►On Target

Martin Spring's private newsletter on global strategy

January 18, 2014 No.171

How Asia Grows Rich Being Contrarian

The modern history of East Asia is of a succession of economic miracles.

First the rise of Japan from hermit kingdom of sword-wielding samurai to global eminence in war and peace over the past century.

Then the emergence out of rice paddies of a clutch of spectacularly successful "tiger" economies – Korea, with its leading-edge manufacturing industries; Taiwan, which at one stage accumulated the second-largest foreign-exchange reserves; Thailand, which for a decade was the world's fastest-growing economy.

Now there is China, the coming superpower, which with an annual growth rate even after slow-down of 7 per cent, is a wealth-creating machine that Americans and Europeans can only dream about.

How have they achieved it?

According to an excellent new book* by financial journalist Joe Studwell, there have been three keys to their success:

► Strong centralized political leadership able not only to force through necessary reforms and implement the right growth strategies, but also to curb the power of wealthy elites and of foreign companies to exploit growth for their self-advancement to the detriment of long-term national development.

► Radical policies to mobilize, exploit, develop and mobilize the resources, successively, of agriculture, manufacturing and finance.

► Resistance to premature implementation of most of the free-market-oriented policies urged upon the governments of developing nations by the International Monetary Fund, the World Bank, and all those expert advisers comprising the "Washington Consensus."

The best policies for hungry nations have proved to be ones very different from those that are best for countries that are already wealthy. The modern history of East Asia proves it.

And some of those policies challenge fundamental beliefs of economic "science" as taught worldwide.

The basic starting-point for successful take-off in East Asia has proved to be the seizure of rural land by the state, with landlords receiving compensation ranging from generous pay-offs (in 19th century Japan) to none at all (in 20th century China). With ownership being passed to the peasants who already worked the land, typically in portions as small as half-a-hectare that could be cultivated viably by one family.

When combined with good state support services such as training, higher-quality seedstuffs and livestock, fertilizers, transportation, processing, marketing and cheap credit, the outcomes have been dramatic – because the peasant families work harder and are more entrepreneurial when they know they are going to enjoy most of the benefits.

One example is Taiwan, which Studwell says: “Produced the most remarkable developmental results as a consequence of land reform… Yields of traditional crops like rice and sugar went up by half, and those of specialist fruit and vegetables doubled.”

The Asian experience has also disproved the belief widely held by both communists and free-marketers that farming done by substantial units such as collectives or the estates of agribusinesses is more efficient than smallholdings. “Output booms occurred in conditions in which farming was essentially a form of large-scale gardening.”

In Malaysia, after the Stevenson reforms, the government was surprised to discover that in rubber cultivation “the average smallholder yield was more than 50 per cent higher than the average plantation, and in some cases several multiples higher.”

In China, where production exploded after peasants were allowed to cultivate their own plots, “wheat yields are… among the highest in the world, and more than 50 per cent ahead of what is achieved by scale farming in the United States.”

Abundant crops that followed agricultural reforms provided the surpluses needed to finance industrialization and deliver explosive economic growth.

That was achieved using a combination of protectionism, growth-focused state policies, and imported machines and technology.

Performance lags in the tropics

But there have been clear differences in outcomes between the countries of the Northeast (Japan, South Korea, Taiwan and China) and those of the Southeast such as Indonesia, Thailand, Malaysia and the Philippines.

In the Northeast, industrialists were forced to focus on exports. The most important reason for this strategy was that it forced them to keep raising their levels of technology and other business skills so as to compete ever more successfully on global markets. National power, not private profit, was the target. And that came, in just a few decades, through the development of world-class industries.

Japan led the way, but transformation came about the most spectacularly in South Korea, under the leadership of Park Chung-Hee, a peasant’s son and army general who had studied intensively the history of rising powers.

After seizing power in 1961, Park arrested the top businessmen who had grown rich yet “did nothing for their country in return” and told them all their assets would be seized unless they co-operated in developing industries as required by his government – fertilizer, synthetic fibres, cement, iron and steel, electricity generation.

They were free to make as much money as they could, so long as they stuck by the rules. They had to achieve growth targets, with most of that growth coming from exports. If they needed to import technology, that could only be done with severe constraints on the power of foreign partners.

Massive benefits were provided by the state – cheap finance, overseas loan guarantees, foreign currency allocations, production licences, export subsidies, tax exemptions, reduced utility rates, tariff rebates. But if the businessmen failed to deliver, they would lose their privileges, be forced into mergers or bankrupted.

