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Martin Spring's private newsletter on global strategy

November 17, 2012   No.156

Success Story in an Unfriendly Neighbourhood

Few people realize that Israel, despite all its political problems, is one of the world's most successful economies. Since 2004 its GDP has grown about 5 per cent a year in real terms every year except 2009, when the global economy crashed.

And Israel has proved to be one of the better places to invest. Bloomberg reported recently that over the past ten years its stock market gave the world's highest risk-adjusted average annual return (7.6 per cent) among 24 developed nations.

How has this come about? Due to a combination of factors:

► **Sound policies:** A major economic crisis in the early 1980s which saw inflation hit 450 per cent in the wake of an explosion in public spending and money printing, drove squabbling politicians into a "grand bargain" encompassing cuts in government spending, a massive devaluation of the currency, severance of the tie between wage increases and the cost-of-living, and granting of more independence to the central bank.

That triggered a long period of economic recovery, with a new bout of reforms following in the Noughties that saw extensive deregulation, tax cuts and the appointment of a highly-respected non-Israeli, Stanley Fischer, as head of the central bank.

Although public spending is still high, the government has gradually reduced its role in the economy, the state's share falling from 56 per cent in 1988 to below 43 per cent, with policies focused on keeping fiscal deficits manageable and inflation low.

Israel managed to escape the worst of the global financial crisis because it implemented properly a Keynesian policy of cutting its state deficits in the good times, so it could safely let them grow to bolster demand when the global credit bubble burst.

Now Israel has a budget deficit of only 4 per cent of GDP and a tiny foreign-trade deficit. Per capita income has exceeded $31,000 a year – "half as much again as the few countries, such as South Korea, Slovakia and the Czech Republic, that have grown at a similar pace" in recent years, the *FT* commented a few days ago.

Having avoided a property crash or a banking collapse, its debt-to-GDP ratio is a manageable 70 per cent, exports of technology, pharmaceuticals and other high-value goods account for two-fifths of national output, and foreign direct

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investment is strong – about $8 billion last year.

In its latest report on the country the International Monetary Fund has praised its economic management, noting a low rate of inflation (about 2 per cent), and moderate levels of unemployment (about 7 per cent) as key positives.

► **Immigration:** Israel benefited from what *The Atlantic* writer Jordan Weissmann calls "a once-in-a-lifetime stroke of luck."

When the Soviet Union began to collapse, US immigration policy "prevented a large number of Russian Jews from coming to the US. Instead, they chose Israel.

"Between 1990 and 1997 more than 710,000 Soviet immigrants landed in the country, boosting the working-age population by 15 per cent." Around 60 per cent of the new arrivals had a college education. Israel benefited from a tidal wave of well-educated workers including engineers, scientists, managers and professors.

► **Adversity as a driving force:** Israel has virtually no oil production, is short of water, and is under constant threat from its enemies who have sworn to destroy it. Its people can never relax, luxuriate in prosperity, or even depend completely on its few friends. Israelis have to focus on survival, which has driven them to develop advanced technologies and maximize the benefits of their limited resources – in particular their human resources.

Their military technology is superb – world-class in the important new field of cyberwarfare – and has created lucrative spin-offs, especially in telecoms. It is a hot-bed of high-tech start-ups, many of them driven by entrepreneurs who initially developed their skills when serving in the defence force's highly successful Unit 8200, which from its early days has operated in small, flexible teams focused on finding speedy technical solutions.

That has produced companies such as Check Point, the country's biggest software developer, specializing in internet-security programs; Nice, whose products enable enterprises and security organizations to monitor "interactions, transactions and surveillance;" Optibase, a leader in video technology; Infinity Group, which buys intellectual property from small high-tech firms for on-selling or licensing to Chinese businesses.

Adversity has driven Israelis to be hard-driving, ambitious and often entrepreneurial -- keen to go on their own and start something new. Israel now gives birth to more high-tech start-ups relative to its population than any other country.

An entrepreneur-friendly ecosystem

Venture capital used to be a problem when the economy was dominated by state enterprises. That began to change with the Yozma programme, a $100 million state-financed fund that was started in 1993. The government encouraged foreign venture capitalists to finance new businesses by offering low taxes and promising to match part of the money they raised from investors.

It was so successful that within a few years hundreds of start-ups were being backed every year, and in 1998 Yozma itself was privatized. Today there is what has been described as "a financial ecosystem" for entrepreneurs, and Israel generates more venture capital per person than any other country.

