Alternative Investment

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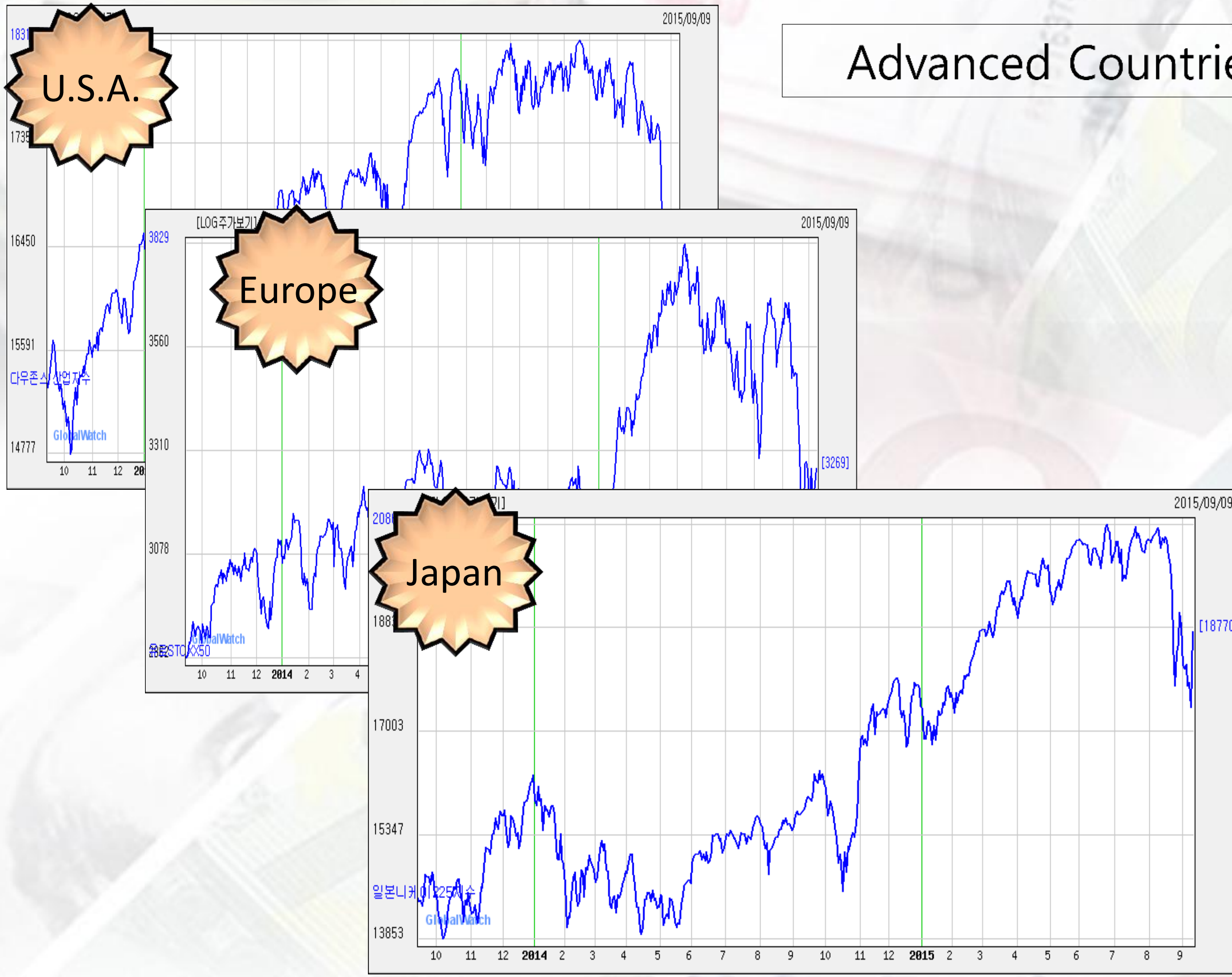
Content

