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## Inter-Alliance WorldNet



Inter Alliance WorldNet (IAW), is ten years old this year. From its earliest beginnings in 1996 as an Independent Financial Advisor (IFA) itself, IAW metamorphosed into the world's largest IFA Network. We currently have 38 International IFAs working with us, and plan to have over 50 by year end.

Each IFA is truly independent but through the alliance with IAW is able to leverage upon the group to obtain for its clients the best possible terms with providers, to have access to products and funds which would hitherto not be available. In addition IAW provides training and workshops, compliance and regulation. Thus any client can have the dedication of a local IFA with the security of a larger organization behind.

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## Property Investment

In previous Newsletters, we have discussed the potential of the above. In fact, there are a number of ways to enter this asset class via pooled investments. The first is what is termed 'Property Equity' and the second, 'Physical Property'.

Property Equity funds invest into stocks which are related to property. We may find, for example, a Property Equity Fund Manager investing into Great Portland Estates or British Land. Both of these companies are listed companies on the UK Stock Exchange.

Clearly, a Property Equity Fund will, therefore, have a performance and volatility which will in some way reflect - to some extent at least - the equity markets in which their underlying companies are invested. As such, we have found in recent years high double-digit returns for these types of funds, and we would point out managers such as Insinger de Beaufort and London & Capital for consideration.

Further diversification can be made within Property Equity when a Manager adds a more international flavour by tapping into overseas investments.

The second type of fund property fund manager actually buys physical property, which is then leased. The aim of this type of strategy is to not only receive a high and increasing rental on the property, but also to enjoy capital gain on the property itself.

The larger fund manager would be seeking 'blue chip' tenants such as Government- or PLC-status tenants. These fund managers will tend to enjoy a much more stable, but lower-growth rate than that of property equity - returns tending to be in the high single-figures to low double-digit returns. The principle attraction of this type of strategy is the fact that the asset class has little or no correlation to virtually any other investment.

Our choice here would be Frontier Capital, Glanmore, and London & Capital.

## Product Launch: Capital Protected High Income Investment

We are delighted to be involved with the launch of a new fund from Deutsche Bank. Deutsche Bank is one of Europe's leading Banks and Investment Houses, with over 1 Billion Euros under management, operating in 130 countries, and over 64,000 employees, with a Moody's rating of AA-, and the eighth largest bank in the world, by assets.

The Alpha Pairs Strategy is an Alternative Investment, which incorporates a mythology of investment called Pairs Trading. Pairs Trading has been around for some time, a study by Yale Business School in 1998 revealed a performance between the years 1962-1997 in excess of 12% per annum. For the period 1995- 2005 Deutsche Bank have recorded returns of between 13.6% and 19% per annum, dependant upon currency. However the strategy has been little used over the years, due primarily to the recourses needed to run the programme.

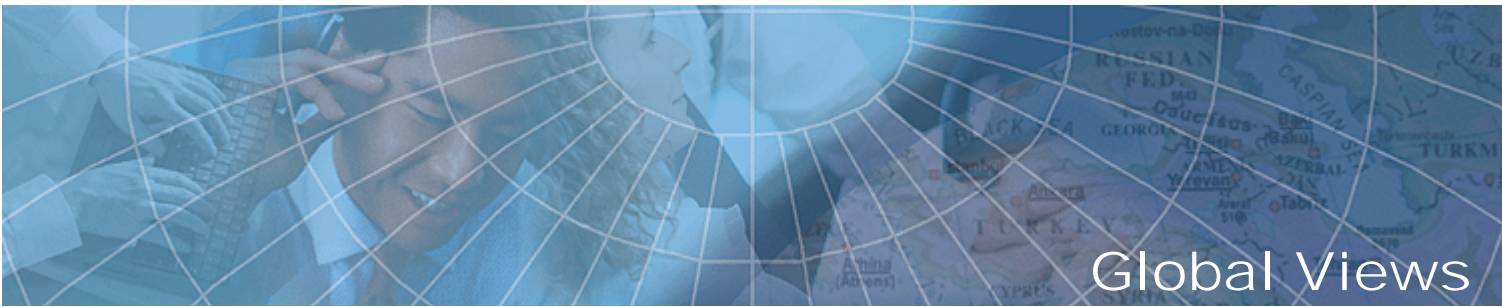
The Deutsche Bank product provides some guarantees to investors, namely:

- 1) 100% Capital Guarantee
- 2) A guaranteed dividend payment over the first two years

The fund is available in GBP, US\$ and Euros. The dividend payment guaranteed over the first two years is 8%, 8% and 6% per annum respectively. Thereafter income would be generated by the performance of the trading. Past performance indicated by Deutsche Bank is strong, although Deutsche Bank temper expectations by predicting an annual return in the region of 10% per annum.

For more information please contact us.





## Do We Have Inflation?

We can't fight it until we understand how it's measured.



INFLATION IS HAZARDOUS to our wealth. The big stock-market collapse of the early 1970s was painful, but not as painful as the loss a Dow-indexed investor would have suffered from inflation during the decade.

Investors ought to be keenly aware of inflation, and of the various methods for calculating it. Even the most professional investors, however, often fall victim to what economists call "money illusion." That's the satisfying feeling that one is getting richer as salaries and property prices increase, even if the thing that's really changing is the value of the money used to measure those prices.

That satisfaction was commonplace last year in the house-holding class -- many Americans were feeling richer because they could see houses like their own being bought and sold in their neighborhoods for prices they never imagined. That \$150,000 house in Palo Alto or Putnam or Potomac that was such a stretch 20 years ago was now a huge bargain at \$800,000 or more.

Nothing else was going up so fast, so it wasn't inflation, it was a real change in household wealth. Or was it?

The mathematicians at the federal Bureau of Labor Statistics seemed to confirm the homeowners' intuition: The index most used to measure the rise of consumer prices (Consumer Price Index for All Urban Consumers) was up 3.4% in 2005, and the price of shelter, whether rented or incorporated in the price of a home, was up 2.6%. The appreciation of homes as investment assets was over 20% in some places. But investment isn't consumption, and so investment assets aren't recognized in the CPI. The statisticians confirmed that homeowners were wealthier, but only by definition.

Even within the realm of consumer goods and services, prices often respond to supply and demand more strongly than to the price of money. Gasoline was another hot topic last year. The price was up 50% between September 2004 and September 2005. Since gasoline is a commodity that almost every American buys every week at a price that's clearly advertised in front of every gas station, many

Americans use it as a simple proxy for the cost of living. Such people had the feeling last year that inflation was rising fast.

The Consumer Price Index, however, is calculated with a weighted average of the importance of hundreds of items in a market basket, of which gasoline gets less than 5% of the weight. Other components of private transportation, such as the price of cars, the price of auto repairs, the price of tires and several others were nearly flat. Thus the price of private transportation -- about 16% of the CPI -- rose 14%.

The CPI itself rose 4.7% in that stressful period, September 2004 to September 2005, again because some goods and services were rising in price and others were stable or even falling.

If that doesn't confuse the subject of inflation enough, consider the things are falling in price statistically, but rising in fact -- or the other way around. Take television sets: There have been dramatic improvements in their quality, including high-definition images, bigger screens and flat-panel displays. People are paying more for the typical family television. But government statisticians, observing the same quality improvement that brings people to the stores, make adjustments and report that the price of TV sets is falling.

The bureau's index of television prices has fallen from 64.5 in 1996 to 26.6 in 2005. But that means you would pay 59% less today for the TV you would have bought in 1996, even though you might pay twice as many dollars for the TV that you buy today.

Although inflation is a measure of a downward change in the value of dollars, it can't be measured accurately by an upward change in the Consumer Price Index, any more than by the changes in the prices of gasoline or televisions or what-have-you.

The sensible thing to do in a condition of uncertainty about value is to establish a market and let those who need price information set it themselves. Unfortunately, the world's currency markets are heavily manipulated by the producers of the world's currencies. Central bankers and their employers thrive on money illusion.

Not even the supply and demand for gold is stable enough to make the "barbarous relic" a reliable touchstone for the value of money. The recent rise in the dollar price of gold is as much due to a change in policy by some foreign central banks as it is to any suspicion (well-founded though it may be) about U.S. debt or the purchasing power of the dollar.

