►On Target

Martin Spring's private newsletter on global strategy

June 23, 2012 No.151

Lessons from the Sauna Club

Investor attention now is focused on the "Pigs" – the member-nations on the periphery of the Eurozone whose debt bubbles threaten to explode and fragment the currency union.

In lost jobs, destroyed businesses and higher taxes, the peoples of those temperate lands on the coasts of the Med and the Atlantic are starting to pay the price for decades of self-indulgence, and face years of stiff repayments still to come.

But Europe has another periphery, up north, where a harsher climate seems to have bred resilience and adaptability. Countries stretching from the border of Russia to the Arctic approaches – let's call it the Sauna Club – have already matched up to their crises.

Their recent experiences offer interesting lessons, even role models, for the garlic-and-Guinness belt.

► Sweden is a role model for how governments should manage a financial crisis and reform an over-generous state. Its finance minister is now the most respected in the whole of Europe.

► Estonia is also a role model -- for how a debt-bloated nation can take the pain, suffer the austerity, and kick-start economic recovery.

► Iceland is a fascinating example of how a tiny country that got in a terrible mess, with no outside support on offer, can ride out a crisis without buckling under to bullying from powerful, angry creditors.

► Finland shows how an economy hit hard by global recession can fight back and re-shape itself… as it has done before.

► Denmark is an example of how a small nation can gain the confidence of global investors to such an extent that it can borrow from them at way below the cost to major nations such as the US and Germany.

► Norway is a different kind of model – how to harness an abundance of energy resources to provide long-term for a continuing prosperous future.

These six nations, plus the Danish territory of Greenland, encompass 27 million people living in some of the world's most progressive societies, with a combined economic output of $1.7 trillion a year, average incomes two-fifths higher than Germany's, and considerable natural and human resources.

If they were united in a single economic union – as all except Estonia once were, in the 16th century – they would be one of the world's dozen biggest economies. And perhaps they could be. The Swedish historian Gunnar Wetterberg has been advocating their reunification in a pan-Nordic federation under a single monarch, Denmark's Queen Margrethe.

But for the moment the Sauna Club consists of independent entities that work well together, sharing much linguistically, culturally and socially, and offering some interesting lessons for other nations.

Four of them – Denmark, Finland, Norway and Sweden – have for many years been listed as among the world's best in respect of economic freedom. Despite high tax rates, they are far ahead on other measures such as absence of trade barriers, ease in starting up a new business, and rule of law.

Once the global models for welfare states, they are now models for how to curb entitlement mentality fostered by over-generous welfare, embracing market-based reforms from profitmaking free schools to tough welfare-to-work rules.

The Sauna Club has lessons for the southern periphery, not only for dealing with the immediate problems of excessive debt, but also with the long-term distortions brought about by welfare, jobs, over-generous pensions, subsidies and other benefits provided by the state.

Sweden was an early leader in welfare reforms, slashing housing subsidies, introducing a private option for health insurance and a voucher system to provide parental choice in education.

When it suffered its own banking crisis in the Nineties, which saw interest rates soar at one point to 500 per cent, its government did not flinch from tough action.

It announced a state guarantee for all depositors and investors in banks (except for shares and subordinated debt) to restore confidence; nationalized the two worst, leaving their shareholders penniless, ring-fencing their dodgy assets in "bad banks" that then pursued debtors ruthlessly; and injected government cash into the sounder banks that found it difficult to raise private capital.

Eventually restored to profitability, the nationalized banks were sold back into private ownership. The bail-out ended costing less than 2 per cent of one year's economic output. More importantly, the foundation was laid for economic recovery.

Members of the Sauna Club

	Sweden	Denmark	Finland	Norway	Estonia	Iceland
Economy's size GDP $ bn forecast for 2012	575	344	264	486	23	14
Income per person $ forecast for 2012	60,000	61,000	49,000	97,000	17,000	41,000
Population Millions	9.6	5.6	5.4	5.0	1.3	0.3
Public debt Relative to GDP, 2010	41%	47%	45%	48%	8%	124%
Bond rating Ten-year sovereign bond index (Germany = 100)	94	109	81	67	n/a	24

Before and after the global debt crisis erupted in 2007, Sweden pursued policies oriented towards financial responsibility and promoting economic growth – scrapping some taxes, cutting others, thus creating 100,000 jobs; privatizing state-owned companies; giving employers the flexibility to lay off workers in bad times; trimming welfare costs to keep them in balance with available income; introducing choice and competition in healthcare and education.