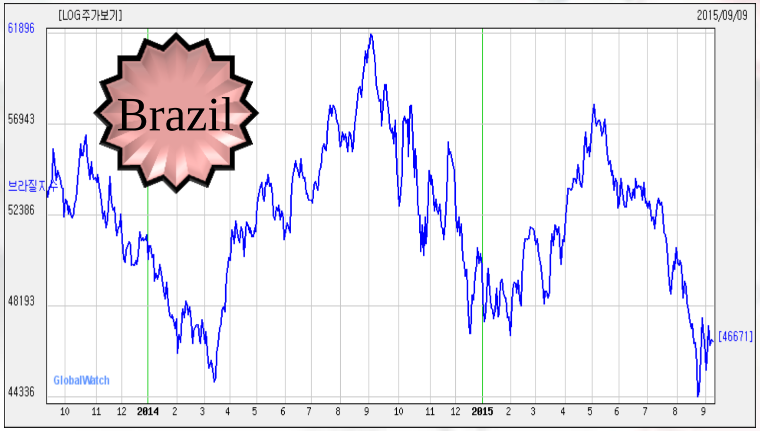
1. Introduction

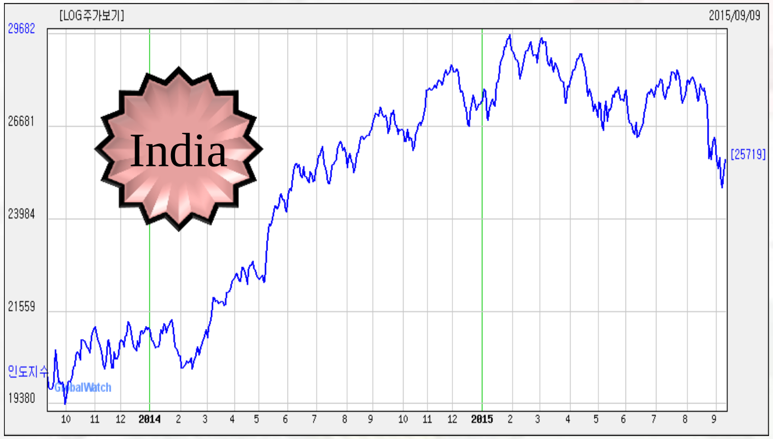
Advanced Countries

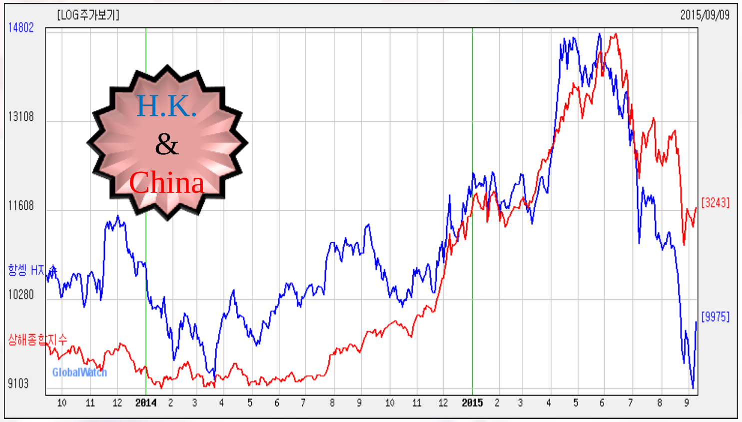


1. Introduction

Emerging Market Countries







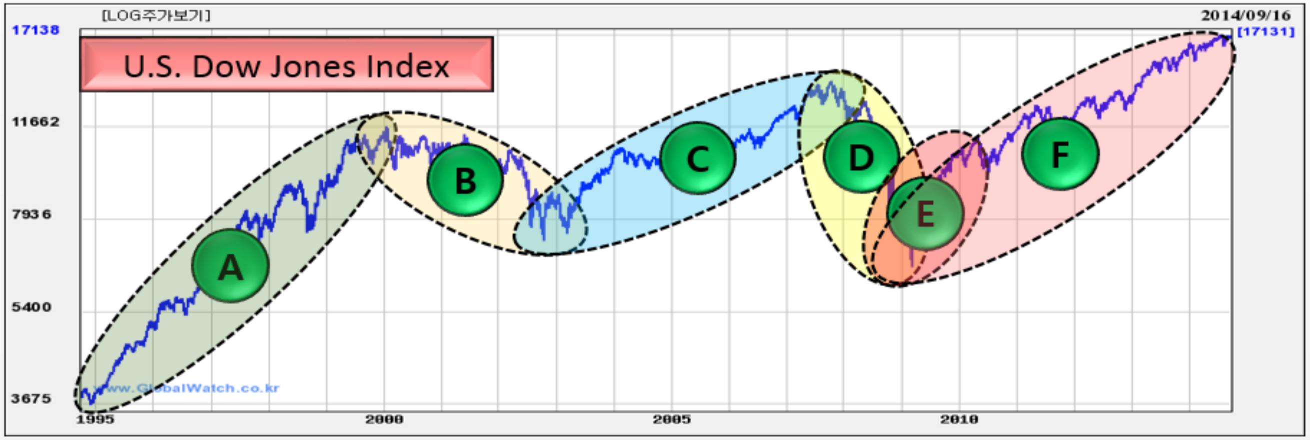
1. Introduction

1. Introduction

Diversification		
1. Beating the Market?	*2. Asset Allocation*	*3. Portfolio Strategy*

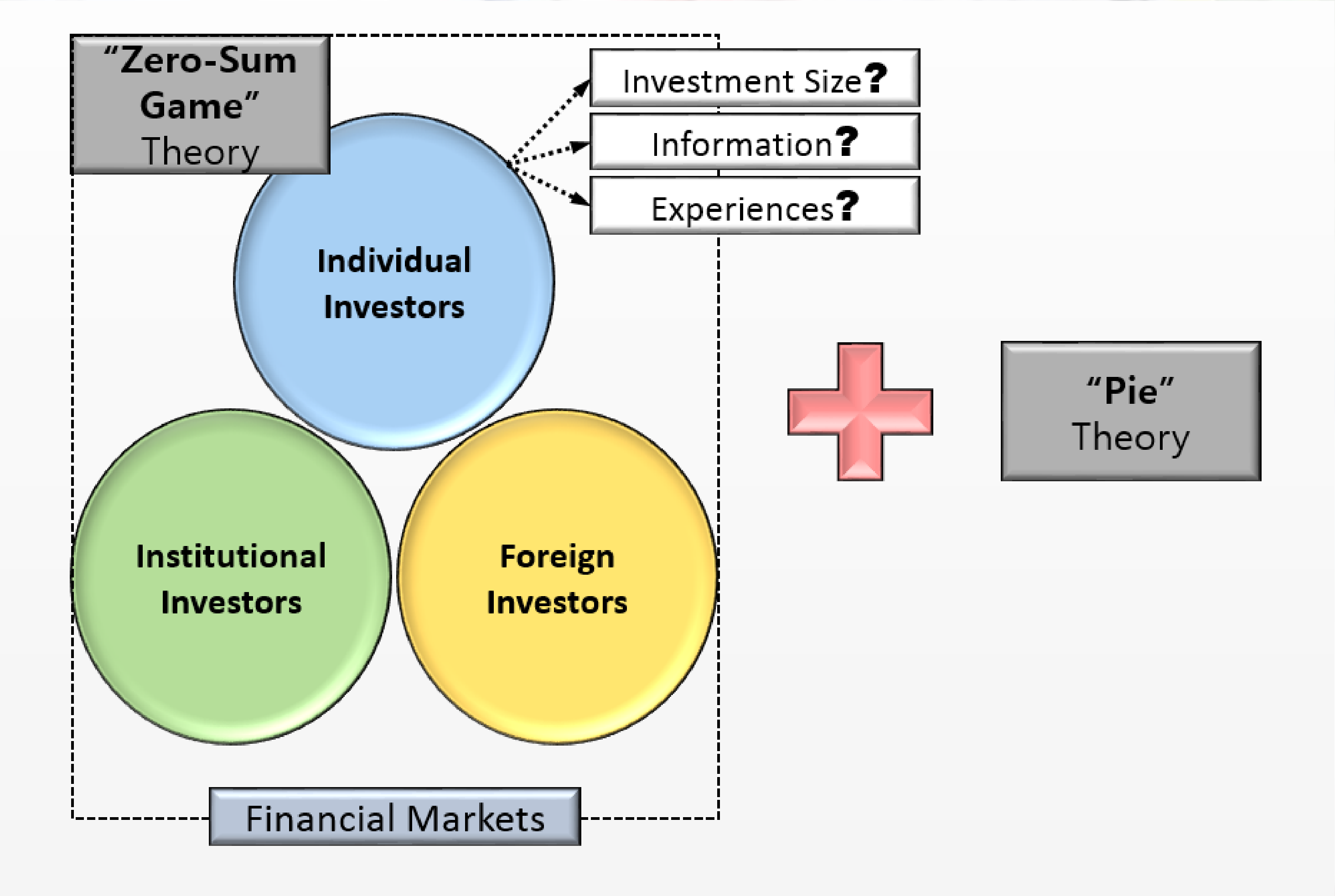
2. Beating the Market?

- A 1995 ~ 1999: The average return on U.S. stocks was 28.6 percent per year
- B 2000 ~ 2002: The average loss was 14.6 percent per year — IT Bubble
- C 2003 ~ 2007: The average return was 12.8 percent return per year
- D 2008: Stocks dropped by 37 percent — Global Financial Crisis
- E 2009 and 2010: They rose by an average of 20.6 percent per year
- F 2009 ~ Present: Dow Average: 8,776(12/31/2008)→ 18,272(May 15/2015)



2. Beating the Market?

1.1. Can you beat the market?

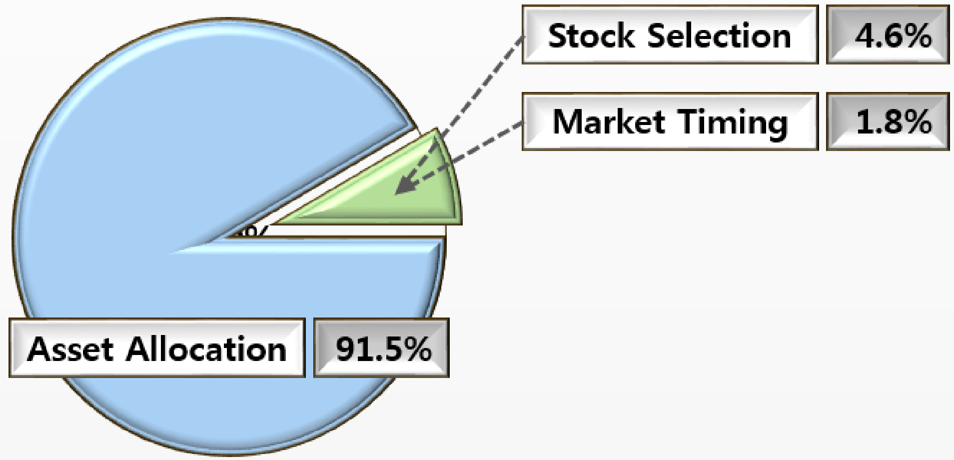


2. Beating the Market?

1.1. Can you beat the market?(1)

What drives investment performance?

