Защитные активы и их применение в период экономического спада. Механизмы защиты капитала

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Аннотация

В статье представлены предложения по инструментам, которые могут быть применены для сохранения капитала в условиях нестабильности на мировых рынках. Неопределенность и высокие риски вынуждают часть инвесторов закрывать свои позиции и ждать, пока ситуация прояснится, или просто выбирать менее рискованные инвестиционные возможности, которые все же дают приемлемый уровень доходности. Именно эти возможности и будут проанализированы, чтобы систематизировать лучшие варианты для каждого таймфрейма, используемого инвестором, а также будут выявлены недостатки каждого варианта для нахождения оптимальной стратегии.

Ключевые слова: защитные активы, инвестиции, золото, недвижимость, хеджирование.

Protective assets and their use during economic downturns. Mechanisms to protect your capital

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Annotation

This article represents suggestions on the instruments which could be applied to save capital during instability in the world markets. Uncertainty and high risks force part of investors to close their positions and wait until the situation becomes clearer, or simply to choose less risky investment opportunities that still give an acceptable level of profit. That is why these opportunities will be analyzed in order to systematize the best options for each time frame used by the investor and show the disadvantages of each option.

Key words: protective assets, investment, gold, real estate, hedging.

Within the last three decades, financial markets experienced several world crisis and each year the tension only tends to increase. That is why investors search for instruments with stable income, which are either not affected by the market fluctuations or have negative correlation with falling quotes. Depending on their expectations of the market uncertainty period duration, investors choose different assets to open the position.

The most popular and well known protective asset, which could be used for both the long and short-term is gold. However, the capital could be allocated to other instruments: T-bonds and other most liquid types of bonds; securities of companies which have stable position in the market and which usually have high capitalization and are included in the main indexes as “blue-chips”; real estate and valuable assets, for example stamps, coins, vine, works of art. This first group is usually considered for the mid and long-term. Some currencies could be added to this list, but the forex market is frequently influenced by geopolitical news. For the mid and short-term investors monitor derivative markets, especially options, futures, and ETFs. [5]

The classical protection asset is gold, which was initially used to back currencies and for international trade in the previous centuries. [6] Despite the historical decrease of the real asset price taking a fifty and a century perspective, nominal price is constantly increasing and after the picks of 2010-2013 the correction depreciated the price not dramatically. Considering extreme situations, even during the war periods, it was still liquid in all forms, from gold bars to jewelry. The last type is less frequently considered, since the asset price is higher due to the job of the jeweler, however this asset could be easily transported and exchanged, especially during the war period or other emergency. Opening a depersonalized metal account and buying bars is a more common situation for most of the investors, since all the operations take place via bank. Unfortunately, metal accounts in the banks still have risks in case of the bank bankruptcy or other fraudulent activity. Physical gold bars require transaction costs, storing and additional taxes. If an investor wants to save on taxes, he might consider gold coins, nevertheless, other disadvantages should be kept in mind. The main one is that gold is

still a commodity and it is hard to accurately predict its future price. That is why even acquiring options and futures might not cover the risk, but actually even add the uncertainty due to speculating character of the derivatives. Gold could be used to hedge for a period of time, but before that, the investor should examine, whether the commodity price is not overestimated and the balloon is growing. [13] [8]

The next type of investment opportunities is bonds, fixed income security issued by corporations and government. [1] The most popular bonds for this moment are Treasury bonds issued by the United States. Despite low income from this instrument, it is thought to be the most reliable, and sometimes even called as a risk-free security, since that is the debt of one of the strongest economics of nowadays. Not only the T-bonds are highly demanded in the market. Investors also refer to German and Switzerland bonds, because these countries' economies are strong as well and still manage to show constant growth. Of course, government bonds of such countries as Argentina or Greece are not a protective instrument due to higher risks of default. Even Russia experienced default on national debt repayment during the crisis of 1998, so not all government debts are absolutely secured. [4] Even the T-bonds in the long-run perspective could be under risk, since the US is over credited and simple money emission might not cover the debt in the new economic situation, or in case such countries as China and Japan, which are currently the main creditors of the US, will instantly sell the whole amount of the bonds, so the market will collapse. [2] That is an extreme scenario, so in general government bonds will be one of the securities which can not only secure his capital, but also result in a slight profit.

