►On Target

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Share Prices 'Likely to Grind Higher'

American bourses have rebounded from their February lows and moved to new highs. Is this still, as it's been called, "the most hated bull market of all time"?

Chris Watling of Longview Economics points out one important difference between market conditions now and those we're used to. Instead of the usual give-and-take between conflicting poles of greed and fear, greed is the predominating emotion in America, where investor sentiment appears to be almost euphoric… but it's fear that rules everywhere else.

One obvious reason is the anticipated outcomes of Trump's trade war.

He's winning it because the US holds all the trump cards. Its consumer market is far more important to its trading partners than theirs are for American exporters as a whole. Its currency has no serious rival in the global financial system. Its determination to advance American interests has overwhelmed foreign governments… weakly led, and taken by surprise by Washington's aggressive negotiating tactics.

But there are other reasons.

Longer-term, America is the superpower that leads in the sectors that are the greatest sources of dynamism in the world economy – social media, internet services, infotech. Its only serious rival nation in these fields, China, is hamstrung by its management structure -- an authoritarian state run by bureaucrats.

Meanwhile, there's only good news about the American economy. Last month workers' average hourly earnings broke out to a new high, their best in nine years. Consumers' confidence is soaring, their demand remains robust. Individuals' savings are now known to be substantially higher than they were thought to be, so there's plenty of untapped spending power. US manufacturing is looking healthier than it has been for a long time, with the ISM purchasing power survey giving its highest rating for 14 years.

A key positive factor has been Trump policies. "His deregulation drive, combined with tax cuts, is extremely positive for business," says Christopher Wood of Asian investment bank CLSA. Corporate profits on a pre-tax basis are growing at their fastest in seven years. The index of optimism among small businesses is now close to the record high seen a third of a century ago.

Looking ahead, however, there are grounds for caution.

The Federal Reserve is raising interest rates and tightening credit, which must slow economic growth. There's little remaining spare productive capacity. Tariffs, if implemented, will hurt the US as well as its trading partners.

The global environment becomes gloomier even before Trumpian threats are implemented on a major scale. John Authers, the *FT*'s chief markets commentator, says: "There is a shortage of dollars thanks to quantitative tightening" (less easy credit), repatriation of assets by US companies and higher US (interest) rates. China is trying to reduce leverage, putting parts of the world under pressure. The weakest parts of the world economy host the first markets to be hit… "Investors are bracing for a macroeconomic shock."

He says the charts "may be forming a 'double top,' one of the best-known patterns in technical analysis" (signalling the end of a bull market). Narrowing breadth – increasing dependence for growth on fewer stocks – is another "bad sign."

However, when I read this gloomy view and went to the charts to find confirmation. I couldn't find any. By my reading, the charts don't suggest there is much for investors to worry about. My favourite technical analyst, Eoin Treacy, says "a sustained move below the trend mean would be required to question medium-term scope for continued upside."

Neither the price of gold nor bond markets suggest there is imminent bad news lurking out there.

Raymond James' chief investment strategist Jeffrey Saut says there's still a secular bull market, that the recent upside breakout is sustainable, that although it's doubtful there will be a spike, the market is probably going to grind higher.

Living in Emerging Markets

By Chad and Peggy Creveling

With increasingly global careers, weak job markets in some developed countries, and retirees looking to stretch their savings and pensions, greater numbers of people are building their lives outside their home countries. In many cases, they end up as expatriates in emerging and developing economies where growth and opportunity seem abundant and the cost of living can be cheaper.

While living, working, and retiring overseas can be a rewarding experience, it is not a decision that should be made lightly. It is one thing to be sent temporarily overseas by a multinational on a full "expat package" that includes a car, driver, generous housing and school allowances, and medical insurance. But it is an entirely different matter to seek your lot on your own or to retire overseas.

Entitlement programmes and support systems available in your home country may not be available overseas, and you will probably be unable to tap into home country support systems while living in a foreign country. Without proper planning and an awareness of the challenges of building a life overseas, dreams of a lavish expat existence can quickly turn into a nightmare.

Whether as a retiree, or as a professional embarking on an extended stint as an expatriate, here are some things to know as you begin your expat life in an emerging economy.