Institutional investors in U.S. have reponded…..



2. Beating the Market?

1.2. Market is efficient

- The concept of **efficient markets** concerns the speed at which new information is reflected in prices.
  - **If the stock market were a perfectly efficient market, security prices would equal their true value at all times-in other words, you can't systematically "beat the market."**

- So, is the stock market an efficient market? Well…..If it is truly efficient, then there's no benefit to much of what's done by stock analysts

- **First of all, there's a question of the degree of efficiency**
- In addition, if someone uncovers a new technique for predicting prices, he or she would be much better off using it rather than publishing it. As a result, we may only see results that indicate that the market is efficient.

2. Beating the Market?

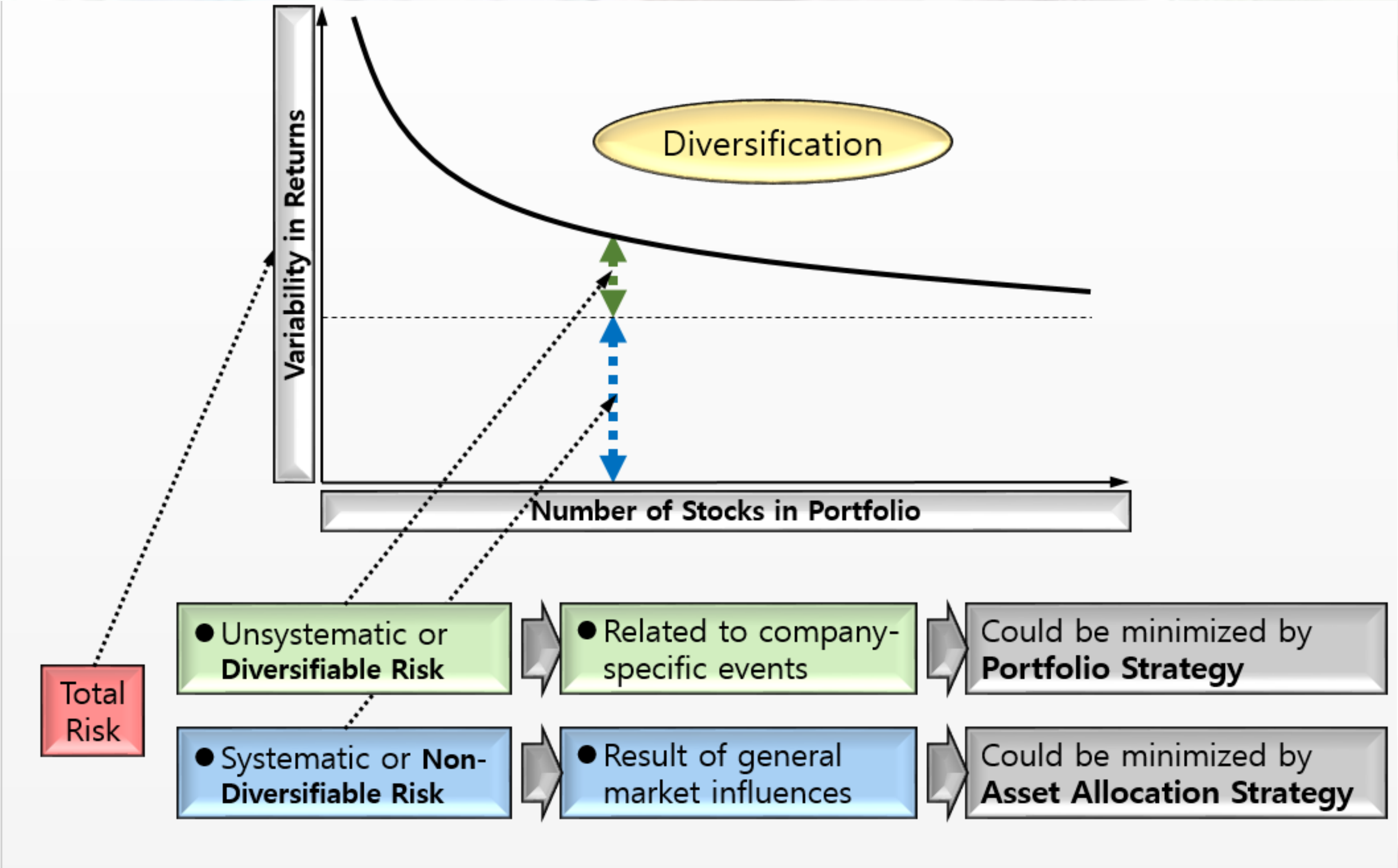
1.2. Market is efficient (2)

Therefore, if you need to win in this market, **you need to diversify your investment rather than trying to beat the market**

Diversification is a very important tool for **"Risk Management"**

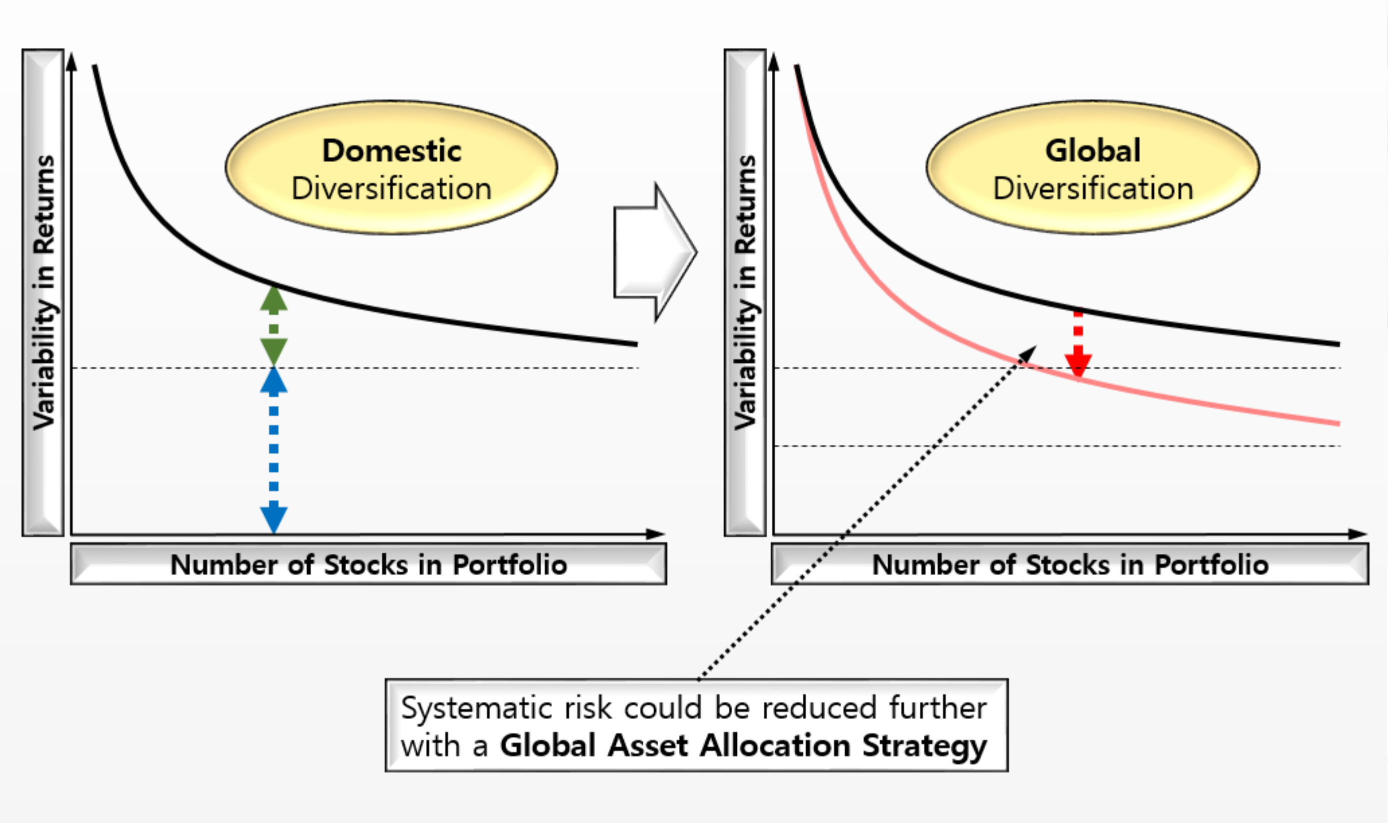
2. Beating the Market?

