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Rich Asians are increasingly optimistic about the markets

By Lara Wozniak, | 16 July 2009

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Despite limited evidence that economic prospects have changed, investor sentiment is being driven by the financial markets and is bullish.

While you might not be convinced that an economic rebound is around the corner, it appears as though high-net-worth individuals are increasingly bullish on the financial markets in Asia.

ING, the global financial services group, released survey results that show an 81% upswing in investor sentiment in Asia for the first half of 2009 and a 55% quarter-on-quarter increase.

The survey, called the ING investor dashboard, began in 2007 and tracks investor sentiment and behaviour of affluent investors each quarter from 13 Asia-Pacific markets including: China, Hong Kong, India, Indonesia, Korea, Malaysia, the Philippines, Singapore, Taiwan, Thailand, Japan, Australia and New Zealand. The second quarter 2009 survey was conducted in June and involved online interviews with a total of 1,314 investors aged 30 years and above, who have disposable assets or investments of $100,000 and above, with the exception of Indonesia (disposable assets or investments of $56,000 and above) and the Philippines (disposable assets or investments of $100,000 or monthly income of P$250,000 and above).

In this survey, optimism increased across markets in Asia despite continued declining gross domestic product growth in most markets in the region, with the exception of China and India. The reason is not about fundamentals of companies but rather the recent performance of the financial markets and the confidence that the markets will continue to rally in the coming quarter.

Indeed, following the strong continued performance in the financial markets in the second quarter of 2009, an increasing number of Asian investors have indicated that their return on investment has increased.

And the investors by-and-large remain bullish for the outlook for the rest of the year -- 62% of Asian investors (ex-Japan) are expecting their return on investment to increase in the third quarter. Only 25% expect the stock market to plunge in the third quarter.

"Investor sentiment has largely been driven by the financial markets as economic prospects have not changed much since the start of the year, and leading economic indicators have not indicated that economies in the region, with the exception of China and India, are on the road to recovery," Nicholas Toovey, regional head of equity at ING Investment Management Asia-Pacific, said in a press release.

But Toovey is more cautious about the outlook.

"Markets have rallied and we have seen a recovery in the markets from 2008 because stocks were seen as relatively cheap against their long-term valuations, particularly in the second quarter of 2009. We expect market consolidation, however, in the third quarter of 2009 and for the markets to sell-down slightly as stocks are a little overvalued at the moment, relative to their medium- and longer-term valuations," he added.

In China and India some of the bullish sentiment is driven by confidence in government measures. For example, 90% of investors in China say they already are seeing the positive effects on the economy as a result of the government's recent Rmb4 trillion stimulus package. And 77% of the respondents in China felt the economy had improved in the second quarter, while 78% believed the government would meet or exceed its target of 8% GDP growth this year. (For those who expected GDP growth to exceed 8%, the average expected GDP growth was 9.4%*).*

In India, 71% of investors think the victory by the Congress-led coalition during the recent elections will be favourable for India's investment climate, and will continue to fuel investor sentiment.

As a result of these views, investors in Asia are moving away from a conservative investment strategy focusing on capital preservation to a more balanced portfolio that delivers stable returns or a more aggressive strategy focusing on capital appreciation. Only seven percent of the respondents said they were taking a capital preservation strategy now, while 53% said they had a balanced strategy focused on stable returns and 40% said they were taking an "aggressive strategy focusing on capital appreciation".

ING's Toovey urged a more pragmatic view: "Fundamentally, there are still no clear signs of an economic recovery and there is still a potential for corporate earnings from companies to disappoint. With this in mind, investors should look at defensive sectors which demonstrate reliable growth or that are less dependent on export-growth, including pharmaceuticals, non-discretionary consumer and property sectors."

There was at least one area where caution is creeping into the view point of these wealthy investors -- 56% of the respondents expect inflation to rise in the third quarter compared to 41% of investors in the first quarter who expected inflation to increase in the following period.

"While we are not currently seeing the effects of inflation as a result of the stimulus packages by governments, as the economies pick up in the longer-term, investors will need to watch for inflation and look to move away from holding cash," Toovey said.

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