►On Target

Martin Spring's private newsletter on global strategy

December 14, 2013   No.140

The Stock-Market: About to "Melt Up"?

"2014 in 2014." That's the forecast of investment bank Morgan Stanley for US equities next year – that by next December the S&P 500 index will reach 2014, or a rise of about 11 per cent over the next 12 months.

Is that realistic after the astonishing upsurge this year? And will other share markets do as well, or even better?

There are many positives, at least for the US, that support this optimistic outlook…

► Economic growth should get a boost next year from some easing of fiscal restraints as Congress shifts in an election year to less focus on thrift. This will provide some support for corporate earnings growth.

The recovery in housing is taking hold as prices rise, and cheap energy, driven by the shale gas/oil revolution, is delivering an important stimulus. Consumer confidence is up.

► However, economic activity won't be strong enough to suggest that inflation is coming down the track. The central bank would like to see more inflation because it fears the opposite, deflation, which is much harder to combat.

In practice, inflation is low and trending down. So there is no chance of major change in easy-money policies. Interest rates will stay very low, credit very cheap.

► The new chairman of the Fed, Janet Yellen, will be even more cautious about starting to "taper" – cut back on $85 billion-a-month purchases of bonds -- than her predecessor, Ben Bernanke. The easy-money "fix" boosting the prices of investment assets will continue.

If there is some kind of "deflation shock" next year, you could see even more aggressive money creation.

► "Retail" investors – individuals, as different from pension funds and other institutional investors – are belatedly starting to buy equities. Their inflows escalated to $43 billion over the past two months. Such buying is typically the final -- but also strongly supportive -- phase for a bull market, when shares on average have surged 27 per cent over just 14 months.

► There's a tremendous amount of cash sitting on the sidelines to fuel such a surge as public confidence in equities builds.

► Although shares are no longer cheap, many argue that they aren't excessively expensive, either. Richard Madigan of JPMorgan Private Bank says the current forward price/earnings multiple on the S&P 500 of about 15x is well below the reading of 24x that was seen in 1999 at the tail-end of a major bull run.

They're also cheap relative to bonds.

► Wall Street doesn't look as if it's in a bubble. It's been climbing steadily rather than accelerating upwards. A bubble may develop, but that possibility still lies ahead, perhaps several years ahead. The *FT*'s John Authers says that if there are no "external shocks," then a "'melt-up' seems entirely plausible."

► Historical evidence since 1913 is that years of strong stock-market gains such as 20 to 40 per cent are usually followed by relatively strong years (an average rise of 11 per cent).

What are the negatives?

► We could see "tapering" start after all, notwithstanding Yellen's dovishness. Fed policy is influenced by, but not dictated by, its chairman.

There is growing uneasiness in central banks worldwide about the potential dangers in profligate easy-money policies, particularly as they seem to be increasingly ineffective in stimulating economic growth. So there is mounting insider opinion in favour of tapering.

► Economic growth could continue to disappoint. Employee incomes are not strong enough to support much growth in consumer demand. Although official unemployment has been sliding, the figures are misleading because they are distorted by the numbers who are giving up looking for work, and by the relatively poor quality of new jobs (low-paid, temporary). The quality of the housing recovery is dubious, too, with much of the demand driven by investors rather than home-owners.

Boosting profits by cutting costs (and jobs)

Corporations continue to sit on their huge piles of cash or use it to buy back their shares (favouring their valuations and executive bonuses), rather than invest it in growing their businesses. And what they do invest tends to be focused on cost-cutting (and job-trimming) machinery and software rather than expansion.

Falling commodity prices suggest continuing lack of demand in the world economy.

► Share prices have been rising far more strongly than warranted by earnings growth; this year "multiple expansion" – investors' willingness to pay more for the prospect of future profits – has accounted for about four-fifths of mounting values. Increasingly, valuations depend on investor optimism, so the risk of a major correction is greater.

► Some analysts argue that shares are in fact expensive. The CAPE (cyclically-adjusted price/earnings ratio) of the S&P 500 is now trading on about 25x. That's higher than previous peaks reached in 1901 and 1966, although still well below the peaks of 44x in 2000 and 33x in 1929. Prices are high relative to book value and to sales. Jeremy Grantham of GMO says S&P 500 shares are overvalued by about 40 per cent.

► There is a growing disconnect between the strength in investments assets, particularly shares, and the sluggish performance of global economies. Some sectors, such as social media, small-caps and biotechnology, are starting to look very expensive. Such over-optimism could spread wider and produce a bubble.

