

DAVENPORT — LAROCHE —



The Commodities Index
2014 - 2015

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Davenport LaRoche

Introduction

Performance led investment planning has proven to be one of the most complex financial dynamics to master, whether it be a novice retail investor or a well-experienced wealth manager steering the portfolio. Historically, the most renowned strategy has been to develop a diverse portfolio, hedged with a contingency of high yield, short-term assets, weighted by a bed-rock of long-term traditional investments. The execution of this approach however encompasses a spectrum of options that range beyond those of well-known traditional investment types, broaching categories that range from private equity and mutual funds to commodities and collectibles. Diverse not only by way of their sectors, but the investment strategies and returns they deliver.

Investment in commodities and alternative investments in general has remained popular with investors for generations. However, following the global economic downturn in 2008, the popularity of these investment options has greatly increased. The recession – bearing a critical impact globally – served as a catalyst for financial advisors and retail investors to turn to alternative and commodity led investments more readily. In an effort to mitigate against portfolio losses that traditional investments historically contributed to, the advent of the crash has brought on the rise of the alternative - revolutionising investment strategies globally.

Subsequently, Davenport LaRoche has commissioned research outlining the investment perceptions and decisions - retrospectively and forthcoming - of the UK's alternative investor. Built in response to an ever-changing investment landscape, significantly more accessible to a critical mass of investors, key areas of focus include:

- An investor profile, defining the financial foot-print of a sample of more than 200 self investors, who have invested over £10million
- An asset performance index, revealing the numbers to have invested in each alternative or commodity as well as the investor's intentions towards these alternative products for the year ahead
- The decisive influences that define their perception of a series of alternative investments, and how these factors have impacted on their actual investment decisions in the last year alone
- The elements which may attract investors towards alternative investments in the future
- Asset snapshots, revealing exactly what the alternative investments are and how they fared in the Davenport LaRoche Commodities Index (DLCI)

The Commodities Index enables us to track the real-time opinions of self-investors towards the performance and projections for the future. The assets in question are:

- Real estate
- Land
- Industrial metals
- Shipping containers
- Precious gems
- Wine
- Fine art
- Watches
- Timber
- Classic cars
- Bitcoin
- Gold

Investor Profile

The number of self-investors is, without question, growing. For instance, the number of people with self-managed pensions rose by 43% in two years at Hargreaves Lansdown, one of the biggest providers. In just two years, the number of customers who had a self-invested pension rose from 102,000 to 146,000. Around a fifth (18%) of the investors in the DLCI were female and of the entire sample, more than half (51%) were aged at least 45 years old. The majority (26%) were aged between 55 and 64, yet more than one in ten (12%) were also aged between 25-34.

