

**Joel Moser** Contributor*I cover investment in energy and infrastructure.*

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ENERGY 7/08/2015 @ 10:10AM | 551 views

# Chinese Stock Markets Alarming? Time for Investing Lessons From Mr. Banks

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The turmoil in Chinese stock markets on the heels of the Greek referendum and the frank announcement by the Governor of Puerto Rico that his island state can't pay its debts should have investors large and small thinking about risk and asset allocation. In the contemporary environment, investing has become about staying abreast of the latest news cycle. It has not always been thus.

Once upon a time, accumulated capital was invested primarily in illiquid assets that bore fruit over time. These transactions largely occurred without the benefit of capital markets or securities. Typically, money was deposited in a bank, which provided a rate of return on the invested capital, and then pooled that deposit with funds from other depositors to make long-term investments in things of inherent value and income generation capacity.

Saving and investment have come so far that it is hard to recall these earlier times. Perhaps a familiar cinematic reference would help? Who doesn't remember the scene in Disney's *Mary Poppins* when the children visit their dad's bank and get a musical lecture on investment from the aging directors of the Fidelity Fiduciary Bank. They sing of investing the depositors' tuppence in "...railways through Africa, dams across the Nile, fleets of ocean greyhounds, majestic self-amortizing canals, [and] plantations of ripening tea."

Let's parse this asset allocation. Most are infrastructure (railways, dams and canals), transportation more broadly (ocean cargo fleets), one possibly in the energy class (hydro-power from dams) and all are real assets, including an agricultural investment in tea. What do we learn from Mr. Banks, or at least the Disney version of him (the more recent *Saving Mr. Banks* depicts the less comical inspiration for this lecture)?

For starters, we get a little cinematic glimpse of investing in the Edwardian era. Also a reminder of a time when banks were the principle conduit through which private capital was deployed into investments. A little nostalgia for when England was a colonial empire with tentacles far and wide, and, finally, within this little ditty, there is a glimpse of what investment used to be very much about: real assets.

I am as fascinated as I could possibly be with app-based crowd-sourced capital investment in tech start-ups and I am not for a moment suggesting an overall return to an anachronistic investment approach. Nevertheless, even in a world dominated by Google and Apple, real assets have a place in any balanced asset allocation for the same reasons that the fictional directors of the Fidelity Fiduciary Bank sung of them.

Let's examine my favorite, "majestic self-amortizing canals." The majesty isn't in the beauty of the physical asset but in the investment characteristics it embodies. A canal is likely developed on the basis of a government concession, typically including a non-competition clause making it a legal as well as physical monopoly. This is usually coupled with some pricing controls, a regulated utility of sorts, but one that will provide a reliable, predictable and, indeed, self amortizing, investment return. In short, it is the perfect infrastructure investment, not due to its bulky physical characteristics but in the near certainty of its financial performance.

Real assets such as infrastructure, along with energy, real estate and even elements of agriculture and mining, can form the basis of stable, long-term investments, which are less correlated to markets, potentially inflation protected, and less likely to be subject to major loss in a financial collapse. To be sure, there are bad ways to invest in real assets—over-leverage being the main danger—but as the current market gyrations prove yet again, real asset investments, properly structured, are still worthy of a Disney jingle. just don't expect me to sing.



*Fresh water is pumped into the new locks on the Pacific side of the Panama Canal expansion project in Cocoli, near Panama City, Monday, June 22, 2015. Water from an artificial lake has begun flooding into the new section of the Panama Canal and will spend the next several months filling the new locks on the Atlantic and the Pacific side of the project, as engineers begin testing the locks. (AP Photo/Arnulfo Franco)*