

Boom and Bust Cycle: Déjà vu!



To recap last year's financial markets, we saw there was no significant difference from historic events. As mentioned in our "Instinct - Invest now or wait?" issued on Feb 3, 2009, we argued that in our history over the past 80 years, we came across huge volatility in financial market during economic recession, but we still survive. What is the important point is that economic structures become stronger and the financial market reacted efficiently. Let's recall the notable recessions and financial downturns over the past 80 years: 1) 1929-1930s Great Depression; 2) 1973 oil crisis; 3) 1979 energy crisis; 4) 1988-1992 collapse of junk bonds and stocks; 5) 1997 - Asian financial crisis; 6) 2001-2003: the collapse of the Dot Com Bubble and 7) 2007-subprime crisis. Many people say they can switch out their risky asset to reduce investment risk due to price fluctuation during crisis. This

idea is right to the certain extent. But whether we stay or leave, they are still there. They like the very oxygen that we breathe, and remain necessary in the world of investment affairs. As a matter of fact, when you purchase an investment you expect to appreciate above the current market price, you are actually going against the market, even though it's falling. This was what happened during the first quarter of 2009. Therefore, as investment works over long time, if the majority of the market believed the security was worth more, it would be trading at a higher price. In case we plan our savings target in a long-term perspective, the best way to do is to get distracted. Shifting one's focus from short-term pain to long-term growth frees you from the feedback loop of negative thoughts. It was found that since 1946, S&P 500 index

fell by 30% on average for each recession, while rebounded by 32% and 47% respectively during the 1st and 2nd year after financial meltdown. For 2009, S&P500 rewarded investors with a mild 23.5%. For the coming 12 months, the worst US employment slump after 1930s may have almost ended in December, signaling the recovery will not be jobless much longer. Stimulus-driven gains in global demand mean US companies may need to start boosting payrolls in 2010 after eliminating 7.2 million jobs since the recession began in 2007, according to Bloomberg. Manufacturers are leading the rebound in growth as a pickup in orders and rising exports, combined with a record reduction in inventories, spurs production. Now, business activities are coming out of shell. Will the year of 2010 be another fruitful year?

Microscope

In case investors who put \$10,000 in stocks on Dec. 31, 1999, have \$9,090 now, while the same amount in 10-year Treasury notes would have grown to about \$18,000 following a 6.1% annualized return, according to data compiled by Bloomberg. A \$10,000 investment in the Reuters/Jefferies CRB Index of 19 raw materials increased 3.3% a year. On the other hand, gold futures rose 14% a year, turning \$10,000 into \$37,852. Comparatively, the average annualized return for US equity mutual funds was 1.7% during the decade. Alternatively, hedge funds' annualized return was about 6.3% since Dec. 31, 1999, according to Hedge Fund Research's HFRI Fund Weighted Composite Index. The measure rose 19% in 2009 through Dec. 15. With regard to the international equity markets, MSCI's BRIC Index soared 367% through last Friday to surpass the 22-country Emerging Markets Index by 134% points, according to data compiled by Bloomberg. The MSCI World Index, a gauge of 23 developed markets that is also depicted in the chart, gained only 17% during the period. To conclude, investors can still achieve reasonable performance for the past decade, even with great level of volatility.

MARKET BRIEFING

YTD % (local curr)

US DJ	10,428 (18.8%)
Nasdaq	2,269 (43.9%)
Euro Stoxx 50	2,966 (21.0%)
HSI	21,872 (52.0%)
Japan NK225	10,546 (19.0%)
China Shanghai Composite	3,277 (80.0%)
Singapore	2,897 (64.5%)
India BSE30	17,464 (81.0%)
Brazil BOVESPA	68,588 (82.7%)
Aus All Ord	4,808 (33.4%)
US-10yr Bond	Yield 3.83%

As at 31/12/09

Insight: "Asset Inflation Risk"

Hong Kong Monetary Authority chief executive Norman Chan Tak-lam said recently asset bubbles were the leading risk to financial stability in Asia ahead of inflation. He also mentioned that Beijing warned it was ready to use all tools at its disposal to control property prices. As a matter of fact, investors are happy when they have held stocks, properties or commodities, especially when there have been more than HK\$640 billion flowing in HK since October last year. Liquidity helped drive up home prices for 10 consecutive months. At the same time, there embedded a significant risk when the liquidity departed. As

inflation is generally understood and perceived as the rise in price of ordinary goods and services, and official and Central bank policies in most of today's world have been expressly directly at

minimizing price inflation, asset inflation has not been the concern. Asset inflation is an economic phenomenon denoting a rise in price of assets. Typical assets are financial instruments and properties. The best example is the housing market, which concerns almost every individual household, where house prices have over the past decade consistently risen by or at least near a two digit percentage, far above that of the consumer price index. This in turn, reduces, often substantially so, the disposable income of ordinary households, even in the absence of price inflation, but with the same outcome in the end.

Financial "In & Out"

IN: The US dollar may shine during the first quarter of 2010 due to the improvement of employment sector and concern over interest rate hike in 2H 2010.

OUT: Performance of Euro may be subdued in the wake of deteriorating credit outlook of emerging Europe and the imminent withdrawal of liquidity from European Central bank.



IBC Group

Comprehensive Financial Planning
Wealth Management Advisory
International Business Advisory
Call 2268 6308
Email: insider@ibccapital.com

Next Insight

"Hedging Against Rates Hike"