

## Is 2007 a Lucky “Seven”?

CONCERN over global financial crisis has been hovering since the ‘Subprime’ contagion in the US. What we also remember in the recent decades with regard to market meltdown is Black Monday in October 1987 as well as the collapse of Southeast Asian currency markets in mid-Summer 1997. Now, we are in the year of 2007. Can we weather the storm with the help of “Lucky 7” this time?


Global economic growth looks likely to slow markedly in the months ahead as further weakness in the US infects Asia and Europe. That would represent a shift from the last 18 months, when the world economy proved immune to a US slowdown and grew at an annual clip of more than 5%. Since July, the US slump has been starting to spread from the domestic housing market to consumers who buy imports from companies such as Toyota

Motor Corp. And the sudden increase in borrowing costs that followed the collapse of the subprime-mortgage market is now showing up overseas, raising the price tag on credit worldwide.

Apparently, the world economy is most at risk when a shock, like the steep oil-price increases of the 1970s which hit the US and other nations simultaneously. That's what seems to be happening now, as global investors and lenders turn more cautious in response to rising delinquencies on loans to borrowers with patchy credit. In fact, Japan, Asia's biggest economy, is already showing signs of faltering. GDP contracted at a 1.2% annual pace in the second quarter, almost twice the rate forecast by economists, as companies pared spending and net exports failed to contribute to growth.




Fortunately, Japan's machinery orders surged at three times the pace forecast by economists in July, easing concern the economy will contract for a second quarter. Orders climbed a seasonally adjusted 17% to 1.12 trillion yen (\$9.9 billion) from June. The largest increase in orders in almost four years suggests Japan's economy may be able to withstand a slowdown in the US should a housing recession there spread to consumer spending. Canon Inc. said it planned to build a factory that would employ 1,000 in northern Japan.

To be sure, the world economy is stronger than it was when turmoil last struck credit markets a decade ago, driving much of Asia into recession. 

## MicroCope

IN our history over the past 80 years, we came across great and little volatility in financial market during economic recession, but we still survive today! What is the important point is that economic structures become stronger and the financial market reacted efficiently. Let's recall the notable recessions and financial downturns over the past 80 years.

1. 1929-1930s Great Depression
2. 1973 oil crisis
3. 1979 energy crisis
4. 1988-1992 collapse of junk bonds and stocks
5. 1997 - Asian financial crisis
6. 2001-2003: the collapse of the Dot Com Bubble

As a matter of fact, it is quite usual to come across financial crisis when wealth is concentrated. In case you manage your money in a long-term perspective, the best way to do is to get distracted. Shifting one's focus from short-term pain to long-term growth frees you from the feedback loop of negative thoughts. It was found that since 1946, S&P500 index fell by 30% on average for each recession, while rebounded by 32% and 47% respectively during the 1<sup>st</sup> and 2<sup>nd</sup> year after financial meltdown. 

### MARKET BRIEFING

#### YTD % (local curr)

<b>US DJ</b>
13,113 (+5.2%)
<b>Nasdaq</b>
2,565 (+6.2%)
<b>Euro Stoxx 50</b>
4,162 (+1.0%)
<b>HSI</b>
23,733 (+18.9%)
<b>Japan NK225</b>
15,781 (-8.4%)
<b>China Shanghai Composite</b>
5,276 (+95%)
<b>Singapore</b>
3,489 (+15.5%)
<b>India BSE30</b>
15,615 (+13%)
<b>Brazil BOVESPA</b>
54,569 (+22.7%)
<b>Aus ASX200</b>
6,278 (+10.7%)
<b>US-10yr Bond Yield 4.75%</b>

As at 7/9/07


## Insight:

### “Buy Term, Invest the Difference”


*Do you Prefer Renting or Owning?*

CONSUMERS usually make use of the "buy term invest the difference" concept to separate their investments from their insurance by setting aside money every month equal to the premium that a permanent plan would require, then to use a portion of this money for the term premium and place the rest in their selected investment vehicle. Any tradeoff?... First, you can categorize your insurance need by its use. If you need \$500,000 for college and your youngest daughter will graduate in three years, you need \$500,000 of term

insurance as a short-term hedge against death, thus insuring that your daughter can finish education. However, you probably need permanent insurance,

because you're not likely to die very soon (you hope). On the other hand, some believe the responsibilities are temporary in nature (paying off mortgage and create cash reserves.) All these depend on how long you keep your policy. If you keep the permanent life policy long enough, that's the best deal. But "long enough" varies, depending on your age, health, the types of policies chosen, interest and dividend rates. The reality is that there is not a simple answer. Once you figure out your needs, it's time to choose the type of policy that makes most sense for you. 

## A-Z Financial Tools

Aviva Global Savings Account is an investment-linked savings plan designed to meet medium to long-term financial goals, such as risk management, asset diversification, savings for children's college, retirement as well as wealth distribution arrangement. With US\$713.4bn of assets under management (as of Dec 2006), the group is serving 40m customers worldwide. 



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### Next Insight

“Mirror vs. Direct Fund”