Economic growth exploded, averaging 10 per cent a year. Within a decade the manufacturing share of exports rose from one quarter to more than four-fifths. Today South Korea is a world leader in such major industries as steel, shipping, cars and electronics.

To a lesser degree, this was the successful model adopted by Japan and Taiwan, and now by China.

Benefits captured by elites and foreign companies

But in the Southeast – Malaysia, Thailand, Indonesia, Philippines – although there have been some long periods of impressive growth, "governments did not fundamentally reorganize agriculture, did not create globally competitive manufacturing firms, and did accept bad advice from already-rich countries to open up financial sectors at an early stage," Studwell reports.

Governments promoted industrialization without insisting on aggressive growth in globally-competitive technology, the rewards of state benefits were captured by elites that channelled their new wealth into real estate and other sectors that added little to raising national productivity.

Technology was largely acquired through joint ventures with powerful foreign companies, usually Japanese or American, who often used their expertise to sell inferior methods or limit competition on global markets.

That's why those countries' attempts to develop world-class industries have had such limited success; why growth rates in the Southeast have lagged those in the Northeast and their average living standards remain Third World.

The third key to success in Northeast Asia has been the way financial systems have been controlled by governments and forced to channel savings into investment rather than speculation, capital formation and intensive small-scale agriculture rather than consumption, long-term assets such as ports and steel plants rather than short-term returns, or the preferences of wealthy elites such as luxurious real estate.

Sometimes banks were nationalized, but generally throughout the region, Studwell says, there was a "framework of capital controls, government direction of banks, and export discipline to ensure that borrowers were acceptable credit risks."

In the early stages of development, nations did best when they ignored all the advice from the "Washington Consensus" to liberalize markets, deregulate, lift capital controls, remove subsidies and improve the rights of investors.

"Wealthy nations, and the economic institutions that they created like the World Bank and the International Monetary Fund, provided lousy developmental advice that had no basis in historical fact."

Countries that earlier achieved explosive industrialization, such as Britain, the US and Germany, all used protectionism and centralized control to achieve development. None "developed successfully through policies of free trade and deregulation."

Studwell says: "Poor states can only be successful by lying. They have to subscribe publicly to the 'free market' economics touted by the rich, while pursuing the kind of interventionist policies that are actually necessary to become rich in the first place."

However, "the economics of efficiency, applicable to a later stage of development… requires less state intervention, more deregulation, freer markets, and a closer focus on near-term profits."

Making the transition to such policies needs to be made by nations that have made the initial development breakthrough, but is difficult, as is currently clear in the case of China.

* *How Asia Works, by Joe Studwell, published by Grove Press, New York.*

How to Break Out of "Contained Depression"

The well-known American economist Larry Summers recently caused a stir when he told an International Monetary Fund research conference that there will be no easy return to pre-crisis normality in the advanced economies.

He was confirming the view advanced for some time by a minority of luminaries such as Bill Gross, head of the world's largest bond fund, that the low levels of economic growth currently being experienced are a relatively permanent "New Normal" situation – one that could persist for many years, perhaps decades.

The sluggishness isn't a cyclical phenomenon, but rooted in structural weaknesses. Because of the extraordinary measures taken by central banks to combat a slide into deflation, and hopefully to restore economic growth to previous levels, it's been described as a "contained depression."

Summers talked about "secular stagnation." He suggests that even before the crisis, when a huge bubble in housing and credit boosted spending, economic growth in the US was mediocre.

Another eminent economist, the controversial Paul Krugman, points out that the ratio of household debt to income "rose rapidly and inexorably from 1985 to 2007, when the crisis struck." Yet, looking forward, "we obviously can't go back to the days of ever-rising debt.

"The evidence suggests that we have become an economy whose normal state is one of mild depression, whose brief episodes of prosperity occur only thanks to bubbles and unsustainable borrowing."

Another important factor may be persistent foreign trade deficits. Krugman apparently doesn't say so, but those would appear to be a consequence of competitive pressure from rising economies, particularly China, with their relatively cheap labour, modern manufacturing plants and more business-friendly governance, on the high-cost economies.

There is a major and intensifying conflict among governments and their advisers over what to do in those advanced economies about sluggish growth, with its painful consequences such as persistent high levels of unemployment.

On the one hand are the "Austerians," who argue for austerity, and who dominate governments such as those of Germany and the UK and influential power groups such as the Tea Party in the US.