► Bond markets tend to lead equity markets. Since the "heart attack" of mid-year, when yields on sovereign debt surged and prices fell in response to the first intimation that central banks would start to withdraw the punch-bowl of easy money, bonds have only rallied weakly.

This could be largely a reflection of a start of adjustment to unusual and profligate "keyboard money" policies. Or it could be, as happened before (such as in 1987), early warning of the approach of something nastier, for equities as well as bonds.

► Gold's weakness over the past two years has perplexed many gold bulls because it's happened in an environment of easy money, which was expected to favour the metal. The logical conclusion is that investors no longer expect the inflation traditionally regarded as a key plus for gold. But if the disinflation trend continues, it will mutate into deflation – bad for growth assets such as equities.

What about the world's other markets?

If Wall Street continues to lead, and Japan experiences another upsurge, you can expect China and other emerging markets to follow suit. What's more, "catch-up" markets are usually much stronger than Wall Street in the late phase of a typical cycle.

If you want to make money, invest in Japan

FTMoney's David Fuller says that although he continues to like the US for the long term, because of its growing lead in the field of technology, its competitive energy situation and its large number of Autonomies (semi-independent multinationals), Wall Street's next few years are "very likely to be less rewarding."

In Asia, however, he says, stock markets are cheaper, some considerably cheaper, than America's. Currently his three favourites there are Japan, China and Vietnam.

The well-known investment manager Hugh Hendry of Eclectica advises that if you "want to make real money," invest in Japan. Its inability to generate the extra economic growth needed to service and repay its gigantic sovereign debt "will provoke inflationary price targeting by a politicized central bank that should send Japanese stock prices heavenwards."

He says this isn't based on his view of the current stimulus programme – "Abenomics" – but on "a more negative kind of bullishness: the fear of persistent policy failure that leads to fiat money printing without limit."

Christopher Wood of CLSA argues that when investors wake up to the fact that easy-money policies in the developed nations aren't working, they're likely to switch back to emerging markets "where GDP growth and income growth are superior, where demographics are more positive, where monetary policy remains orthodox, and where government budgets are not crippled by bloated welfare states."

But to switch back to the economy that, whether we like it or not, remains the locomotive of the world economy…

Hendry points out that in April the ten-year US inflation expectation, as shown by prices in the TIPS (Treasury Inflation Protected Securities) market, dipped below its 200-day moving average – a "resounding message" that increasing supply from China, the world's second biggest economy, "is fast building global deflationary pressure."

That could "continue to prove immensely bullish" for equities because the Fed uses this criterion "as its principal benchmark for determining whether to taper or not."

Hendry is a well-known pessimist about the long-term outlook for global investment markets, but now argues: "Only a foolish investor would stand in the way of this bull market. It'll crash, of course. But not for a while."

He says the prospect of a new lending boom in the West, provoking central banks to tighten policy, "seems remote."

The most likely outlook "is that America and Europe remain resilient without booming. There will be outbreaks of fear about an impending end to easy-money policies. Those will scare investment markets, particularly those of the emerging economies. But a reversal of those policies "won't actually materialize."

Developed markets "will just keep trending positively… and might accelerate. Just be long. Pretty much anything."

Asia Offers the Big Opportunities

In the US and Europe the size of the middle class is barely expected to change over the next two decades, while it will only grow a little in Central and South America, the Mideast and North Africa, says PFP Wealth Management's investment director Tim Price.

But in Asia the emerging middle class "is forecast to explode, from roughly 500 million to some 3 billion people.

"Industries likely to benefit from sustained growth in domestic consumption include food and beverages, clothes, cars and insurance."

Yet Asian equity indexes do not reflect that potential. "Of the ten largest companies in the MSCI Asia ex-Japan index, three are low-margin exporters in Korea and Taiwan, one is a low-margin Chinese telecoms business, three are state-run Chinese banks, one is an inefficient Chinese oil and gas producer, and one is an expensive Chinese internet business.

"That doesn't leave much for value investors to go on.

"Asian equity funds more generally, tending to be index-trackers, are heavy in Chinese stocks of indeterminate value and clunky 'old Asia' exporters."

That's why Tim prefers the year-old Adepa Halley Asian Prosperity Fund, whose stocks "typically have historic returns on equity of 15 per cent or higher, a history of dividend growth, little or no debt, price/book ratios of 1.5x or less, and price/earnings ratios ideally in single digits."

