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Investing in Bonds: Is It Crazy?

Most advisers say it's crazy to invest in bonds. But then they would, wouldn't they? Nearly all of them, and their clients, missed out on what has been one of the greatest bull markets in history for this asset class.

According to BCA Research, since September 1981 the total return for holders of 30-year US Treasury bonds has averaged 8.8 per cent a year in real terms. That's just one example.

Bonds have also made equity investment seem foolish. Over the past decade the total return on ten-year Treasuries, for example, has averaged more than 16 per cent a year; American stocks, less than 6 per cent a year.

However, is this perhaps the time when the massed ranks of bond-market bears are right, for a change?

Here's what they are arguing:

► Interest yields that popular bonds offer are so low – often negative in real terms, after allowing for inflation – that they offer no reward for the risk of investing in them. When inflation takes off – as it must, eventually, given the scale of money printing -- their capital values will be savaged.

► Capital gains delivered by bonds are the reciprocal of their falling interest yields. But those yields are now so low that there is little or no potential for future capital value increases.

► Dividend and earnings yields on the shares of most sound listed companies are so much higher that they offer a far more attractive opportunity than bonds – higher income, lower risk, and a good measure of protection against future inflation.

There is some validity in these arguments. But they are largely based on assumptions that the global financial system is recovering from its crisis and that the world economy has been emerging from a normal recession.

The reality is very different:

► The burden of debt that endangers the financial system is not being addressed – instead policymakers believe they can reduce debt by creating more of it! The finances of governments and banks are on a life support system of money printing and related easy credit – which is like expecting cancer patients to be cured by morphine.

► This dangerous bubble, with central banks driving down official interest rates to 300-year lows, is not solving the problem of economic growth. It is, as one commentator puts it: "A tool that forcibly impoverishes savers in order to perpetuate a broken banking system."

Some items on the menu

	Recent price	Current yield %	Curr-ency	Years to red.
German Bund 2.5% 07/44	108.21	2.14	EUR	32
UK Gilt 4.5%12/42	131.70	2.92	GBP	30
US Treasury 3% 05/42	108.38	2.59	USD	30
GE Capital 6.88% 01/39	133.60	4.65	USD	28
Indonesia 6.63% 02/37	125.50	4.84	USD	25
Goldman Sachs 6.13% 02/33	104.02	5.79	USD	21
Norway 2% 05/23	102.15	1.78	NRK	11
Australia 5.75% 07/22	125.21	2.84	AUD	10
Canada 2.75% 06/22	109.98	1.65	CAD	10
Sweden 3.5% 06/22	120.50	1.28	SEK	10
Mexico 8.3% 02/20	115.50	3.15	EUR	8
GE Capital 5.38% 01/18	116.07	2.23	EUR	6
Nomura Secs. S3 2.28% 03/18	100.48	2.19	JPY	6

The banks that caused the crisis are protected, subsidized, allowed – even incentivized – to continue with their gambling activities, leveraged off massive state support. So the dangerous phenomena that are "too big to fail" grow even bigger.

► The problems of sluggish demand and financial stresses that discourage corporate risk-taking and employment creation aren't being tackled effectively. Instead, governments favour massive waste of public money on saving zombies and sustaining unaffordable benefits – while imposing the even higher taxes and tougher regulations that discourage enterprise.

Investors are not holding bonds or even buying more because they expect to earn much interest. They aren't that crazy. They are seeking to protect their capital. Bonds are viewed as lower-risk vehicles for that than the alternatives.

A bond whose maturity value and regular income payments is guaranteed by the US Treasury seems to be a good way to do that if you don't trust highly volatile gold (which pays no interest); or the shares of supposedly reputable mega-companies (Barclays bank and the GSK pharmaceutical giant have just been fined $3½ billion for dishonest business practices).

A bond backed by Germans' famous thriftiness looks like the lowest-risk way if you want or need to have liquid assets denominated in euros. As *The Economist* put it: "To a Greek worried that his savings will lose 40 per cent of their value if they end up in drachmas, a near-zero yield on German government bonds still looks like a good deal."

British government securities freely tradeable on the world's biggest international capital market (London) seem politically safer than securities subject to control by the American authorities, if you're a Mideast oil mogul or a Chinese billionaire.

There are thousands of bonds traded on capital markets offering investment opportunities for conservative investors, especially income-seekers.

Their prices – reflected in the current annual yield – fluctuate according to changes in interest rates generally, the credit rating or risk of default, and proximity to redemption date.

