

2008 Olympic “Gain”?



ALTHOUGH stockmarkets around the globe experienced their highs and downs in 2007, we still got a lucky seven with a mild gain of 8.4% for the DJ World Index, according to the Wall Street Journal. Excluding the US, DJ World Index rose by 11.8% amid the help of liquidity flow. The year of 2007 has also a celebration to China, including the preparation for the coming Olympic Games and the strong capital inflow. These led to high volatility on the stock market. On Oct. 16, Shanghai Composite Index reached 6100 points. However, it didn't last. Experiencing its peak, the index fell about 20%. Compared with 2006, Chinese stock market was in its bull market in 2007, gaining by about 100%. With regard to the surging economy, expanding trade, optimistic sentiment and hosting the Olympic Games, China today may be compared to Japan in the early 1960s when her stockmarket was booming for a few decades afterwards. While

the stockmarket in China has tripled in prices for the past 4 years, can the Beijing Olympics still a bullish sign for China? After the successive macro controls, fixed-asset investment growth is expected to slow this year. Central authorities pledged further tightening measures to prevent the economy from overheating and rising prices from evolving into entrenched inflation. Credit is also widely expected to be tightened this year. The banking regulator has asked commercial banks to cut their lending plans for 2008. Despite the forecast investment slowdown, it will not be easily achieved. As mentioned in our 3rd issue of INSIDER in October, China would continue to face the problem of excess liquidity, which would put pressure on investment growth. By the end of November, there were 211,000 new investment projects in place, 12.8%, more than a year earlier.

In addition, a local government reshuffle in the 1st quarter could spark a fresh investment surge in new projects. The central government has appointed a slew of top officials in Beijing, Shanghai, Chongqing and Tianjin over the past months. In general, newly appointed local officials may embark on a slew of projects to spur growth. This may counteract the central government's efforts. Furthermore, outstanding loans more than doubled year-on-year to 1.6 trillion yuan after the last local government reshuffle in the first half of 2003. Local governments are, indeed, a major force driving China's growth in fixed assets such as roads and bridges. To cool down the overheating economy ahead, heavy dosage of mild “drugs” are widely expected.

Microscope

According to Global Financial Data, the major stock markets (*Data on the separate sheet*) generated average returns during the 4 calendar years immediately prior to the Olympic year (16%, 4%, 0% and 9%), the Olympic year (5%) and the 4 calendar years immediately following the Olympic year (8%, 9%, 16% and 7%) respectively. Investors in 1964, the year of the Tokyo Olympics, who bought Japanese stocks and held during the years following the Olympics, realized double-digit gains averaging 10% for the four-year period 1965-1968. If past stock market history surrounding Olympic years is any indication, it can be expected improving returns in the years during and following the Olympics. With the domestic Chinese stock market having performed so dismally in two out of the past four years (Shanghai SSE Composite Index: -15% in 2004, -8.3% in 2005, 121% in 2006 and 97% in 2007), despite consistently strong fundamentals from 2000 to 2004 (economic growth at a rapid clip of 8% to 9% annually, as reported by the Chinese government), a reversion-to-the-mean theory too would point to better returns ahead.

MARKET BRIEFING

YTD % (local curr)

US DJ	13,365.87 (+7.2%)
Nasdaq	2,674.46 (+10.7%)
Euro Stoxx 50	4,404.64 (+6.9%)
HSI	27,370 (+37.1%)
Japan NK225	15,307.78 (-11.1%)
China Shanghai Composite	5,261.56 (+96.7%)
Singapore	3,445.82 (+15.4%)
India BSE30	20,206.95 (+46.6%)
Brazil BOVESPA	63,886.1 (+43.6%)
Aus All Ord	6,423.7 (+13.8%)
US-10yr Bond	Yield 4.06%

As at 28/12/07

Insight: “Islamic Financial Tools”

Islamic financial tools mean a joint pool wherein the investors contribute their surplus money for the purpose of its investment to earn profits in strict conformity with the precepts of Islamic Shariah. The subscribers of the product may receive a document certifying their subscription and entitling them to the pro-rated profits actually accrued. The Islamic product is always subject to two basic conditions. First, instead of a fixed return tied up with their face value, they must carry a pro-rated profit actually earned by the product. Therefore, neither the principal nor a rate of profit (tied up with the principal) can be huge

profits, the return in their guaranteed. If the product earns subscription will increase to that proportion; however, in case the product suffers loss, they will have to share it too, unless the loss is caused by the

negligence or mismanagement, in which case the management, and not the product, will be liable to compensate it. Second, the amounts so pooled together must be invested in a business acceptable to Shariah. It is not permissible to acquire the shares of the companies providing financial services on interest, like conventional banks, insurance companies, or the companies involved in some other business not approved by the Shariah, such as the companies manufacturing, selling or offering liquors, pork, or involved in gambling, night club activities, pornography and so on.

A-Z Financial Tools

INVERSE FLOATING RATE BOND is a variable-rate security whose coupon rate increases as a benchmark interest rate declines. Right now in HK, it can be a good hedging tool against the inflationary pressure while the interest rate in HK, which is linked to the US, is likely to follow the US to fall this year.



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