Increasingly multinationals such as Apple, IBM and Warren Buffett's group are snapping up Israel's entrepreneurial young firms to access their high-tech skills.

The nation's industrial skills are not limited to infotech fields. It is for example a global force in pharmaceuticals. Teva is the world's largest manufacturer of generic drugs.

A big hope for the future is natural gas, even oil. For decades Israeli lamented that God left them deprived of the fabulous underground wealth enjoyed by most of their neighbours. Not true, as it's turned out.

A decade ago a small natural gas field was discovered off Israel's Mediterranean coast. Then, in 2009, deep below more than 6,000 metres of water, sand and rock, prospectors found a field more than ten times greater, Tamar, from which a US-Israeli consortium will start pumping gas ashore next April. This has been followed by an even bigger discovery – the Leviathan field, twice the size of Tamar, and the largest new deepwater gasfield to be found anywhere in the world over the past decade.

Israel will soon become self-sufficient in natural gas and have a substantial surplus for export. The government's tax revenues are expected to reach at least $140 billion over the next three years.

And that could be part of an even greater fossil fuels boom. It's claimed that Israel has the second-biggest oil shale deposits in the world south and west of Jerusalem – ways are being sought to exploit them commercially.

Israel has enormous political and social problems, not all of them well-recognized by outsiders, for example the growing proportion of the population made up of poor and politically radical groups -- its own Arab citizens and fundamentalist Jews. But its economy has become a formidable force, partly thanks to good luck, but mainly due to good governance and a dynamic people.

Not long ago *The Economist* said Israel in a few decades has "transformed itself from a semi-socialist backwater into a high-tech superpower."

If you are interested in investing there, probably your best option is an exchange traded fund such as iShares MSCI Israel Capped Investable Market, comprised of 70 stocks, with a bias towards large-caps. Its net expense ratio is only 59 basis points a year and it pays a dividend, currently about 2.75 per cent.

If you prefer to invest directly, one interesting counter is the pharmaceutical company Perrigo [PRGO, Tel Aviv], a lively competitor to the much larger and better-known Teva in generics and nutritional products. Although its dividend yield is minimal, its earnings-per-share have risen by an average of 42 per cent a year over the past five, and kept growing right through the global recession.

Some other possibilities are infotech companies Clicksoftware Technologies, Nice Systems, Mellanox Technologies, Check Point Software and EZchip Semiconductor; Teva, of course; and the gasfield plays Noble Energy, Delek and Isramco.

Investment Outlook After the Election

Now the uncertainty of the US presidential contest has been removed, investment markets have shifted their focus to other major uncertainties – the "fiscal cliff," the European comic opera, the China slowdown.

I suspect they will continue to weigh on the markets for a month or three before the clouds clear.

The probabilities are:

► The fearful economic consequences of allowing tax and spending to plunge the US economy over the fiscal cliff will drive Congress into a temporary patch-up either just before or soon after the end-of-year deadline.

Unfortunately that won't solve the fiscal deficit problem, which won't happen soon because both rival parties are largely under the control of their fundamentalist wings, and Obama, unlike previous Democrat presidents such as Bill Clinton, has proved to be too partisan to be a good negotiator. But even a patch-up will calm investors' fears.

► The dominant factors in Europe will continue to be abundant nearly-free credit from the central bank, and governments that edge away from their publicly intransigent positions. There is no way the German and French leadership will force their banks to write off massive amounts of sovereign bad debt.

It will become clearer that the Eurozone will survive in some form or another, weakening the anti-euro hysteria.

► It will also become increasingly clear that China is making a success of its controlled slowdown and stimulation of rebalancing towards greater domestic demand as the new leadership begins to exercise control and switch from constraint to moderate stimulation, lifting investor sentiment, not only in China itself, but also its East Asian co-prosperity sphere.

Early next year we should see the "risk-on" assets, especially equities and precious metals, resume their uptrends.

Gold: Earlybirds Prepare for a Mania

The continuing avalanche of digitally-created money and nearly-free credit provided to the megabanks "means that a hyperbolic, 1979-1980 style blow-off in the gold market is becoming more likely," says the *FT*'s well-known American commentator John Dizard.

Demand for the yellow metal has been supported by a gradual shift from net central bank selling to net central bank buying, and by the interest of professional investors. The broader public has not yet really been drawn into the market. When that happens, it's likely to produce a repeat of the gold mania seen in the late 1970s.