1.3. Diversification is important



2. Beating the Market?

1.3. Diversification is important (1)



2. Beating the Market?

1.3. Diversification is important (2)

Systematic Risk/Non-Diversifiable Risk

- For example, **the financial meltdown in the fall of 2008** had a negative effect on the returns of almost all stocks; as a result, that risk could not be diversified away and would be considered a source of systematic risk.

Unsystematic Risk/Diversifiable Risk

- The variability in the returns of a certain investment that is due to events that are **unrelated to the overall market**
  - These returns might be due to the death of the firm's CEO, a product recall, a major fire at a manufacturing plant, or even bad managerial choices.
- The returns caused by these types of events are not related to the returns of other investments and **could be reduced through diversification.**

2. Beating the Market?

1.3. Diversification is important (3)

	IT Bubble						Global Financial Crisis			U.S.A. Down-graded
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Best	t Bond .87%	Small Cap. 34.96%	Small Cap. 23.66%	Emerging 55.04%	Small Cap. 30.37%	Emerging 26.07%	Gov't Bond 5.81%	Emerging 73.44%	Small Cap. 30.35%	Gov't Bond 6.09%
	Bank 3.53%	Emerging 30.02%	Mid. Cap 19.75%	Small Cap. 37.60%	Mid. Cap. 29.03%	Corp. Bond 7.21%	Bank 5.75%	High Yield 60.99%	Emerging 27.48%	Corp. Bond 3.16%
	High Yield 0.84%	High Yield 28.81%	Emerging 16.88%	Mid. Cap. 31.15%	Emerging 18.60%	Large Cap. 4.93%	Corp. Bond 0.51%	Small Cap. 60.26%	Global 20.14%	High Yield 3.08%
	Corp. Bond 0.51%	Mid Cap. 18.71%	High Yield 11.92%	Global 26.78%	Large Cap 18.08%	Bank 4.42%		Mid. Cap 41.18%	Mid. Cap. 19.98%	Bank 1.68%
				Large Cap. 25.90%			High Yield -27.18%			Global -1.84%
	Emerging -20.24%	Large Cap. 13.78%	Large Cap. 10.32%		High Yield 8.26%	Gov't Bond 1.08%	Global -37.24%	Large Cap. 31.16%	High Yield 14.38%	
	Small Cap. -25.44%	Global 11.28%	Gov't Bond 7.62%	Corp. Bond 8.66%	Global 7.93%	High Yield 0.70%	Large Cap. -42.43%	Global 26.72%	Large Cap. 10.13%	Large Cap. -6.04%
	Mid. Cap. -25.82%	Corp. Bond 5.69%	Global 6.95%	Gov't Bond 6.09%	Corp. Bond 3.51%	Global -1.18%	Mid. Cap. -48.15%	Gov't Bond 4.18%	Corp. Bond 7.66%	Mid. Cap. -13.09%
	Large Cap. -30.39%	Gov't Bond 2.75%	Corp. Bond 6.12%	Bank 2.20%	Bank 3.02%	Mid. Cap. -5.93%	Emerging -50.76%	Bank 2.31%	Gov't Bond 2.93%	Emerging -15.12%
Worst	obal .73%	Bank 2.18%	Bank 2.18%	High Yield 2.15%	Gov't Bond 0.00%	Small Cap. -.7.72%	Small Cap. -51.65%	Corp. Bond 1.74%	Bank 1.12%	Small Cap. -17.44%

2. Beating the Market?

1.3. Diversification is important (4)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
	IT Bubble						Global Financial Crisis			U.S.A. Down-graded
Best	…t Bond …87%	Small Cap. 34.96%	Small Cap. 23.66%	Emerging 55.04%	Small Cap. 30.37%	Emerging 26.07%	Gov’t Bond 5.81%	Emerging 73.44%	Small Cap. 30.35%	Gov’t Bond 6.09%
	Bank 3.53%	Emerging 30.02%	Mid. Cap 19.75%	Small Cap. 37.60%	Mid. Cap. 29.03%	Corp. Bond 7.21%	Bank 5.75%	High Yield 60.99%	Emerging 27.48%	Corp. Bond 3.16%
	High Yield 0.84%	High Yield 28.81%	Emerging 16.88%	Mid. Cap. 31.15%	Emerging 18.60%	Large Cap. 4.93%	Corp. Bond 0.51%	Small Cap. 60.26%	Global 20.14%	High Yield 3.08%
	Corp. Bond 0.51%	Mid Cap. 18.71%	High Yield 11.92%	Global 26.78%	Large Cap 18.08%	Bank 4.42%	Diversified -27.37%	Mid. Cap 41.18%	Mid. Cap. 19.98%	Bank 1.68%
	Diversified -13.32%	Diversified 16.50%	Diversified 11.71%	Large Cap. 25.90%	Diversified 13.20%	Diversified 3.34%	High Yield -27.18%	Diversified 33.63%	Diversified 14.91%	Global -1.84%
	Emerging -20.24%	Large Cap. 13.78%	Large Cap. 10.32%	Diversified 21.73%	High Yield 8.26%	Gov’t Bond 1.08%	Global -37.24%	Large Cap. 31.16%	High Yield 14.38%	Diversified -4.43%
	Small Cap. -25.44%	Global 11.28%	Gov’t Bond 7.62%	Corp. Bond 8.66%	Global 7.93%	High Yield 0.70%	Large Cap. -42.43%	Global 26.72%	Large Cap. 10.13%	Large Cap. -6.04%
	Mid. Cap. -25.82%	Corp. Bond 5.69%	Global 6.95%	Gov’t Bond 6.09%	Corp. Bond 3.51%	Global -1.18%	Mid. Cap. -48.15%	Gov’t Bond 4.18%	Corp. Bond 7.66%	Mid. Cap. -13.09%
	Large Cap. -30.39%	Gov’t Bond 2.75%	Corp. Bond 6.12%	Bank 2.20%	Bank 3.02%	Mid. Cap. -5.93%	Emerging -50.76%	Bank 2.31%	Gov’t Bond 2.93%	Emerging -15.12%
Worst	…obal ….73%	Bank 2.18%	Bank 2.18%	High Yield 2.15%	Gov’t Bond 0.00%	Small Cap. -.7.72%	Small Cap. -51.65%	Corp. Bond 1.74%	Bank 1.12%	Small Cap. -17.44%

