

An alternative universe

Collectibles in the spotlight, as interest grows in alternative assets

Time is money, the saying goes, and that's certainly been the case for Hong Kong's love affair with watch making.

The city started out as a major manufacturer of watches and watch parts in the 1950s before transforming itself into a leading trading hub for timepieces, spending many years as the number one market for sales of Swiss watches.

Watches continue to change hands in the collectibles market in the city, although it's not just the top-end brands that are in demand when traders see a chance to profit.

With alternative assets soaring in popularity in the recent years, this opens up different options to a broader range of investors, satisfying a variety of interests.

What are alternative assets?

The broadest definition is assets that don't fit into the more conventional choices of shares, bonds or cash.

This includes so-called 'tangible' assets, like collections of high-end handbags, fine wine or luxury watches, and 'financial' ones from disciplines such as venture capital or private equity, when investors hold stakes in companies that aren't traded on the stock markets.

There's no shortage of interest in a huge range of asset choices – from whisky lovers laying down barrels of Scottish malt to fashionistas keen to make a killing on the latest designer handbags.

There's also real estate, including investment in rental properties, commercial buildings and holiday homes. Of course, putting money into property has always been a popular choice for Hong Kong residents. But how many of us knew that this might be classed as investment in alternative assets?

What's attractive about alternative investment?

Many of the headline stories are about spectacular gains (and losses) in alternative assets, although there can still be impressive profits if you pick the right items.

Fans of collectibles also say that they can be enjoyed while you wait for them to increase in value and that they offer an emotional connection that's lacking in most other investments.

Yet for other investors it's a hard-headed decision to add them to their portfolios. Investment in property doesn't bear the same risks as taking a chance on

the latest craze in digital tokens, while 'real' assets like commodities, fine wine^[1] or real estate can serve as a hedge against inflation, which eats into the value of stock portfolios.

Are they a good choice for everyday investors?

Because alternative assets are often more specialized choices, they are sometimes sold with bigger brokerage fees or with higher amounts of minimum investment.

In many cases you won't get any income until you sell them to someone else, unlike many stocks and bonds, which may pay dividends or coupons.

Another drawback for some of these investments is that they trade in illiquid or poorly regulated markets. It's probably going to be harder to find a buyer for a barrel of unusual whisky than for a few thousand shares in a publicly traded energy company, for instance.

The potential for higher profits may still make the correspondingly higher risks more acceptable for some investors, especially when bonds and cash are offering minimal returns or when stock markets seem overvalued.

Alternative investment may help investors to capture opportunities outside the universe of traditional assets, still they may need to balance their portfolio by also investing in traditional assets, which may offer stable return, higher liquidity and better regulatory protection.

Reach out to your Relationship Managers for a Zoom meeting for more on how to start your journey in investment.

^[1] Fine wine proves its worth as inflation rises. <https://www.liv-ex.com/2022/05/fine-wine-proves-worth-inflation-rises/>