One friend of mine, who has 90 per cent of his personal wealth in physical precious metals, says gold could eventually soar to above $10,000 an ounce, in perhaps five to seven years' time, driven by panic over a feared collapse of the global financial system produced by absurdly excessive money creation.

This is not such an extreme viewpoint as you might think. The well-known strategist and commentator Christopher Wood of CLSA Asia-Pacific Markets, for example, recommends that long-term US dollar-denominated investment funds have 45 per cent of their assets in gold bullion and 20 per cent in unhedged gold mining stocks.

Dizard points out that although the miners' shares have disappointed relative to the metal in recent years, they rose twice as fast in the last quarter.

So far "money flows into gold stocks have been modest, and valuations relative to the cash flows or the net asset values of gold reserves are still fairly low. There hasn't been any flood of dubious junior mining stocks based on pieces of moose pasture in Northern Ontario or desert in Nevada." But "no doubt that will all come."

Interesting recent pointers to rising interest in gold include:

►The four-fold increase in gold imports into China over the past 12 months, to a record 459 tons, accompanied by increasingly aggressive moves by that nation's mining companies to buy assets in Australia and Africa;

► The continuing rise in holdings by exchange traded funds, which are mainly vehicles for long-term institutions and individual investors;

►The Bundesbank's reluctant response to public pressure to guarantee the existence of its claimed gold reserves of 3,396 tons (including revealing their physical location in vaults in Frankfurt, New York, London and Paris; and

►The intriguing proposal that individual Eurozone states borrow through issuance of government bonds backed by the collateral of their substantial gold reserves.

Dizard says that gold manias – "or, if you will, crashes in the value of paper money" – tend to occur in three phases:

► A gradual, creeping devaluation of a currency, which can take a decade or so to gather force.

► Then an initial inflating of the gold bubble, followed by a pause and pullback in gold's price momentum.

► Then a seemingly unstoppable rise.

Where to Invest Now

In a zero-return environment, cash is no longer king… cash flow is king, says David Rosenberg, the strategist at Gluskin Sheff.

"Within the equity sector, this means a focus on dividend growth, dividend yield and dividend coverage.

"This includes Canadian banks and some pipeline exposure…. [and] large-cap US technology, where growth in dividends is second to none."

He also likes precious metals, where recently "gold mining equities have begun to outperform gold bullion due to their attractive valuations, widening profit margins and managements greater focus on cashflow generation." They are also now offering dividends, "the most compelling feature of the stock market at the current time.

Another well-known strategist, Charles Gave, advises you to stick to assets in countries that have avoided the worst of bad policies such as excessive government spending, over-borrowing, and use of public money to rescue banks in trouble because of casino-like operations.

He likes Canada, Sweden, Denmark, Poland, Switzerland, Australia, New Zealand, Singapore, Hong Kong, South Korea. “All of these countries either kept fiscal balances and taxes low (or started reducing them), and/or regulated their financial systems to prevent casino madness.” Countries that are “improving on the margin” include the UK and China.

With valuations divorced from fundamentals by the avalanche of cheap central bank credit, it’s important to differentiate, both within and between asset classes, in a portfolio, advises top US fund manager Mohamed El-Erian.

Your emphasis should be on “companies and countries with both strong balance sheets and positive cash flow,” including in particular emerging economies such as Brazil, Indonesia and Mexico “where central banks are less active, but markets are better supported by solid economic and financial fundamentals.”

The S&P Dividend Aristocrats index of US companies that maintained and increased their payouts consistently over 25 or more years has grown half as much again as the wider S&P 500 index since the 2008 stock-market collapse.

“The market’s message is simple: pay higher dividends and your shares will rise,” says *FT* commentator James Mackintosh.

“What investors really want is a secure bond-like income stream.”

According to the well-known analyst Andrew Smithers, the proportion of cash flow returned to shareholders by US non-financial companies as dividends or buybacks is now close to record highs.

However, income isn’t the only attraction. Those with a bearish outlook also like high-dividend companies. Those paying out most of their free cash flow to shareholders won’t be investing much – in a low-growth world, avoiding value-destroying acquisitions is a good idea.

And it’s easier to predict returns from companies run for cash.

Five Mistakes to Avoid

There are no magical ways to get rich from investing – long-term success depends on avoiding the big mistakes and following a properly-designed plan that you stick with through all market conditions, advise moneycrafters Chad and Peggy Cheveling. They identify five such errors:

► Giving in to greed and fear. Reacting to the latest “can’t miss” investment or supposed impending financial catastrophe is the quickest way to ruin.

