

Maintain a balanced portfolio: UOBAM

By **TEH HOOI LING**

UOB Asset Management (UOBAM) is advising its clients to maintain a balanced portfolio of 55 per cent equities, 38 per cent bonds, 4 per cent commodities and 3 per cent cash to start the year, as 2012 can either turn out really good or really bad depending on whether the Eurozone breaks up.

"It's a very binary world," said the firm's senior director for asset allocation Tony Raza. "The potential for this year is very drastic. If the Eurozone breaks up, then the downside is significant. We are talking about the Lehman-type event times two. And if it doesn't break up, and the recession in Europe is mild, then there's a double digit upside potential in equity. The bounce can be as high as 20 per cent, given how cheap many of the markets are."

So, on the one hand, it is risky to be underweight risk assets because there is potential for the market to rally and leave one behind. On the other hand, it's dangerous to stick one's neck out too far because of the potential risks. "So we are starting the year more neutral, and we are monitoring those risks carefully," he said.

European leaders know how dire the situation can get if the Eurozone breaks up. But to avoid that scenario, among other things, it would involve the issuance of Eurobonds, giving more power to the European Central Bank and more help for Italy, Spain and Greece. These are all politically unpopular moves.

"So I think it will be a

out for to get an indication of where things are headed. The next major sign post is in February when a number of European countries, including Portugal, Germany, France, Italy, and Greece will launch their sovereign bond auctions.

"That will be a good indicator whether or not they are going to be able to sell

probably can get through this year and find takers for the bonds, he said.

Things should be clear either way by the second quarter of this year, reckoned Mr Raza.

The near term risks notwithstanding, Mr Raza said valuation is cheap enough for investors with five to 10 year horizon to enter the market now.

"Currently, valuations for Asia ex-Japan are 9 to 10 times earnings, and this would correlate with 12-13 per cent annualised return for the next 10 years," he said.

On his allocation, Mr Raza is recommending an overweight in the US and Asia ex-Japan equities. For bonds, the overweight is in high grade developed market corporate bonds and emerging market bonds.

As for commodities, he favours gold and oil, and is underweight the other cyclical commodities on account of the slowdown in China. UOB's estimate is that gold would hit US\$2,300 in the next 12 months.

Within Singapore equity market, the sectors that UOBAM is overweight on are consumer staples (Wilmar, Golden Agri) and financials/real estate (Mapletree Commercial Trust, Global Logistics Properties).

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— **Tony Raza, UOBAM senior director for asset allocation**

case of (German Chancellor Angela) Merkel taking the tough stance, and then giving way to save Europe in the last minute, and then being tough again. That's going to keep the whole world on edge. And also, flirting with the edge like this, there is a chance of taking a misstep by mistake and hence causing the whole world to go through something unintended," said Mr Raza.

But there are sign posts which investors can look

these bonds. They have a significant amount of refinancing to be done this year. And new debt issues as well," noted Mr Raza.

If they are not able to issue these, then the market will get very nervous and existing holders will dump their bond holdings. "The market could unravel and we could see yields climb to 10 per cent, 20 per cent."

On the other hand, if the auctions go well, then probably bond yield will moderate. People's panic will subside. That's a sign that they