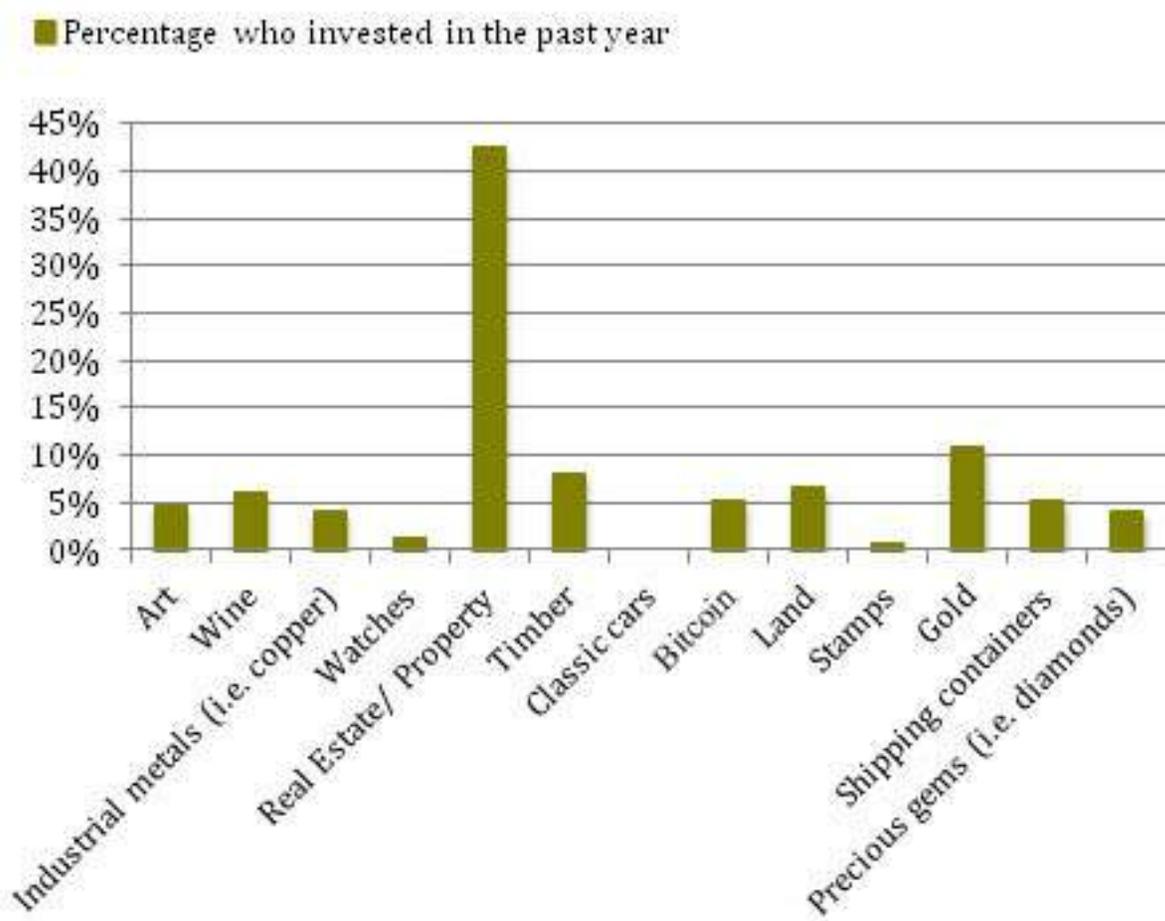
Nearly a quarter (23%) of investors in the Commodities Index sample, the largest percentage, have a total portfolio of more than £200,000 – a significant funding level. However, underlining the broad spectrum of investors analysed in our study, more than one in ten (13%) stated that the size of their portfolio was between £1,000 and £5,000. This range in investor-profile underlines how alternatives are not just available to high net worth individuals, a common misconception. Indeed, this is reinforced when looking at the diversity in value of the initial investment amounts made. More than one in seven (17%) made an initial investment of more than £50,000, yet over a quarter (28%) invested between £1,000 and £5,000, with around one in six (15%) investing under £1,000.

The Asset Performance Index

The Commodities Index 2014-2015 highlighted one statistic more revealing than any other – the overwhelming majority (87%) of investors who have invested in an alternative, would do so again. This confidence in repeat investments reflects the success of the various alternatives in question. Furthermore, the Commodities Index revealed that more investors are turning to alternatives in the next 12 months than in the last year – underlining a significant increase in enthusiasm and optimism towards alternatives more broadly. The DLCI not only assesses investor attitude and enthusiasm towards alternative investments for the year ahead, but also analyses what alternative products have received investment over the last 12 months. It is this point of comparison – between actual investments and projected intentions – which forms the asset performance index.

Of all the alternative investments reviewed, investing in shipping containers and real estate saw the most significant percentage increase in enthusiasm, with 5% more looking to invest in the year ahead than did so in the 12 months previously. Investing in timber saw the next biggest increase in enthusiasm, with nearly one in ten (8%) looking to invest in the next 12 months, a 3% rise on the number to have invested in the previous year. One in five (20%) of investors polled said they had invested in gold in the last year, however, 9% less said they were interested in investing in it in the next 12 months – the biggest fall in enthusiasm of all the alternatives offered. Following the performance of gold was that of land, which saw a 4% decrease year on year.

The DLCI Assets Invested in Over the Last 12 Months



Investment Influences

On top of the performance of individual assets in the index, the Commodities Index also looks at the factors and elements on offer from alternatives that have influenced an investor's decision. These factors are:

- The ethical or green credentials of an investment product
- The projected financial returns
- The product fees
- Brand recognition
- The term of investment
- Accessibility to funds during the investment
- Appreciation of and trust of a company spokesperson

Unsurprisingly, the financial returns were the number one reason as to why an investor had chosen to invest in an alternative investment, with 42% stating so. Being able to access the money at any time was the next most important factor, with 14% revealing it to be important. Interestingly, the next most important were the green or ethical credentials of an investment product, with more than one in ten (12%) stating this to be the case, underlining an engaged and socially conscious investor.