The future is not predictable. “Evidence has repeatedly shown that investors, as well as self-appointed prognosticators, are no better at foretelling investment outcomes than they are at guessing the winning number on the next roll [of] the roulette wheel…

“The reason is that in difficult conditions investors get spooked out of the market. They then wait for strong confirmation before buying again… Individual investors can be out of the markets for years – the result is that investors tend to sell at market bottoms and to buy near market peaks, which guarantees underperforming the market.

► Not paying attention to investment fees. They can take a huge toll on your returns over time.

“All investment products charge fees for management, administration, marketing and other administrative costs. In the offshore markets expats are often paying a front-load fee of 5 per cent or more and ongoing annual fees of around 2 per cent. These fees are even higher for heavily-marketed investment-linked insurance schemes, where the total ongoing fees can reach 4 to 5 per cent per year.

“When you understand that over the long run your portfolio is only likely to produce annual returns in the range of 6 to 9 per cent before fees” – 3 to 5 per cent after allowing for inflation – “you can see how much impact these fees can really have.”

► Not paying attention to taxes. Some expats are lucky enough not to have their offshore investments taxed by either their home countries or countries of residence, but others, particularly Americans, are not so lucky.

There are options to reduce the impact of taxes, such as using tax-privileged savings plans, investments that generate little or no taxable income, and managing capital gains. They can cut the drag on portfolio returns by as much as a full percentage point a year.

► Currency mismatch. Most expats maintain a bias towards their home country and overweight investment there – which can be a big mistake for those planning to remain overseas for a long period, or permanently.

“Having a big mismatch between the currencies embedded in your investment portfolio and the currency of your expenses can be a disaster.”

► Putting it off. Procrastination over dealing with errors in your investing can be devastating “as much of the future value of your portfolio is based on compounding of returns over time.”

Devising and contributing to a properly-designed portfolio early and consistently has a far greater impact on eventual values than contributing more, later.

The Crevelings conclude: “You can’t control the market. But you can control many other ways to achieve your financial goals.” Avoiding the five big mistakes “will go a long way to boosting your portfolio return.”

The Crevelings can be contacted by email at: info@crevelingandcreveling.com.

The Bubble and Its Aftermath

Those who warned of the impending 2008 financial crisis are still out in the wilderness, while those who failed to anticipate the catastrophe are still in charge, points out British commentator Brian Durrant.

“It follows that there will be more years of fudging, muddling through and taking the line of least resistance rather than most effective course of action – that could be very dangerous for our wealth.”

Inflating money supply is no solution. Durrant reminds us (as I have done repeatedly) of the Japanese experience. “Following the property and banking bust of the late 1980s, the government tried to boost the economy by raising public

expenditure and printing money." The government gross debt to GDP ratio has risen to above 200 per cent.

Yet, "despite efforts to cover most of the country in concrete," there been little economic growth for two decades. Bank lending, instead of deploying nearly-free central bank credit to boost economic growth, has actually contracted, falling "from ¥530 trillion to ¥380 trillion… equivalent to 30 per cent of Japan's GDP."

As the banking system "has not been fixed… there is nothing to show" for repeated bouts of money creation. The Japanese central bank has now launched into its EIGHTH round of quantitative easing."

Similarly in the UK, until its bloated banking system is reformed, the nation will remain stuck with "a low growth and low productivity economy."

Even the Swiss have gone nuts with money printing – in their case to hold down the exchange rate of their currency, which foreign investors see as a safe haven for their capital. Over the past year their central bank has created francs equivalent to half national economic output.

The money has been used to buy foreign-government bonds, in particular those of the soundest Eurozone member-nations such as Germany, amounting to €41 billion over 12 months – equivalent to financing one quarter of budget deficits for the entire zone.

Effectively, the central bank is "recycling the massive inflows [into Switzerland] from fearful investors in the peripheral Eurozone countries into core Eurozone debt."

Durrant says in the *Fleet Street Letter*: "We need to look for investments that thrive in the face of central banks printing money." He favours "gold and blue chip stocks that pay inflation-busting dividend awards."

Burden of the Entitlement State

"What is the biggest purchase you will ever make in your lifetime?" asks British commentator Tim Price. "You will probably answer: a mortgage… perhaps school or university fees… a car… a divorce.

"The answer is: government. For every $100 that the average American worker earns, $36 is spent on paying for the government… In Britain, the average worker buys £46 of government for every £100 earned." In France and Germany, it's even worse – government takes €59 of every €100 earned.