► **Access to banking facilities and bank products can be limited**. Establishing a bank account in a developing country can be difficult. In addition to your passport, you may be required to show a work permit and a valid visa, as well as other documents establishing your residency such as a lease document or utility bill. Just having a tourist visa may not be enough. Even if you can open a bank account, your non-working spouse may not have access if joint accounts are not offered or if your spouse does not qualify.

Additionally, the range of banking products you are used to may not exist, or if they do, you may not be able to access them as a foreigner. For example, most countries do not offer 30-year fixed rate mortgages. It can be difficult, if not impossible, for foreigners to borrow in local currency.

For a number of reasons, having a local bank account can still make sense, so you will want to research what is involved in advance.

► **Inflation is generally higher than in developed countries**. While living overseas, especially in one of the emerging markets, can seem cheap at first glance, the reality is often different. The cost of a middle- or upper-middle-class lifestyle may have been bid up by lack of supply, increasing numbers of foreigners, and generous corporate expat packages. By some accounts, Luanda, in Angola, is one of the most expensive cities in the world for expats — more so than Hong Kong, Zurich, London, or Sydney. Even in traditionally inexpensive Thailand, some items such as cars and wine may be more than double what you would pay in your home country.

Inflation in developing economies can also run much higher than in the developed world. For example, a recent survey by Mercer, a human resources advisory firm, found that the cost of living for expats has been increasing substantially in traditionally inexpensive cities such as Mumbai, Bangkok, Jakarta, and Hanoi. What was once affordable can quickly become untenable, particularly for those on a fixed income.

► **Currencies tend to be more volatile**. The exchange rates of emerging-market currencies tend to be more volatile as measured against developed-country currencies. This point can be important, as very rarely do expats live entirely on the local economy and generate earnings in the local currency. Often, they either are supported by earnings in their home currency, or want to preserve the ability to return to their home country or a third country. Additionally, imported goods are often priced (directly or indirectly) in developed-world currencies such as US dollars.

Managing currency risk is paramount and can be difficult, especially for those on fixed foreign-currency pensions. Expats will want to avoid the situation where a combination of inflation and an appreciating currency prices those on a fixed income out of their intended retirement home.

► **Investing overseas can be expensive and risky**. Often, expats invest overseas to avoid home country taxes. In many cases, though, local capital markets are less developed and less regulated, resulting in less investment choice, expensive and inferior products compared with home country products, and less investor protection. This can make saving, funding goals, and hedging against inflation and currency risk, difficult at best.

Many expats rely on the offshore financial markets for their investment needs, but what they save in home country taxes, they often more than give back in the form of excessive fees. Lack of regulation and investor protection, and predatory sales practices, often permeate the offshore financial market, although recent attempts by regulators to crack down and competition are forcing improvements.

For Americans, investing overseas opens them up to a whole range of regulation, punitive taxes, and onerous reporting requirements backed by substantial civil and criminal penalties for failure to comply.

► **Difficulty owning property**. Expats from developed countries are often surprised how difficult it can be to buy property in an emerging country. In Thailand, for instance, foreigners are not allowed to buy land, which generally precludes them from purchasing a house. They can buy condominiums, however, subject to foreigner/local building-ownership ratios.

The lack of a developed mortgage market for foreigners means purchases typically have to be in cash, which constrains an already relatively illiquid secondary market.

Some Americans are also surprised that they are liable for US capital gains taxes on property sold overseas and that movement in exchange rates on both the foreign property and the foreign mortgage can have a significant impact on the taxes due.

► **Difficulty in obtaining adequate insurance**. Like the financial markets, the insurance market in emerging economies and offshore markets typically offers less product choice, less regulation and investor protection, and greater expenses than markets back home.

Obtaining adequate medical insurance can be particularly difficult for the long-term expat. Home country policies will often not cover you for an extended time overseas, and offshore or local policies tend to be expensive and restrictive in what they cover. Many expat policies have age limits and will not cover you after age 70 or so. This can be particularly difficult for intended retirees. In the past, expat retirees had the option of returning to their home country to access national medical programmes, but many countries are shutting off that access for expats. Likewise, Americans are unable to use Medicare overseas.

