►On Target

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Risk of an Attack of Nerves

April is the month when stock markets usually fall out of bed, starting major corrections that last sometimes till just July, other times dragging on into the foothills of Christmas.

There's good reason to think the same will happen this year.

Wall Street has been in a strong and consistent uptrend for four years, but there is enough accumulating bad news to suggest that it's ready for at least a period of consolidation, if not something stronger such as a re-think about valuations:

► Growth in earnings, which has been declining for many quarters, now seems to have disappeared. There was no growth at all in the profits of the 500 biggest listed firms in the fourth quarter.

Analysts are forecasting that earnings growth will bounce back this year to 15 per cent. Is that really credible?

► The quality of the demand that has been pushing up the market as a whole suggests lack of confidence in the future.

The leading sectors have been the lowest-risk ones – healthcare, consumer staples, utilities – not the gung-ho sectors that lead in boom-times such as the techs and industrial materials.

Investors continue to prefer companies offering relatively safe, sustainable dividend yields, rather than those focused on growth and retaining earnings to plough into expanding their businesses.

Commodities are normally strong when shares are hitting record highs, but this time they're lagging, signalling that there's not going to be the usual follow-through of an upthrust in industrial production, boosting industrial profits.

► The stock market has been rising on a flood of easy money. It's become disconnected from reality as measured by traditional measures of valuation as institutional investors and speculators take advantage of abundant, nearly-free credit to enjoy the ride on rising investment assets.

The cyclically-adjusted price/earnings multiple for the S&P 500 index has reached about 23 times – high by historical standards.

But now there is increasing chatter about an impending end to "money printing" policies as Fed governors worry about long-term consequences and start to raise interest rates.

In this issue: The stock market ◻ Lessons from Cyprus ◻ Investing in luxuries ◻ Seven European picks ◻ Agri-business ◻ Philippines ◻

In my opinion such talk is premature, probably greatly so. But the market could have an attack of nerves nevertheless.

► The dollar has been rising strongly for several months against two of the three currencies that matter most – the euro and the yen.

The austerity crisis in Europe and the overt cheaper-yen policy of the new Japanese government suggest that the greenback will continue to strengthen for some time. The well-known Swiss bank adviser George Magnus suggests the dollar could continue rising until 2015, "marking a big shift in the investment environment."

However, a stronger dollar would be a negative for American companies that derive a big chunk of their profits from abroad, either from export sales or foreign business operations.

► The US economy is likely to continue delivering growth – but sluggishly. Consumers are still too highly geared to be able or willing to go deeper into debt to boost their demand beyond uninspiring normality.

Corporations lack the confidence to make big investments in future business. They prefer to sit with their cash – an incredible $1½ trillion – and distribute more of it to shareholders via dividends and buybacks. Dividends and buybacks at S&P companies rose by more than 20 per cent in the fourth quarter.

► The outlook for much of the rest of the world economy is mediocre.

Europe is in the grip of the Austerians, who rightly or wrongly are sacrificing economic growth as the price to be paid for containing the bubble in public debt. Of American companies who provide regional breakdowns, about half of their foreign sales come from Europe.

China continues to grow at an amazing rate, but policy remains focused on constraint and restructuring the economy – an equivocating stock market shows lack of investor conviction that anything exciting is coming down the track.

The outlook for Japan looks brighter – but only if you believe that the Abenomics package will actually be implemented and succeed. It consists of policies that have been tried before and failed, plus a new one, foreign trade liberalization, that will be very difficult politically to carry through.

Abundance of addictive drugs

What investment conclusions can we draw from all this?

The case for an imminent and significant downward correction in global stock markets is a strong one. But nothing worse.

I do not believe that central banks are going to pull back from their easy-money policies any time soon. If economic activity does disappoint to the extent that another global recession threatens, they'll boost even further the supply of addictive drugs such as money-creation, negative real interest rates, abundant funding for state spending, subsidies for politically-favoured borrowers, and buying up increasingly risky private-sector bonds.