Of course, not all of that money expropriated by government is consumed by it. Much of it is recycled back into society via benefits of various kinds, including "free" services.

But individuals are forced to finance such transfers, whether or not they agree with them. As a general rule, they are a wasteful way of providing benefits compared to using private-sector processes. They have other seriously damaging effects, such as promoting the entitlement mentality.

And much of the money provides no benefits at all to those who pay, as it goes to finance the lifestyle of elites such as bureaucrats. Governments, it has been said, "employ more, and more ambitious, elites, [who are] able to capture a greater and

greater share of societies' income by interfering in people's lives as they give themselves more and more rules to enforce."

They constitute the architecture of a new kind of state which, while repeatedly claiming to be a democracy, increasingly limits the freedoms of its citizens. It is an oppressive state.

The political issue in developed nations, argues Janet Daley in the *Sunday Telegraph*, is the burden of unrealistically generous and ever-expanding entitlements programmes. No amount of taxing the rich will make them affordable. Instead, "vindictive soaking of wealth creators is undermining economic growth and job creation… It is absolutely necessary to lower expectations among younger generations who have time to make alternative plans for their security in old age."

She says "the crash of 2008 was just a symptom of the basic delusion: the banks had been allowed, indeed encouraged, to take ludicrous risks with credit because the governing classes wanted a 'boom' that they could milk to provide revenue for their entitlement programmes."

Focused on the Wrong Problem

In the US and Europe policymakers are trapped between the strongly opposed advocates of debt reduction on one side, economic stimulus on the other, so their compromises are both damaging to growth yet fail to address seriously the issue of excessive debt.

"Average citizens find it hard to understand why the government should not balance its budget when households and businesses must all do so," says the brilliant Richard Koo, chief economist at the Nomura Research Institute in Tokyo.

In the US the private sector "is saving a staggering 8 per cent of GDP – at zero interest rates, when households and businesses would ordinarily be borrowing and spending money." In Japan the private sector is saving 9 per cent, in Spain 7 per cent and in the UK 5 per cent.

"However, if someone is saving money or paying down debt, someone else must be borrowing and spending that money to keep the economy going."

Recessions are usually triggered by policy shocks, typically rises in interest rates, so reversing those rises starts economic recovery. But a recession caused by a debt crisis frightens borrowers into cutting back on their debt and potential borrowers into holding back. Slashing interest rates doesn't work. Neither group responds to the lure of cheap or even virtually free credit.

"Even though repairing balance sheets is the right and responsible thing to do, if everyone tries to do it at the same time, a deflationary spiral will result," Koo says. Between 1929 and 1933 that cost the US 46 per cent of its GDP, bringing the economic devastation of soaring job losses and business bankruptcies.

This time central banks have sought to ward off disaster with unlimited credit at near-zero interest rates. But it's been largely ineffective because the private sector doesn't want to borrow on any terms – it wants to deleverage, to reduce its debt.

"The only way to avoid a deflationary spiral is for the government to borrow and spend the unborrowed savings in the private sector." In other words, for governments to borrow aggressively, adding to their already-high debts, and to

spend the money on underpinning and stimulating demand. Cleaning up state finances should be delayed until the private sector has done so.

“There is no quick fix… The challenge now is to maintain fiscal stimuli until private-sector deleveraging is completed.” Unless politicians explain why that, and the concomitant further increase in state debt, is necessary, “fiscal stimulus is likely to weaken,” as is already happening in the US.

Attractive Yields, Inflation Protection

Governments are increasingly turning to private partners to modernize and expand the sinews of their economies – energy supplies, transportation, telecoms and other essential services.

In Asia, the world’s fastest-growing region, according to Deutsche Bank annual investment in infrastructure through private/public partnerships has soared from $5 billion 20 years ago to $55 billion.

But nations differ greatly in their willingness to embrace private-sector involvement in providing infrastructure. India, Pakistan and the Philippines have been the most receptive.

Providing new capacity and replacing worn-out infrastructure is forecast to require investment of $8 trillion in developing Asia over the current decade, including $4.1 trillion in electricity generation and distribution, $2.5 trillion in transportation (mainly roads), $1.1 trillion in telecoms and $380 billion in sanitation and water services.

Kim Redding of the specialist firm Brookfield Investment Management says he expects the world market in stockmarket-listed infrastructure plays to grow from around a trillion dollars now to between three and five trillion in a decade, offering “an unprecedented investment opportunity.”

