

## Global Equities: Time for Bottom-fishing!



## Microscope

US President Barack Obama last week proposed forbidding banks with insured deposits to engage in proprietary trading solely for their own profit or investing in hedge funds. According to Bloomberg, the proposals, intended to reduce the kinds of risk-taking blamed for the worst financial crisis since the Great Depression, would be part of a broader regulatory overhaul being considered by Congress. Under the revised rule on trading-account capital likely to be imposed by regulators, banks would be obliged to add a so-called stress test to models typically used to calculate a portfolio's risk. Those tests would require banks to check portfolio moves against more extreme scenarios in financial markets. The revisions would also have stricter capital requirements for some banks' stock portfolios. Recently, a study published by the Basel Committee in October suggested that large banks would have to boost the capital they set aside for market risk by an average of 224% and increase overall capital by 11.5% to meet the new standard. Meanwhile, US banks face selling pressure on concern that the cost of capital will rise while the earnings prospect is overshadowed by restriction of trading.

Global stocks erased their 2010 gain as US and European banks plunged on a White House proposal to limit financial risk and China moved to cool economic growth. Last week, JPMorgan Chase & Co. and Morgan Stanley slumped more than 8% as President Barack Obama called for limiting speculation to prevent another financial crisis. Obama asked Congress on Jan. 21 to bar banks from proprietary trading solely for their own profit and sponsoring private-equity and hedge funds. In fact, banks benefited from the safety net that taxpayers provided, which included lower cost capital. Obama emphasized that it was not appropriate for them to turn around and used that cheap money again to trade for profit. Agencies led by the Federal Reserve and the Office of the Comptroller of the Currency this year are set to propose rule revisions that would increase the amount of capital large banks must set aside against the

risk of trading losses, according to government officials. Consequently, the banking supervisors are using existing authority to raise standards for capital, liquidity and risk management without waiting for the Obama administration and Congress to hammer out a new regulatory structure. The VIX, an index of volatility known as Wall Street's "fear gauge," jumped 55% to 27.31 over the period, its largest gain since 2007. In addition, uncertainty over whether Federal Reserve Chairman Ben S. Bernanke will win Senate confirmation for a second term beginning Feb. 1 even with Obama's backing undermined investor confidence. However, this may be helpful for the financial markets since the delay of the confirmation of the Chairman post will certainly diminish the change of the monetary policy very soon. As a matter of fact, if the Obama trading restrictions

are too onerous, those securities firms that converted to bank-holding companies during the financial crisis might simply decide to "de-bank". There could be an ironic outcome by restructuring these entities back to the way they were pre-crisis, which it is not the intended outcome. As such, it is expected the regulation will not be in force soon. Moreover, most companies releasing fourth-quarter results beat analyst estimates. Of 62 companies in the S&P 500 that reported earnings, 46 were better than the average analyst estimate, according to data compiled by Bloomberg. A record nine-quarter earnings slump is projected to have ended in the fourth quarter with a 73 percent increase in S&P 500 profits. More than 130 companies in the index are scheduled to release results this week, including Apple Inc. and Microsoft.

MARKET BRIEFING	
YTD % (local curr)	
US DJ	10,172 (-2.4%)
Nasdaq	2,205 (-2.8%)
Euro Stoxx 50	2,836 (-4.4%)
HSI	20,726 (-5.2%)
Japan NK225	10,590 (0.4%)
China Shanghai Composite	3,128 (-4.5%)
Singapore	2,819 (-2.7%)
India BSE30	16,859 (-3.5%)
Brazil BOVESPA	66,220 (-3.5%)
Aus All Ord	4,771 (-2.3%)
US-10yr Bond	Yield 3.61%
As at 22/01/10	

## Insight: "Index-linked Investment"

Index-linked investment relates to the investments that the performance is linked to particular index. For example, index-linked certificates of deposit, also known as equity-linked certificates of deposit, provide the opportunity to generate investment returns that are similar to those provided by well-known major market indexes, such as the Standard & Poor's 500 Index (S&P 500), or commodity index. In addition, there may be a term with the safety and security of the principal protection provided by traditional certificates of deposit. These instruments have a strong appeal to investors who

want to earn stock-market like returns on their investments but don't want to risk the loss of principal associated with investing in the stock market. To meet this need, index-linked certificates of deposit link the returns that investors will earn to the returns generated by one of many major equity market indexes. Some products offer to match 100% of the return generated by a given index. Others match a specific percentage, such as 90%. If the index declines, some index-linked certificates offer a guaranteed minimum investment return, while others guarantee only the return of the original investment. The specific terms of the investment vary by provider, with some providers issuing certificates for three years, five years or another set period of time. Some certificates do not permit access until the certificate has reached maturity.

## Financial "In & Out"

**IN:** Gold may steal the limelight again on concern the inflationary pressure is rising around the globe while the US and European economic recovery is subdued.

**OUT:** US dollar faced sell-off pressure again since Obama administration is restricting bank's trading, in turn, casting doubts on financing capacity to the fragile economy.



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