The key factors that influence investment decision making, in order of importance, are:

1. Projected financial returns (42%)
2. Being able to access the money at any time (14%)
3. The green/ ethical credentials of the investment (12%)
4. The term of investment (8%)
5. Recognising and trusting a company spokesperson (7%)
6. Brand recognition (4%)
7. Not being able to access the money for a set period of time (3%)
8. Product fees (2%)

Investment Attractions

In addition to the factors that have already influenced an investor when making their decision, the DLCI also looks at the specific elements that alternative products offer to investors. These elements are the level of excitement, the projected returns on offer, whether an investor has a personal interest in a product, the opportunity for diversification and the chance for an investor to pass something physical onto a future generation.

Similarly to the factors that have influenced an investor's decision, the opportunity for higher returns was the number one attraction for potential investors (38%). However, the report also discovered an engaged investor, and one that is genuinely passionate about the products on offer, with over one in five (21%) stating they would invest in an alternative solely because they have a personal interest in the product. 16% admitted it was the diversification that alternatives offer their portfolio that was an attraction, but more than a tenth (11%) said they would invest in an alternative simply because it was more exciting than traditional products. One in ten (9%) also revealed that the chance to pass something physical onto another generation was the attraction to an alternative.

Asset Snapshots

Real Estate – investor enthusiasm is up

Real estate is a hugely media-friendly industry. In a survey from Ethical Forestry, we were fascinated to read that just one in ten adult consumers in the UK expect to buy a house in the next five years, underlining a low confidence in the market. However, when looking at real estate as an investment, our Commodities Index discovered an active and confident investor. Over one in three (38%) invested in real estate in the last year, and an improved 43% want to invest in it in the next 12 months.

Land – investor enthusiasm is down

Investing in land offers the chance for investors to enter a multitude of diverse markets, whether property or agriculture, offering a significant opportunity for diversifying a portfolio. More than one in ten (11%) of investors polled in the DLCI stated they had invested in land in the last year. However, this figure drops to just 7% of investors intending to invest in the next annum, showing a decrease in interest in the asset.

Industrial Metals – investor enthusiasm is up

Industrial metals are the commodities used in a wider variety of applications including construction and manufacturing. The asset class consists of aluminium, copper, lead, nickel and tin amongst others and there are a number of global investment options. In our research, only 3% invested into the asset in the last 12 months, but an improved 4% intend to do so in the year ahead, reflecting an encouraged investor.

Shipping Containers – investor enthusiasm is up

Investing in shipping containers gives investors the opportunity to invest in an asset directly linked with world trade. The Economist states that containers have “reshaped global trade”, yet in the last year, none of our investor sample said they had invested in the asset. However, when asked whether they intended to do so in the next year, 5% said they wanted to, underlining a significant increase in investor enthusiasm.

Precious Gems – investor enthusiasm remains the same

Precious gems are rare and hugely desirable. They are also extremely diverse and can vary significantly. “The industry has been on a rollercoaster ride since the global financial crisis of 2008,” notes the 2013 Global Diamond Report, yet their performance in the DLCI showed a less turbulent asset. Our Commodities Index revealed that 4% of investors have invested in the asset in the last year, and the same figure want to invest in the year ahead.

Wine – investor enthusiasm is down

Whether investing in individual bottles or cases of wine, the market offers investors the opportunity to be part of a fascinating industry. However, according to a Liv-Ex report (the wine industry’s benchmark) trading is at a three year low. Indeed, our research reports this falling enthusiasm with the fact that although nearly one in ten investors (7%) invested in wine in the last year, only 6% are looking to invest in the next 12 months.

Art – investor enthusiasm is up

It is widely recognised that art can be extremely valuable, and as an investment, is largely regarded as gathering in popularity. In fact, February 2014 was a record month for fine art sales and according to the New York Times, a record £413million worth of Impressionist and Modern art were sold at Sotheby’s and Christie’s in just one week. Our Commodities Index supports a growing optimism towards art, outlining how 4% of the sample invested in art in the last year, but that 5% are looking to do so in the year ahead.

Watches – investor enthusiasm is down

According to the Coutts Passion Index and reported in the Financial Times, collectable watches returned 176% from 2005 to June 30 2013, making it a more successful investment than the traditional stock market. However, our Commodities Index has revealed that investor interest is depleting for the year ahead – down to just 1% intending to invest compared to 2% who stated they had in the previous 12 months.