In addition to healthcare, other policies — such as long-term-care insurance, long-term disability, and term life insurance — can be nonexistent, restrictive and expensive. However, there is no shortage of fee-laden insurance-linked investment and savings schemes!

► **Increased tax complexity**. Expats face increased tax complexity compared with their home country compatriots, especially Americans. Not only can they be taxed by their home country, but also taxed by their country of residence, and other countries where they may own assets. Sorting out the intersection of conflicting tax codes and tax treaties can be complicated and time-consuming. In the past, many expats typically ignored the situation, but a renewed emphasis on compliance by many governments around the world is now making this impossible.

► **Limited availability of retirement plans, pensions, and other benefits**. Expats working overseas often have no access to national pension schemes or other government-incentivized retirement savings structures. While working overseas, particularly for a foreign company or their own business, expats may not be paying into Social Security or other home country national pension systems, which means they will not receive the benefits when they retire.

Even if they can participate in local savings-oriented retirement schemes, these schemes are typically inadequate and, for Americans, generally not recognized by the IRS, and thus taxable. Offshore products billed as "pensions" bear little resemblance to national pension schemes and are certainly no replacement.

Without access to the same type of retirement support structures offered in their home countries, planning for retirement becomes even more important and difficult for expats.

► **Increased complexity of estate planning**. Expats must often consider estate planning from the multiple conflicting perspectives of their home country, their country of residence, and any other country where they may have significant assets. Many expats are surprised to find that while they are considered non-residents of their home countries for income tax, this is not the case for estate/inheritance tax, which is often based on citizenship rather than residency.

It can be particularly important to have a coordinated set of estate planning documents when subject to multiple jurisdictions with differing property disposition and minor custody laws. Planning can be further complicated by the lack of trust law and recognition of powers of attorney, living wills, and healthcare directives in the emerging markets.

► **Limited availability of professional resources**. Cross-border planning issues can be complex, and too few professionals are serving the growing expat population beyond those offering services to the ultra-wealthy. Local professionals serving the domestic population are often poorly equipped to deal with expat cross-border planning issues, as are home country professionals who lack local knowledge and global perspective.

Professionals such as estate lawyers, tax advisors, financial planners, and other service professionals so readily available back home, are often few and far between in the emerging markets — although there doesn't appear to be any shortage of people selling real estate, insurance, and offshore investment schemes. Unfortunately, selling of a financial product or asset falls far short of the type of comprehensive, coordinated planning that is needed to plan a secure future overseas.

Challenging, but rewarding…

While an expat life can be rewarding and adventuresome, it comes with challenges, especially in emerging or developing economies. While this list is not all-inclusive and each country will have its own planning challenges, here we touch on some of the main issues faced by expats as they embark on the adventure of overseas living. As with most planning, solid financial planning done in advance can make life easier. This is all the more the case for expats who live outside of the financial infrastructure and protection that their home countries may provide.

The Crevelings are Thailand-based CFAs who advise expats on personal financial planning and investment. To learn more, visit their website www.crevelingandcreveling.com.

An Asian Buying Opportunity

When emerging markets generally are having such a hard time, why is India the most important exception? Over the past five months the MSCI index of emerging markets has fallen 11 per cent. But in Mumbai shares have risen 12 per cent.

One obvious reason is that India is less exposed to Trump's "trade war." Its economy is driven by domestic demand rather than exports.

Another is that it's counter-cyclical in that its economy is accelerating when those of most of the rest of Asia have been topping out. It's ten years since its last investment cycle peaked. Latest data suggests a new one has begun. Latest annual growth rate is an extraordinary 8 per cent plus.

The property market is definitely picking up, with pre-sales of housing developments running 25 to 30 per cent ahead of last year. Although mortgages are starting to become more expensive after hitting a 12-year low a few months ago, affordability is now running at the best level in more than ten years.

Domestic investors are optimistic despite negatives such as a weaker currency, higher oil prices and the prospect of monetary tightening. Net flows into equity mutual funds reached $16 billion in the first seven months of the year. This increasingly looks like a secular phenomenon, which would be "extremely bullish," says CLSA's Christopher Wood.

Any stock-market correction caused by concerns that prime minister Narendra Modi fails to secure re-election in the national poll next April/May "will be a buying opportunity."