If you buy, say, a 30-year bond, that doesn't mean you'll be locked in until the redemption date, when the issuer is committed to repay the amount of capital originally borrowed. You can sell the security any time on the open market, for more or less than that maturity value.

Some investors are misled by current yields – the interest paid each year divided by the current price at which the bonds may be bought – that are rather higher than the average yield will be if the bonds are held to redemption date. That's because the current prices are higher than redemption amounts.

As a bond moves closer to redemption date, its price will move towards the redemption value. If its price is currently higher, as is usually the case in the current environment, it will decline. The average total annual return, encompassing both interest payments (positive) with decline in capital value (negative), will be lower than the current yield.

For example, the 6.5 per cent Bund maturing in 2027 is currently priced at about 163 with an annual interest payment equivalent to about 4 per cent. But if you take into account the future decline in capital value from 163 to 100 at redemption date, the total return will average less than half that.

Very low yields mean bonds seem highly-priced. But low rates don't tell you anything reliable about the risk to your capital in a bond. Yields on ten-year JGBs (Japanese government bonds) fell below 2 per cent in the late Nineties and have ranged sideways ever since. Foreign speculators who gambled that yields would rebound, and capital values plunge, have been repeatedly burned.

Low yields don't even deny the potential for some future capital gains. They could go lower… much lower. In Germany, and in Britain, some investors have even been prepared to buy short-term bonds offering a small negative yield, being willing to pay a price for security of capital.

Yields on the most popular sovereign bonds – Treasuries, Bunds, Gilts and JGBs – will continue to stay very low for a long time, because governments and central banks will stick with low official interest rates and money printing.

Doses of "morphine" numb the pain, but don't cure

The problems of the banking system won't be solved without radical reform, which is fiercely opposed by vested interests and their supportive political elites. Repeated doses of "morphine" – easy credit – will be required to prevent financial explosions.

The problem of sluggish economic growth won't be solved either, given policies that favour stasis rather than stimulus (or the most inefficient and therefore ineffective types of stimulus), and political resistance to radical restructuring. Again, the answer will be… more "morphine."

The strongest sovereign bonds will remain one essential component of a low-risk portfolio for a long time to come. They will only become risky when central banks start raising interest rates in response to rising inflation. That will happen eventually, but now it's not even on the radar screen.

Corporate bonds won't necessarily perform as well. Companies' creditworthiness is sensitive to the strength of their profits, and their balance sheets are leveraged. So when economies perform poorly, risk aversion rises, motivating investors to move out of higher-risk corporates into lowest-risk sovereigns. Values of the two classes can move in opposite directions at times of elevated stress.

There can be other factors that raise yields/depress values of corporates. In Europe, for example, stressed banks are focused on reducing the overall riskiness of their assets, so they become less ready to hold corporate bonds.

Barclays Capital argues that yields on the strongest sovereign bonds are likely to remain extremely low for a very long time because of the serious shortage of "risk-free" assets relative to demand.

The pool of high-quality bonds has contracted because so much of what used to be rated as safe is now regarded as high-risk – US mortgage agency debt, structured credit, sovereign bonds of the Club Med nations.

Demand for the highest-quality stuff is strong, keeping down their interest rates, because:

► Investors are frightened of defaults, given dangerous stresses in the global financial system and the prospect of sluggish economic growth;

► Both prudence and increasingly tougher regulatory requirements mean that long-term savings institutions are shifting the balance in their funds away from equities, into the safest bonds;

► Central banks are buying bonds with their "printed" money to depress yields – a process dubbed "financial repression," as it robs savers of fair returns.

One way that retirees have sought to counter the devastating squeeze on their incomes is to invest in the higher-yielding bonds of companies, public authorities and emerging economies.

However, higher yields always mean higher risk.

A minefield for individual investors

When economies slow down, and a financial crisis impels banks to lend to their governments rather than to businesses, many more companies go bankrupt and default on their bonds. Typically in such a crisis, owners of defaulted bonds lose 80 per cent of their capital.

Public authorities cannot always depend on taxpayers and central governments to bail them out, as states and cities in the US are now discovering.

Whereas a handful of nations can "print" their way out of trouble to avoid default, while others manage their finances sensibly enough never to face difficulty about meeting their debts, many more countries offer bonds whose yields are probably not high enough to reflect adequately the risk in them.