Like it or not, we are stuck with measuring inflation by measuring prices. But we must understand that the measurements are made with a rubber yardstick.

*By Thomas G. Donlan  
Barron's Editorial Commentary*

### Relocations Alert

Just because you have moved abroad does not necessarily mean that you have left the clutches of the UK Inland Revenue. In fact, what has become abundantly clear over the past few months and weeks - and further endorsed by Mr Brown's latest budget - is the fact that the tax man is after you!

Most certainly, provided specific conditions are met, it is relatively easy to escape UK Income Tax and UK Capital Gains Tax. However, UK Inheritance Tax is not so easily avoided.

Nowadays people living in Europe also have to put up with the EU Savings Directive which, for most of us, means that we will currently have a deduction of 15% from our interest. There are, of course, perfectly legal ways around this. It just takes a small amount of effort.

Financial Planning can help alleviate, mitigate or even remove some tax liabilities. It may be you have liabilities and do not even know it. The solution is simple: Seek advice NOW.

### Market Views

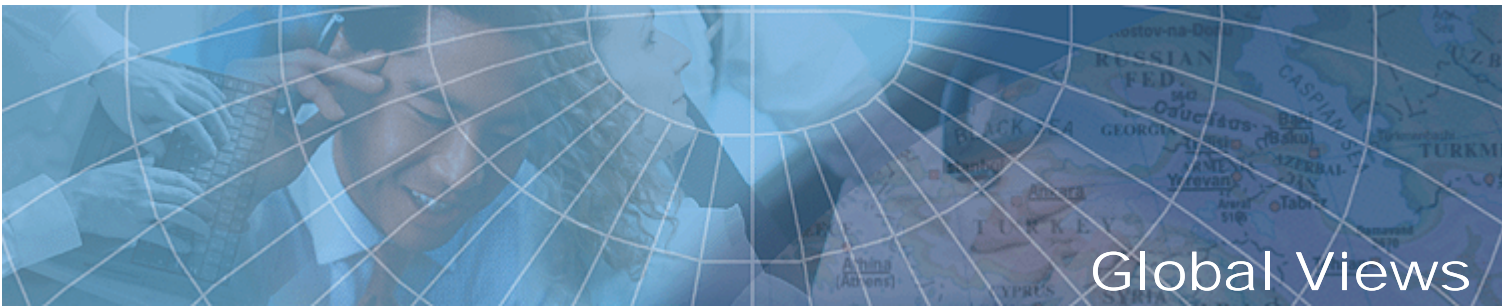
"There will be bargains... but there's a saying: 'Never catch a falling knife'."  
**Angus Campbell, Finspreads  
Quoted in The Daily Telegraph**

"I am feeling better about the prognosis for the world economy for the first time in ages."  
**Stephen Roach on Morgan Stanley  
Quoted in The Guardian**

"Eventually... asset prices will start to look cheap and the recovery will begin. But along the way, it's easy to be caught out by false rallies."  
**Phili Coggan, FT Money**

"We're still positive about the UK market - in valuation terms it looks in good shape."  
**Henk Potts of Barclays in The Guardian**





## Hedge Funds

What is a Hedge Fund? Are Hedge Funds suitable for you?

Hedge Funds or, as they are sometimes called, Alternative Investment Strategies, can be broadly classified as any strategy which is not traditional. Traditional investors would generally purchase equity or debt, either to 'buy and hold' or to take profit and sell. Virtually anything else could be described as 'Alternative'.

Who should invest into Hedge Funds? In the past, Hedge Funds were very much the reserve of the ultra-wealthy or institutions. Most Hedge Managers required investments to be locked in for up to one year. Minimum investments were high - frequently a minimum of \$500,000.

However, recent years have seen the advent of numerous funds aimed at the smaller investor, sometimes with a minimum of just \$10,000. And some are even now offering weekly liquidity. Most retail funds will tend to offer monthly liquidity. In addition, the growth of what are termed 'multi-manager' and frequently 'multi-strategy' funds, make this asset class much more acceptable for the smaller investor.

