


## Bull Market: Is it sustainable?




## Microscope

Many investors have not been convinced that earnings growth is sustainable and expect an imminent market pullback. To be sure, it has been a bull run for global stockmarkets since March. For S&P 500, the current bull market that started on March 9th is now 219 calendar days with a gain of 61.41%. Historically, the median gain for all bull markets has been 68%, and the median length has been 308 days. The current bull is still below the median in terms of both gains and days. However, there aren't a lot of bulls bunched up around the median, and there is a pretty big deviation between all of them. Especially when the dollar rebounded from a 14-month low, as some investors questioned whether the currency's decline was overstated given signs of a US economic recovery. The pound headed for its biggest weekly gains versus the euro and the dollar since June on speculation the Bank of England will stop buying bonds. If the pound can bounce, then we must be wary that the dollar can also do so. Even if there is a short-term relief for the dollar, it is enough to push a wave of profit-taking for the jump in stockmarkets. 

Global stockmarkets advanced for a second week after profits from JPMorgan Chase & Co. and Intel Corp. surpassed estimates. With regard to the risk appetite, we can see more and more investors become optimistic about the stockmarket. The benchmark index for US stock options fell for a 10th day, the longest streak since May 2005. Although many people are still skeptical about the recovery in the US economy, the S&P 500 has climbed 61% from its March low, the steepest rally since the 1930s. It fell 38% last year for the worst performance since 1937. In fact, the recovery is really taking shape. The number of Americans filing first-time claims for unemployment benefits dropped to the lowest level in nine months, according to Bloomberg. Applications fell by 10,000 to 514,000 in the week ended Oct. 10. Some corporations started recruiting as they were preparing for the imminent recovery. For

example, Google Inc., the world's most popular Internet search engine, plans to resume hiring and acquisitions after the recovering economy helped third-quarter sales beat analysts' estimates. Large customers stepped up spending on Google ads last quarter, a rebound from the first half of the year. On the other hand, the Commerce Department said on Oct. 14 that retail sales decreased 1.5% in September, less than forecast, while sales excluding automobiles climbed 0.5%, more than projected. Although the US stocks have risen in recent weeks amid better-than-forecast earnings and signs the economy is improving, many market players still faced sluggish sales. For example, Advanced Micro Devices Inc., the second-largest maker of personal computer processors, posted a 12<sup>th</sup> consecutive

quarterly loss and said sales may grow slower than usual in the fourth quarter. On the other hand, International Business Machines Corp., the world's largest computer-services provider, also reported a decline in signed services contracts in the third quarter. In Asia, LG Display, the world's second-largest maker of liquid-crystal displays, declined last week in Seoul after reporting profit that missed analysts' estimates. In fact, the seven-month rally in Asia has driven valuations of stocks in the gauge to 23 times estimated earnings, compared with an average of 18 times during the last three years. The Asian index advanced 35% in 2009 through last week, outpacing the S&P 500's 21% gain and a 25% climb by Europe's Dow Jones Stoxx 600 Index. Now, investors are at a threshold due to valuation concerns. 

### MARKET BRIEFING

#### YTD % (local curr)


<b>US DJ</b>	9,995 (13.9%)
<b>Nasdaq</b>	2,156 (36.8%)
<b>Euro Stoxx 50</b>	2,893 (18.0%)
<b>HSI</b>	21,929 (52.4%)
<b>Japan NK225</b>	10,257 (15.8%)
<b>China Shanghai Composite</b>	2,976 (52.4%)
<b>Singapore</b>	2,708 (53.7%)
<b>India BSE30</b>	17,322 (79.6%)
<b>Brazil BOVESPA</b>	66,200 (76.3%)
<b>Aus All Ord</b>	4,842 (32.3%)
<b>US-10yr Bond</b>	Yield 3.41%

As at 16/10/09


## Insight: "Financial Ratio Analysis"

Investors usually use ratios like price to earnings, price to book and dividend yield to assess the financial health of a company. How can the investors assess their own financial strength? Explicitly, investors can conduct a similar analysis of their personal financial circumstances and their financial standing as they move through life and toward retirement. There are three ratios: savings to income (S/I), debt to income (D/I), and savings rate to income (SR/I). Ratios are different at different ages. For example, the D/I ratio is generally much different at age 30 than it is at age 65. The objective of the ratios is to help investors move from a situation

of having high debt and low savings at the beginning of their working careers, to one where they have high savings and no debt at the end of their working careers. The ratios are designed to serve as a road

map. The theoretical foundation for the ratios is that there is a fundamental relationship between income, debt levels, and saving rates. One affects the other, and investors need to get their finances in proper balance. On the other hand, we often find ourselves comparing our finances to theirs. If someone else has a huge net worth it may seem intimidating. Rather than comparing yourself with others, measure your finances against your target ratios to help keep yourself on track. Furthermore, financial health can change over time. It is essential to compute these ratios periodically and keep a record of the results so as to see the trend over time. 

## A-Z Financial Tools

**Performance attribution analysis** is to decompose a fund manager's performance results in order to explain the reasons why those results were achieved. The analysis seeks to find out the manager's predictive power with regard to market timing, that is, to shift asset from one class to another, and his capability to correctly select securities. 



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### Next Insight

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