Finance minister Anders Borg says the main lessons for dealing successfully with the fiscal crisis produced by recession are: cut quickly (don't delay the pain, as the UK and others are doing), dare to slash the biggest expenses such as social benefits and pensions, ensure that the rich bear more of the burden, reform welfare to make work pay… and brace yourself for a political backlash.

That's why Sweden has emerged so well from the global crisis. By European standards, its economy is a picture of health -- still growing at the same rate as Germany's, unemployment well below the European average, a balanced budget and a big foreign trade surplus.

At a time when there is increasing shareholder anger in other countries over the bloated pay given to corporate executives, it's notable that in Sweden they're paid much less (on average about 20 per cent below their British counterparts, for example), although they've delivered much higher returns, and there is no sign that relatively low pay drives them abroad to seek better jobs elsewhere.

Tackling the crisis head-on

Estonia, across the Baltic, with close linguistic, historical and economic ties with Finland and Sweden, is a nation of just 1.3 million. After it regained its independence in 1991, it opted for free trade, flat taxes, fiscal and monetary restraint and stable exchange rates. Its economy grew fast, and Estonia sought close ties with its neighbours to the west, entering both the European Union and NATO.

The flood of cheap credit produced a property bubble that burst following the global credit crisis. However, it was one of the few countries to tackle the resulting problems head-on. Public spending was slashed, taxes were increased and pay cuts averaged 20 per cent. Rents and other prices were cut, too.

This was an "internal devaluation" designed to curb fiscal deficits and restore the economy's international competitiveness without weakening the currency. It was savage, with fiscal tightening of 7½ per cent of GDP in a single year.

Famous economists like Nobel Prize-winner Paul Krugman said such policies would be a disaster. He was quite wrong.

Unemployment did soar above 15 per cent. But the population supported the government's tough, free-market-oriented policies, which were designed to keep the currency stable and meet the terms set for entry into the Eurozone such as a fiscal deficit of no more than 3 per cent of GDP.

The nasty medicine brought a quick cure. Exports took off, so the foreign trade balance swung from a deficit of 17 per cent of GDP in 2007 to a surplus of 5 per cent in 2009 (it's still in surplus). Share values soared, as did foreign direct investment (especially by Finnish companies seeking to outsource). The country's credit default risk rating plunged.

After suffering the second-worst recession in the European Union in 2009, its economy took off like a rocket. Last year it grew almost 9 per cent, easily the fastest in Europe. With one of the world's lowest public debt ratios, this tiny nation's sovereign bonds are rated almost as highly as US Treasuries.

Iceland has followed policies diametrically the opposite of Estonia's. They have also been a success, although less so, perhaps because its crisis was so much worse.

When the global credit bubble burst, this tiny nation in the North Atlantic (just one third of a million people) was crushed because it was an extreme example of bubbledom. It had turned itself into an international banking centre based on foreign borrowing ten times larger than its economy. There was a financial mania, with even fishermen being given jobs trading currencies.

But instead of trying to save its three banks, Iceland let them go bust. Their shareholders were wiped out. Although domestic savers were protected, foreign depositors and bondholders were sacrificed. Capital controls were imposed. A bail-out loan was sought and received from the International Monetary Fund, but the currency was allowed to crash, losing half its value in dollar terms. The government expanded its social safety net, increasing payments to poorest citizens.

Although put under intense pressure to refund the British and Dutch governments for the compensation paid to their citizens' lost savings in Icelandic banks, Iceland refused to agree to more than partial, delayed compensation. That is an ongoing dispute still far from being resolved.