They believe that levels of public debt, which are high yet continuing to rise as governments borrow to finance their spending, must be addressed. They depress business confidence, which discourages the investment in the private sector in expansion so needed to spur economic growth. They allow politicians to continue avoiding the reforms needed to counter the build-up of underfunded welfare benefits. And the extraordinary measures being used to finance the debt, such as "money printing," pose huge dangers for the future such as an explosion in inflation, currency collapse.

The Austerians also believe that economic growth will remain depressed by the high levels of debt in the private sector. They argue that the balance sheets of banks and long-term savings institutions such as pension and insurance funds are choked with "toxic assets," ones whose given values are partially fictitious. Those fake values must be written off to restore confidence, stimulate new investment, and clear the decks for economic recovery.

On the other side of this debate are the Keynesians, such as Summers and Krugman, who argue for policies focused on stimulating demand. Far from trimming government spending, they want to expand it. Krugman argues: "Forget all those scare stories about government debt… Attempts to save more, including attempts to reduce budget deficits, make everyone worse off."

There is a glut of savings in the world that should be used to finance a surge in public investment in infrastructure, both "hard" – roads, ports and so on – and the "soft" variety – education, public services. It's never been so cheap for governments to borrow, so they should do so to invest for the long-term.

Because of their financial difficulties, governments have cut their spending on infrastructure savagely – contrary to long-term needs. *The Economist* recently commented: "From bridges to broadband, many rich countries need an upgrade… More than 40 per cent of London's water pipes are a century old. One in seven German bridges could be in dangerous disrepair."

Economic strategies distorted by political priorities

Both sides of this debate support the need for structural reforms, but Keynesians argue that austerity makes them more difficult to achieve. For instance, if you wish to liberalize the labour market, the initial consequence is likely to be higher unemployment. You need to cushion that through state benefits until the delayed greater efficiency produced by reforms comes through.

There is a political dimension to these opposed economic strategies. Both sides see benefits that they favour politically, as well as ones that would benefit economic growth.

Krugman, for example, a well-known Leftist, says that through the political process the US economy is "largely rigged against those who work for a living; one designed by people who live off a return on capital, and care nothing other than preserving and expanding it.

"Their victims litter the landscape: a disappearing middle class, high unemployment and underemployment, declining living standards for the 90 per cent, a massive increase in poverty, and the worst income inequality since the Gilded Age."

The share of national income earned by the top 1 per cent began climbing in the early 1980s and now stands close to the record set in 1928. (Is that an ominous precedent, being just one year before the catastrophic collapse on Wall Street?)

Others, myself included, are not convinced that either of the two policies as currently being implemented – austerity or stimulus – are the answer to sluggish economic growth in the mature economies.

"Both of these policies are so clearly broken that a third way that addresses these is now the most urgent issue facing policymakers and investors," says Paul Gambles, managing partner of MBMG International (and a reader of *On Target*).

I asked him what "third way" he suggests. He responded that the key is a radical reduction in the global burden of debt – interestingly he stresses "especially private debt," rather than the public debt that receives most media attention.

That requires a "re-set" whose pain would have to be shared equally between "society as a whole, and those most able to pay." That would require:

► Higher progressive taxes, including much heavier taxation of "unproductive higher levels of personal and corporate wealth."

► Removal of all support for the financial system – "weak banks must be allowed to fail, shareholders and bondholders must suffer most of the pain," clearing the way for banks to lend.

► Strict re-regulation, especially in the financial services industry.

► As state-owned and operated essential services are run inefficiently, while "private ones are a social disaster," they should be reformed so they are managed "a better hybrid way… with the private-sector running essential services on a cost-plus basis for governments."

Policies must focus on wealth creation

My main problem with this "third way" is that it is politically unrealistic. Paul accepts that implementing it would be "extremely difficult, because it involves telling everyone that we're removing the façade that makes them think that they're much wealthier than they really are." So it can probably only be done through stealth, "which is a government word for lying."

My own take on all this is, as is usual with me, iconoclastic.

In my reply to Paul I wrote that if global economic growth could be raised on a sustainable basis, it would solve the problem of high debt levels – and of the unfair burden on the "unwealthy" of austerity.

That can only be achieved by policies with a strong focus on wealth creation:

► Lower taxes, not higher ones, on wealth creators, especially small business, the most dynamic source of job creation and higher living standards. The focus of taxation ought to be shifted on to taxation of established wealth and away from wealth being created, whether in business or personal incomes.

► Make a bonfire of regulations. It wouldn't cost governments anything to do it, either. More importantly, it would cut business costs significantly, providing firepower for expansion and job creation.