The long-term consequences will be frightening. But those still lie a long way down the track. In the interim, we can all continue to do well if we make the right (and lucky) investment choices.

Lessons from Cyprus for Investors

Once again, scary speculation about the consequences of the financial collapse in Cyprus turned out to be rubbish.

The outcome has been very nasty for Cypriots. And there could be worse to come as they are hammered by the absurd combination of economic collapse, unbearable national debt, and a fixed exchange rate against their 16 partner-nations in the Eurozone.

Very nasty, too, for all those wealthy Russians who got used to viewing the island-nation as their informal colony. They've suffered a wipe-out of… how much? Certainly many billions.

The rest of us escaped. There was no panic flight from banks in the Eurozone. No flight either from the euro itself. It had been sliding in dollar terms for months, but actually kicked up a bit when the immediate crisis was resolved.

However, there are some important lessons for investors from what Eurozone governments and their officials tried to force on the Cypriots and eventually agreed to.

Their actions and attitudes have magnified and clarified the hierarchy of risks faced by investors in any serious financial crisis:

► Most at risk are foreign owners of bank deposits and securities. Iceland's discrimination against foreign savers in its banking collapse was a precedent. In Cyprus the Eurocrats targeted the large deposits and bonds of the two biggest banks knowing apparently that most of the wealth seized/destroyed belonged to Russians.

► Next at risk are domestic customers of/investors in, banks, who are ordinary folk without much wealth or financial sophistication. They believe their savings are safe because they are explicitly guaranteed by their governments. In the Eurozone, up to €100,000. In the US, $250,000.

In the Cyprus crisis, the Eurocrats tried to force the country to steal from all the small savers enjoying that guarantee by imposing a levy on them. Technically, not a breach of the guarantee. In practice, exactly that.

Savers in banks around the world, not just in the Eurozone, now know that no guarantee offers certain protection against partial or total seizure of their assets in a crisis.

There will be much soothing talk about the safety in guarantees that are embodied in laws, even constitutions. But the ways the Eurocrats have been behaving, and governments of many countries have acted in the past, show that in a serious crisis such legal protections are ignored, legitimized retrospectively, or simply cancelled by proclamation.

► One step down in the hierarchy of risk are the little guys, whether they be tiny nations such as Cyprus, or smaller enterprises within countries, whether they be banks or non-financial companies.

When a crisis hits, they are sacrificed.

The Eurocrats will go to extreme lengths to save major nations such as Spain or Italy. Lesser ones such as Greece or Cyprus, are treated much more harshly.

Within countries, in a panic the ruling elites move to save the big guys, such as megabanks and zombie conglomerates, arranging for taxpayers to pick up the tab. (Remember that disgraceful rescue of AIG in the US involving a $13 billion payout to Goldman Sachs for its gamble in derivatives?)

In Europe, governments continue to resist essential changes to protect the wealth of owners of shares and bonds in the megabanks with huge holdings of dodgy assets because they are "too big to fail." Smaller ones, most recently the SDS bank in the Netherlands, are denied such support.

► Next at risk are the wealthy and well-connected who keep bank deposits and own bonds or other securities in any banks. They could in future be forced to pay part of the cost of losses caused by poor lending practices or speculation. In Cyprus the Eurocrats have established a model to follow elsewhere in their remit – levies, freezing, capital controls.

► Least at risk are investors with assets that are difficult for governments to seize, control or extort. Large, well-managed companies in advanced nations that control their own currencies; banks that are too big to fail; readily-traded shares that are almost certain to yield growing returns. And of course gold.

However the most dangerous consequence of the Cyprus disaster is likely to be further erosion of both savers' and corporate confidence in the Eurozone's future, adding further to the negative forces depressing economic growth.

Profits and Pleasure from Investing in Luxuries

As conventional investments disappoint, wealthy people are increasingly investing in assets in which they have a passionate interest, such as works of art. And they're proving to be good investments.

