


Santa Claus Rally?




AMID the concern over widening mortgage market fallout, assets in US money market mutual funds soared to a record \$3,031bn last week as investors sought safe harbour. Money market funds received \$13.38bn in new assets for the week before Christmas month, according to iMoney.net, as investors fled risky securities for the safety of top-rated short-term debt instruments. Now, no one knows how big will be the subprime blackhole, especially when prices of existing US single-family homes in the third quarter slumped 4.5% from a year earlier, matching a record decline from the previous period as the housing downturn deepened, according to a national home price index. The S&P/Case-Shiller National Home Price Index fell 1.7% from June, marking the largest quarterly decline in the index's 21-year history. The quarterly S&P/Case-Shiller index has been falling since the second

quarter of 2006 as lenders clamp down on lending to risky borrowers who had depended on home price gains to keep their homes. Rising foreclosures are adding to soaring inventories of unsold homes, depressing prices further. The composite month-over-month index of 20 metropolitan areas fell 0.9% to 195.62 in September from August, bringing the measure down 4.9% from a year earlier. Fortunately, US Treasury Secretary is expected to announce as early as Wednesday details of the proposal to hold interest-rate payments steady for many subprime borrowers who are facing higher rates and possible foreclosure. After a beating in the first three weeks of November that drove the stock market down more than 10% below its October closing highs, stocks rallied last week on news that the Paulson plan was imminent and speculation

there will be an interest-rate cut at the December 11 meeting. Ben Bernanke bolstered hopes for more rate cuts, saying that a resurgence in financial strains in recent weeks had dimmed the outlook for the US economy. But instead of Wall Street trading floors being abuzz with speculation about whether the Fed will cut rates, the focus will be on how deep a potential cut could be. As the US unemployment rate is projected to rise to 4.8% in November from 4.7% in October, while average hourly earnings are likely to have risen 0.3% in November, compared with a gain of 0.2% in October, the Reuters poll showed. The Fed closely watches average hourly earnings as an indicator of pressure on wages, which could contribute to inflation. 

Microscope

Of the components of Gross Domestic Product (GDP) in the US, residential investment offers by far the best early warning sign of an oncoming recession. Since World War II we have had eight recessions preceded by substantial problems in housing and consumer durables. By virtue of its prominence in our recessions, it makes sense for housing to play a prominent role in the conduct of monetary policy. In the second quarter, lenders began the process of seizing properties on 0.65% of US mortgages, an all-time high. That figure was 0.58% in the first quarter. A survey by the Mortgage Bankers Association found that mortgages on properties that aren't occupied by the owner -- mostly investment homes -- account for between 21% and 32% of the defaults on prime-quality home loans in Arizona, California, Florida and Nevada, states where overdue payments are mounting fast. Defaults were high on both prime and subprime loans, those made to borrowers with shaky credit histories. Thus, surely the Fed will continue to cut rates into next year. Residential construction spending is falling. That's usually bad news for the economy. 

MARKET BRIEFING


YTD % (local curr)

US DJ	13,371 (+7.3%)
Nasdaq	2,660 (+10.2%)
Euro Stoxx 50	4,394 (+6.7%)
HSI	28,643 (+43.5%)
Japan NK225	15,680 (-9%)
China Shanghai Composite	4,871 (+82.1%)
Singapore	3,521 (+17.9%)
India BSE30	19,363 (+40.4%)
Brazil BOVESPA	63,006 (+41.7%)
Aus All Ord	6,593 (+16.8%)
US-10yr Bond	Yield 3.95%


As at 30/11/07

Insight: "Trust and Asset Protection"

Trusts developed in England at the time of the Crusades, during the 12th and 13th Centuries. When a landowner left England to fight in the Crusades, he needed someone to run his estate in his absence. To achieve this, he would convey ownership of his lands to a friend, on the understanding that the ownership would be conveyed back on his return. In common law legal systems, a trust is an arrangement whereby money or property is owned and managed by one person (or persons, or organizations) for the benefit of another. A trust is created by a settlor, who entrusts some or all of his property to the trustees. The

trustees are the legal owners of the trust property, but they are obliged to hold the property for the benefit of one or more individuals or organizations, usually specified by the settlor. The trustees owe a fiduciary duty to the beneficiaries, who are the "beneficial" owners of the trust property. The trust is governed by the terms of the trust document, which is usually written and in deed form. Such trusts are set up in an attempt to avoid or mitigate the effects of taxation, divorce and bankruptcy on the beneficiary. Such trusts are therefore frequently proscribed or limited in their effects by governments and the courts. Whether such a trust is a protective trust or discretionary trust, it is advised to seek help from your financial advisor before concluding your asset protection arrangement to avoid any sham. 

A-Z Financial Tools

GOODWILL is the excess price paid for a company above the value of its assets, like brand names. It is normally only recognized in the accounts of a company when it acquires another business as a going concern for a price that is higher than the book value. Negative goodwill is a gain when the price paid for a company is less than the value of its assets. 



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