But not necessarily so. Few investors have the courage and perspicacity of an acquaintance here in Chiangmai who bought Kazakhstan government bonds yielding 16 per cent in dollars at the height of the 2008 crisis, and has been coining it ever since, as there never was the default that the market feared.

Corporate, agency and minor sovereign debt is a minefield for individual investors to navigate, usually best left to professionals. There is great complexity ("there may be dozens of alternatives from the same issuer, each with its own [yield] curve," the *FT* warned); an overwhelming abundance of issues; buying and selling outside your own country can be troublesome; and for Americans, especially, annual tax-reporting is a pain.

One trap to watch out for is call dates. You may think you have locked in an attractive rate of return, then find you've lost out because the issuer has redeemed the bond ahead of maturity date at a price that leaves you with much less gain than you expected. Companies are currently keen to refinance at lower interest rates for many purposes, including share buybacks and balance-sheet strengthening.

If you want to invest in corporate bonds, you would probably do better buying into funds rather than directly into the bonds.

A useful website, seekingalpha.com, recently listed its "top ten" corporate bond exchange-traded funds in the US, but their average dividend yield was only 2.6 per cent.

If income is important to you, equities would seem to make more sense.

I have put together a portfolio (see box) of ten international shares that offers an overall dividend yield of about 4 per cent, well covered by the companies' earnings, and therefore relatively low risk.

An average earnings yield of 12 per cent a year, even making the conservative assumption that such high-yielding companies won't be able to grow their profits in future in a bad economic environment, looks very attractive compared to bonds currently paying 2 to 4 per cent, with no underlying growth (although they could deliver gains through even more yield compression).

If protection of your capital – with perhaps some upside potential – is more important to you than current income, then the structure of your investment portfolio has to be shaped by your outlook.

If you are worried about a gloomy future, it makes sense to invest in the safest long-term sovereign bonds, gold, and the lowest-risk companies such as Dividend Aristocrats and Autonomies.

If you are more confident, corporates and similar higher-risk bonds, and the shares of the higher-risk growth/recovery firms, make more sense.

A suggested equity income alternative --------------

Share	Ticker	DY%	xCvr	Curr.	Sector
BHP Billiton	BHP:ASX	3.38	4.1	AUD	Natural resources
Compass Group	CPG:LSE	3.06	1.9	GBP	Foodstuffs
Du Pont	DD:NYQ	3.61	2.2	USD	Chemicals
Eli Lilly	LLY:NYQ	4.53	2.0	USD	Healthcare
ICBC	1398:HKG	5.53	3.1	RMB	Banking
IMI	IMI:LSE	3.78	2.1	GBP	Engineering services
Intel	INTC:NSQ	3.33	2.8	USD	Technology
Keppel	BN4:SES	3.97	3.0	SGD	Transport, real estate
Link REIT	823:HKG	4.00	3.3	HKD	Real estate
Royal Dutch Shell	RDSA:LSE	4.63	4.0	EUR	Energy
Averages		3.98	2.8		

Britain: the Truth about Immigration

This fascinating insight into history and a major current political topic in the UK comes from my long-time friend Robin Mitchinson, with some light editing by me…*

Whether politicians like it or not, immigration is now well up the political agenda in the UK. There sure is a lot of nonsense spoken about it.

Britain is a creature of immigration.

We have had a constant succession of intruders, mostly with malice aforethought: the Romans who civilised us; the Angles, Saxons, Danes, Jutes, Norsemen over a thousand years.

And then the Normans, who tried a bit of ethnic cleansing and scorched earth, destroyed the superior civilisation of the English, and tried but failed to turn us into French. We turned them into English instead. The French have been trying a repeat process for centuries, and still are.

We had the first influx of Jews, and then expelled them.

Due to the perfidiousness of the French in abrogating the Treaty of Nantes and their relentless persecution of Protestants, we began to receive a huge influx of Huguenots after Charles II granted them "denizenship".

They were as welcome as the flowers in spring. They represented all that was best in craftsmanship and enterprise. The English churches raised money to relieve their poverty. House-to-house collections raised £40,000, millions in today's money.

They were an incalculable asset to England. They brought a whole raft of new skills and technologies.

They brought new wool-dying techniques to Barnstaple that would make it famous. They became tapestry weavers, spinners, woodcarvers, and calico workers. They created whole new industries – leatherwork, fans, girdles, needles, soap, vinegar, and revolutionized the silk industry.

They transformed the manufacture of paper. From a zero start, they created 200 paper mills; they produced all the banknote paper for the new Bank of England, and they started the first newspaper press. Several became the first directors of the Bank of England.

