

# INVESTMENT IDEAS IN A VOLATILE ENVIRONMENT - A STUDY CASE FOR THE 2012 SOCIETY

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## Abstract

*The year 2011 has proven to be a highly volatile year, especially if we take into account the Eurozone crisis. Even so, the year 2011 has proved to be a year in which great opportunities were created, as well.*

*Our article "Investment Ideas in a Volatile Environment - A Study Case for the 2012 Society" starts by presenting both the strong and the weak points of the year 2011, in terms of assets markets and net results, continuing with the general outlook of the year 2012 and putting a strong emphasis on the investment ideas for 2012.*

*In our study we are going to describe the opportunities that exist in the year 2012, providing answers to questions such as: what equities should investors focus on, what changes can be predicted in terms of foreign exchange market, what will the evolution of the commodities be like, how will the evolution of different types of currencies look like.*

**Keywords:** *investments, volatile environment, economic crisis, emerging markets, value, global turmoil.*

## Introduction

In our opinion the issues concerning the investment process should be more present in our plans, perspectives and minds, especially in times of crisis than in times of wealth and growth. It is our belief that the best opportunities arise during the recession and during the crises period than otherwise.

Starting from this particular assumption, our paper focuses, in the first part on the literature review concerning the terms "investment", "investing", "asset", and how should investment decisions best function. The paper continues with the investigation of the decisions that were taken in 2011, in terms of investments, market development and financial perspectives. Furthermore, we have stated that a volatile environment is a place in which individuals should take more risks, find better opportunities and invest accordingly. That is the main reason why, after closely investigating the marketplace, in terms of economic, financial, and accounting perspectives, we have presented fields in which is better to invest in during the year 2012.

What is the field that the paper covers?

The paper covers the field of investments, and takes into consideration the evolution of the year 2011 in terms of economic perspectives. Also, the paper refers to the new opportunities that the year 2012 brings with it, in terms of economic, financial and accounting views.

What is the importance of the subject chosen and what are its main objectives?

The subject that we have chosen in terms of debate is extremely important and keeps its validity in all times and places. Its objectives are to show the relevance of the terms investment, investing and assets, than to describe the pros and cons of the year 2011 in terms of investments, and to show to possible investors which are the key points of the year 2012 and its strong parts.

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What are the methods and means that we are going to use in order to conduct our study?

Our study presents in a critical manner the issues on investment, investing and assets, in turbulent times, such as the times of crisis. The article is a theoretical inquiry in this respect.

Which is the state of research in the field and in terms of literature review?

The subject of investments is an extremely complex one, and there are a lot of studies in this matter. What makes this paper extremely useful for academics and researchers is the comparison between the years 2011 and 2012 in the matter of investments, and the key points in which one should invest in during the year 2012, aspects which are clearly presented and explained. Moreover, the literature review part that comes next will underline the importance of investment in nowadays society.

### **Literature review**

Our belief, in our position of research economists, is that nowadays one of the most important and interesting phenomenon is being represented by the way investment decisions are being taken. Investment, as a complex and all mighty fact represents at present the sacrifice that individuals make for future benefits. While deciding upon what one should invest in, each one of us has in mind different aspects, according to the knowledge that one has, interests, expectations, and so on. Of course, the investment decisions are influenced by their fundamental factors, but the aspects that we have in mind while investing are not really easily determined and quantifiable. For example, another factor is the biasness of any investor to their investment, biasness that depends on the cognition and emotions, because some investors use them as heuristic for the investment decision instead of fundamentals, as stated in their work by Amir and Ganzach (1998), Pompian (2006), Peltonen et.al (2009), Kuzmina (2010).

Our research is based on the terms “investment”, “investing”, “asset”, and due to this fact we consider that it is very good to start our inquiry with the explanation of these terms and what we mean when we use them here.