2. Beating the Market?

1.3. Diversification is important (5)

So, don't put all your eggs in one basket

How to allocate your asset? → Asset Allocation Strategy

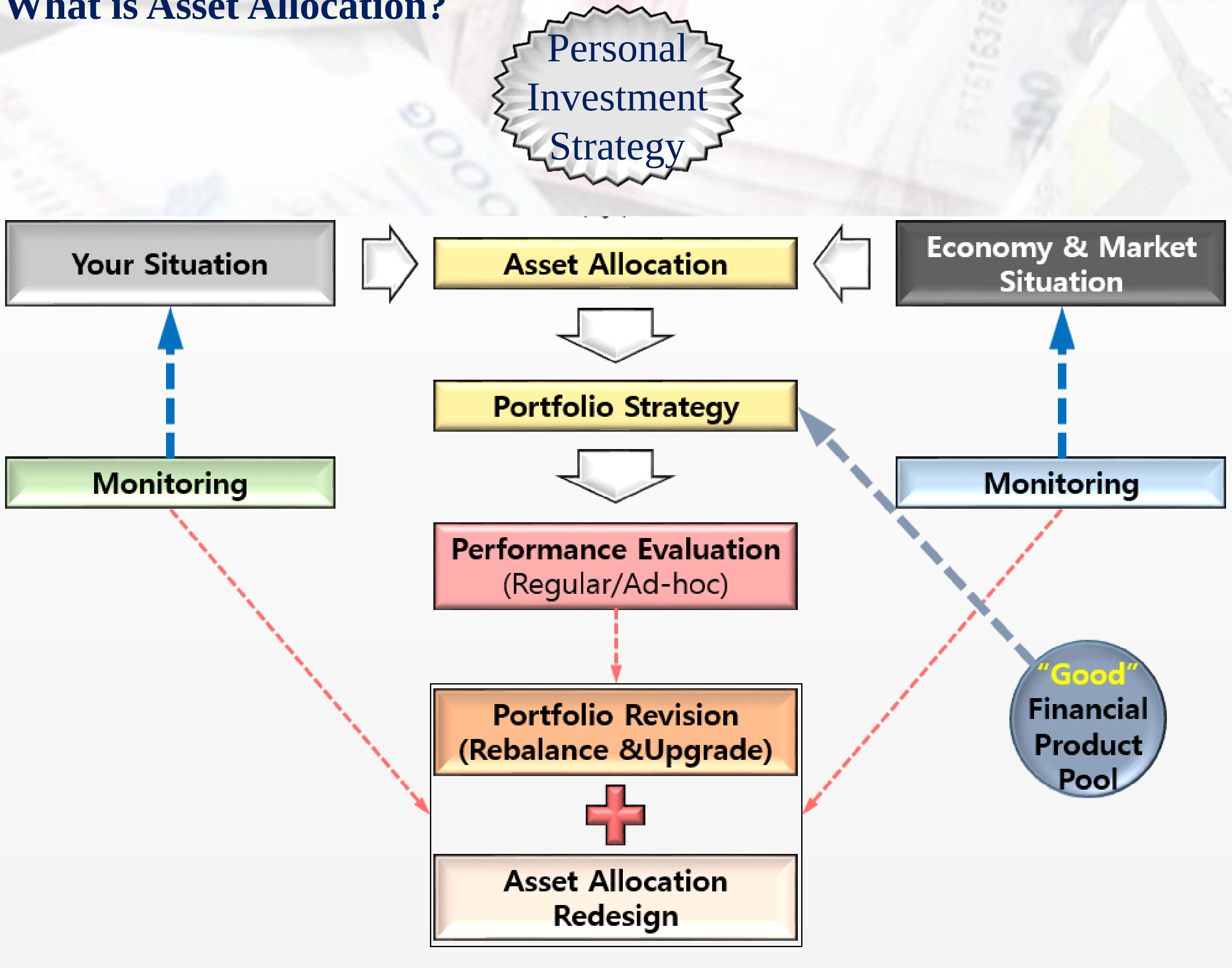
What to buy? How much to buy? → Portfolio Strategy