According to a new "luxury investment index" compiled by the well-known global property broker Knight Frank, over the ten years to the third quarter of 2012, values of "investments of passion" grew by 175 per cent. That was considerably greater than shares… although gold did very much better.

Over the period, classic cars rose in value by 395 per cent, according to the Historic Automobile Group International. Its Dietrich Hatlapa, says there has been growing demand for the small pool of investment-grade machines.

One of their attractions is that they can also act as a ticket to a particular lifestyle. "Buyers from overseas will often leave their cars where they were bought, and then fly back to drive them at rallies and events."

According to Knight Frank's *Wealth Report 2013*, classic cars rose 10 per cent in value last year and are predicted to increase another 8 per cent this year.

The second strongest investment-of-passion has been rare coins, whose value index went up 248 per cent over the ten-year period.

Others to do well were rare stamps (216 per cent), fine art (199 per cent), fine wine (166 per cent), jewellery (140 per cent), Chinese ceramics (85 per cent) and watches (76 per cent).

As a comparison, prime central London residential property prices rose by 103 per cent, gold by 433 per cent.

Knight Frank say that over the past five years, a period encompassing the collapse of Lehman Brothers, and the ensuing credit crunch and economic slowdown, their index of luxury assets “returned solid growth of 64 per cent… During the same period the value of equities fell 6 per cent.”

Performance doesn’t always go hand-in-hand with popularity, perhaps because demand for them is driven more by passion than coldblooded perceived investment value.

Watches, a category that includes some modern models as well as vintage items, is a good example. They are the second most popular category with the wealthy, but on average have proved to be mediocre investments.

Paul Maudsley, head of the watch department at auctioneer Bonhams, says: “Paying £150,000 retail for a new watch is rather like buying a luxury car – its value will fall as soon as it leaves the showroom. And, with the exception of a Patek Philippe, is unlikely to ever be as high again.”

The wealthy plan to put more into gold and equities

Knight Frank’s report is about the investment performance, attitudes and intention of the world’s 181,000 “HNWIs” -- High Net Worth Investors with portfolios of $30 million or more.

Last year 33 per cent of them increased their portfolio allocations to gold and 30 per cent raised the importance given to corporate bonds. 10 per cent cut their allocations to equities and 4 per cent to government bonds.

However, attitudes have now changed significantly. 34 per cent of HNWIs are increasing their allocations to equities this year, while 22 per cent plan to cut their exposure to government bonds.

Gold remains a favourite, with 18 per cent of the wealthy planning to boost allocations. However, gold and other precious metals still only comprise 6 per cent of their portfolios.

The largest categories of holdings are property bought as an investment (22 per cent), equities and corporate bonds (15 per cent each) and cash/bank deposits (12 per cent).

Last year the world’s strongest investment-property market was the Indonesian capital Jakarta, up 38 per cent.

The next 20 best performers were Bali (also in Indonesia), Dubai, four American cities (Miami, Los Angeles, San Francisco and Aspen), Sao Paulo in Brazil, two centres in Switzerland (Gstaad and Verbier), Auckland in New Zealand, three in China (Guangzhou, Shanghai and Hong Kong), Nairobi, Istanbul, two in Thailand (Bangkok and Phuket), Munich, London and St Petersburg.

“Each year there are more and more new people who want and, more importantly, can afford, luxury property, whether that be a house in London’s Holland Park, a villa on The Peak in Hong Kong, an Upper East Side apartment in Manhattan or a ski chalet in France’s Courcheval,” Knight Frank say.

However, while global demand is rising, “the stock of desirable locations remains virtually static, and so global capital flows continue to concentrate on a few key hubs.”

Unfortunately, “as wealth creation grows, we can only expect more attempts by governments to control the flow of money into residential property” and to raise revenues from it.