After disaster, the bounce-back gathers momentum

Unlike Eurozone member-nations, Iceland had freedom to manoeuvre because it controlled its own currency, monetary and fiscal policies. It could set its own rules, change its laws, and make independent decisions.

Now, recovery is under way. Devaluation has promoted exports, including tourism, and shielded the domestic economy. Foreign trade has turned into surplus. Investment is picking up. Unemployment and emigration are declining.

The ultimate accolade is that foreign investors are once again willing to lend money. Last month Iceland sold $1 billion of ten-year bonds for interest of 5.875 per cent – less than the Eurozone's troubled peripheral nations have to pay, where they have access to international capital markets.

Finland has been described as a relatively isolated country that, after emerging from Soviet influence, "embraced globalization, going on to develop a competitive economy and education system that is still the envy of the world." For decades, it led Europe in productivity gains and economic growth.

But it has been hit hard by the global recession. In 2009 its economy contracted nearly 9 per cent in real terms.

Now it is fighting back. Its Nokia telecoms giant, once Europe's biggest company by market capitalization, badly hurt by missing out on the smartphone revolution, is now courageously staking its future on the Windows Phone partnership with Microsoft. Unfazed by the Fukushima disaster, Finland is pressing ahead with construction of several nuclear power stations. The focus of government is on conservative fiscal policies, tax cuts for small business, and promoting new industries (Rovio is already the creator of the Angry Birds smartphone game).

Sound government finances have kept the debt-to-GDP ratio below 50 per cent (Germany's is above 80 per cent). Banks are healthy and consumer demand is buoyant. Its economy forecast to grow both this year and the next, despite anticipated contraction in the European Union as a whole.

Denmark is a typical Scandinavian country with high living standards, high welfare… and very high taxes. It has one of the world's best ratings for economic freedom, particularly its strong protection of property rights through a corruption-free judiciary.

It is said to benefit from "high degrees of business freedom, investment freedom and financial freedom," with a regulatory environment that is "transparent and efficient" and "encourages entrepreneurial activity." It is a strong supporter of free trade. Labour regulation is flexible – firing is easy, which encourages hiring.

Government spending is high, but adequately provided for through an efficient tax collection system, so the budget deficit is small despite the adverse consequences of the global recession. Public debt is low.

Denmark has managed to combine a high degree of integration with its European neighbours while maintaining an important element of independence from them. For example, it remains outside the Eurozone, yet its currency is managed to track the euro.

One consequence is that Denmark is a favourite of international investors. Its sovereign bonds are among the world's highest-rated, with ten-year paper recently traded at a yield of less than 1 per cent, or well below Germany's.

The economy has a strong private sector that includes many small and medium-size companies, but also some large, internationally-respected ones such as Maersk (shipping), Carlsberg (beer), Lego (toys), Vestas (wind turbines), Bang & Olufsen (hi-fi equipment) and Novo Nordisk (pharmaceuticals).

Greenland, a Danish territory with a population of only 56,000, is believed to be one of the world's great potential sources of natural gas and oil, with an estimated 52 billion barrels under its coastal waters. However, none of it has yet been proved and brought into production.

A currency haven for international investors

Norway, like its Nordic cousins, is a welfare state with high living standards, abundant welfare benefits… and very high taxes. But it's the richest member of the Sauna Club, thanks to its wealth of offshore oil and natural gas.

That bounty has been used wisely, with much of the surplus accumulated in the world's second largest sovereign wealth fund – more than $540 billion invested in shares and other assets outside the country.

Norway stayed out of the European Union and of the Eurozone. It controls its own currency and is free to conduct its own fiscal and monetary policies… responsibly.

To control inflationary pressures, with housing prices at all-time highs, the central bank maintains a credit squeeze. Its policy rate of 1.75 per cent is second only to Australia's in the ranks of industrialized nations.

Not surprisingly, in a world of financial crisis, and offering a potent combination of independence, responsible governance, oil wealth and income yield, the country is viewed as a haven by international investors. Its currency, the Norwegian krone or "Nokkie," is seen as an attractive alternative to the euro, against which it has risen strongly over the past three years. There's said to be "overwhelming" global demand for the currency.

