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MIT scholar stresses risk diversification for investors

By Billy Chamberlin

Stock portfolios in Taiwan ought to be comprised of at least 20 percent to 40 percent of offshore funds in order to reduce risk, said one of the world's leading business management scholars.

According to the Asia-Pacific Fund Management Summit 2001, held yesterday in Taipei, professor Donald Lessard, deputy dean of the Sloan School of Management at the Massachusetts Institute of Technology (MIT), went on to clarify his statement to a room packed with local and international asset fund managers as well as several Taiwan government officials.

He said Taiwan is "very concentrated in industrial sectors" and with a volatile political situation at home and across the strait. "Minting customers firmly to Taiwan stocks puts them at unnecessary risk. "Holding customers strictly to the Taiwan market is criminal."

Lessard went on to further stress that with the future of Taiwan wildly unpredictable, over-concentration can play havoc with stock value. "Taiwan will probably do really well in the future, but there is still the chance that it won't. If we look at Taiwan's current situation there are concerns. If we look at Taiwan in terms of potential, this is a very special place."

For Taiwan's asset management firms, offering customers overseas shares is the key to keeping them happy. "People are going to go and they offshore shares so you might as well offer them these services here." Warned Lessard.

The United States, on the other hand, has diverse industries and a stable political situation, making the need to purchase offshore shares unnecessary, he explained. As Taiwan is trying to turn itself into a knowledge-based economy, Lessard offered the U.K. as a model Taiwan to follow. During the painful transition from a primarily industrial and manufacturing base, the U.K. could have become protectionist, he said, but instead they opened themselves up and the U.K. has now become the management center for Europe.

Taking up from an "island off Europe," this "island off Asia" has made tremendous progress in opening its markets, but there is still room for more

improvement, stated Lessard.

Turning to focus on Taiwan businesses and how these firms can help improve their overall value. Lessard said Taiwan companies need to expand overseas and take their brands global. This need to expand has direct impacts on asset management firms and MIT's Deputy Dean explained that Taiwan's asset companies need to provide more services to Taiwan businesses.

"Taiwan businesses need to globalize based on Taiwan markets. Today, that isn't the case," said Lessard. "Taiwan businesses globalize in spite of Taiwan markets."

Lessard explained that when some Taiwan companies want to expand their business to other markets, a lack of asset managers qualified to provide guidance to these businesses forces companies to seek advice abroad, usually Hong Kong or Singapore.

But small- and Medium-sized companies are left in the lurch. While big corporations have the financial means to go to offshore in order to expand, it is the smaller companies that are hindered and unable to reach their full potential.

Looking at Taiwan 's future possibilities, Lessard said it is Taiwan's ability to quickly take advantage of market trends that has resulted in the island's success. "Taiwan's talent is footloose – it will go where the best opportunities are." Lessard said he just hopes the country's asset management firms will follow this formula and provide world class financial services to world class Taiwan companies right in their own backyard.