3. Asset Allocation

What is Asset Allocation

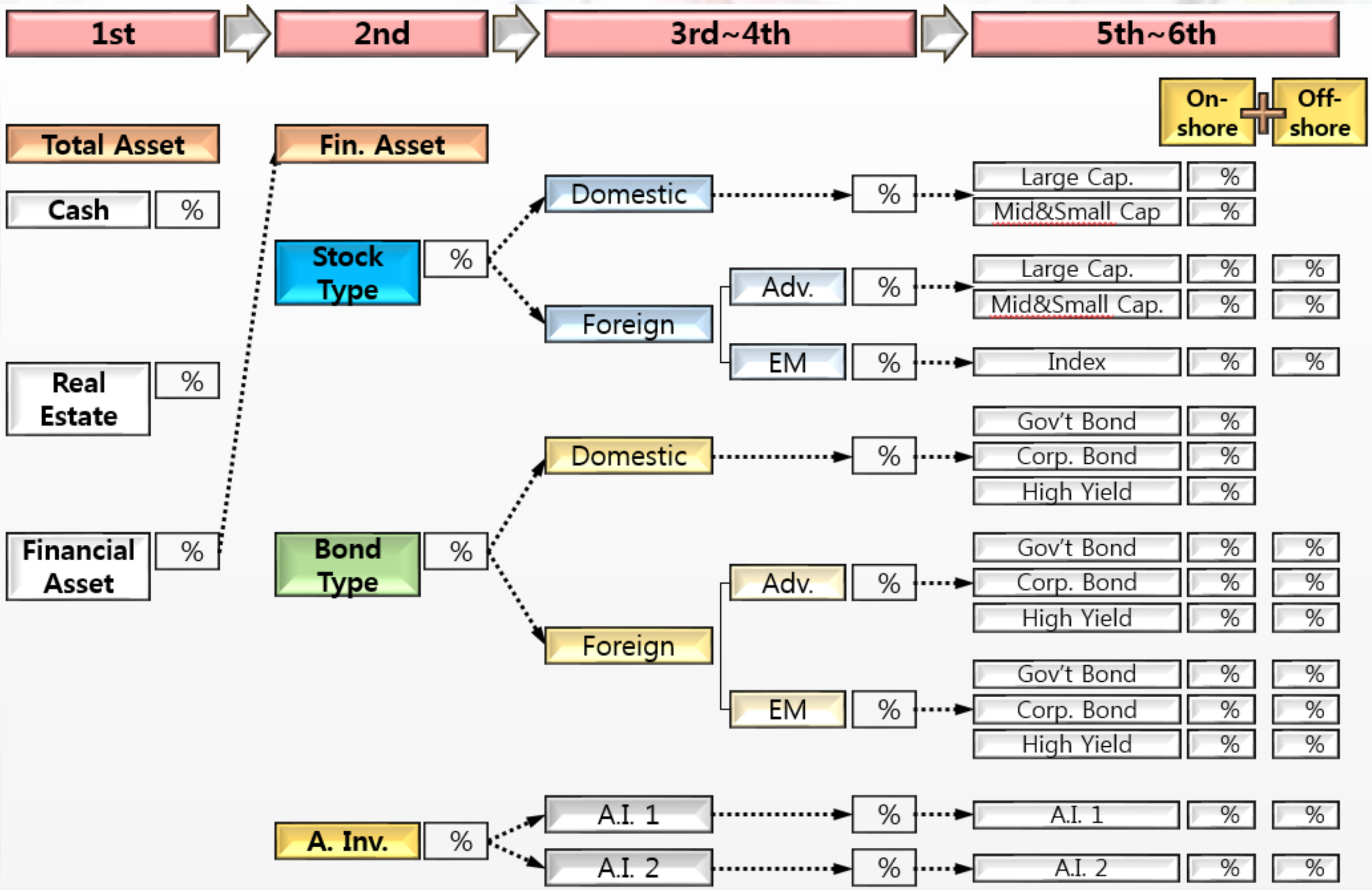
3. Asset Allocation

2.1 What is Asset Allocation?



3. Asset Allocation

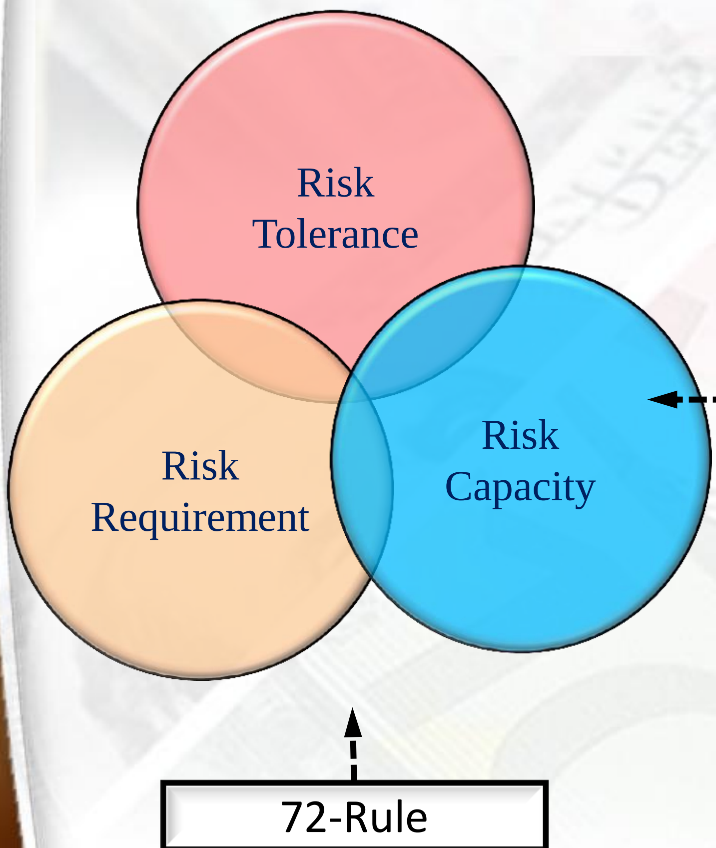
2.1 What is Asset Allocation? (1)



3. Asset Allocation

2.2. Factors Impacting Asset Allocation

- So, how much risk should you be prepared to assume? or what kinds of assets should you invest in, either stocks, bonds or cash?

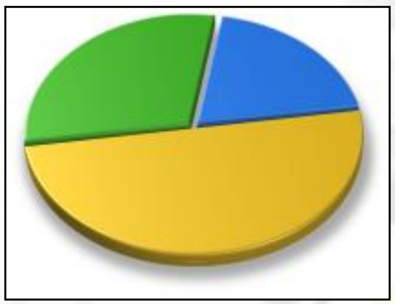
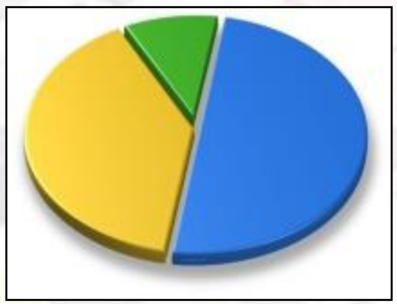
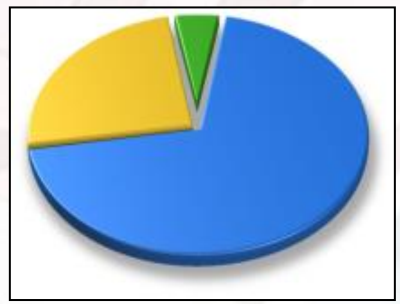
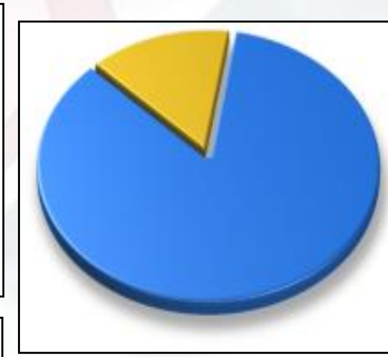


- Your financial situation
  - How secure your job is
  - How much you have saved
  - Whether you have an emergency fund
  - The longer it is until you need the money, the more risk you can afford to take.

3. Asset Allocation

2.3. Types of Asset Allocation

Sample

Conservative A/A	Balanced A/A	Growth A/A	Aggressive A/A
			
20% Stocks	50% Stocks	70% Stocks	85% Stocks
50% Bonds	40% Bonds	25% Bonds	15% Bonds
30% Cash Equivalents	10% Cash Equivalents	5% Cash Equivalents	

3. Asset Allocation

2.3. Types of Asset Allocation (1)

"Pick Up Their Brain!"

