

What are the odds it will rain?

Trading on the weather is big business

CREDIT Suisse Group trader Patrick Ayash rarely reads earnings estimates and just skims news about inflation. One thing he never misses is the daily weather report.

Ayash, 31, is part of an army of mathematicians, hedge-fund whizzes and programmers pouring into the US\$19-billion (\$29 billion) market for weather futures — financial instruments tied to everything from storms over Kansas, an early frost in the Netherlands, or a frigid spring in New York.

The market was once a sideline for utilities looking to insure against swings in demand for natural gas or electricity. Now, with hedge funds increasingly hungry for market-beating returns, more are gambling on untested strategies. Tudor Investment, DE Shaw & Co and other funds are turning teams of statisticians loose to devise novel ways of exploiting weather fluctuations.

"There are no 100-per-cent forecasts — but what if we can say something with 80-per-cent confidence? That's where it gets interesting," says Brad Hoggatt, 35, chief portfolio manager of MSI GuaranteedWeather, which sells weather futures to utilities and manages its own portfolio in Overland Park, Kansas.

Enron sold the first weather derivative 10 years ago, agreeing to pay a utility US\$10,000 for each wintertime degree that was below normal. After a lull following the collapse of the Houston energy trader, the market is exploding. Trading in weather contracts has jumped 100-fold in the past four

years, according to the Chicago Mercantile Exchange.

In the year ended March 31, 2007, the contracts had a face value of US\$19 billion, according to trade group Weather Risk Management Association.

Brokers attribute much of the increased volume to hedge funds, which buy and sell the contracts based on minute changes in forecasts. Fears of global climate change are helping too, drawing in companies from power suppliers to ski resorts that want to transfer the risk of adverse weather to outside investors.

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Some firms pay US\$60,000 annually for customised weather predictions. Others hire their own meteorologists at salaries of more than US\$100,000 a year.

Outsmarting nature may seem like hubris, though, especially because many scientists expect climate change to make the weather more unpredictable.

Diego Wauters runs a London-based US\$550-million hedge fund called Coriolis Capital, investing in insurance-linked securities. "Living in the United Kingdom, I can tell

you, no meteorologist has any clue," he says.

Practitioners say climate change proves the opposite: If volatility is the issue, nothing is better than financial markets at valuing the risk and spreading it out. "You're gambling when you don't hedge the weather," says David Riker, 36, who started a New York-based firm called Storm Exchange in April to broker weather transactions.

Like stock options, currency swaps or any other derivatives, their value isn't intrinsic but is tied to an underlying benchmark.

A trader can pay a premium to another trader, the seller, for an option that lets them wager on future temperatures. If the temperature hits a specified level, the buyer collects an agreed-upon amount from the seller. If it doesn't, the seller keeps the premium and the contract expires.

The majority of contracts are traded on the Chicago Mercantile Exchange. It manages temperature indexes covering 18 US cities, including New York, Boston and Houston, as well as nine in Europe and two in Asia.

Trading of temperature contracts on the Chicago exchange reached a record in April, doubling from a year earlier to an average of 6,000 a day.

The number of market participants has risen 20 per cent since last year, the Chicago exchange says. Hedge funds — private pools of capital that allow managers to participate substantially in the gains of the money invested — are the biggest weather traders, accounting for 40 per cent of volume, according to Spectron Group. — BLOOMBERG

XTRA CORPORATE TALK

WHEN STAFF LOOK FORWARD TO STORY TIME

A whole new way to manage people

EVELYN CLARK

HAVE you ever been frustrated because your financial presentations, memos, or other messages don't seem to be heard, much less heeded? Are you tired of reiterating the same policies and procedures to employees, only to have them fall on deaf ears again and again? Do you wish you could find the key to keeping all your employees moving in the same direction?

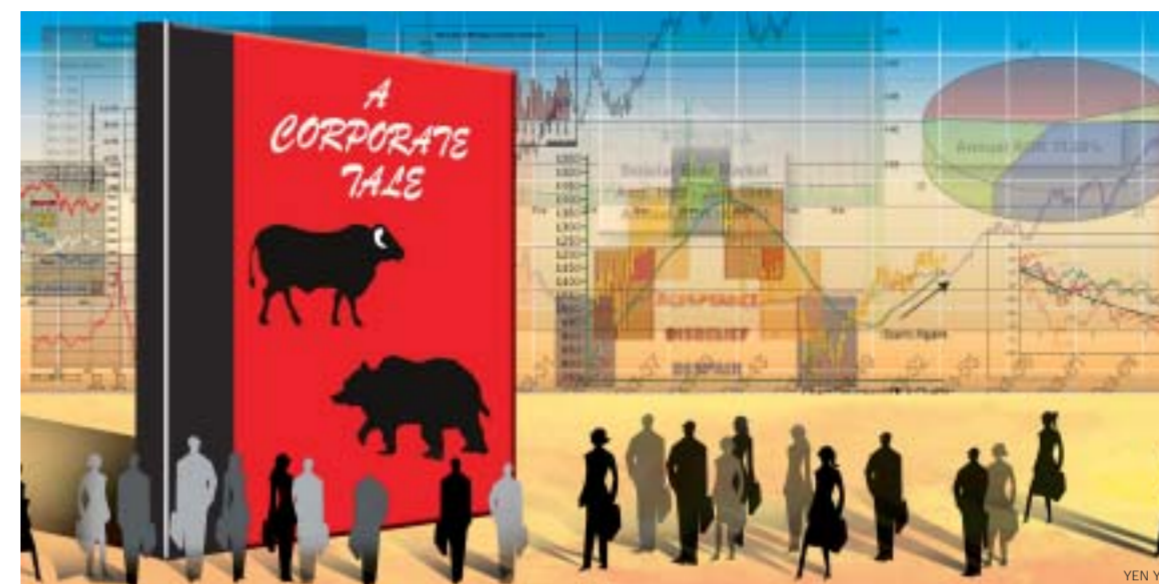
If you answered "yes" to any of these questions, take heart: There is a powerful solution to the problem. The solution is innovative, it's easier to implement than writing a policy manual that gets ignored — and it effectively shapes behaviour. It is an approach called corporate storytelling — or, as one book title refers to the process, "managing by storying around".