Timber – investor enthusiasm is up

Timber is an asset used around the world in a multitude of industries and as an investment has performed strongly. According to Cris Sholto Heaton, of MoneyWeek, “historically, timber has delivered double-digit annual returns, with relatively low volatility”. Our insight supports this confidence in regular returns. 5% of the investors polled stated they had invested in the asset in the last year, but interestingly, nearly one in ten (8%) intends to do so in the future.

Classic Cars – investor enthusiasm is down

Investing in classic cars is a small but often fruitful industry. Incredibly, once again according to the Coutts Passion Index, classic cars have been the most rewarding in recent years, up an astonishing 257% since 2005 to June 2013. However, only 1% of the DLCI sample said they had invested in the last year, and none intended to do so in the year ahead.

Bitcoin – investor enthusiasm is up

Bitcoin, the world’s largest digital currency has very much hit the headlines in the last 12 months. In 2014 Japanese-based Mt. Gox, once the largest Bitcoin exchange, filed for bankruptcy, reflecting the turbulent nature of the asset. Our index showed that 4% invested in this alternative in the last calendar year, yet it also revealed an increasing optimism in the currency from UK self investors, with an increase of 5% intending to do so in the next 12 months.

Stamps – investor enthusiasm remains the same

For philatelists everywhere, stamps offer more than just artistic appeal. To many, they offer excellent financial returns. A statistic that underlines just how valuable stamps can be is the fact that an unused Penny Black (the first adhesive stamp) from 1840 is worth around £30,000 today. However, just 1% of the DLCI sample, purchased stamps as an investment and the same percentage (1%) are looking to invest in the year ahead.

Gold – investor enthusiasm is down

A hugely precious and desirable metal, gold is a very mainstream investment option. Reported in the Economic Times, Morgan Stanley lowered its gold price forecasts for 2014, citing the impact of the US Federal Reserve’s reduction of stimulus along with mounting regulatory pressure on investment banks to scale back commodity operations. One in five (20%) of the Commodities Index sample admitted they had invested in the asset in the last 12 months. However, only 11% stated they had an intention to invest in the next year – the biggest fall in enthusiasm of all the options.

Conclusion

The Davenport LaRoche Commodities Index was developed to further understand the mind-set of investors towards some of the most prominent alternative investment vehicles available today. Furthermore, the findings gather insight into the factors influencing investors, ranging from the projected financial returns to the ethical credentials of a product.

The insight outlined in this report highlights an alternative investment industry experiencing growth both in its popularity, and subsequent levels of investment. In recent years, traditional investment vehicles such as stocks and shares have suffered from poor returns. In a bid to diversify portfolios and ultimately protect the level of returns gained, investors are turning to alternative products. Perhaps most revealing of all is the fact that 87% of investors to have invested in an alternative product, would do so again, underlining a significant confidence in the industry.

Davenport LaRoche specialise in the investment brokerage of four key assets: storage containers, precious gemstones, land and metals. We are therefore fascinated by the fortunes of these assets and the overall investor intentions for the year ahead. The Commodities Index establishes a significant increase in demand for investing in shipping containers in the year ahead, more so than any other alternative reviewed. Although investor enthusiasm towards land suffered a dip, the overall findings indicated that with the global economic recovery underway, investor intentions towards real estate are extremely positive. Moreover, the DLCI unveiled a gemstone market which will sustain consistent investment over the year and revealed how investors believe industrial metals are anticipated to perform more strongly than gold.

The study serves as an integral arm of Davenport's defining premise - to advance understanding around effective asset management, and to facilitate initiatives that promote successful wealth management for a critical mass of investors. We strongly believe that transparency, knowledge and clarity are of paramount importance to help investors make the most informed decision. This belief extends beyond solely providing information about the assets which we broker deals for. We endeavor to provide unbiased information about the most popular alternative assets available to our clients.

Each year, the DLCI will provide a broad array of data regarding each asset's performance in the eyes of the active investor, partnered with the subsequent impact these perceptions have on the success of the asset class itself. This analysis will offer insight into broad industry trends and reflect the alternative investment vehicles most popular with a wide range of investors.

To find out more about the services of Davenport LaRoche, please contact a member of our global advisory team on: +852 35655962

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