3. Asset Allocation

2.4. Asset Allocation Cases

a. Korea National Pension

2015~2019

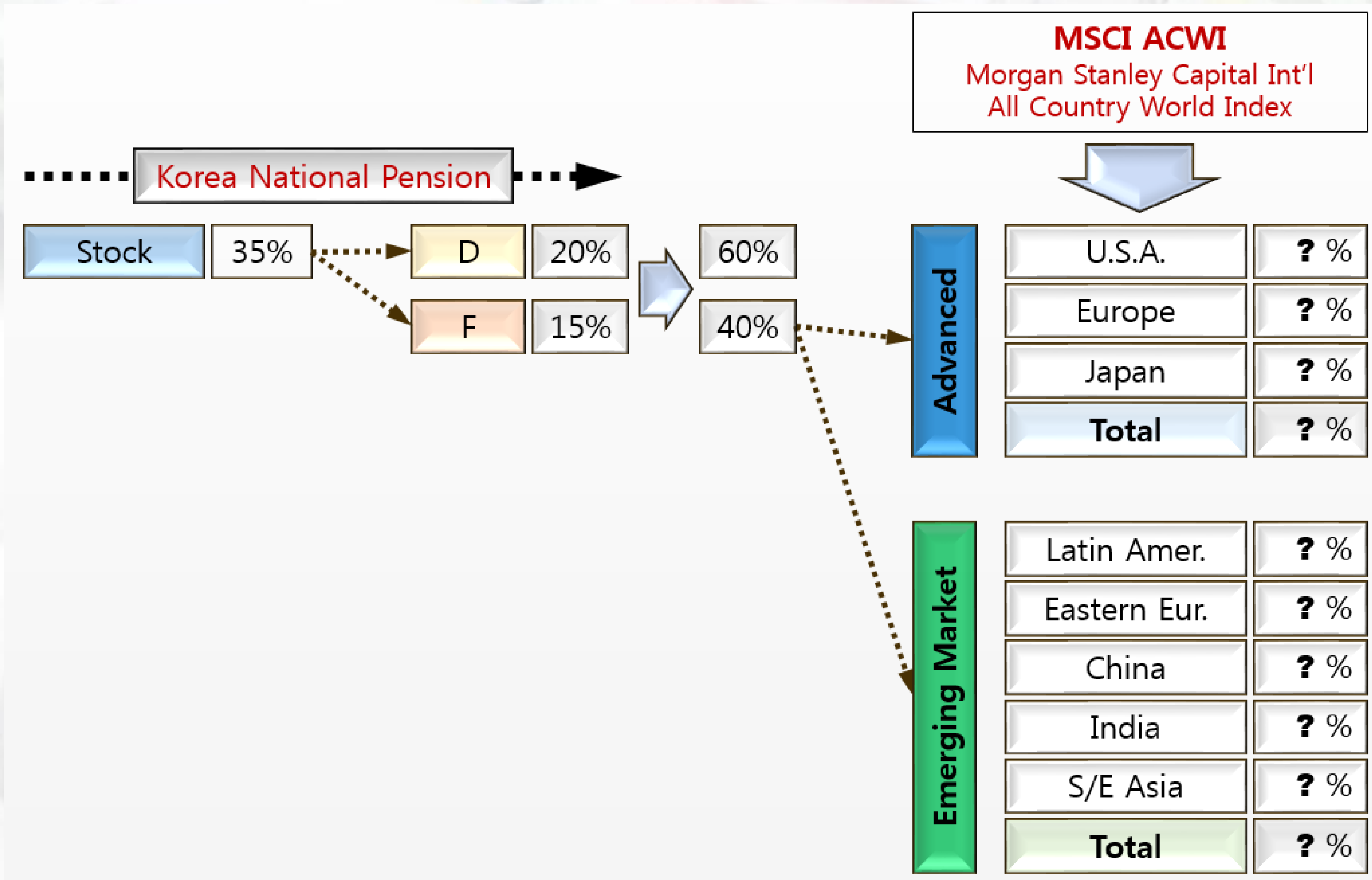
Stock Type	Domestic	More than 20%
	Foreign	More than 15%
	S. Total	**More than 35%**
Bond Type	Domestic	Less than 50%
	Foreign	Less than 10%
	S. Total	**Less than 55%**
Others		**More than 10%**
Total		**100%**

Target Return: 5.8%

3. Asset Allocation

2.4. Asset Allocation Cases (1)

b. MSCI ACWI



3. Asset Allocation

2.4. Asset Allocation Cases (2)

b. MSCI ACWI (1)

MSCI Advanced(2014.06.30)

Country	Weight in Global Market	Weight in Advanced Countries
U.S.A.	48.88%	54.85%
England	7.80%	8.75%
Japan	7.36%	8.26%
Canada	3.86%	4.33%
France	3.68%	4.13%
Germany	3.38%	3.79%
Switzerland	3.29%	3.69%
Australia	2.81%	3.15%
Others	8.06%	9.04%
Total	**89.12%**	**100.00%**

U.S.A.	59.18%	20%
Europe	20.36%	5%
Japan	8.26%	5%
Others	12.19%	
	Total	**30%**

3. Asset Allocation

2.4. Asset Allocation Cases (3)

b. MSCI ACWI (2)

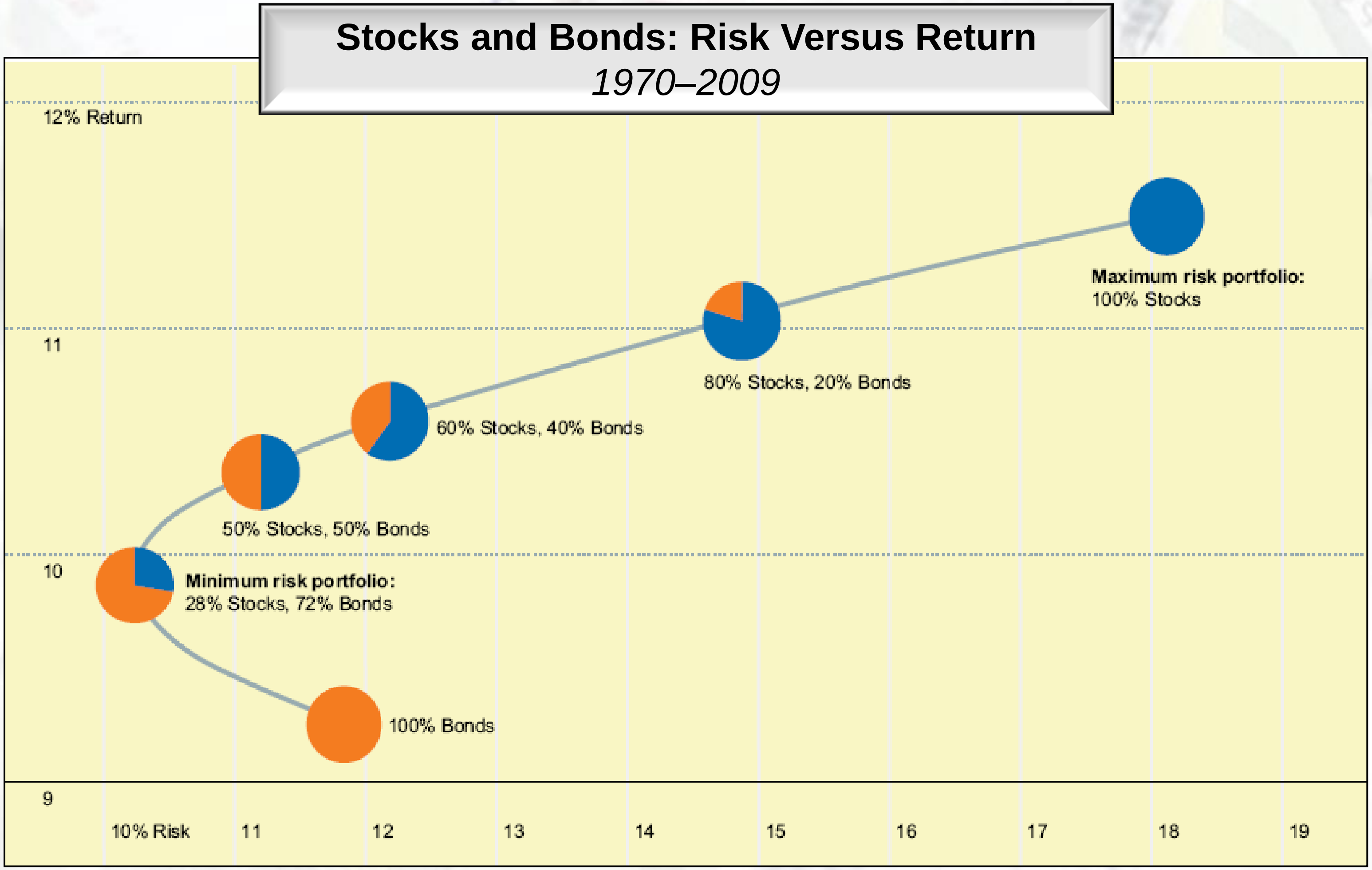
MSCI EM(2014.06.30)