Many business people may still think that stories are primarily for children, but a number of well-known global companies have been using stories as a management communication tool for years. So many companies have found storytelling to be effective, that it's a proven practice.

For example, the Disney Corporation not only is adept with storytelling as entertainment, but also uses stories to manage its operations. So do companies such as Nike, Mary Kay and FedEx.

The reason is simple: People are far more easily drawn — and pay far more attention — to stories rather than dry, boring facts and figures. (Have you ever noticed how people's eyes glaze over when they're viewing a long slide presentation?)

Armstrong International has been using stories to convey corporate values and desired behaviours for years because the ap-



proach has proven to be so effective.

A United States-based steam equipment manufacturing and steam consulting company with international locations including Asia, Armstrong has been run through stories for about 20 years. Over that time, the CEO has issued four books of stories about people "caught doing things right" around

the company — and he's currently working on his fifth collection.

The company has no policy manuals; instead, CEO David Armstrong shares the stories of employees' successes so that others can learn how they are expected to do their jobs. Employees as well as other readers interested in the subject are always eager

to read the new tales. In fact, as soon as a new collection of stories is issued, employees dig into them like the latest bestseller. Many even take the story collections home so they can read them all immediately.

Motivating people to reach the organisation's stated goals is "a big part of a CEO's job", says

award-winning writer, director, and screenwriting coach Robert McKee in one of several *Harvard Business Review* articles on corporate storytelling. "To do that, he or she must engage their emotions, and the key to their hearts is a story."

Precisely! Stories are powerful because besides capturing our attention, they reach the heart as well as the mind. And when people are touched emotionally, they remember the point.

Another reason that stories are an effective communication tool is that human beings are social beings, naturally sharing stories as a means of connecting with one another. And every time we hear someone else's story, we identify with a part of it — a part that connects to our own experiences.

In his role as a corporate consultant, McKee has convinced a number of CEOs to abandon the intellectual approach to persuading their audiences to their point of view. They have learnt

instead to select the most appropriate story for each audience so that they can touch the hearts of their listeners.

He goes on to say: "I know that the storytelling method works, because after I consulted with a dozen corporations whose principals told exciting stories to Wall Street, they all got their money."

More and more companies are discovering the power of stories to persuade, to motivate, to convey policies and procedures ... to achieve a number of their communication goals.

How about you? Which stories would you tell to illustrate how to succeed in your organisation?

The writer is the author of Around the Corporate Campfire: How Great Leaders Use Stories to Inspire Success, and will be taking part in the annual Singapore International Story Telling Festival from Aug 24 to Sept 9. For more information, visit www.bookcouncil.sg/sisf

Beyonics' HDD business — possible bidding war ahead

UNITED States private-equity firm Kohlberg Kravis Roberts & Co (KKR) is reportedly looking into buying the hard-disk drive business of Singapore's Beyonics Technology.

KKR representatives are to meet executives from Beyonics next week, sources told *Dow Jones Newswires*.

The deal could be worth at least \$300 million.

Japan's Nidec Corp (NJ), which recently bought Singapore's Brilliant Manufacturing, may also be eyeing Beyonics' hard-disk drive assets as a means of securing its position in the industry.

"If Nidec is also interested, this could shape up to be a bidding

war," the sources said.

Spokesmen for Beyonics and KKR declined to comment.

In May, a DBS Vickers Securities report said Beyonics may be attractive to strategic buyers "as it is deeply undervalued on both price-to-book ratio and sum-of-the-parts valuation basis". At that time, the stock stood at 34.5 Singapore cents.

In June, Beyonics said its fiscal third-quarter net profit rose 0.3 per cent to \$6.17 million from \$6.15 million a year ago.

Beyonics shares closed on Friday 14.1 per cent higher in an otherwise flat session, gaining six cents to close at 48.5 Singapore cents. — DOW JONES

CORPORATE BRIEFS

Electronics contract manufacturer **Venture Corp** said second-quarter net profit rose 50 per cent from a year earlier, boosted in part by growth from its printing and imaging business as well as contributions from a new subsidiary.

Net profit for the three months ended June 30 rose to \$78.7 million from \$52.6 million a year earlier. Revenue increased 34 per cent to \$1 billion from \$750.6 million.

Malaysian property developer **Berjaya Land** said it will develop a US\$3.5 billion (\$5.3 billion) university area in Vietnam's Ho Chi Minh City. The 880-hectare project will take between eight and 10 years to complete, and will include universities, schools, homes and offices, Berjaya said. It said it signed an agreement on Aug 1 to develop the area with the Northwest Metropolitan Area Authority of Ho Chi Minh City. — AGENCIES

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