Wood favours housing finance and related property plays such as Godrej, HDFC, Indiabulls Housing Finance and GRUH Finance. Other choices include IndusInd Bank, Bajaj Finance, Indiabulls Ventures, Dalmia Bharat, Vedanta, Arvind, Maruti Suzuki and SBI Life.

Medical Frontiers

The best way to invest in the healthcare revolution is not through large diversified companies such as Johnson & Johnson, where medical science is just a tiny part of their total activities, but in smaller, groundbreaking specialists, says *Money Management*'s Russell Taylor. The following investment trusts provide pointers to such companies…

► International Biotechnology. Its top holding is Biogen, a company developing, manufacturing and commercializing biologic drugs for inflammatory and autoimmune diseases as well as cancer.

► BB Healthcare. One of its major holdings is Celgene, a firm that develops treatments for cancer.

► Biotech Growth. Its portfolio holds Amgen, which manufactures drugs for treating cancer and heart disease.

► Worldwide Healthcare. It has a big stake in Boston Scientific, which develops implantable medical devices such as stents for use in cardiology, neurovascular, endoscopic, urologic, gynaecologic and pain management procedures.

► Polar Capital Global Healthcare. It holds Sanofi, which produces treatments for a variety of conditions including rare diseases, multiple schlerosis and diabetes. It's also the world's largest supplier of flu vaccines.

► Herald Investment Trust has Craneware among its top holdings. The firm is a leader in automated value cycle solutions, helping US healthcare organizations to discover, concert and optimize assets to achieve the best clinical outcomes and financial performance.

► Baillie Gifford Japan holds Cyberdyne, which produces exoskeleton robots to support recovery from stroke or spinal injury. Their control systems use the patient's own nerve signals to control movement.

► Scottish Mortgage invests in Grail, whose scientists are working on a blood test to detect cancer early.

Taylor advises investors to use investment funds to guide them towards firms that seem to offer promise and appeal to their own views and interests.

Latest Info on Renewables

The utilization figures for renewable fuels are "the secret their proponents hide from the public," says American energy resources expert Allen Brooks.

In the UK, for example, where massive investment has been made into politically-correct facilities thanks to subsidies and policy measures favouring them, there's 19 gigawatts of wind-generated capacity and 13 of solar power. But in July, to give a recent example, wind only met electricity needs for less than 5 per cent most of the time, while solar never did so for more than 10 per cent.

Britain had to import 9 per cent of its power from France and the Netherlands. Nuclear power, that is.

Renewables are much more expensive as energy sources compared to natural gas, once ancillary costs are taken into account such as back-up power when the sun isn't shining or winds aren't blowing, the additional costs of transporting power from where it's generated to where it's needed, and the capital costs of replacing facilities as they wear out. (Britain's offshore wind turbines are having to be replaced after periods as short as five years).

According to the electricity information specialist Gridwatch, over the long term (60 years) the total costs of onshore wind, solar and offshore wind are, respectively, 7½ times, 14 times and 17 times as much as using natural gas.

Brooks says that the contribution of biomass towards reducing greenhouse gases is "highly questionable."

In Britain, for example, most biomass power comes from the huge Drax power station, which was converted from coal to wood pellets for climate-change reasons. But the pellets are imported from the US East Coast, where forests are cut down to provide the supply. "Studies have shown that the harvesting of trees, palletization, sea transport and burning releases more carbon emissions per unit of power generated than the burning of coal" (previously mined from under the plant).

The Nation with Most to Lend

Japan has regained its earlier status as the world's "savings superpower." It, not China, is the world's largest creditor.

This is partly because Shinzo Abe's stimulus policies have made Japanese companies much more profitable, but failed to stimulate their investment at home. Lending to the rest of the world has also been boosted by the central bank's money printing on a massive scale. Proceeds of its buying of Japanese assets – equities and bonds – have been recycled into overseas assets.

By the end of last year Japan accumulated net worldwide assets of $2.9 trillion – more than the second largest creditor, Germany, and 50 per cent greater than China.

Among the consequences are that Japan's public pension fund is now the biggest single global investor in US equities; SoftBank of Japan manages the world's leading technology investment fund; and Japan has overtaken China to become the largest international investor in China.