Corporation bonds can also be used as a protective tool in case the company has proved its stability and constant growth in the market. Sometimes these companies have government participation, which might be considered as an additional government guarantee. For example, part of Sberbank or Gazprom shares belong to the state and have high liquidity, so their bonds can both bring the investor not only profit but also assurance that the debt will be fully repaid. And depending on the type of acquired bond, it could be converted into companies shares, which might give even better profitability. [5]

If the investor has a higher risk tolerance, he might consider shares of big corporations. In order to minimize geopolitical risk, the company should be native to the investor and operate mainly within the country. But this requirement again depends on the world political and economic situation and is not necessary during short-term corrections of the market and acceptable level of uncertainty in this aspect. As for the main requests, the shares must have

- high dividend yield,
- high level of liquidity, which could be tracked on the MICEX platform,

- significant amount of highly liquid assets on the balance sheet,
- sufficiently high quality of management,
- high positions in ESG ratings,
- transparency,
- absence of crucial negative signals within the industry.

Of course, investors need to monitor current position of the company and industry where it operates a bit more frequently than in case of investment in bonds however the yields are higher. The disadvantages of this option could also be lack of significant grows in stock prices, even if it happens, there is an instant correction, especially when the list of dividend receivers is drawn up; lack of innovative business ideas, since the initial strategy does not include any rough turns from the main activity written in basic strategy.

During crises investors should also consider such operations with shares as taking part during the buyback of shares, the profitability of the programs is usually high; acquisition of companies stocks, that have a clear and effective development strategy or companies that take measures to increase the efficiency of company's governance, make it more transparent and decrease the direct government influence on its activity. Taking into account Russian stocks, which are always sold under discount, the underestimated stocks might show a surprising growth after its price correction. If the investor is more conservative, preferred stocks should be considered, since the dividend payments are guaranteed and during crisis are likely to be higher, than on ordinary shares.

For those who are ready to take more risk, ETFs should be considered, so that the whole industry instead of one company is covered. ETF (or exchange-traded fund) is a marketable security that can track a certain index, a commodity, bonds, or a set of assets like an index fund. These trades are different to mutual funds, as an ETF trades like a common stock on a stock exchange. The main difference between the ETF and other types of index funds is that the ETF tries to imitate the market, not underperform or over perform it. [8]

This kind of investments is suitable for:

- investing in international stocks via Russian brokers, bonds market or gold using the tax credits and benefits of Russian Federation,
- diversifying the investment portfolio by purchasing the whole of set of securities corresponding to a certain index,
- saving the funds from the fluctuations in the exchange rate by using currency instruments.

ETF can also provide insight into investors' views on the economy and specific sectors. For example, a sudden dramatic drop in relative strength of certain industries or indices can indicate that

something is going wrong there. On the contrary, a huge increase in the same value can mean that the investors reacted positively on the last news and events connected with this industry or index and decided to invest money in this fund [10] [9]. Besides that, a huge outflow of money from ETF is commonly viewed as a strong bearish sign. In contrast to this situation, an analogous accumulation of funds can be considered as a bullish sign.

ETFs are chosen by lots of investors worldwide who are actively managing their portfolios. The choice is not random: ETFs have no loading charges and thus their fees are much lower than many mutual funds, for example. There are a lot of different ETFs available in the world, including not only major indexes and sectors of equity market, but also national, international and even country-specific exchange-traded funds. So, this diversification will allow materials to get a sector-type return without volatility and risk for any single security. In addition, ETFs are friendlier to taxes, so tax-aware investors will likely choose exchange-traded fund instead of index funds.

Another hedging instrument for investment portfolios is derivatives market. Derivatives market can be defined as a special financial market for derivatives (like options or futures) or financial instruments, that are derived from other forms of assets. Basically, all derivatives market can be divided into two parts: one for exchange-traded derivatives (like futures and options) and second for over-the-counter derivatives (like swaps and forwards). Using derivatives takes place in short or mid-term strategies and is usually either a protective mechanism for local events e.g. hedging the possible switch for bearish trend of some company's stock via an option, or fixing a commodity price, even gold, for the period of uncertainty and higher risks. However, the counterparty might default, so for an OTC deal, the loss could be covered through court and second type covers the exchange. But it does not work out if too many participants defaulted and caused the domino effect.

