


## Global Stock Markets: Will you miss the train?




## Microscope

Meanwhile, it is too early to say central bankers around the globe will rush to reverse their stimulus plan. European Central Bank (ECB) Governing Council members signaled the bank won't do that even as signs mount that a recovery from recession is under way, according to Bloomberg. The caution suggests the ECB will not imminently rein-in the emergency measures it took to staunch the slump, such as by charging banks a higher interest rate when it next lends them unlimited money for a year. Evidence of a rebound in the euro region is building after France and Germany unexpectedly exited recessions in the second quarter. On the other hand, finance ministers from the Group of 20 industrial and emerging nations will meet on September 4. It is widely expected that they will underscore the importance of fully implementation to support jobs and growth. World leaders pledged more than \$1 trillion in emergency economic support and tighter regulation of hedge funds, banks and credit-rating companies at the Group of 20 meeting in April. They will gather again next month in Pittsburgh after a meeting of their finance ministers. 

Although Chinese bourse dropped substantially last week, both European and US stockmarkets climbed to the highest level since last year. The dollar and Treasuries fell, while oil rose to a 10-month high. Will the second round of asset bubbles emerge? In fact, the US housing market, which led the way into the recession, is showing signs of righting itself after almost four years of declines. According to Bloomberg, the 7.2% rise in sales of existing homes last month was the biggest since the National Association of Realtors began keeping records in 1999. The news followed a report earlier last week that single-family housing starts rose in July for the fifth consecutive month to reach the highest level since October. Payrolls in the US fell by 247,000 last month, less than forecast, while the jobless rate unexpectedly fell to 9.4% from 9.5 percent, the first decline since April 2008. The unemployment rate will average

9.8 percent next year, according to a Bloomberg survey of economists. Although the White House said this month that the US jobless rate was still likely to reach 10%, the index of US leading economic indicators, which was supposed to presage activity three to six months ahead, rose in July for a fourth consecutive month. Around the globe, German service industries expanded this month for the first time in almost a year, reports last week showed. The Japanese economy also grew for the first time in five quarters. The 3.7% rise in Japanese gross domestic product in the second quarter followed an 11.7% contraction in the first three months of the year. Exports led the revival of the world's second-largest economy last quarter, jumping by 6.3%. Japan's economy is also being boosted by government measures ahead of an election. Prime Minister

Taro Aso, whose party is trailing in opinion polls before the August 30 parliamentary elections, has put forward a 25 trillion yen stimulus plan. All evidences indicate the global economy may be coming out of the worst recession since World War II as record-low interest rates and trillions of dollars in fiscal stimulus spur demand. In addition, Federal Reserve Chairman Ben S. Bernanke and other global policy makers cautioned that the recovery is likely to be muted, indicating they would not soon remove all the stimulus injected into the financial system. As such, expectation of upcoming corporate earnings around the world will further be revised upward in the wake of low interest rate and ample liquidity. As a result, this will be translated into the drop in valuation in stockmarkets, bringing next round of bull run. 

### MARKET BRIEFING

#### YTD % (local curr)


|                                 |                |
|---------------------------------|----------------|
| <b>US DJ</b>                    | 9,505 (8.3%)   |
| <b>Nasdaq</b>                   | 2,020 (28.1%)  |
| <b>Euro Stoxx 50</b>            | 2,745 (12.0%)  |
| <b>HSI</b>                      | 20,199 (40.4%) |
| <b>Japan NK225</b>              | 10,238 (15.6%) |
| <b>China Shanghai Composite</b> | 2,960 (62.6%)  |
| <b>Singapore</b>                | 2,544 (44.5%)  |
| <b>India BSE30</b>              | 15,240 (58.0%) |
| <b>Brazil BOVESPA</b>           | 57,728 (53.7%) |
| <b>Aus All Ord</b>              | 4,305 (17.7%)  |
| <b>US-10yr Bond</b>             | Yield 3.56%    |

As at 22/08/09


## Insight:

### "Formula Investing Program"

Formula investing program is a long-term investment strategy based on a fixed formula to investments that is applied over a period of time and does not involve security analysis or market timing. In addition, the program can eliminate the emotion elements when making investment. There is potentially an infinite number of formula plans, or variations of them, but the most common formula plans are: dollar-cost averaging and constant-dollar investment. Dollar-cost averaging is a passive investment program, taking advantage of the natural fluctuations of market prices over a period of time. The main advantage of dollar-cost

Averaging is that more shares are bought at a lower price when the market is down than at a higher price when the market is up. Another common formula investing program is constant-dollar plan. This is a plan consisting of two portions: speculative securities to hopefully earn substantial capital gains, and conservative investments, such as a bonds, government securities, or savings to earn interest and protect the principal. A constant-dollar range that is delimited by triggers is applied to the speculative portion of the portfolio, so that if the speculative portion falls outside of the range, the portfolio is rebalanced to bring the speculative portion back to its original amount. This method is similar to contrarian investing. The main drawback of these programs is that profits may be less than that resulting from active management. 

## A-Z Financial Tools

**Horizontal Spread** is an option strategy that is involving the purchase and sale of same type of options having the same strike price but different expiration dates. Investors adopt the strategy in order to capture the movement of the underlying assets with the low cost of investment. It is because the purchase cost of option can be subsidized by the sale of another option. 



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