Luxury property is a “voter-friendly target.” Switzerland has capped second-home ownership. Britain has targeted ownership of properties valued above £2 million. France, Italy, Spain and Portugal have all introduced new or enhanced taxes on the sector.

“One of the biggest risks for global luxury residential markets is actually their popularity.”

Seven European Companies with a Global Focus

Autonomies is a powerful investment concept originated by my friend David Fuller, the London-based analyst and commentator.

They are companies so fundamentally sound, with excellent managements, strong balance sheets, extensive international diversification, and domination of their respective niches, that they’re largely in control of their own destinies. In many ways, they’re comparable to small nation-states.

They have a double attraction for conservative investors, offering both reliable growth while equity markets surge ahead, with very limited downside risk if those markets turn bad, because of their defensive strengths.

Most Autonomies are large, and most of them are American… but not all.

Europe is becoming an increasingly interesting pool in which investors can fish for such companies.

Despite its many well-known problems, Europe has an abundance of high-level skills. Think of German/Swiss dominance in many specialized fields of engineering, Franco/Italian leadership in design of consumer products.

Its securities markets are broad and well-managed, with generally high standards of accounting and transparency.

And quite a few shares seem to be offering attractive valuations.

Everyone knows the downside – Europe’s economic growth is sluggish, and likely to remain so, because policies and structures are locked into the priorities of the past and into shielding ruling elites against the consequences of their past mismanagement, with not much more than lip-service given to reform and stimulation of growth.

However, quite a number of European companies don’t depend on European markets. They are strong in major foreign markets such as the US, and/or are

focused on fast-growing ones such as those of Asia and Latin America. The Swiss luxury goods company Richemont does 93 per cent of its business outside Europe; the Belgian brewing giant Inbev does 88 per cent.

If the euro and other currencies largely linked to it (the Swiss franc, the Danish krone) continue to weaken against the dollar and the yuan, as seems probable, that will boost the profitability of companies whose earnings are largely sourced outside Europe.

Some, such as the Swiss food giant Nestle, are already Autonomies. Others have some of the same characteristics, such as global leadership within their niches.

Here are seven of particular interest…

Arcadis [ARCAD] is an Amsterdam-listed small-cap engineering company specializing in management of large construction projects, especially those relating to water, a traditionally Dutch field of expertise. The company built the new storm defence system for New Orleans after Hurricane Katrina. It has won the contract to manage construction of the Kingdom tower in Saudi Arabia, slated to be the world's tallest at more than a kilometer high.

It gets 77 per cent of its revenue outside Europe, with a stable earnings growth that has been averaging 9 per cent a year. It currently yields above 2 per cent, nearly three times covered.

Assa Abloy [ASSA B], a mid-cap listed in Stockholm, is the world's leading lock manufacturer, with well-known brands such as Yale, with an intensifying focus on electronic security systems. More than half its growth has been in emerging economies, capitalizing on exploding middle classes willing to pay to protect their material wealth.

The group derives 72 per cent of its earnings, which have been growing 9 per cent a year, outside Europe. The shares also currently yield above 2 per cent, 2.7 times covered.

MTU Aero Engines [MTXX.N], a small-cap listed in Germany, designs and builds engines and their components for military and commercial aircraft. It's also in the lucrative business of servicing and maintaining such engines, as well as industrial gas turbines. It's part of the consortium making the Airbus military transporter.

80 per cent of revenue comes from outside Europe. Earnings growth has been strong – averaging 14 per cent a year. The current dividend yield is about 1.6 per cent, more than three times covered.

Novo Nordisk [NOVO B] is without doubt an Autonomy. The Copenhagen-listed pharmaceuticals giant provides half the world's supply of insulin for treatment of diabetes, a problem that's becoming increasingly acute in emerging economies as diets and lifestyles change. It's also a big player in treatments for blood disorders and growth hormones, and has an anti-obesity drug at the advanced trials stage.

The group gets 75 per cent of its revenue outside Europe. Earnings and dividend growth has been exceptionally strong, averaging 24 per cent a year for earnings, 32 per cent for income. The current dividend yield is a tad under 2 per cent, more than twice covered.