Fund manager Greg Fisher argues: “The discipline of holding lowly-valued, under-owned and unleveraged companies is likely to protect our capital, and earn us both income and capital appreciation over the longer term.”

The fund does not reveal its holdings, but did achieve a return of nearly 30 per cent in its first year.

Boom Times on the Kabutocho

Japan looks poised to end the year as Asia’s best-performing stock-market, but still looks good for further upside. And, some argue, a better buy than to other developed economies.

It’s “still relatively early in Japan’s aggressive experiment in quantitative easing,” says CLSA’s strategist Christopher Wood.

“Equity valuations remain comparatively favourable, while earnings momentum is much better than in either America or Europe. The MSCI Japan Index now trades on 1.4x book [value], compared with 2.6x and 1.7x for the US and Europe… [and] on 6.8x 2014 EV/Ebitda, compared with 8.1x and 6.6x for the US and Europe, according to IBES consensus forecasts.”

In the third quarter net profits of shares in the Topix index were 107 per cent higher than a year before.

While the rise in share values this year in the US has largely been due, and in Europe entirely due, to “multiple expansion” – investors willing to pay higher prices because of their optimistic view of the future – not growth in corporate profits, in Japan it’s been very different. Earnings growth has accounted for three-quarters of share-price growth.

The Kabutocho – Japan’s Wall Street – is looking good.

What are the negatives?

► The possibility that the government proves unable to deliver on the “third arrow” of its stimulus plan – fundamental reforms – because of resistance by powerful vested interests.

► The prospect of the emergence of a foreign trade deficit, mainly because of heavy dependence on imported natural gas, due to continuing failure to turn back on the shut-down nuclear power plants.

► Failure to stimulate domestic spending. Consumer confidence is declining, with the prospect of an increase in sales tax in April and a continuing fall in cash earnings of “regular” employees; there is no signs of a pick-up in corporate investment, despite cashflow equivalent to more than 38 per cent of GDP.

► There could be growing hostility on the part of major trading partners such as the US and China to Japan’s blatant (though publicly-denied) use of aggressive weakening of the yen to promote exports.

Nevertheless, one very good sign is a strong pick-up in land prices and continuing buoyant property sales, despite the prospect of imposition of sales tax on the latter.

The government plans to counter the contractionary effects of the sales tax increase -- a long-term restructuring move designed to address a serious fiscal deficit problem – with a $154 billion spending package.

Here are CLSA's current recommendations for investment in Japanese shares:

Real estate: Mitsubishi Estate, Mitsui Fudosan, Sumitomo Realty, Sekisui House, Daiwa House.

Transportation: East Japan Railway, Japan Airport Terminal.

Motor vehicles: Isuzu Motors (trucks), Toyota Motor and Mazda Motor (cars).

Machinery: Keyence (optical sensors), Fanuc (industrial robots), Nabtesco (precision gears), Mitsubishi Heavy (industrial machinery).

Consumer: Sugi Holdings and Tsuruha Holdings (drugstores), Seven & I and Lawson (convenience stores).

Financials: Sumitomo Mitsui Trust, SMFG, Zenkoku Hosho.

Healthcare: Ship Healthcare and Nihon Kohden (medical equipment).

Of these, the one that to me looks particularly interesting for individual investors is the small-cap Ship Healthcare, with its diversified business in nursing-home operation, consulting, equipment and consumables supply, dispensing pharmacies, even animal hospitals. Its annual earnings growth has averaged 36 per cent over the past four years. Trading at around 20 times earnings, it's not expensive for healthcare stocks.

How To Be a Successful Investor

Here are ten golden rules for equity investing from Hugh Young, the much-respected chief of Aberdeen Asset Management's Asian operations…

► Pay close attention to how the company treats its minority shareholders. If you buy its shares, you'll be one of those. But minority shareholders are "just one of many company stakeholders – others include employees, the government, suppliers, bankers, and major shareholders such as a founding family."

The best way to judge whether the controlling party – which may not be a shareholder – will act fairly in the future is to see whether it has acted fairly in the past.

► Remember that companies are about people, not assets. "Predicting the long-term performance of a company is all about assessing the quality of its people."

► Balance-sheet strength is crucial. "Companies fail largely because their businesses are poorly financed. A strong balance sheet tells you that the company is very unlikely to fail.

Strength is not just about comfortable liabilities. It's also about assets.

"Cash generation is paramount, but once generated, a company must invest it wisely, keep it safe, or pass it to shareholders."

► Understand why you are buying. "You don't have to understand how silicon chips work to buy a silicon chip-maker. But you do have to understand what they are used for, as well as some of the basics of the manufacturing process such as inputs and costs.