Instead, politicians cannot resist the temptation to interfere more, rather than less, in business. The US, with the increased influence of the Left in government and the bureaucracies, is one of the worst offenders. According to the latest competitiveness survey by the World Economic Forum, over the past seven years it has slipped down the global rankings from 23rd to 80th.

Singapore leads the world with the lowest regulatory burden on business.

► Abolish protectionist policies that favour the bloated giants such as mega-banks, while delivering no benefits to small and midsized businesses, or even adding to them, at the cost of consumers.

► Shift government spending away from benefits that would, over the long term, often be better provided for individuals by themselves or privately by communities, in favour of fundamental investment such as sensible infrastructure projects.

However, as I concluded in my note to Paul: "The brutal truth is that neither my ideas nor yours are likely to be followed.

"As we have to advise people on the basis of realities, and how they are likely to develop, we have to do so on the basis of continuation of the current bunch of largely-bad policies and trends.

"The current environment of increasingly-panicky money creation and sub-par global economic growth is going to be with us for much longer than almost anyone forecasts."

Invest accordingly.

Seven Things Expats Need to Know

by Peggy and Chad Creveling

Countless books have been written on the hows and whys of making smart investment decisions. If you are an expatriate, you must also consider the role that different currencies and tax jurisdictions make in your portfolio.

These issues are complex. Our goal today is to simply introduce you to some of the concepts behind successful investing by expats…

► **The difference between speculating and investing:** Speculating involves betting on the direction of short-term price movements, while investing is purchasing assets that generate an economic return over time.

Betting on the short-run (also called market timing) is generally a losing proposition. You may occasionally get lucky, but luck is not an investment strategy, and you'll probably lose over the long-run.

This is because short-term returns driven by market greed and fear are inherently unpredictable. On the other hand, long-term investment returns are ultimately driven by cash flows generated by the underlying businesses.

Having a calculated, well-thought-out, long-term investment strategy is much more likely to work for you than trying to time the market.

► **Risk, return, and their relationship:** Return is how much you've made as an investment, and is measured in percentage terms versus the original cost. Think of risk as the possibility that a given investment will lose money. Risk is often defined as deviation from the return that was expected; often measured in terms of annual volatility, or standard deviation from the mean.

Both risk and return can be measured in either the short- or long-term. It is really the long-term that should concern you.

There is a link between the amount of risk taken, and the expected return of an investment. Generally, you have to take on more risk – greater annual volatility in the price of your investments – in order to get a chance (not a guarantee) of a higher long-term return.

A cheap, effective way to invest

► **Diversification:** Spread investment risk among many investments. Holding a couple of concentrated positions in individual stocks, even market favourites like Google or Apple, rarely makes sense. The risk of something going wrong when you own just a couple of stocks is simply higher than can be justified by those stocks' potential return.

A better strategy is to purchase the entire asset class (in this case, US large-cap growth stocks). While some of the companies in an asset class may experience real difficulty, overall, a broadly-defined asset class will not. Instead, the value of the asset class can be expected to appreciate over the long-run, corresponding with the aggregate growth of the underlying companies in that particular asset class.

In today's world, buying an asset class is easy to do – you can purchase an index mutual fund or exchange traded fund (ETF) that tracks the entire asset class. That way you get the overall growth of the asset class combined with diversification benefits, but at a far lower cost than you could do on your own.

► **Asset allocation:** Spreading your savings across a mix of different asset classes is called "asset allocation." Numerous studies have shown that this – as opposed to market timing – is the major driver behind the long-run return of a portfolio.

The greater the proportion of volatile asset classes (equities and alternatives) that you include in your portfolio, the greater your chance of a higher return over the long-run.

But to have a shot at the greater long-run returns, you'll have to put up with volatility. Remember that while diversification will reduce your risk of loss, it doesn't guarantee that your portfolio won't experience a down year.

► **Returns – what to expect:** The following table gives you some realistic expectations of what kind of long-term returns investment portfolios at different levels of risk (in this case, short-term volatility) might generate, as well as what types of short-term or single-year losses you might have to put up with on the way to achieving those returns.