So… what lessons can the nations of Europe's troubled South draw from those of its resilient North?

► Tough action to address major problems, even if you enrage foreigners, nationalize banks, penalize the wealthy and annoy the voting masses, is always better than prevarication.

► A welfare state is fine providing you collect enough tax to pay for it. The best way to counter bond investors' fear of high public debt is to have a credible plan to trim long-term welfare costs to bring them into line with available resources.

► When financial crisis strikes, it's better to cut taxes to stimulate enterprise and job creation than to raise them, even though that means public debt growth cannot be contained so quickly.

► Free-market solutions are more effective in responding to the problems created by a debt crisis than ones based on state spending.

If you're interested in investing in The Sauna Club, here are some ideas:

Novo Nordisk, listed in Copenhagen [NOVO B: CPH] is the world's leading producer of treatments for diabetes, including half the high-margin insulin market. Its dividend yield is unexciting, but the payout has been increasing by an average of 32 per cent a year over the past five, and it's twice covered.

Swedish Match, listed in Stockholm [SWMA:STO], is the world's best-known producer of "moist smokeless" tobacco products such as snuff, snus and chewing tobacco, although it also makes machine-made cigars… and of course matches. Most sales are in Sweden, Norway, the US and Brazil. This is a great stock with an excellent growth record, currently offering a yield of almost 2½ per cent, twice covered.

Yara International, listed in Oslo [YAR:OSL], is the world's leading provider of nitrogen fertilizer, with operations in more than 50 countries. It also has a great track record, with annual earnings growth averaging 25 per cent over the past five years. It offers an attractive yield of about 3 per cent, six times covered.

Struggling to Escape Club Med Government

It's a toss-up whether Greece stays in the Eurozone or not. However, one thing for sure is that there will continue to be a succession of crises in the currency union, whatever the outcome of political and financial turbulence in Athens, Madrid, Rome or whatever, with scary headlines dominating the media.

Each crisis will be addressed by compromises, partial solutions and/or money printing -- mainly amounting to creating more debt, to deal with a problem of excessive debt! -- and continued shifting of much of the burden of adjustment from private creditors to public debt, from the profligate states to the fiscally responsible ones, and from the wealthy and powerful to everyone else.

Each time things will seem to have been resolved – or at least the ruling politicians and officials will present it that way. Then, very soon, another crisis will follow.

I predict that the Eurozone will hold together, but bits of it like Greece will probably peel off and go their own way.

Berlin will fight hard to hold the currency union together because its break-up would create enormous problems for Germany -- political, financial, economic. A consequent "New Deutschemark," for example, would emerge as the world's strongest currency by far, crucifying the country's export industries.

At the heart of the dilemma is a political road-block. The problems of the Eurozone cannot be resolved without a fiscal union. But that cannot be brought about to an effective degree without member-nations giving up key elements of their sovereignty. None is willing to do that, nor do majorities of their voters.

It isn't as simple as saying the Greeks don't want to be dictated to by the Germans -- the Germans don't want key aspects of their lives to be reshaped by a central authority effectively controlled by the profligate nations of the Club Med! There is the ominous precedent of how the European Central Bank has behaved since an Italian took over at the top.

Europe faces years of recession, or at best very poor economic growth. Here's why…

► It lacks the centralized government enjoyed by sovereign nations such as the US, Japan, China and the UK, which makes it less difficult for the governments of those countries to act quickly and to impose unpopular, painful, policies.

► Europe's debt load, the fruit of decades of over-spending and property speculation, is so great that it will depress economic activity, and particularly expansion, for many years.

► Its built-in living-standard excesses -- welfare and pensions beyond the long-term capacity of countries to provide for them -- will have to fall. The rest of the world isn't going to subsidize spoilt Europeans with an entitlement mentality!

However, contrary to the general view, I don't believe that the euro will "collapse" in terms of the dollar or other major currencies. Inherent constraints will prevent anything worse than some relative weakness. I am sure we'll never see the euro (now trading at about $1.26), fall back to its previous low of 84 US cents or anything like it, although it may go as low as approaching "parity" (one dollar in value). Other major currencies also have major long-term problems!