“Simple products like mortgages can be wrapped in businesses that are hard to understand. [But] as the old adage goes – if something looks too good to be true, it probably is.”

► Be wary of over-ambition. Companies are often tempted to expand capacity or even invest in areas outside their core area of expertise. You should “be very wary of such ambition, as it naturally means a reduction in focus on core capacity, let alone the implications for balance sheets.”

Focus on the “top line” (growth of sales, or size of the company) “tends to be great for stakeholders such as employees, suppliers and bankers, but rarely for minority shareholders,” who should give more attention to the “bottom line” (growth of net income or earnings per share).

Focus on a company’s long-term business prospects

► Think long-term. “Unless you need your money back soon… avoid getting caught up in the daily noise of markets.” Align your own long-term perspective with companies’.

“Short-term price movements are mostly inconsequential.” What you focus on is the prospect of permanent gain or loss of capital. That is all about “assessing a company’s long-term business prospects.”

► Benchmarks are measuring devices, not portfolio-construction tools. “The worst reason in the world to buy something is because somebody else did.

“Successful investing requires thinking differently. This may at times be uncomfortable – but you should learn to embrace this feeling as a sign you’re on the right track.

“To put it in the simplest terms – to beat the benchmark, you must deviate from it.”

► Take advantage of irrational behaviour. “The efficient-market hypothesis is nonsense. Markets are driven by humans, humans are irrational, thus markets are irrational.”

When investors panic, don’t join the stampede. Instead, consider buying. “Think of a 20 per cent fall in a share price as you would a 20 per cent sale at a department store – an opportunity to buy cheap.”

► Do your own research. Not following others is the key to success. “Broker research has its uses, but it is no substitute for doing your own analysis and coming to your own conclusions.”

► Focus on industries with a sustainable competitive advantage. Some are more profitable than others, often because there are high barriers to entry, giving incumbents a sustainable competitive advantage.

One example is banking, where one needs licences to operate, has to build trust with depositors, and have a network of borrowers. “Banks tend to produce excess returns on capital which can often be sustained over the long term – assuming, that is, they stick to the simple business of lending and deposit-taking.”

Flying for Dummies

My longtime friend Robin Mitchinson has an excellent blog called whydonttheylistentous. Recently he offered these tips for novice travellers based on “54 years of international travel,” which I think deserve a wider airing.

► First up, check your passport expiry date. If that seems like a statement of the bleedin’ obvious, not everybody appreciates that a valid passport is often not enough. Increasing numbers of countries are now insisting on six months’ validity before the expiry date. I always renew mine about a year before expiry, so it will be valid for nearly 11 years.

► Before booking your ticket, check with the on-line agencies like Expedia or Tripadvisor to get a broad order of cost.

► If you have to make a connection, ensure that your baggage will go through to your destination. There’s no fun in having to pass immigration and customs at an intermediate airport and then go through all the security etc. hassle again, just to save a few quid on the ticket.

► On-line or agent? I prefer an agent. His job is to sort out any problems and take care of the detail.

► Remember to book your seat at the same time. I nearly got bumped in Houston last month despite checking-in more than three hours before departure, because there were only two unreserved seats left on the entire flight.

► Don’t pay by credit card – you may be charged commission. Debit card is OK.

► Do you need a visa? I always get my travel agent to handle this; it takes out the hassle. But don’t take the agent’s word as to whether a visa is needed. My agent told me that my Thailand visa was valid for 90 days. It isn’t. It’s 60 days. Check key visa facts yourself.

► Distances to the gate seem to get longer. Terminal 5 at London Heathrow is a nightmare. So if you have a problem with your pins, ask the agent to reserve ‘ mobility assistance’. This whisks you through formalities, gives you priority boarding -- and gets you quickly through the immigration queues on return.

► Keep your passport and other documents about your person. Travelling to New Zealand, my neighbour had everything in his carry-on bag -- which was nicked at Heathrow.

► How will you dress? With the least amount of outer clothing, because you will have to take it all off at security.

I wear a light anorak and sweater which I remove on arriving inside the terminal and put in my carry-on, arriving at security in shirtsleeves. I wear trader-pants with lots of zip-up pockets. My passport goes in the long leg-pocket. My wallet in the front zip-up. The usual location in the hip pocket makes itself felt when you have been sitting on it for 12 hours. Avoid lace-up shoes. You may have to take them off at security.