Investment Portfolio Returns

1972-2011, in US dollars

Asset alloc. equity: fixed income	Short-term volatility	Value of $10,000 after 40 yrs	Worst one-year return	Average return Total	Average return Real	Range of expected returns
Fixed dep.	Very low	$82,903	-0.1%	5.4%	1.1%	2.2-8.7%
35: 65%	Low	$235,668	-7.5%	8.2%	3.9%	1.2-15.2%
45: 55%	Moderate	$264,236	-12.6%	8.5%	4.2%	0.2-16.9%
55: 45%	Moderate	$305,003	-17.6%	8.9%	4.6%	-0.9-18.7%
65: 35%	High	$344,236	-22.7%	9.3%	4.9%	-2.2-20.7%

Notes: Sourced from Ibbotson & Associates, MGP. Both equity and fixed income are globally diversified among several sub-asset classes. Returns are pre-tax, exclude fund fees, and assume annual rebalancing. Real return is after deducting inflation averaging 4.34 per cent a year during the period. Expected range of returns corresponds to one standard deviation from the total return, or the range that occurred within two out of every three years.

As this table shows, if you were to look back after 40 years of investing, the path to the end-result would have been volatile. This is shown in the columns “Worst 1-Year Return” and “Range of Annual Returns Expected (2/3 of the Time).”

However, if you look at the value of your investments at the end of the period and compare the average percentage returns achieved, you would find that you’ve done well.

► **Why minimizing fund fees matters:** To get exposure to a certain asset class, you can either choose a passively-managed fund, such as an index mutual fund or an exchange traded fund (ETF); or you can choose a mutual fund with an active fund manager.

In most cases, buying passively-managed funds is preferable. This is because most active managers don’t outperform their passively-managed fund peers in a single year, let alone consistently over the many years you’ll plan to invest.

While there are exceptions, it generally just doesn’t make sense to purchase an actively-managed fund, which may have a front- or back-load fee and running costs of 1.75 to 3 per cent – or higher – each year. This can equate to giving up a substantial portion (more than half) of the real rate of return that you might otherwise have expected to receive over time.

► **The importance of rebalancing:** When the markets get rough, you may be tempted to bail out of your investment portfolio and move to cash or fixed deposit. Conversely, when markets are booming, you may feel enticed to put all your holdings into the hot asset classes. In fact, that’s exactly what market greed and fear will be telling you to do.

Tough as it may be, when your portfolio’s asset allocation percentage holdings have moved substantially away from your targets, or perhaps once a year, you ought to rebalance your portfolio back to its original weightings.

This may require you to sell what has outperformed and purchase what has underperformed, or it may be done by adding new cash savings to assets now underweighted.

Rebalancing may sound easy, but it can be difficult in practice, since it goes against what most market players will be doing. However, over the long run, rebalancing ensures that you buy low and sell high – one of the basic principles to successful investing.

There's a lot more to these topics. Consider reading the following excellent books:

The Investor's Manifesto: Preparing for Prosperity, Armageddon, and Everything in Between, by William J Bernstein.

A Random Walk Down Wall Street: The Time-Tested Strategy for Successful Investing (10th edition), by Burton Malkiel.

Investing in an Uncertain Economy for Dummies, by Sheryl Garrett.

Creveling & Creveling is a private wealth advisory firm specializing in helping expatriates living in Thailand and throughout Southeast Asia build and preserve their wealth. The firm is a Registered Investment Adviser with the US SEC and is licensed and regulated by the Thai SEC. For more information, visit www.crevelingandcreveling.com.

Investment Pointers from a Swiss Iconoclast

The well-known and controversial commentator Marc Faber, who lives as I do in Chiangmai, Thailand, said in an address to the Swiss Lanna Society last month that one problem with explosive money creation by the central banks is that they don't know where all that money to going to flow to. Most of it has been inflating asset values rather than stimulating economic growth.

Central bank policy is asymmetrical – it creates bubbles in certain areas, but isn't trimmed back when those bubbles emerge. After the bubbles burst, even more money creation follows. Total credit in the world is now 30 per cent higher relative to GDP than it was in 2008, at the peak of the previous bubble.

Low interest rates, such as we are now experiencing, produce huge misallocations of resources. Nevertheless, negative interest rates – that is, rates that are less than inflation – will stay with us "for a very long time."

Credit growth in itself is not necessarily a bad thing. It depends what the credit is used for. It can be used to finance consumption, or to finance production. But nations cannot become rich through spending more on consumption. They do so through spending on capital – both physical and human.

Some other interest points he made:

► Oil demand will continue to rise strongly.

► China's rising power is likely to produce increasing international tensions as did the rise of Germany in the period 1870 to 1910.

► Big businesses like regulation because it's easier for them to handle than small and midsized firms, so it eliminates some of their competition.

► I want to have 20 to 25 per cent of my assets in gold. But I buy to hold and don't worry about current value.

