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## MY ASSET ALLOCATION



### GILES MARRIAGE

Head of equities Thesis

There is no doubt that at the dawn of a new decade, many people will be predicting what the next year may bring. Some predictions will be based on known knowns, others known unknowns, while even a few will be speculating on the next unknown unknown (or 'Black Swan' event, for Nassim Taleb followers).

What is clear is that on a short-term basis, few will have much success trying to predict where markets may or may not be by the end of 2010, so with this in mind I will endeavour to look at three longer term themes.

First, is this the end of emerging markets? 'The term "emerging markets" is arguably now obsolete, as the distinction between developed and emerging markets has run the course of its usefulness to investors,' according to a report by Everest Capital.

Emerging markets currently represent 50% of the world's economy, when adjusted on a purchasing power parity (PPP) basis, according to the World Bank. Emerging markets are also now both large and liquid, with similar volatility and levels of corporate governance. Their government policies are certainly no worse, and in some cases better, than those of developed markets.

The main discrepancy is that the differentiation in growth looks likely to persist for the foreseeable future. Leading on from this, industry benchmarks are now placing investors at a huge disadvantage, as they significantly under-represent the current and future impact of emerging markets, both on a GDP PPP basis and at nearly a third of world market capitalisation. Assessing what is an overweight position in emerging markets is now a challenge in itself.

Second, where will all the cash go? In the US, taxable money market fund assets now stand at \$2.85 trillion, while tax-free assets are currently \$405 billion, according to a report by iMoneyNet.

With yields on money market funds at record lows of 0.03% in the US and similarly unattractive elsewhere, this 'wall of cash' must surely continue to decline as investors look elsewhere.

Many will undoubtedly pursue what made them money in the last decade, but property assets now look unlikely to be the answer from a returns perspective. Yet the correlation to market corrections suggests equities still have further to run, whatever the short term holds.

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Elsewhere, many bond prices currently look artificially high, largely thanks to quantitative easing, and also potentially at risk from any return of inflation.

Finally, are we witnessing the re-emergence of the cult of equity? It is fascinating that so many people scoff at the idea that we are in the early stages of a multi-year cyclical bull market.

From a psychological perspective this is perhaps easy to understand, as more often than not we are more susceptible to project forward from the recent past. But to ignore this idea, one has to dismiss the above themes and question whether the human race typically moves forwards or backwards.

For those that believe in longer term investing, I would argue we are certainly at the dawn of a new era for markets that coincidentally has nothing to do with the start of a new decade.

### MORE ON . . .

#### Giles Marriage

Giles Marriage is a regional director for Thesis in the South West and heads the firm's UK equity committee, as well as being involved with asset allocation. He joined in 2002, having worked at Cazenove. He has a degree in psychology and is a fellow of the Chartered Institute for Securities and Investment.