Spotlight on Dividend-Focused Investing

The outperformance of stocks paying high dividend yields over the past decade has demolished much of the theory that favoured "growth" stocks paying out little or nothing. But are they still a buy?

John Burbank of the Californian hedge fund Passport Capital argues that:

► Companies returning cash to shareholders through dividends or share buybacks demonstrate their managements' commitment to shareholders, avoiding the danger that their money gets frittered away on value-destroying acquisitions.

► In a world of reduced economic growth, it makes more sense to distribute free cash flow rather than chase growth opportunities.

► In a world of greater uncertainty, it is easier to predict the returns from such companies, as valuing them depends less on assumptions far into the future.

Research supports the wisdom of dividend-focused investing, especially in mature economies where we can expect low interest rates, disinflation or low-to-modest inflation and low economic growth to persist for a prolonged period, says Andreas Utermann of Allianz Global Investors.

Dividend-paying stocks not only outperform over time, they also exhibit lower volatility in the process. "Contrary to popular belief, there is evidence that companies with high payout ratios tend to exhibit strong future earnings growth."

His advice: "Companies with strong franchises, a global customer base and exposure to growth markets should be favoured." Until recently firms in the technology sector paid negligible dividends, but payouts by US techs are forecast to double over the next two years.

"Avoid the heavily regulated (and taxed) former darlings of income investors – utilities and banks."

Yields much higher than on most-favoured sovereign bonds

Commentators such as Marc Faber and Jeremy Siegel argue that dividend-paying stocks are likely to be better investments than sovereign bonds such as US Treasuries because their yields are so much higher.

Stocks could fall says Faber, a well-known bear, "but if you have a time horizon of ten years, I believe you're going to make more money," in a share like Johnson & Johnson, currently yielding almost 4 per cent, "than you will in US government bonds," now paying less than 1½ per cent.

Siegel, a perennial bull, says that in the US, where there's "slow growth, no recession, earnings flat, but dividends well-covered, I think it's still a very, very good story for stocks."

Bbond yields have been artificially depressed by an avalanche of quantitative easing in major nations. Dylan Grice of Société Générale says that since 2008 the central banks of the US and the UK have printed enough money to buy up to 60 per cent of the issuance of their governments' public debt.

Tim Price, investment director at PFP Wealth Management, is wary of the argument that stocks are cheap compared to bonds, because that assumes that markets are rational and that investors can switch effortlessly between the two.

Institutional managers are restricted by rigid mandates; government bond fund managers are "even less likely to switch into the equity markets in search of sensible risk-adjusted returns… The relative valuation argument is almost entirely of academic interest only."

Although the US stock market is cheaper than it was at the height of the dotcom boom, it is not really cheap, trading on a cyclically-adjusted price/earnings ratio of about 21 times, compared to historic averages around 16. "We are currently still in the first – most expensive – quintile of historic market valuations."

The prudent course is to concentrate on the most defensive stocks.

To identify the safest, a measure he particularly favours is the Altman Z-score, which indicates the probability that a business will go bankrupt within the next two years, calculated using a weighted mixture of a company's working capital, retained earnings, market value, liabilities and tangible assets.

"A bulletproof business with strong earnings and little or no debt will score highly," he says, giving as examples such UK stalwarts as Reckitt Benckiser, Renishaw and Domino's Pizza.

Some businesses have lower scores, but nevertheless are of good quality with modest price/earnings ratios and high dividend yields, such as AstraZeneca and Royal Dutch Shell.

A less scientific but equally valid approach would simply be to favour those sectors of the market that have a reputation for solid earnings and generally defensive attributes such as tobacco, utilities, healthcare and consumer staples.

Or companies that operate on such a global scale that they are virtually without nationality, with robust business models, low PE ratios, high dividend yields and quasi-monopoly status in their sectors – dubbed Autonomies by David Fuller. Among the many that are US-based are Microsoft, Johnson & Johnson and McDonald's.