► How long will it take to get to the airport? Double it! I’ve had the lot – car breakdown, puncture on the M25, driver going to the wrong airport.

► You have now checked-in and face security. At London airports it’s now pretty slick. But make sure that you have no unneccessaries in your pockets, no liquids and no “sharps” (look in the bin and see how many people forget the rule). Don’t make eye contact and NEVER give the security official any verbals, however grumpy you might be feeling.

As we used to say about Zambia Airways: “Enjoy your fright!”

A Sugar High in Pharmaceuticals

Diabetes “is probably the biggest epidemic in human history,” says Professor Paul Zimmet. It’s estimated that more than 8 per cent of the world’s adult population suffer from the condition, and the numbers are soaring. One person is dying of the disease every six seconds.

It’s the basis of a growth industry that is starting to have major investment consequences. Not only for the providers of medical products – sales of anti-diabetic products topped $36 billion in 2012, and are expanding at 9 per cent a year – but also for the fast-food and beverage giants.

Obesity is blamed for causing most diabetes. This seems to be associated with greater consumption of processed and sugar-rich foods, and more sedentary lifestyles.

There is an explosion of obesity in wealthier economies. Campaigners accuse the fast-food and beverage companies of responsibility. That is starting to produce hostile legislation that threatens their growth. Mexico, for example, is introducing an 8 per cent levy on all “junk food” – defined as anything containing more than 275 calories per 100 grams.

Diabetes is a disorder of the metabolic system. When there is a lack of the hormone made by the pancreas called insulin, sugars in the body are not oxidized to produce energy. They build up in the bloodstream, while the body’s substitution of fats to provide energy produces toxic by-products.

Unless the condition is controlled, the consequences are very unpleasant. Complications include problems with the eyes, kidneys, cardio-vascular system and the nervous system. The mortality rate for sufferers under 60 averages 28 per cent in Europe, 38 per cent in North America and the Caribbean.

The root cause is well known. Most people who develop the more common form of diabetes, type 2, are eating more calories than their bodies are using.

According to the US Centers for Disease Control, diet and exercise changes can more than halve the risk of pre-diabetic conditions such as elevated blood sugar content developing into diabetes type 2.

Diabetes cannot be cured, but it can be controlled through weight loss, low-carb diets, exercise, and a range of medical treatments.

The most important drug is synthetic insulin, which is injected into the bloodstream to compensate for the shortage of the pancreatic hormone.

The three giants of anti-diabetics are Copenhagen-listed Novo Nordisk, Paris-listed Sanofi and New York-listed Merck.

Novo Nordisk is the most sector-focused company, with diabetes treatments accounting for three-quarters of its sales. It controls an amazing half the world’s insulin market and is dominant in Asia. It has an impressive pipeline of therapies in development.

Experts are now warning that the world's healthcare systems, already spending $550 billion on diabetes, face a problem requiring redoubled efforts for effective treatments, broader diagnosis and a more intense focus on prevention.

It's a theme that would seem to offer profitable opportunities – as well as risk to some of the world's major international businesses.

How the Rich Invest, Asset Preferences

A new study by American academics, who analyzed the portfolios of 115 wealthy US households with an average net worth of $90 million, has revealed that they were prone to almost exactly the same mistakes as everyone else. In fact they handled the crisis of 2008 even worse than the average investor.

They follow investment fads. They failed to buy when equities bottomed after the Lehman collapse. They tend to move into the illiquid asset classes open to them because of high minimums, such as hedge funds, private equity and venture capital, after the best opportunities for outperformance have passed.

What lessons can be drawn from this?

John Authers, the *FT*'s columnist, suggests the less-wealthy "need not feel too aggrieved about missing out" on investments more readily available to the rich, as they didn't do any better because of them over the period analyzed, from 2000 to 2009.

Clear differences emerged this year in attitudes towards risk assets such as global equity and fixed-income investments, Morgan Stanley reports.

Retail and high-net-worth investors moved out of cash and near-cash into risk assets. Mutual funds followed suit. But institutional investors – mainly pension plans and insurance companies – have been doing almost the opposite, "despite the risks to fixed-income portfolio values from a rising interest-rate cycle." This has been in response to regulatory pressure to strengthen their balance sheets.

Morgan Stanley estimates that as institutional investors of all kinds account for about 60 per cent of global assets under management, with defined-benefit and defined-contribution pension plans accounting for about 45 per cent of global equity investment, that trend "will provide a powerful headwind to any longer-term rotation back into equities."

