to the social or environmental causes that are important to you, consider impact investing to reap the financial rewards of investing while making a positive difference to the world.

GROW FINANCIALLY WITH AMA

At Austen Morris Associates, we know how the right financial decisions can make all the difference to your long-term security, quality of life and the realisation of your dreams. We also understand the importance of working closely with you over the long-term to understand your unique needs and help to meet any challenges along the way.

Since 1994, we have been committed to the core values of trust, professionalism and partnership to the benefit of our International Clients around the world, resulting in the successful long-term relationships that are the foundation of Austen Morris Associates today. As Independent Financial Advisors, we provide unbiased advice and give you access to the world's top investment management groups.

Our Consultants offer a wealth of experience in providing a full spectrum of financial advice. Our commitment to ensuring your peace of mind reinforces our focus on trust and partnership. By focusing on your specific needs and situation, we tailor plans to reach your financial goals while maximising the benefits of international investing.

Austen Morris Associates is a truly international company with its global registered office in Seychelles and wholly-owned registered offices in China, South Africa, Hong Kong, Mauritius, the USA and the Philippines. To begin your journey towards total financial security, we invite you to meet with one of our Consultants to understand our financial planning approach and why our clients become loyal and long-term partners.

Get in touch with us today for a free no-obligation consultation.
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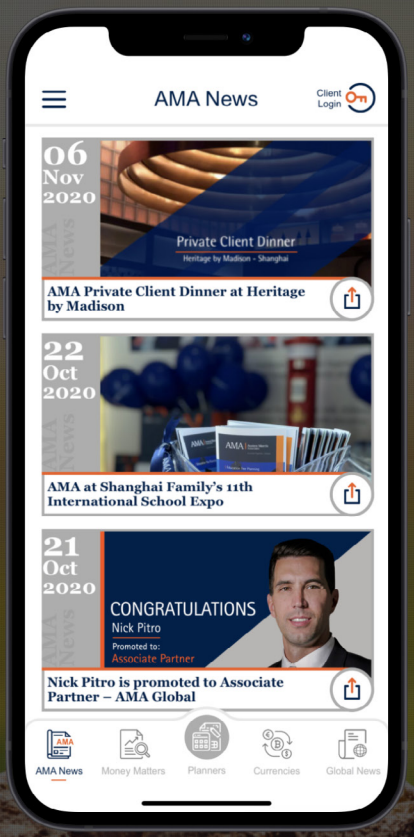

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