Biggest Trade Surpluses

If Trump is really determined to reduce America's foreign trade deficit in a meaningful way, that will deliver a demand shock for the rest of the world in terms of the current account surpluses enjoyed by Japan and Germany, with their traditionally export-driven economies.

In the first half of this year Japan ran a surplus at an annual rate of 4 per cent of GDP; Germany had one equivalent to more than 8 per cent.

China's situation is different. Its economy is now driven primarily by domestic demand. Back in 2007 it had a current account surplus of more than 10 per cent of its GDP. By 2015 the surplus was $304 billion, but by the first half of this year the annual rate of surplus was down to only $68 billion, or 0.5 per cent of GDP.

Migration: How the Arabs Manage It

Refugees' access to welfare benefits is a major cause of public resentment against migrants in Europe. *The Economist* argues that "a sensible approach" to neutralizing this politically dangerous issue would be "to allow migrants to get public education and healthcare immediately – but to limit their access to welfare benefits for several years.

"This may seem discriminatory, but migrants would still be better off than if they had stayed at home.

"An extreme illustration can be seen in the oil-rich [Persian] Gulf, where migrants are ruthlessly excluded from the opulent welfare that citizens enjoy. The Gulf is not a model… But because [foreign workers] so obviously pay their way, the native-born are happy to admit them in vast numbers."

Bosses with Closed Minds

There are very few chief executives who have the skills to truly understand how others might perceive them, or empathize with a different point of view, says the *FT*'s US editor Gillian Tett. Yet they need to be able to do so in these paradoxical times when the Internet creates the impression that we are all constantly connected, yet in fact there is social and mental fragmentation.

"Most business leaders rise through the ranks… because they are able to display a maniacal focus on narrow goals and supreme confidence in their own abilities. This is not a skill set that encourages people to listen to alternative viewpoints."

Tailpieces

Artificial intelligence: DeepMind is planning clinical trials of technology for diagnosing eye disease after early tests show it can do better than human doctors. Its algorithm had an error factor of only 5.5 per cent compared to between 6.7 and 24.3 per cent for opticians, and provided instant results, avoiding waits of days for specialists to review images.

E-commerce: Japanese retailer Smart Today has shipped out to potential customers more than a million "Zozo suits" – full-body stockings that can be used to gauge a fit for the firm's made-to-measure clothing. They are asked to submit to a company app smartphone photographs of themselves wearing one of the body management suits, to achieve perfect match from tens of thousands of pre-cut patterns.

Smart Today is considered to be the undisputed giant of online fashion retail in Japan. The latest version of its Zozo suit costs the company only $9 apiece.

Nordic PC: Norway's parliament is expected to order the nation's sovereign wealth fund, the world's largest, to sell its holdings of energy stocks on the grounds that, as there is no future in fossil fuels, it's unwise to invest in them. Oil, of course, is the source of the fund's wealth.

Selling energy companies has more to do with political correctness than investment judgment, but fortunately won't do much damage. They only amount to 4 per cent of the fund. However, there is no conclusive evidence that alternative investments would do better.

Feminism: I see that Britain's Girl Guides' movement has scrapped badge awards for proficiencies now regarded as outdated such as ironing, being a hostess, vermin control, in favour of modern ones such as… protesting. I kid you not! Such diversion of attention from practical skills to fashionable but pointless time-wasting must help explain why so many young females today are so obviously unhappy compared to older generations.

Ride-hailing: It cannot compete with owning and operating your own car, according to a new study by the American motoring services organization AAA. It studied economy-level single-rider trips in 20 cities, assuming use of a rental car for two longer trips, and found the average annual cost would be $20,118 – twice the cost of owning and operating a new car.

Populism: Steve Bannon, Trump's former political strategist, has announced that he plans to establish in Europe a foundation to provide polling and policy support for populist right-wing parties ahead of next May's European elections. His main ally in this venture is the prime minister of Hungary, Viktor Orban, who says he intends to make the elections a referendum on the related issues of immigration and Islam.

Wise words: *Select stocks the way porcupines make love – very carefully*. Bob Dinda.

Martin

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