Multi-manager is exactly what it says: Various managers are selected for their expertise in a particular type of Hedge Fund investment strategy. Multi-strategy, again, is exactly what it says: The principle is that one manager may have an expertise in one strategy, but is unlikely to be good at everything.

Hedge Fund Managers operate in numerous areas, and each area will have a different risk category. As such, a different opportunity for profit exists - as well as for loss. A significant factor in the risk and reward equation will come to play in the question, 'How much leverage is employed by the fund?' Most Hedge Fund Managers employ leverage in varying degrees - the leverage may be just a small amount, or amount to ten or twenty times or more.

So, are Hedge Funds suitable for the smaller private investor?

We believe the answer is an unequivocal 'yes', particularly as market conditions for stock and bond investment remains difficult. Hedge Funds will provide the opportunity for return, without 'market risk'. Selection is key, and advice should be sought.

However, there are numerous opportunities from companies such as Forsyth Partners, London & Capital, Miton Optimal, Platinum Fund Managers, to name but a few. Performances are generally at around 11% per annum for a median-balanced fund.

## Distressed Debt

My Financial Adviser has just recommended that we invest into a fund which invests into companies which are about to go bankrupt. Does this sound like a good idea?



Well, bizarrely, it may well be, Distressed Debt as an investment has been well established in the U.S. for many years, and is now starting to appear in other countries.

Distressed Debt, sometimes called 'vulture investment' is where a fund manager seeks to buy an asset for a price which he considers well under value. As an example, the numbers released by GM recently - showing a near \$11bn loss - could force this once great company into bankruptcy.

Distressed Debt investors will look at this, should it occur, as an enormous opportunity - an opportunity for some handsome profit. Whilst many private and, to a lesser extent, corporate investors will be seeking to dump their stock and bond at any price. The Distressed Debt Managers will be examining the company to ascertain as to whether the sale price is below the intrinsic value of the asset.

The reason why The U.S. is the largest market for this type of investing is due to their sophisticated bankruptcy laws. Whereas, in many countries, bankruptcy means that the company is wound up or sold off, the U.S. provides breathing space for a company by virtue of Chapter 11. This protects the company from its creditors, and allows it an opportunity to restructure the business. Thus, as the new business is revived, the Distressed Debt Manager collects a handsome profit.

There may be a time lag of several months - possibly even years - before the returns are made; but the low correlation of this asset class to others can make Distressed Debt Investment a valuable addition to a portfolio.

As indicated, there are few opportunities outside the U.S. The notable funds to consider would be Franklin Templeton and Liontrust. As the economic cycle turns, many experts believe that - at this point of rising interest rates and slowing economies - Distressed Debt Managers may find some excellent opportunities for double-digit returns.

## Market Volatility

Market Volatility: A time to run, or a time to buy?

For three years we have enjoyed, by and large, some exceptional investment opportunities. Most markets have enjoyed a substantial bull run, and investors have reaped the rewards. Many advisers have suggested that the markets needed to draw breath, the growth being simply too fast - and too far - to sustain. Perhaps the excuses such as "concerns over higher interest rates" are valid. Perhaps it is just an issue of too far, too fast. Whatever the rationale, we now appear to be in for what most agree will be a temporary bumpy ride.

So where should we be looking for returns now? Have commodities, as many suggest, reached a plateau? Will the appetite for commodities from markets such as India - and in particular China - be satiated?

Looking at commodities, we pick out a number of fund managers worth considering - Lake Shore and Castlestone, in particular. Although volatility in the sector can be anticipated, numerous analysts will point out that many commodity prices, whilst having enjoyed significant gains, are still considerably behind their highest prices. Add to that the fact that there have been no major oil finds in 35 years or no new metal mine shafts sunk in 20 years. Yet, as an example, China is predicted to be the world largest economy within 20 years. China's economy is growing at 20% per annum. The Chinese who, until recently, dreamt of owning a bicycle now are buying gas guzzling SUVs. The appetite from China alone for commodities could well be enough to continue to drive prices forward.

Make no mistake; the boom in commodity prices has not just started. What has started is the media interest in it. This market trend started four years ago, and many believe that there is still plenty of potential within the sector.