In the UK, where water supplies were privatized by Maggie Thatcher’s government 30 years ago, the regulatory system “effectively balances the interests of the general public and investors seeking fair returns,” he says. Water companies “provide a stable income, attractive dividend yields and protection against inflation.”

He predicts that Private Finance Initiative structures – partnership vehicles where government retains a significant amount of project risk, while private capital is used to develop, finance and operate the assets – are likely to gain increasing acceptance around the world.

Robots are Taking Over

Cheap labour is undoubtedly one reason why Asian economies have achieved such astonishing growth. But that advantage is starting to lose its power as wages rise. In China, for example, the average labour cost in manufacturing has risen over the past five years from below 25,000 yuan in 2007 to more than 40,000 (that’s about $6,400).

That’s led to a new boom in industrial robots, which not only reduce production costs but also offer 24-hour operation with greater efficiency and accuracy than human workers.

In China, there's now a 40 to 50 per cent increase in the number of operational robots every year. Foxconn, the world's largest electronics components contractor, plans to install a million robots on its production lines over three years to replace humans doing simpler routine work such as spraying, welding and assembling.

Robot usage in China still has a long way to go. It has 20 such machines per 10,000 production employees compared to between 250 and 300 in Japan.

In fact it's a Japanese listed company, Fanuc, that is the world leader in robots, earning three-quarters of its profits from exports, mainly to other Asian countries. It's the only one I would rate a possible buy.

Germany's Kuka is Europe's largest maker of industrial robots, but the Swiss-Swedish multinational claims of 20 per cent share of the global market. Other firms involved include Staubli (Switzerland), and Adept Technology and Universal Robots in the US.

Tailpieces

The Sauna Club: Scandinavian countries get the three top positions in this year's Prosperity Index, which the Legatum Institute calculates on the basis of eight factors that are the foundation for national success.

At the top are Norway, Denmark and Sweden, with Finland in seventh position and Iceland at number 15.

Top-rate non-Nordic nations are Australia, New Zealand, Canada and the Netherlands.

Jeffrey Gedmin and Nathan Gamester of the London-based institute say: "The path to prosperity is not a mathematical formula or an engineering problem… The Index confirms what experience tells us: Decent, accountable government, rule of law, competition, opportunity and a regulatory environment and culture that promote liberty, responsibility and entrepreneurship, are drivers of prosperity everywhere."

Picking winners: There is no evidence that equity fund managers in the UK who have performed well will continue to do so, according to a new study by Vanguard.

It found that among actively-managed funds that achieved returns in the top quintile in the five years to 2006, less than 16 per cent repeated their achievement in the subsequent five-year period. More than 23 per cent dropped into the worst-performing quintile, while another 23 per cent were either liquidated or merged with another fund, often as a result of poor performance.

Taxes and charity: Commenting on the $100 million gift by hedge fund manager John Paulson for the upkeep and development of New York's Central Park, the usually sound columnist Christopher Caldwell praises it, but concludes: "There is no better use for a billionaire's money, short of taxing it."

Extraordinary to suggest that the politicians and bureaucrats who determine how to spend the money they expropriate from the citizenry do so more competently than donors selecting whom and how is to benefit from their gifts.

Wealthy nations: China's net international investment position – the value of external assets minus debts to foreigners – has grown from $276 billion in 2004 to

$1.75 trillion at the end of June. That's an average annual growth in net assets of 37 per cent.

Forex reserves of $3.3 trillion accounted for 67 per cent of China's external assets. Foreign direct investment constituted 60 per cent of its external debt.

Tax hike: Unless the US's deeply divided parties agree on a compromise to avoid the "fiscal cliff," the rate of tax on corporate dividends (including the healthcare levy) payable by high-income taxpayers will rise on January 1 to 43.4 per cent, even though dividends are paid out of profits that have already been taxed once, at the corporate level.

Climate change: Although sea ice in the Arctic reached its lowest levels in September since records began a third of a century ago, sea ice in the Antarctic reached its largest extent on record.

UK dottiness diary: Latest example of the lunacy in Britain's increasing foreign aid at a time when all other forms of state spending are being squeezed is the revelation that aid money is funding a scheme in Kenya to help tribal rain-makers to arrive at a "consensus weather forecast" with the government meteorologists.

Wise words: *Those who are too smart to engage in politics are punished by being governed by those who are dumber.* Plato, ancient Greek philosopher.

Martin

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