Country	Weight in Global Market	Weight in Emerging Market
China	2.00%	18.38%
Korea	**1.69%**	**15.53%**
Taiwan	1.32%	12.13%
Brazil	1.18%	10.85%
S. Africa	0.82%	7.54%
India	0.74%	6.80%
Russia	0.59%	5.42%
Mexico	0.56%	5.15%
Others	1.98%	18.20%
Total	**10.88%**	**100.00%**

China	30.51%	60%	10%
Brazil	10.85%	20%	
India	6.80%	10%	
Russia	5.42%	10%	
		Total	**10%**

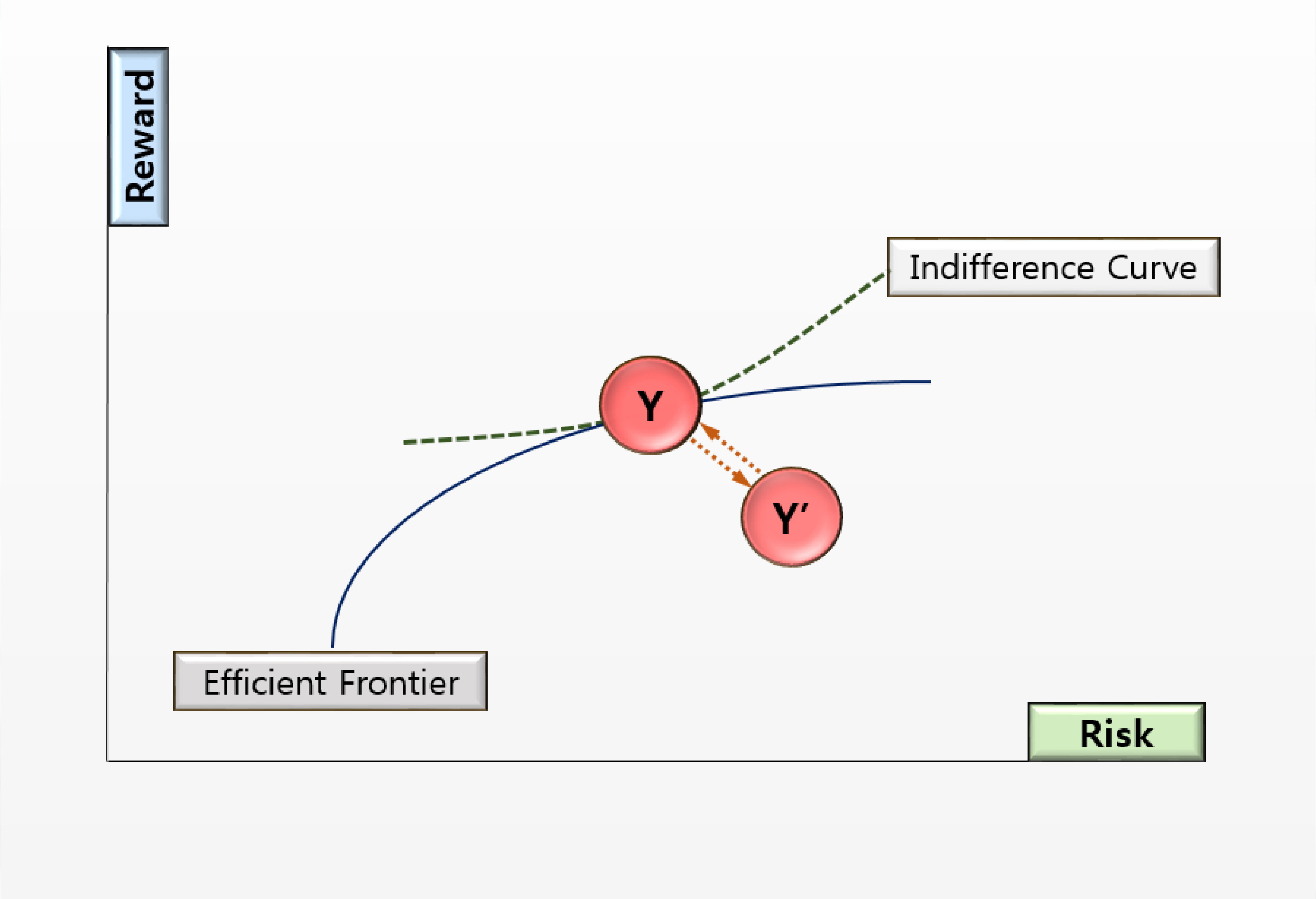
4. Portfolio Strategy

3.1. What is Portfolio Strategy?



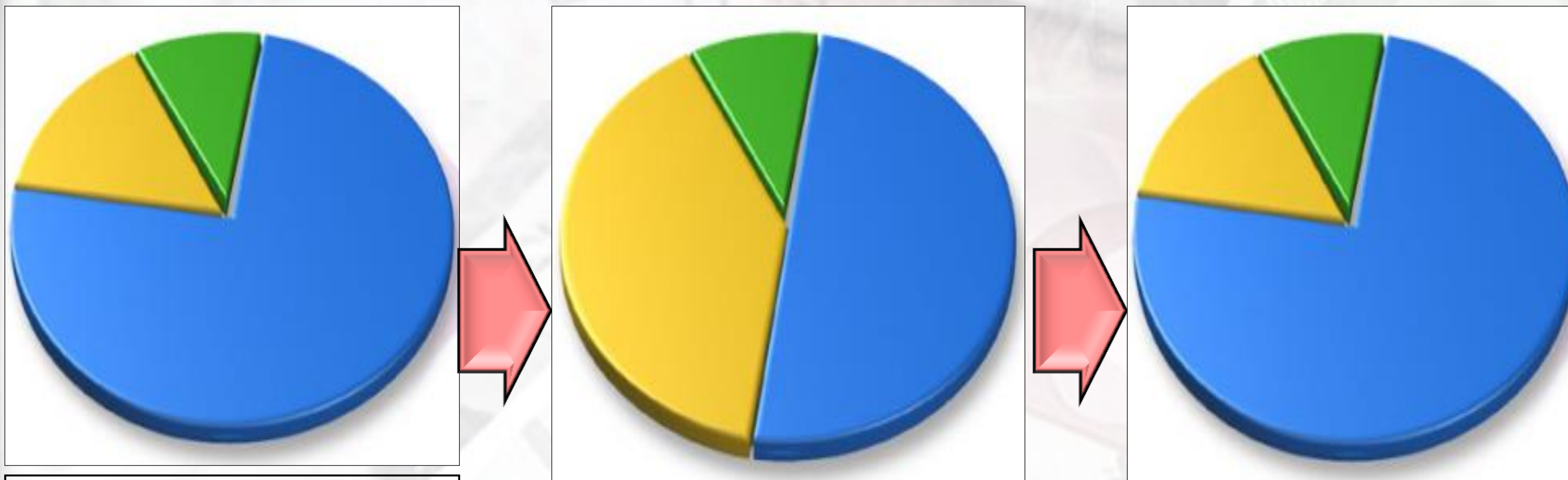
4. Portfolio Strategy

3.2. Rebalancing Strategy



4. Portfolio Strategy

3.2. Rebalancing Strategy (1)



Original allocation

Portfolio grows and allocation shifts with time

Reallocation back to original


Thank You!