Prosegur [PSG] is a Madrid-listed small-cap providing security services such as manned guarding of commercial premises and homes, physical cash transit and

monitoring systems. It is especially strong in the Brazilian market, where its business grew 43 per cent last year.

74 per cent of the company's revenue is from outside Europe. Earnings have soared over the past five years, with growth averaging 13 per cent. The dividend yield is about 2.3 per cent, three times covered.

Salvatore Ferragamo [SFER] is a Milan-listed small-cap whose founder became famous for his unique handmade footwear. The company now markets, primarily under its Ferragamo brand, a wide range of luxury items encompassing footwear, leather goods, clothing, silk products, jewellery, eyewear, watches and fragrances.

72 per cent of sales come from outside Europe. Ferragamo only has a brief history as a listed company, with earnings growth somewhat volatile. Despite a low dividend yield (1 per cent), investors clearly like it, with a strong price rise since the beginning of last year.

TGS Nopec Geophysical [TGS] is an Oslo-listed small-cap specializing in provision of seismic, magnetic, gravity, well log and production data, software and services to the oil and gas industry. It's headquartered in Norway, with offices in the US, Canada, Australia and the UK.

The company gets 70 per cent of its earnings from outside Europe. It has an excellent earnings growth record, averaging 17 per cent a year. The yield now on offer is a little under 2 per cent, with a hefty 3.7 times cover.

Conclusion: There are always good investments to be found even in bad markets. Europe is starting to look like a contrarian opportunity.

Strongest Performers in Agri-business

Everyone has to eat, which has made food and agriculture stocks favoured by conservative investors in times like these where the unprecedented factor of unlimited money creation by major central banks makes it unusually difficult to judge the safety of the growth outlook for equities as a whole.

I've recently been taking a look at the agribusiness sector, where the best-performing stocks seem highly valued, with dividend yields averaging not much above 1.2 per cent and price/earnings ratios of 23 times.

Recently these have been the strongest counters:

CJ Corporation [A001040] is a small-cap listed in Seoul engaged in food, feed and other businesses. It has had a volatile earnings pattern.

KWS Saat [KWSX] is a German small-cap that develops and markets seeds for sugar beet and grains, and also breeding stock. It has an excellent earnings and growth record, but is rather expensive.

Kubota [6326] is a Tokyo-listed mid-cap that manufactures equipment for farming and environment-management plants. Its earnings haven't done much for years, but the cheaper yen has clearly improved its competitiveness.

Flowers Foods [FLO] is a small-cap company that makes and markets bakery products in the US. Its top brands are Nature's Own and Tastykake. Earnings growth has been moderate, but the strong chart since late last year suggests things are happening.

Glanbia {GL9] is an Irish small-cap operating globally in dairy products that has had moderate earnings and dividend growth, but its stable performance has attracted enough support to push the yield down to about 1 per cent (four times covered).

Associated British Foods [ABF] is a London-listed mid-cap engaged in processing and marketing foodstuffs worldwide, with some agricultural interests. It has delivered moderate but stable growth in earnings and dividends. Currently it has a 1 per cent dividend yield, four times covered.

Indofood Sukses {INDF] is a small-cap by international measure, but large by Indonesian standards, where it's listed in Jakarta. It's the world's biggest maker of instant-noodle products and has an excellent earnings and dividend growth record. On a yield above 2 per cent, 2½ times covered, it's attractively valued.

Uni-President Enterprises [1216] is a Taiwan-listed mid-cap that makes and markets a huge range of food products primarily of interest to Asian consumers. Despite volatility in earnings growth, its share has been performing strongly for more than four years. It's currently on a dividend yield of 1.6 per cent, three times covered.

Plantations des Terres Rouges [PTER] is a Paris-listed small-cap with oil palm estates in Malaysia and agricultural management interests in several other countries. It has had very volatile earnings, but offers dividend yield of 2.1 per cent, three times covered.