► Because of the risk that the US government will again attack gold, as it did in the 1930s, and because of the likelihood that Switzerland would be unable to resist US pressure to hand over gold held in its banks for American owners, it would be wiser to keep your physical gold in places such as Singapore, Hong Kong, Thailand, that would not cave in to such pressure.

Tailpieces

Corruption: 76 per cent of the money earned by Nigeria's state oil company between January 2012 and July 2013 – that is, nearly $50 billion – has gone missing, never reaching the government, according to central bank governor Lamido Sanusi.

Officials of the state-owned oil company claim that most of that is explained by accounting issues such as swops of crude oil for refined products. But presumably Sanusi is unconvinced by that explanation. And independent analysts say that even allowing for such transactions, the disappearance of some $10-15 billion has not been accounted for.

Buybacks: One clear indicator of the high degree of caution among company bosses about investing in future growth is their preference for more conservative equity-boosting strategies such as buybacks of their listed stock. In the US over the 12 months to end-September, they reached $448 billion.

That reduction in supply of shares is also part of the explanation why equity values have been rising four times as fast as growth in corporate earnings.

US unemployment: The official figure for this has been falling primarily, not because of job creation, but because of decline in the available work-force, Gary Shilling reports on *Bloomberg*.

"If the participation rate hadn't dropped from its February 2000 peak because of the retirement of members of the baby-boom generation, discouraged job-seekers, and youths who have stayed in school during the recession, the unemployment rate now would be 13 per cent."

Correction ahead? "The liquidity-fuelled rally experienced by Wall Street since 2009 has introduced a casino-type aspect to the market, and will in all likelihood be challenged when monetary policy normalizes," warns Eoin Treacy of FTMoney.

However, he is "as bullish as ever on the stock-market over the long term" as "the real fundamental value-creation characteristics of the technology, healthcare, materials and energy sectors, coupled with improving governance in the world's major population centres, represents productivity growth potential that should translate into significant additional upside for stock-markets."

Rich picks: The favourite asset classes of ultra-wealthy investors for the next three decades are emerging-market equities, developed-economy equities and agricultural land, according to a survey of the very rich and their advisers by Fleming Family & Partners.

However a very high proportion – 92 per cent – also reckon prime Central London residential property will be a good investment, expecting average prices to quadruple over the period, from £1½ million to £6 million.

They expect the world's three biggest private-wealth management centres to be London, Singapore and Switzerland (in that order).

Intellectual capital: America's foreign trade deficit is nothing like as bad as it seems to be, suggests Singaporean commentator Bernard Tan, as the US economy "captures much of the value of the products that it physically imports."

He gives these examples…

► "An imported Nike shoe represents a trade deficit. However, since Nike is an American company, the bulk of the value-added and intellectual property resides and accrues offshore. The 'shoe deficit' merely represents the manufacturing value-added which any shoe industry insider will acknowledge is actually the smallest part of the value that a Nike shoe represents.

► "Even though an iPhone is assembled in China, all the value-added and intellectual property behind the iPhone lies with Apple Inc in the US. Furthermore, some key components like the Gorilla Glass screen is entirely manufactured in the US."

In other words, Tan argues: "The US can afford its high level of consumption because it owns much of the value behind what it consumes, even if it is not apparent from the trade statistics."

Sterling: Why did the big devaluation in the second half of 2008 – down more than 30 per cent in dollar terms in just six months – fail to boost economic growth as generally expected on the basis of historical experience? Export growth didn't come through.

Stephen King, HSBC's group chief economist, explains: "The price sensitivity of exports has slowly declined over the years: other influences – design, after-sales service, distribution, brand value, advertising – have steadily become more important.

"And goods are nowadays produced by multinationals on a strategic basis. Location decisions are unlikely immediately to change as a consequence of a sudden shift in the exchange rate, particularly now that corporate treasury departments use hedging strategies to insure against unanticipated movements in the currency markets."

Wise words: *It takes 20 years to build a reputation and five minutes to ruin it.* Warren Buffett.

A PERSONAL NOTE: My next issue of 'On Target' may be delayed as I am recuperating from an injury to my elbow which restricts my ability to type.

Martin

Know someone you'd like to receive ►On Target ? Click on Reply and send me his/her email address. Or email your request to me at: afrodyn@gmail.com.

In this issue: Technical analysis □ Banks' high-risk offers □ Fed fears deflation □ Investment ideas □ Germany □ Worthless advice □ Women outperform men