Their contribution to the British economy was enormous -- although this early example of offshoring was disastrous for the French.

It is estimated that 7 per cent of us have Huguenot blood.

The welcoming of immigrants continued unabated during the 18th and 19th centuries.

We acquired people of genius, like Brunel (the father of Isambard Kingdom, the engineer). He was the first to devise mass production and the production line for the manufacture of pulley blocks at the naval workshops in Portsmouth, the largest factory in the world in Nelson's time.

We became home to Herschel, the mathematician and astronomer of genius (his sister became the first woman to become a Fellow of the Royal Society in the early 19th Century).

And many others.

After Oliver Cromwell gave qualified permission for the Jews to return, we had many influxes, first Sephardi and then Ashkenazi, as a result of pogroms all over Europe. There was another wave in the late 19th century.

It is ironic to read in the contemporary press the kind of shrill comments that we hear now about the dirty, diseased, ignorant, non-English speaking foreigners coming here to inflict Lord knows what on the indigenous.

What is remarkable is that within a very short space of time those Jewish immigrants had integrated so unobtrusively that their presence went generally unremarked upon.

And they certainly produced some big hitters – Ricardo, the Sassoons, the Rothschilds, and so on. They also helped finance the upper classes through their daughters marrying into aristocratic families.

The last big arrival of Jews was the Nazi ethnic cleansing, which over the years has produced to this day a disproportionately high number of top politicians.

At the end of WW2, we took in displaced persons for all over Europe, large numbers of Italians, and then – and this is where the plot changes – Caribbeans.

The latter were welcomed, especially into the National Health Service and transport services, where there was a serious manpower shortage. But this was the point at which race and culture became serious issues.

I now put my head into the lion's den by reflecting on which groups of immigrants make a positive contribution to contemporary Britain.

Asians float to the top in performance

A good place to start perhaps is educational achievement.

From memory, the league table goes something like this.

1. Chinese and Southeast Asians. It is reported that in schools having a large minority of Chinese kids, they raise the standards of the whole school on the basis that "a rising tide floats all boats".

2. Indians. Both these and the above-mentioned groups seem to have an astonishing capacity for mathematics.

3. White English and Caribbeans -- equal. I am not quite sure what to make of this. Are the Caribbeans getting better, or the English getting worse?

4. Pakistanis and Bangladeshis. The only common feature between them is religion. Is Islam a fetter on learning? But if so, how come it doesn't apply to Ismaili Muslims?

My purely empirical impression, not backed up by evidence, is that those in the first group are hard-working, mostly law-abiding, and keep themselves to themselves.

Indians are ambitious, middle class, and integrate (and inter-marry) more or less effortlessly into the native population. Their contribution to the UK economy is massive. (And to our first-class cricket teams!)

And then there's the Europeans. Under current European Union rules we can't do anything about migration from the EU, but how valid are the complaints about Polish plumbers and the rest?

So where did it all go tits-up?

Originally, throughout our history, immigration has been driven by the economic imperative. Then, somewhere in the late 20th Century, it was hijacked by the race relations industry, the Guardianistas, the bleeding hearts, and in later years by New Labour, determined to open the floodgates and create a client electorate.

We now have a "benefits" imperative that encourages people to come here -- because a month of state benefits will be more than average annual earnings where they come from.

It would seem that a solution to this problem is to ensure a regime in which no benefits are paid until immigrants have contributed to the national pot for a period of years.

And immigration policy should embrace total exclusion of people who come from countries that have no cultural, historic, linguistic or other ties to the UK, and who have little to contribute to the national economy. I mean Somalis, Yemenis, Ethiopians, and others of that ilk. Why are they here?

But with the little LibDem tail wagging the big Tory dog in Britain's ruling coalition, don't hold your breath that anything will change soon.

**www.whydonttheylistentous.blogspot.com.*

What Needs to be Done

The global economy is in the clutches of paralyzed giants.

At the epicentre of the crisis, the mega-banks grow ever-larger, draining public resources to protect themselves and focused on profitable speculation, squeezing private-sector debtors, and recycling cheap borrowed money into financing governments' expanding debt bubbles.

The last thing that interests them is kick-starting economic growth through high-risk lending to businesses with potential to grow and create jobs – which is what the self-interested chorus of politicians and the banking cabal loudly promote as the reason why enormous amounts of public money need to be spent on saving/sustaining the mega-banks rather than reforming them.

