# Worth

# Class Conscious

Peter Panholzer jokes that a hedge fund manager's liberal, tongue-in-cheek definition of what constitutes an asset class is that if it moves up and down independently, then it is an asset class. Panholzer, a successful Monaco-based investor, has specialized in currency trading since founding his own asset management company, DynexCorp, in the mid-1970s, after the Bretton Woods system of fixed exchange rates collapsed and the modern era of currency speculation began.

Panholzer believes foreign exchange should be considered a mainstream asset class, albeit an idiosyncratic one. Currencies, he says, deserve this treatment for several reasons, such as:

• The global forex market is by far the largest in the world. It long ago passed the $1 trillion-per-day turnover mark (some estimates put current turnover at more than $2 trillion, but it is difficult to measure because most business is done between financial institutions, in the over-the-counter market).

• There is no such thing as a short sale in currency, unlike in equities, because the short sale of a currency is equivalent to the purchase of the other currency.

• For similar reasons, the currency market cannot suffer a crash and a loss of wealth by all market participants. In currencies, each loss is matched by an equivalent gain by the counterparty.

"Currencies were not considered an asset class because they were not considered diversified enough to form part of a portfolio in their own right," says Panholzer, adding that professional and private investors are increasingly coming to appreciate the benefits of foreign exchange exposure in terms of risk, return and lack of correlation with other assets as part of a large, diversified portfolio.

"An alternative is something that's alternative to a basic ingredient, but foreign exchange *is* the basic ingredient."

*John Ferry is an Edinburgh, UK-based financial journalist and a senior correspondent for* Worth.