The first term that we stop at is the term “investment”. According to the site [www.investopedia.com](http://www.investopedia.com), an investment is an asset or item that is purchased with the hope that it will generate income or that will be appreciated in the future. Taking into consideration the economic sense of an investment, we might say that it is the purchase of goods that are not consumed today but are used in the future to create wealth. The term investment is also used in the field of finance, where an investment is a monetary asset purchased with the idea that the asset will provide income in the future or appreciate and be sold at a higher price.

In order to be clearer, we will refer to some examples, as follows [www.investopedia.com](http://www.investopedia.com):

A situation that refers to the building of a factory used to produce goods and the investment one makes by going to college or university are both examples of investments in the economic sense.

A situation in which we refer to the purchase of bonds, stocks or real estate property, is in fact the financial sense investments include.

We would like to emphasize the fact that the expressions “making an investment” and “speculating” are different in terms of meaning. In this particular matter, investing usually involves the creation of wealth whereas speculating is often a zero-sum game; wealth is not created. Another defining characteristic is the one referring to speculators, who are often making informed decisions, speculation cannot usually be categorized as traditional investing.

The second term that we consider very important in our research process is “investing”. According to [www.investopedia.com](http://www.investopedia.com), “investing” is the act of committing money or capital to an endeavor (a business, project, real estate, etc.) with the expectation of obtaining an additional income or profit. “Investing” also can include the amount of time you put into the study of a prospective company, especially since time is money. Good investing refers not only to the simple process of putting some money into an economic process and wait for results; it refers to investing them properly and wisely.

The third term to which we refer to in our paper is “asset”. According to the same source quoted above (www.investopedia.com), the term “asset” has to possible meanings, such as:

A resource with economic value that an individual, corporation or country owns or controls with the expectation that it will provide future benefit.

A balance sheet item representing what a firm owns.

In this matter, the term “asset” focuses on the following issues:

Assets are bought to increase the value of a firm or benefit the firm's operations. You can think of an asset as something that can generate cash flow, regardless of whether it's a company's manufacturing equipment or an individual's rental apartment.

In the context of accounting, assets are either current or fixed (non-current). Current means that the asset will be consumed within one year. Generally, this includes things like cash, accounts receivable and inventory. Fixed assets are those that are expected to keep providing benefit for more than one year, such as equipment, buildings and real estate.

### Investing in times of economic crisis – an economic perspective

Firstly our intent, at the beginning of this part of our article, is to present first both the strong and the weak points of the year 2011, in terms of assets markets and net results (*see, in this matter, Table no. 1: “The year’s 2011 economic evolution – pros and cons”*). We consider extremely important to shortly review the year’s 2011 economic evolution, because we feel very confident that the crisis, in some ways, also created opportunities for investors, in general. Starting from these ideas, the year 2011 turned out to be a highly volatile year, particularly because of the Eurozone crisis. We consider that the asset markets performed reasonably well during some months, but there were also saw some big dips, especially in August 2011. Moreover, the net result of that did create opportunity in the sense that stock markets are now at levels that do seem to offer value.

**Table no. 1: “The year’s 2011 economic evolution – pros and cons”**

<b>The year’s 2011 economic evolution, in terms of assets markets and net results</b>	
<b>Weak Points</b>	<b>Strong Points</b>
The great uncertainty brought by the Eurozone crisis.	The Euro crisis is just a part of the global crisis, but it is generally known that all the crisis have brought also good aspects as well.
The potential turmoil in the Middle East.	The currency fluctuation provides new perspectives of investment, on long term.
Furthermore, the American market will continue to grow, but at a slow rate.	In the case in which Euro goes down, the investments can focus on the US dollar, causing benefits on that market.
Moreover, emerging markets will continue to	The emergent markets offer new perspectives

grow but at a slow rate.	in terms of economic, financial, accounting market.
By contrast, peripheral Europe will remain rather weak.	Some countries in Europe, such as Germany, which has a strong economy, maintain her privileged status no matter what.
The effect of that on a market where both stocks and many credits start the year at fairly reasonable valuations means opportunity exists but it is likely to be volatile.	The investments should be done in terms of prudent decisions and in strong countries or regions.