Derivatives markets have played a key role in the financial crisis during the end of 2000s. Especially so did the so-called Credit Default Swaps (or CDS), which were traded on over-the-counter markets. Besides that, in the center of the scandal were Mortgage Backed Securities (or MBSs), a certain type of securitized debt.

However, that case was not the only historical event when an issue in connection with derivatives occurred. For example, in the 1990s, a famous corporation called "Procter and Gamble" lost more than $100 million after it took part in equity swaps transactions. In December 1994, Orange County declared bankruptcy after facing a huge loss for more than $1.5 billion from a wrong-way bet on interest rates (or "inverse floaters", as they are sometimes called) in one of its principal investment pools. In 1995 one of the senior traders working in the Barings Bank, an institution which successfully survived during the Great Depression and two world wars, collapsed the whole organization by losing more than $1.4 billion in trading equity index derivatives. Besides that, the derivatives-related

economic scandals include the bankruptcy of the famous Enron Corporation in 2001 and the near bankruptcy of the AIG corporation in 2008 [3].

Such events and scandals let to further proceedings and open questions concerning the regulations of the derivatives markets and financial stability in trading. Nevertheless, derivatives markets play a key role in the economy and can be a very important indicator to evaluate any problems or gaps in different industries or sectors. In addition, derivatives matter for the huge part of the population and can help to reduce risk for investments. Such investments can vary from industry to industry and from sector to sector, but the key idea is to ensure that the undesirable uncertainty won't happen.

Financial derivatives can help investors and businesses to make their operations more profitable and stable, many financial experts and analysts call into question the safety and stability of derivatives market. They are sure, that these markets are nothing else than the financial bubble, which will explode soon and cause lots of problems in the world economy. So far, the explosion in growth of derivatives in the world in the past years has really created global instability and potential problems in all financial markets. Speaking about the total value of derivatives in the world, it has increased for than 1000% since the beginning of new century. Even during the world financial crisis in 2008 it was growing further and further, no matter that the whole economy was in recession. What is interesting, every nine of ten derivatives in the United States are owned either by five largest banks in the country or by their holding companies [3]. In addition, one of the most famous and well-known investors in the world – Warren Buffet – also criticized this type of financial instruments and warned that someday this time bomb can explode and harm not only its buyers and sellers but also the whole economy in the world. Following his own advice, in 2016 he sold around $200 million of derivatives in order to close the policy and terminate all the contracts connected with them. Though he questioned the use of derivatives, he explained his benefit of these financial instruments as a way to gain capital quickly. After that, he could use this money to invest in other places and not only protect it but also to achieve faster capital growth. For example, he sold options on different stock market indices during the world financial crisis in 2008 [12].

Almost comparable volatility and risk is observed in FOREX market. Considering foreign currency exchange market from the perspective of hedging we should mention that most investors prefer the long position during the crisis period, so they convert some part of their capital to diversify it and reduce the risk. [2] Standard strategy is to keep half of the savings in the native currency, or the one which will be used in the destination country and the second part kept in the currencies included in the reserve list of the International Monetary Fund, forming the Special Drawing Rights

(SDR) basket of currencies, or those which show a positive dynamic and have all signals for further growth. [7]

The second part of capital is usually exchanged in so called “backing” or reserve currencies, such as: [11]

- the U.S. dollar,
- the EURO,
- chinese renminbi,
- japanese yen,
- pounds sterling,
- australian dollars,
- canadian dollars,
- swiss francs.

The first two positions are the most frequently used due to strength of the United States and European economics and the fact that it is widely accepted even if it is not a national currency of the region. Swiss francs are also considered as a safe investment, because the country historically tend to keep neutrality and is actively used as a “bank” since the financial sector in this country is developed and the safety of your capital is guaranteed. Great Britain national currency was thought to be as safe as the Swiss, however the political events, especially countries leave of the European Union, so called Brexit, had a negative impact on investors’ confidence and as well caused greater volatility of the currency and its depreciation, which is not a good sign for those, who would like not only to safe their money in foreign currency, but also earn due to the growing spread with the national or other target currency.

