

# Caveat Emptor

For Hong Kong investors with their fingers burnt in the market meltdown, the ‘buyer beware’ philosophy has become more relevant than ever

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**Buy what you know — it’s a simple investment strategy, and an oft-preached mantra of financial gurus the likes of Warren Buffet and Peter Lynch.**

And apparently, going by the results of a recent survey, it’s also one that is largely ignored by investors in Hong Kong.

In December, the Securities and Futures Commission (SFC) released the findings of a survey conducted between July and August — before the Lehman Brothers minibonds debacle hit the headlines — which showed that the majority of Hong Kong investors had scant knowledge about what they were investing in. Not only did over two-thirds of the survey’s 1,502 respondents know very little about what they were putting their money into, they also did not bother to read, or only briefly skimmed, investment documents before signing them.

“The survey findings show that many investors still need to ask some very basic and fundamental questions before investing,” said SFC’s Chief Executive Officer

Martin Wheatley in a press statement. “This is an underlying requirement, which is as valid now, in today’s volatile financial markets, as it was at the time of our survey.”

## Reward without risk

As unrealistic as they were uninformed, nearly 50 per cent of investors expected returns with little or no loss on their investments, the survey revealed. More than 10 per cent said they expected a high level of profit.

Karl Lung, president of the Hong Kong Society of Financial Analysts (HKSFSA), believes that local investors tend to have a “herd mentality” when it comes to investing their money. “Many think of themselves as investment experts. They look for high returns, and they forget about the risks involved,” he says.

But losses have been too common this year, with stock markets around the world reeling from the financial turmoil sparked by the sub-prime crisis in the United States. Almost anyone holding an investment portfolio has had their fingers burnt — unless they were holding cash, and then it would have to have been in the right currency.

Amidst this sea of red, the Lehman Brothers minibonds fiasco has dominated the headlines. Billions of dollars in bad debt forced Lehman Brothers, once the fourth-largest investment bank in the United States and a Wall Street icon, to file for bankruptcy in mid-September. The firm’s collapse led to the implosion of a series of retail securities, including the so-called minibonds — a high-risk, credit-linked product arranged by Lehman and sold through Hong Kong banks.

According to the SFC, around 43,700 Hongkongers have sunk a total of HK\$15.6 billion into Lehman-linked investments, including HK\$12.57 billion into the now-worthless minibonds.

Affected investors, many of them