"For the nervous investor," Tim Price writes, "a portfolio of high-quality defensive stocks represents a practical way of being in the market without being entirely at the mercy of the market."

Money Bubble: Good for Germany

Quantitative easing in Europe, whether done openly or stealthily, would be broadly positive for risk assets, as it would remove the discount in global financial markets caused by "European Hoovernomics" – the mistaken combination of spending cuts, tax increases and restrictive monetary policy applied in the US in the early 1930s – says Michael Jones of the RiverFront Investment Group.

By applying a monetary policy suited to the Eurozone's weakest members, the European Central Bank "would create a windfall for Germany… [It's] export machine would kick into a higher gear, thanks to renewed deficit spending power in its European trading partners and the competitive advantages, relative to the rest of the world, of a lower euro."

Added sales and earnings momentum should allow rising German share prices to offset the negative impact of a lower euro on valuations of holdings by investors outside the Eurozone.

Other European stock markets should also benefit from a more aggressive central bank, but earnings growth and price appreciation may be limited from retreat in France and potentially other countries from productivity-enhancing economic reforms and significantly higher marginal tax rates.

Money printing in Europe could hit sovereign bonds that have been used to hedge deflation risks (those of the US, UK and Germany), but provide support for gold and other precious metals.

It should mean that this summer's pullback should be far milder than those experienced in each of the past two years, with strong support for the US benchmark index, the S&P 500, between 1260 and 1292, finishing 2012 around the 1450 level reached at the end of last year.

These Are the Bad Guys

Economic growth in Western economies will continue to be crippled by the resistance of "extractive elites," argues *The Economist,* which are:

► The banking sector, with its enormous lobbying power. "Much of current economic policy seems to be driven by the need to prop up banks, whether it is record-low interest rates… or the recent provision of virtually unlimited liquidity."

► The public sector, where jobs and generous benefits are funded by taxes on the rest. Employees in the UK's public sector, for example, continue to do much better than those doing similar work with the same skill levels in the private sector. Public-sector workers get 8 per cent higher pay, plus much greater job security and pensions.

Another point made by *The Economist* is that "a high level of public-sector employment reduces the extent to which creative destruction occurs and new industries develop. Workers may prefer the security of government jobs to the riskiness of joining new businesses."

And, "as European governments are discovering, public-sector unions are often the most vocal in opposing the kind of labour-market reforms needed to reduce structural unemployment."

Krugman: He's Only Half Right

Paul Krugman, the Leftist Princeton economics professor and high-profile commentator, is an aggressive promoter of even greater public spending as a cure for sluggishness (or worse) in the developed economies.

He is only half-right. The problem with that idea is that so much of such spending designed to boost sluggish demand is wasted on the favoured causes of the liberal/Left elites such as greenery, instead of being focused on maximum job creation. The pro-Obama *Washington Post* reported that the "green" loan programme created by the Obama administration created just 3,500 jobs in its first two years – at a cost of nearly $39 billion.

Tax cuts focused on wealth creation, especially in small and midsized businesses, would be far better than greater public spending, as they would promote sound long-term economic growth.

Commentator Samuel Brittan counters the objection that tax cuts would be an inefficient way to stimulate demand because so much of the benefit would be saved rather than spent. Tax cuts would be spent, he says, if they were aimed at lower-income families, or if they were VAT cuts announced as temporary.

Actually I have no problem if part of the benefit of tax cuts were to be saved and recycled into debt reduction. Policymakers would then have greater freedom to cut even more the taxes that inhibit wealth creation.

Why the Gold Miners Underperform

For years gold mining stocks have underperformed relative to the price of the metal itself – whose gain, of course, has become easy for investors to capture through exchange-traded funds.

From September 2000 to May 2012 gold rose in value by 471 per cent, but total return of the miners, as measured by the S&P/TSX Global Gold index, was only 233 per cent.

One reason is what the companies did with their much-enhanced cash flows. The four biggest listed groups spent almost all of their operating cash flow of $47½ billion since 2002 on capex ($43 billion), plus $19 billion on acquisitions, paying out only $6 billion in dividends. The funding gap was met through share issues.