Seaboard [SEB] is a US small-cap primarily involved in producing, processing and exporting pork. Earnings growth has been volatile, but with a rising trend. Dividend is negligible, but the price/earnings ratio is an attractive 12x.

Other agribusiness stocks that have also been rising strongly, but didn't make it into the top ten, include the German agricultural processor Suedzucker, the chocolatier Hershey, the Anglo-Dutch food giant Unilever, the Japanese spice-maker Ajinomoto, the Swiss seed developer Syngenta, and snack-maker Want Want, which the *FT* recently described as "China's answer to Kraft or Nestlé."

Southeast Asia's Current Leader

The Philippines has won its first-ever investment-grade rating for its government bonds.

Making its upgrade, rating agency Fitch cited factors such as resilient economic growth (6.6 per cent last year), improved fiscal management and better control of inflation.

The other major rating agencies are also expected to upgrade soon, clearing the way for international funds only allowed to hold investment-grade-rated securities to start buying the Filipino bonds, boosting the inflow of foreign capital.

The Manila stock market has been the strongest in East Asia this year after Japan's, after a cracking 2012.

Investors like the improving fundamentals and President Benigno Aquino's prudent management of the economy, stronger action to curb corruption and improving administrative efficiency. Fiscal discipline has improved markedly, with much-improved tax collection.

Economic growth has been driven by record foreign inflows of portfolio capital, an abundance of natural resources and a skilled labour force. Demographics are extremely favourable – by the end of this year the population will reach 100 million, with 70 per cent under the age of 35, making it one of the youngest nations in Asia.

Growth would be even stronger were it not held back by poor infrastructure, high electricity costs, rigid minimum wage regulations and restrictive foreign ownership laws.

Two strong sources of demand are:

► Remittances from Filipinos working abroad. Last year they shipped home $21 billion to their families, accounting for an amazing 9 per cent of GDP.

► Business processing for multinational companies. It continues to expand rapidly because so many people in this formerly-American colony are comfortable speaking good English, and they're inexpensive to hire. The country has overtaken India as the prime destination for offshore business processing, and the sector now accounts for 5 per cent of GDP.

There are signs of the start of an investment cycle, with corporate earnings are expected to grow 12 per cent this year.

There are very few shares sound and liquid enough to be investible, and with the market on a forecast price/earnings ratio 17 to 18 times, it's not cheap. Nevertheless, it's "difficult to not feel continued optimism about the prospects," says fund manager Kenneth Ng after a research visit to the islands.

His NT Asset Fund's largest investments there are in the property developers **Megaworld** [MEG], "the best play" on the high-growth business processing sector; and **Filinvest Land** [FLI], which makes 60 per cent of its sales to Filipinos working overseas.

Combining Contrasting Investment Styles

Warren Buffett, the famous American investor, says you should look for companies that have both "value" and "growth characteristics – which can be expected to deliver earnings expansion, yet seem cheap relative to their "intrinsic value" (based on assumptions about future cash flows and the right at which they should be discounted).

"Value investors," says *The Economist*, "look at stocks that are in unglamorous industries, or at companies that have suffered a bout of bad news in the recent past." Growth investors focus on companies "where the underlying conditions look more promising, but where the market may still be underestimating the potential for long-term profits growth.

"A value investor would usually expect a decent dividend yield; a growth investor would be happy if the company was reinvesting all its free cash."

Examples: Google for growth, tobacco giant Altria for value.

"Four sectors are prominent in the value category: energy, financial services, telecoms and utilities."

But "all are potentially the object of government interference in the form of regulation, higher taxes, limits on their ability to raise prices, higher capital requirements (for the banks) or outright nationalization (mining and oil companies in developing countries).

"With government finances under pressure, the risk of adverse developments for these industries must be greater than normal."