"Sovereign wealth funds, which represent about 7 per cent of global assets under management, are more likely to increase allocations to real assets and alternatives, than to actively-managed equities."

Aging populations in the US, Europe and Japan "will dampen the appetite for equities among retail and high-net-worth investors…

"By our estimates, within five years retired or near-retired baby boomers will hold 75 per cent of retail assets… We expect regular income, capital preservation and lower-volatility outcomes will be their key focus."

Tailpieces

Bottom fishing: Well-known speculator Jim Rogers says he makes a point of looking at investment opportunities that are out of favour and seeing if there's a reason to buy them...

► "Russia is one of the most hated economies, and greatly depressed, so I've been buying there.

► "Likewise, sugar is down 75 per cent from its all-time high... But I think positive things are happening.

► "The Chinese market is down maybe 60 or 70 per cent from its all-time high, but [now] there are some opportunities." They're "putting a huge emphasis on railroads, and their railroad technology is probably now the best in the world."

► Gold: Rogers says it could well go much lower – "even in bull markets, 50 per cent corrections are common" – but if it falls below $1,000, he plans to buy more. "I have owned gold for many years and haven't sold an ounce; same with silver."

Profitable opportunities: Because of the spread of protectionism into global finance, those seeking the diversification benefit of international investments "will increasingly go in search of assets that cannot so easily be 'devalued' via the printing press," says Stephen King, HSBC's group chief economist.

"Real assets, unlikely to be heavily affected by the behaviour of myopic governments.

"That means increased investment in commodities and companies that, if internationally exposed, will rise in dollar terms should the dollar fall in value.

"That, in turn, implies that debtor countries [such as the US and the UK] will increasingly have no choice other than to 'sell the family silver.'" Examples of this already happening are prime London and Manhattan properties being bought up by Russians, Saudis and Chinese; European and American businesses being swallowed up by globalizing Chinese and Indian companies, often for their superior technologies.

South Africa: Coronation Fund Managers, the investment house whose share has been the best performer on the Johannesburg bourse over the past five years, is not a value investor, a growth investor, a momentum investor or a contrarian investor, but "something of each," says chief investment officer Karl Leinberger.

"We are equally happy owning high-growth businesses such as Naspers, Aspen and Famous Brands as we are owning damaged business like Hulamin, Sappi and ArcelorMittal – as long as the market is mispricing them," he told clients recently.

Coronation's specialized South African equity mandate has outperformed the market by an average of 3.6 percentage points a year over the past 20; by 4 points over the past five.

India: Has its stock-market bottomed, after three years of decline?

There's no clear signal of that, yet. Economic growth has continued to decelerate, falling to an annual rate of 4.4 per cent mid-year in real terms. The central bank continues to raise interest rates. Much-needed investment in infrastructure continues to decline, one factor being the stressed condition of companies carrying too much debt from their too-aggressive bidding in the 2008-2011 infrastructure boom.

However CLSA's strategist Christopher Wood argues that investment will resume sooner or later because of the duration of the existing downturn, the obvious need for improvements to infrastructure, and "the potential for a positive political catalyst" such as BJP victory in the upcoming election.

Within the next one to two years, India could become "the best equity investment story in Asia again, just as it was between 2002 and 2009."

Currencies: A study by the Nomura bank has shown that the foreign trade balances of emerging economies is a powerful predictor of future moves in their exchange rates (this is not true for developed economies, where capital flows overwhelm trade surpluses or deficits in importance).

Nomura concludes that countries such as Indonesia, Malaysia, Thailand and South Africa, are now very vulnerable to currency swings. Less so, China, Hungary, South Korea, Poland, the Philippines and Mexico.

Optimists beware: "To assume that savers can confidently expect large wealth increases from investing over the long term in the stock market – in essence, that the investment conditions of the 1990s will return – is delusional," say London Business School professors.

The perks of power: In South Africa it's been revealed that in her first ten weeks in office the prime minister of the ruling ANC party in the Northern Cape province, Sylvia Lucas, used her official credit card to buy fast food to the value of R53,159.

That would have bought on average 19 meals of burger, chips and soft drink every day. Or 30 meals of chicken and chips every day.

When her profligate spending was challenged, Lucas responded: "How would we have eaten, if we didn't use taxpayers' money."

UK dottiness diary: The health-and-safety police have insisted that in a Nativity play in a Welsh church a child who plays the part of Mary and arrives on a donkey must wear a crash helmet, in case she falls off.

Wise words: *The four most dangerous words in investing are: "This time it's different."* John Templeton.

Martin

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