Ore grades have declined as much as 50 per cent over the past 20 years. That's partly a deliberate policy to extend mine life, but it does mean parsimonious immediate rewards for shareholders.

Tailpieces

Paperwork: After years of incompetent handling of immigration, the Brits have gone overboard in making life difficult for the millions of foreigners who wish to visit the UK each year for business, holiday or friendship.

The visa application form for such visits runs to nine pages, three times as long as the form for entry into Europe's Schengen group of 26 countries, and takes up to three weeks to process. In many countries waiting times at British consulates can run into days.

On arrival at London's Heathrow airport, it's been reported that foreigners have to wait for up to three hours in a queue, without access to drinking water or a toilet, because the government has enforced protracted vetting procedures supposedly designed to keep out terrorists (most of whom in the UK have proved to be UK citizens), while cutting the number of officials to man the entry desks.

Three-year returns: An interesting graphic in a recent issue of the *FT* shows how asset values have changed in dollar terms since the American central bank began its quantitative easing three years ago.

Gold has risen 78 per cent, irrigated farmland in the US by 44 per cent and index-linked Treasury bonds by 34 per cent. However, ten-year conventional Treasuries have risen by less than 9 per cent. The trade-weighted index of the dollar in terms of foreign currencies fell 3 per cent.

Potential in disaster: One important reason why yields on German government bonds have fallen – in some cases, even gone negative -- and their values soared, is that they are actually a cheap call option on a break-up of the Eurozone, says commentator John Mauldin.

"A German bond that became a New Deutschemark-denominated bond would rise in value at least 40 to 50 per cent almost overnight."

Defending the privileged: The reason the radical Left did so badly in the French elections was that "their appeal was not adapted to the concerns of the working-class electorate, it was more aimed at people in the public sector – the protected classes," argues political scientist Laurent Bouvet.

Best values: 12 of the world's 20 most listed attractive companies are in China, according to research by theme-focused fund managers P&C GTI. To pick them, they screened the world's 500 largest businesses using ten "intuitively relevant" measures – growth and reliability of sales, earnings and dividends; yield, price/earnings and price/earnings/growth ratios.

Past sins: At last someone has raised the matter of the disgraceful failure of all governments to penalize those who made fortunes out of the credit bubble – selling investment products they knew to be crap, and even betting against their own customers – but escaped with their loot before the nuclear explosion in financial markets, so they can now live in luxury in retirement.

Congressman Ron Paul has urged the US Congress to pass a law that would be a partial seizure of ill-gotten gains. It would take the form of a retrospective tax on any benefits paid to execs of a failed bank in excess of ten times the average wage in manufacturing for the seven years before the collapse of the bank.

Money out East: The currencies of emerging Asian economies are attracting the interest of central banks as an alternative to those of developed nations such as the dollar, euro and yen, which are no longer regarded as safe as they were, according to a study by the Royal Bank of Scotland.

Market action suggests the most attractive is the South Korean won, where spot turnover is now close to $40 billion a year.

Tough bosses: US multinationals generally get better returns from investment in infotech due to their "tougher people management" techniques – hiring, promotions, rewards and firing bad performers – according to a new study by business school academics.

Energy forecast: Oil prices are likely to nearly double in real (inflation-adjusted) terms over the next eight years, according to a new forecasting model at the International Monetary Fund.

UK dottiness diary: A judge has banned volunteers from running local libraries in Surrey because they don't have "equality training" – taught how to service "vulnerable users" such as children, the elderly and the disabled.

An elderly woman in Essex was ordered to switch to another National Health Service doctor practising closer to her home because she made too large a "carbon footprint" with her three-kilometre round trip to the surgery that had been treating her for 30 years.

CHIANGMAI (THAILAND) RESIDENTS: I am a founder-member of an informal investment discussion group that now meets every month in Chiangmai (where I live). If you would like to join us, please contact the organizer, Don Freeman, at <freemancapital@gmail.com>.

Martin

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