**Source: the authors**

In terms of erratic investor behavior, it is for sure correct if we state the fact that the year 2011 has been a period of a lot of uncertainty and the data presented in the table above strengthens all these ideas (*see, in this matter, Table no. 1: “The year’s 2011 economic evolution – pros and cons”*).

Nowadays, due to this ongoing uncertainty, planning the investment strategies in this challenging environment is a must, and furthermore, our article presents some top investment ideas for 2012, that could prove very useful.

Secondly, another main interest for us concerning this article referred to some top investment ideas for the year 2012 (<https://infocus.credit-suisse.com>) (*see, in this matter, Table no. 2: “Key investment ideas for 2012”*).

**Table no. 2: “Key investment ideas for 2012”**

<b>Key investment ideas for 2012</b>	
<b>The fixed income sector</b>	
<b>The first investment idea</b>	Refers to investing in a diversified basket of core corporates, which are those companies with credit that looks attractive at the current price. Here, specialists usually recommend 70 percent of investment grade names and 30 percent top high yield issuers, in order to have the right combination.
<b>The second investment idea</b>	Takes into account emerging market semi or quasi-government bonds. In this matter, some examples could be: less risky ones are the Korean bonds; more risky are the Chinese, Indonesian and Russian bonds.
<b>The equities sector</b>	
<b>The third investment idea</b>	Takes into consideration the high dividend stocks which are favored in 2012. At this particular point, there are some good quality corporate names which are typically supported by substantial cash on the balance sheet and good potential to keep growing.
<b>The fourth investment idea</b>	Puts an accent on having some covered call writing strategies, which are option strategies where investors get a premium in respect of a stock that they currently hold. Also, another solution is that they can also be implemented through investing in funds or structured products.
<b>The currency market sector: the foreign exchange market</b>	
<b>The fifth investment idea</b>	Takes into consideration the perspectives of diversifying the traditional currencies into Asian currencies and the

	Yen, which could go even stronger.
<b>The sixth investment idea</b>	Refers to enlarging furthermore the currencies investment option, and start focusing also on the Chinese Renminbi, which does tend to trend upwards and is becoming easier to invest in over time.
<b>The commodity market</b>	
<b>The seventh investment idea</b>	Highlights the great potential that lies nowadays on value commodities, those commodities where the price has fallen to a level that looks attractive. An example is the one of some of the industrial metals such as copper. Investing in gold is clearly a good opportunity for investment, especially in uncertain times.
<b>The real estate sector</b>	
<b>The eight investment idea</b>	Takes into account the real estate perspective of investing in order to generate income. In this area specialists tend to recommend either exposure via collective investments where the price has come down a bit or, for specialist investors who have access to direct real estate investments, commercial opportunities exist in some markets including Australia, Singapore, parts of the US, parts of Latin America, as well as parts of Germany and France.

Source: the authors

### Conclusions

In terms of conclusions, we have imagined to possible scenarios, with two possible settings in respect to solutions:

**Scenario no. 1: The Eurozone crisis goes out of control:** In the context in which the Eurozone crises really were to go out of control, then the euro would weaken a lot more than any scenario made until now. In consideration to this, some new and more interesting options would suggest to invest on the dollar or Yen. In this context, also buying Australian dollar long-dated sovereign bonds would prove to be a very good idea because if things do go wrong the world economy will be bad, commodity prices will come down and while that is bad for the Australian economy, it is good for Australian bonds. The recommended solution would be the one of hedging those into US dollars.

**Scenario no. 2: The Eurozone crisis goes better, or anyway as predicted:** In the case of a better evolution of the Euro crisis bonds and in the case in which high debt countries were to perform well, than it would be recommended to invest in Italian and Spanish bonds, for example.

Our study is useful both to academics and researchers, but also has its limitations, concerning the economic, financial and accounting field. We would suggest in the future, as a perspective for further investigation and research, to take each of the points recommended above as investment opportunities, and see their real value at the end of the year 2012, or at the beginning of the year 2013.

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