Governments are too much in the grasp of powerful elites to move beyond offering lip-service, although there is no mystery about what needs to be done to smash the paralysis and free up a global recovery:

► The mega-banks need to be split into many, much smaller units, so they can no longer pose a systemic threat, losing all state protection for casino-like activities.

► The ridiculous recycling operation of central banks lending nearly-free money to commercial banks, which they use to buy government securities paying a good rate of interest, instead of direct lending to state treasuries, should be ended immediately.

► All banks should be forced to raise lots more capital – enough to be able to defend themselves in financial crisis without recourse to the state.

► The bill for the credit bubble, still not paid, must be presented to those who have largely avoided it so far – the owners of and investors in the mega-banks. Writing off the enormous burden of dodgy assets would clear the decks for rebuilding banking on a sound basis.

In Spain, for example, economics professor Juan Ramón Rallo says it is madness to add some €100 billion to the national debt to save the banks – which in any case won't be enough to deal with the damage done to them by the collapse of the property bubble, raising the prospect of an eventual "disorderly and devastating national bankruptcy."

A much better idea would be "a forced debt-for-equity swap for the subordinated and senior unsecured liabilities" of the banks, which could produce about €175 billion in new bank equity, without increasing the debt burden of the Spanish taxpayer or requiring loans from Brussels.

"In other words," the solution to the problems facing the Spanish banking system is "not a bail-out, but a bail-in, whereby investors bear the vast majority of the cost of their own mistakes."

Reportedly, Eurozone negotiators are considering this option as part of the conditions for recapitalization of Spanish banks – although the pain would only be suffered by the holders of junior (lower-rated) subordinated bank debt, largely owned by "retail" (small individual) investors. Once again the politically-powerful big institutional investors would escape the pain.

The world economy seems set to remain in the grip of the paralyzed giants.

Starting a Business in Italy

Across much of Europe, employers are so penalized for creating jobs by restrictive, bureaucratic and expensive laws fiercely defended by the vested interests of organized labour that it's no wonder unemployment is so serious and intractable.

The Wall Street Journal recently gave this description of what faces you in Italy if you're an entrepreneur who would like to hire more workers for your expanding small business…

"You will have to pay at least two-thirds of your employees' social security costs.

"Once you hire [your 11th] employee, you must submit an annual self-assessment to the national authorities outlining every possible health and safety hazard… These include work-related stress, and stress caused by age, gender and racial differences…

"Once you hire your 16th employee… that will trigger provisions making it either impossible or very expensive to dismiss a staffer. National unions can set up shop, and workers may elect their own separate representatives.

"As your company grows, so does the number of required employee representatives, each of whom is entitled to eight hours of paid leave monthly to fulfil union or works council duties. Management must consult these worker reps on everything from gender equality to the introduction of new technology.

"Hire No. 16 also means that your next recruit must qualify as disabled. By the time your firm hires its 51st worker, 7 per cent of the payroll must be handicapped in some way.

"Once you hire your 101st employee, you must submit a report every two years on the gender dynamics within the company. This must include a tabulation of the men and women employed in each production unit, their functions and level within the company, details of their compensation and benefits, and dates and reasons for recruitments, promotions and transfers, as well as the estimated revenue impact."

All these costs reduce the average Italian wage by about 48 per cent, according to the OECD.

"Italian workers are unaware of their gross cost to employers. But you, as the employer, are aware of them, which may explain the temptation to stay small and keep as much of your business as possible off the books."

The Profits of Oppression

A greater threat to open markets than bureaucrats, union bosses or socialists are business owners who exploit regulations to prey on entrepreneurs, argues well-known commentator Luke Johnson of the UK private equity firm Risk Capital Partners.

He writes: "Politicians, civil servants and their co-conspirators – lawyers – justify their existence by endlessly passing new legislation that restricts free trade.

"They are aided in this task by parasites who subcontract to government, exploiting monopolies, grabbing licences and restricting new rivals.

"There is always some spurious rationale for fresh edicts – harmonization, protecting consumers, preventing abuses, and so forth. The effect of such interventions is often stifled competition and unintended consequences that damage the public.

"There are more than 650 regulatory bodies in Britain, each making the entrepreneur's life just a little harder.

"Regulations tend to help big companies. They act as barriers to small newcomers. Be it broadcasting, pharmaceuticals, banking or insurance, my experience has been that the rules favour incumbents.

"Established businesses have permissions and licences that newcomers struggle to obtain, they have connections to regulators, and they also capture the very watchdogs that are meant to oversee them.