Tailpieces

Dictating terms: Many of us believe that the crazy policies being pursued by central banks make it certain that there will be another, even greater, global financial crisis… just a matter of time.

When it does burst upon us, the terms of the consequent rescue will be dictated, not by the traditionally wealthy, developed nations that dominate international institutions such as the IMF and the World Bank, but by China and the other high-growth, low-debt nations, argues Giles Chance, a visiting professor at Peking University's school of management.

Those terms will be tough, he suggests. A good guide would be the conditions set by the IMF for the rescue of collapsed Asian economies in 1997/98 – "slashed government spending, huge debt write-offs, currencies depreciated to competitive levels, restructured financial institutions with a clean-out of old management both at banks and in governments, and deep economic restructuring."

The developed nations will no longer be able to avoid "the painful but necessary measures" needed to deliver financial and economic reform that will mean cuts in living standards… and "put senior bankers out of work."

Feminism: Sheryl Sandberg, chief operating officer at Facebook, suggests in her new book *Lean In* that one of the reasons so few women get to the top in management is that they lack the drive to get there.

An example she gives is how students reacted to a speech she gave at Harvard Business School. The males asked questions about what lessons she'd learned that she was applying in her new position. The females asked questions such as "how can I get a mentor?" – which Sandberg describes as the "professional equivalent of waiting for Prince Charming."

Another problem for women is the priority they give to traditional concerns such as family life. Sandberg told the business-school students: "15 years from today, about one-third of the women in this audience will be working full-time – and almost all of you will be working for the guy you are sitting next to."

Bonds outperform: Although there's been understandable excitement over the new peak in US equity indexes, the brutal truth is that shares have been very poor performers relative to bonds for a long time.

Since the Dow's last peak in October 2007, its total return – that is, including dividend income – has averaged 2.8 per cent a year. Total return from high-grade bonds has averaged 7.6 per cent, with the riskier "junk" bonds delivering 9.5 per cent.

Shares have been "utterly clobbered by perceived safe investments" such as Treasury bonds – and gold, says *FT* commentator John Authers.

Stress-free posturing: The Fed's latest stress tests on the ability of US banks to maintain adequate capital ratios at a time of severe economic crisis "don't measure up to their description," says *FT*'s excellent American commentator John Dizard.

As the Fed has never been able to anticipate the effects of severe economic stress in the past, why should we believe it can do so in future?

"It is all just a propaganda exercise to justify more cheap funding, official approval of an overbuilt and underperforming system, and make-work for the regulators and lawyers."

A balanced portfolio: Dylan Grice, the respected Wall Street strategist currently between jobs, recommends a four-legged construction of a permanent portfolio that avoids the need to make major decisions about the uncertainties of currency movements, asset allocation, stock selection and politics-driven policy decisions.

It's simply to have one-quarter of your portfolio in each of four different asset classes – cash, government bonds, equities (presumably a balance of market-linked securities) and gold.

For free trade, or against China? Japan's new leader Shinzo Abe is planning to make reduction of trade barriers in Asia the "third arrow" of his package of policies to boost his nation's economy, combining it with monetary easing and fiscal stimulus.

The chosen vehicle for achieving this would be the TPP (the Trans-Pacific Partnership), which has been described as "an economic NATO of Asia" as the US-led ten-nation group's key characteristic is that it excludes China.

Japan is not yet a member. To become one, it would have to commit to lowering tariffs on imported food – which would hurt domestic agricultural interests traditionally close to Abe's party.

Polar bears: They've been listed by the US Fish and Wildfire Service as an endangered species even though their numbers are at a record high. The crazy logic is that these magnificent animals "might" disappear due to contracting Arctic sea ice. How did they manage to survive much greater ice contractions in the past?

Wise words: *Bull markets are born on pessimism, grow on skepticism, mature on optimism and die on euphoria. The time of maximum pessimism is the best time to buy; and the time of maximum optimism is the best time to sell.* John Templeton, the highly successful fund manager.

Martin

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