


Global Liquidity: Goldilocks!




Microscope

Now, we can see a mild recovery in global economy, especially in the US and Euro area. This environment means low interest rates, and actually that's one of the best environments for stock-market investing. European stocks posted the biggest weekly gain since July after US service industries expanded for the first time in a year and basic-resource shares rallied on an unexpected profit from Alcoa Inc. and higher metal prices. Alcoa, the largest US aluminum producer, said profit excluding certain items was 4 cents a share, exceeding analysts' average estimate for a 9-cent loss, as the company benefited from improving metal prices and saved money by cutting jobs and raw-material costs. Since the first quarter this year, investors have anticipated the improvement in the business cycle, responding to the exceptional fiscal and monetary policy measures put into place to prevent a multi-year recession. This leads to the first round of stock-market rally. The second phase of the rally, which may have begun after the brief consolidation in early October, is probably driven by a better fundamental data and earnings announcement over coming months. 

Recent figures and central bank's action indicate the track of economic recovery has become more solid. The Institute for Supply Management's index of the US non-manufacturing businesses, which make up almost 90 % of the US economy, rose to 50.9 in September, higher than forecast, from 48.4 in August, according to the group. Fifty is the dividing line between expansion and contraction. In addition, the Reserve Bank of Australia unexpectedly raised the overnight cash target by a quarter-percentage point to 3.25% on Oct. 6. A report two days later showed an unexpected drop in the unemployment rate in September, adding to speculation the central bank will widen the extra yield paid on short-term money market securities further. The Australian dollar rose 4.4% to 90.36 US cents in the biggest weekly gain since May. Although we are concerned that

there is imminent change of monetary policy in developed countries, the timetable is still uncertain. For example, Bernanke said last week that as economic recovery took hold, they were prepared to tighten. In fact, according to a September survey of 57 economists by Bloomberg News, it is widely expected the Fed will hold off raising interest rates until the third quarter of 2010 as the recovery is likely to be too weak to lift employment and incomes. Futures on the Chicago Board of Trade show a 40.5% chance the central bank will boost borrowing costs from the current range of zero to 0.25% by March. Lawrence Summers, head of President Obama's National Economic Council, said on Oct. 8 the US is committed to a strong dollar, the same day European Central Bank President Jean-Claude Trichet said it's important to keep supporting the policy.

However, the dollar fell for the first time in three weeks against the euro as calls for a strong US currency failed to reassure investors concerned the government and Federal Reserve will accept declines in the greenback. As long as the Fed keeps the current policy, too much excess money will push the dollar lower. Moreover, it's obviously quite easy for the US to be content with a weaker dollar in order to reflate the economy. Beside the US, the Bank of England and the European Central Bank kept their benchmark interest rates at record lows Oct. 8, one year after the Federal Reserve, ECB, BOE and central banks in Canada, Sweden and Switzerland made unprecedented coordinated rate cuts aimed at easing the worst financial crisis since the Great Depression. That's why is there just right for asset bubble. 

MARKET BRIEFING


YTD % (local curr)

US DJ	9,864 (12.4%)
Nasdaq	2,139 (35.7%)
Euro Stoxx 50	2,882 (17.6%)
HSI	21,499 (49.4%)
Japan NK225	10,016 (13.1%)
China Shanghai Composite	2,911 (59.9%)
Singapore	2,652 (50.6%)
India BSE30	16,642 (72.5%)
Brazil BOVESPA	64,071 (70.6%)
Aus All Ord	4,754 (29.9%)
US-10yr Bond	Yield 3.38%


As at 09/10/09

Insight: "Risk Profiling"

When investing, most people do realize that they do need to take on some risk to achieve their financial goals – and it's up to their financial adviser to determine how much they can bear. But how does the adviser determine your risk tolerance? The usual way is to collect key data from you. Risk profiling, is pre-requisite of an investment advisory process, aiming at matching your risk tolerance with the appropriate investment. The analysis over the risk tolerance level tends to concentrate on finding out your age, strength of income, family situation, current financial picture, and overall tendencies and investment disposition. The

other important element in figuring out where you stand as an investor is how sophisticated you are and what kind of experience you have with investing. Furthermore, your attitude about investing will affect how you should proceed; definitely consider your personal comfort when formulating your strategies. In addition, we must be noticed that personal situation can change over time. In reality, no standard risk profiling process can offer the perfect solution. Nothing can replace getting to know a client individually - and invariably the best way to achieve this is for the client and adviser to spend time together. Ultimately this is very good news for client, as his concern is not likely to be replaced with the standard profiling questions, no matter how sophisticated these become. 

A-Z Financial Tools

Optimal portfolio means an efficient portfolio which is most preferred by an investor after matching its risk/reward characteristics with that of investor's utility function. The portfolio is usually composed of the qualified assets determined by the investor. As a result, the portfolio can maximize an investor's preferences with respect to return and risk. 



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