

Asset risk: I see ships

The giant insurer, Allianz, has a reputation for being conservative and behind the curve. BRAVE Partners believes that a recent Bloomberg article suggests that Allianz is leading the way in investment strategy. Bloomberg reported: “Allianz flight from stocks leads it to Chicago parking meters and wind farms”. At BRAVE Partners, physical assets are the New Black.

“I see no ships” is a frequent misquote attributed to English hero Admiral Lord Nelson. The true quote is “I see no signal”. Nelson is credited with winning the Battle of Copenhagen in 1801 by ignoring the order to withdraw and destroying many of the Dano-Norwegian ships. The then Vice-Admiral was able to ignore the order, which was given by a flag signal, by placing his telescope to his blind eye and stating: “I see no signal”.

The signal

At BRAVE Partners we believe that we see the signal loud and clear. The signal says: “Invest in physical assets”. One flag in that signal is the entertaining, and highly informative, Jim Cramer. You Tube is littered with clips of Jim and his CNBC show Mad Money. One such clip shows Jim extolling the value of Honeywell. Within that Jim points out:

“See this jet engine: eh - not that you could miss it. This is something real, something that is not a CDO; not a credit default swap; not a structured investment vehicle. It is something that companies buy and use – and you know what; they are still buying them and using them.”

The BRAVE partners are far from as knowledgeable about large-cap public stocks as Jim. The firm has no view or advice on Honeywell. However, BRAVE Partners does believe that going forward the investments that offer the best risk-reward will be those that clearly and directly involve physical assets for which a clear and direct need or market can be identified.

Any old asset

The opportunity in assets does not extend to any old asset. In fact it was this assumption that “all assets must have some value” that created the subprime crisis.

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“The thing that some UK investors just can’t understand about the USA is that it is possible for whole housing developments to be literally worthless. Some of the speculative developments were built in inhospitable places far from major centers of population or commercial activity. California is a big place - not all of it looks like the scenes on Bay Watch.”

Christopher Cloke-Browne
Managing Partner
BRAVE Partners LLP

Small island – vast desert

In the UK, just about any house has a value. The country is ultimately a relatively small island with a growing population. Nowhere is that far from anywhere and ultimately people need somewhere to live. The result is that someone will always need to live in just about any house. Therefore just about any house in the UK has a use and thus a value.

The same is not true in the USA. The USA is a vast country, with about 30 times the landmass of the UK. The US population, however, is only about 5 times that of the UK. This stark difference in population density is brought home looking at the total population figures from some individual states – for example: Wyoming (532,668); North Dakota (641,481) and; Montana, where pig racing is a local pastime, (967,440).

The thin population in the USA means that there are several places where people do not live and do not have to live. Often these areas are inhospitable – such as the semi-desert zones away from the coast in California. The population of California is large, approaching 37 million. However, at about one and a half times the land area of the UK, California is also large. Moreover, anyone who needs just a little more room can go and live in Montana.

The result: it is possible not just for a house, but for an entire development of houses in the USA to be worthless.

Blind pools

The problem with asset backed lending was that the business descended into an opaque morass of blind pools and blinder assumptions. Banks would package pools of mortgages on speculative properties built in the semi-desert inland in California. Investors round the world would buy them imagining chique, waterfront developments.

The asset opportunity

Asset lending is out of favour as a result, but there are still real assets out there that people really need – which means that they need to be financed.

Clarity

The asset opportunity lies in clarity. All asset finance is now shunned. Those willing to continue to engage, like Nelson, can win the say. Chicago isn’t going to go away. It still needs parking meters and those need to be financed in some way. Energy also looks like a winner. The global increase in population and population wealth will increase the demand for energy – almost regardless of the economy.

Ships

The demand for energy is clear, but this leads on to reveal some other areas where profitable opportunities can be found. Shipping is out of favour. Ship financing is currently practically non-existent. The conventional wisdom on shipping is that capacity far outstrips demand and in most general lines of shipping this is true. Moreover, there is a lot of ship capacity in build right now that will further imbalance the supply – demand equation.

However, there are certain specialist ships that are under supplied. Without giving too many secrets away, one such type of ship is a cable laying ship. Offshore windfarms need the electrical cables laid to transmit the power back to the demand on land. This is done by using a ship that has the equipment to bury cables under the sea bed. There is currently insufficient capacity in this class of ship to meet all the demand for this service to implement all of the current plans for offshore windfarm development. Cable laying ships are a real asset that people really need. Financing these is potentially a good investment.

BRAVE Partners services

There are many other opportunities available with a variety of risks, returns and cashflow profiles. Asset finance offers a wealth of opportunities for robust returns on risk to meet a variety of ALM needs.

Interaction

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- Quality assets with genuine uses will always be in demand.
- There are a number of opportunities to finance such assets.
- Allianz has led the way – seeking more project finance investment, rather than traditional stocks and bonds.
- BRAVE Partners can advise on the asset financing opportunities to meet a variety of ALM needs.

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