From the point of the protective mechanism currencies of the developing economics could only be considered as a short-term hedge, since the volatility of the exchange rates are high and they are more often bearing the geopolitical risks. Sanctions, unfavorable conditions of the resources market, for example oil, on which their economy is usually based can significantly depreciate or there might be extreme scenarios, when the operations with the currency are banned on the exchange platforms. What is more, the situation with state bonds of this country should be monitored, in order to foresee the default risk or additional currency emissions, that will drop the exchange rates because of depreciation.

Apart from currency which could be easily exchanged in the marked due to high liquidity, on the contrary investors can also target real estate as a hedge for their capital. Even during world markets instability, real estate is considered as an asset with a stable price. [5] Before the crisis of 2008 it was even a good option to invest and gain profit due to the price growth of this segment, but

after it allocating capital into this sphere started to be considered as a bit riskier one and just for fixing the amount of capital. Of course, it could be leased and rent might play the role of additional income, but during the crisis and situation of the excess supply this activity might not bring any additional profit. And the owners should also remember of different taxes and fees, depending on the country and region. To minimize part of local risks, investors choose property either in countries capital and large cities, or resorts, for example property in Spain. [6] The first group is always demanded due to high inflows of population and growing urbanization trend worldwide. That is why even when the whole economy experiences a downturn, the real estate would also fall, but not that significantly and is more likely to recover. As for property in resorts, the area should be analyzed more precisely, despite the tourism development and growing interest. Even Spain property, showing growing value dropped after the world crises and due to large share of property owned by bank creditors, instant default might decrease the market prices dramatically. Therefore, real estate might be a protective instrument, but only with a professional due diligence and a long-term perspective.

Another less liquid than cash or financial instrument investment opportunity, which might cost almost equal to real estate property, is the allocation of capital to diamonds, works of art and other assets demanded by collectors throw the whole history.

During the 2008 world crisis jewelry sales decreased by 10% in a couple of years, but the sales of investment diamonds have not decreased. However, it is quite difficult to separate these categories. If we refer to diamonds weighing more than 0.5 carats and the quality above average, in 2006-2010, together with the jewelry products, they were sold annually by more than $70 billion. In the last decade (with the exception of 2003-2004), they rose in price by 2-3% per year. And since 2010 it has been 6% per year. Moreover, prices for diamonds from 4 carats of the highest quality in the crisis years grew by 10%, and for certain types of stones even by 20%. Apart from gold, investment attractiveness of diamonds is higher due to their physical nature. The ratio weight/price makes it easy to store and transport and also make transactions invisible to the fiscal authorities, which at the same time is a disadvantage from the point of national security and crime resistance. Another shortcoming is absence of the fixed market price, so each market participant quotes his own prices and it is also hard to proceed a quality expertise before any operations.

The same remarks are true for the works of art. Long-term and vise choice might not only help to safe investors capital and own for some time a masterpiece, but also get an additional interest from the sale at an auction, for example at Sotheby`s. [5] However, it is better to focus on classical artists and be aware of popular trends which might end before the resale. Sometimes it is better to buy several works or even the whole collection, which is of course more expensive, but will decrease

the risk. If the capital does not afford to purchase any valuable works, mutual funds might be considered, but in case of crises it will only be an additional risk.

Depending on investor purposes, market conditions and the time period, each should develop the best strategy for himself. If it is a short-term and just a slight drop in economy, financial instruments, such as derivatives and ETFs might be the best and most effective option as well as hedging with gold during negative information stream period. For a mid-term it is preferable to consider bonds and blue chips stocks, that will guarantee the fixed income and secure your initial capital. Sometimes it is also worth to consider foreign currencies, but geopolitical risks must be acceptable. For the long-term investment strategy, when the uncertainty is the highest, real estate as well as other valuable property might be considered. Of course there will be no fixed income and the cost of this investment is incomparable with previous types, however the invested capital amount will be guaranteed and the expertise will help to decide which option might bring additional profit in case of resale. The last extreme scenario, which involves not only world crisis but also fall of financial system and even war actions, drives investors to acquire gold, jewelry and pieces of art in order to at least safe part of their capital and gain an asset, which still would be accepted despite of new currencies exchange rate and other factors.

There is no universal instrument to hedge all risks. Any protective asset will hedge the risk and bring profit only if a good investment strategy is developed and risks are minimized using diversification and other mechanisms of limiting risk. That is why each investor should be very precise in analyzing the market risks and choosing the time frame for his plan.

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