"This big-business establishment resists innovations because they might undermine their oligopoly, margins or special privileges."

Tailpieces

Legal leadership: The expensive courtroom battle in London between the two Russian oligarchs Oleg Deripaska and Michael Cherney has highlighted how important Britain has become as a global leader in legal services.

Increasingly, agreements between parties in other countries are based on English law, with any conflicts to be resolved in UK courts because of their judges' renowned incorruptibility and competence in commercial matters.

It's estimated that almost two-thirds of the case load of the commercial division of the High Court now comes from Russia and elsewhere in Eastern Europe.

The law has become an important export business. Commentator Philip Stephens says London is a place "where the buccaneers of globalization are assured of a level playing field… The city is awash with the riches of unpleasant regimes and dubious foreign enterprises."

Stimuli lose impact: The IMF's long-term forecast for the world economy of growth averaging 4 per cent a year looks too high, says commentator Gail Tverberg, because these favourable factors are diminishing in importance:

► Globalization seems to be approaching a maximum, one reason being the rising cost of transport fuels.

► Education standards have reached high levels, leaving less room for improvement.

► Debt has already reached high levels, so there is less capacity to increase borrowing to pump up economic growth.

► Quantitative easing and extraordinarily low interest rates are temporary fixes that cannot be continued long-term.

Safety first: 98 per cent of corporate treasurers in the US say their top priority now when deciding where to invest their cash balances is to safeguard their capital – not where they can enjoy a higher yield.

The *FT*'s highly-respected Gillian Tett comments: "The cumulative impact of the shocks of the last five years may… have scarred and scared company executives to such a degree that they may have become addicted to their cash security blankets.

"If so, it could take years before they really start feeling confident enough to take long-term investment bets again."

The consequence is sluggish economic growth. That's the price we're paying for the debt bubble fostered by the guilty troika – bankers, politicians and bureaucrats.

Wanting even more: In Europe the privileged elite of labour are stepping up their resistance to austerity-driven moves to trim their benefits – and even demanding better ones.

Norway's oil industry has been struggling to cope with demands by striking workers that they be allowed to retire on full pension at an earlier age – 62 instead of 65 – even though, as one hostile comment put it: "They are mostly millionaires who only work 16 weeks a year."

What to buy: Because so much of the world is getting "fat, rich and old," invest in companies producing anti-obesity drugs, luxury goods, and services for retirees, says Ben Funnell at hedge fund GLG. Because the global economy has entered an "ice age" with negligible inflation, invest in bonds, advises Albert Edwards of Société Générale. For the contrary view, that we're going to face high inflation, Moore Capital's Joe Roseman favours SWAG – silver, wine, art and gold – or similar tangible assets such as rare stamps and coins, old Rolex watches, farmland.

Gearing doesn't pay: American companies with relatively high levels of leverage (borrowing) have produced poorer returns to shareholders than those with low levels, according to a study by Fortuna Advisors. Interestingly, they argue that they do worse because they are more risk-averse, so less able to respond swiftly to strategic opportunities.

Banks' misleading assets: The scale and safety of banks' large commercial property portfolios is camouflaged by central banks' artificially low policy rates, as low interest rates enable many borrowers to escape defaulting on their loans, suggests *Money Management* commentator Russell Taylor.

Hoarding dollars: The strengthening of the yuan, the Chinese currency, seems to have topped out, at least for a while, with its dollar cost having fallen from 7.8 to below 6.4 over the past five years. Apparently Chinese exporters are now hoarding some of their dollar earnings instead of rushing to convert immediately into yuan.

Eurozone economy: "For the European banking sector to return to debt levels which are low enough to encourage meaningful loan expansion by banks to their customers would require deleveraging €4.2 trillion, equivalent to nearly half of European GDP," says *Fleet Street Letter's* Brian Durrant.

Sunshine: Small companies – defined as those with equity capital of less than $1¼ million – are again the strongest sector of the Japanese economy, because Japanese banks are easing up on their lending policies. The big borrowers the banks normally prefer are flush with cash.

At the top (1): The Swiss franc has been the world's strongest major currency in both nominal and inflation-adjusted terms over the past 112 years, according to researchers at the London Business School.

At the top (2): Exchange-traded funds in precious metals were eight of the ten best performers in the UK over the five years to end-April, according to *Money Management.*

Profits outlook: American companies are more cautious about their earnings prospects than they have been for more than a decade.

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@afrodyn.plus.com.