

**THE OUTLOOK FOR EQUITY TRADING:  
LET CAUTION BE YOUR WATCHWORD!**

It seems that another war is inevitable, considering the events of the past fortnight or so.

But the war will not be between The Islamic Republic of Iran and the United States of America (US) and its allies, but between Islam and America, the latter, being the hated infidels in the eyes of the hard left of Islamic fundamentalists, worldwide.

The Supreme Leader of Iran, Ayatollah Ali Khamenei, and his political mouthpiece, the fiery Iranian President, Mahmoud Ahmadinejad, have made this only too apparent of late.

While the United Nations (UN) has asked Iran to adhere to its commitment with regard to the non-proliferation of nuclear power and to cease and desist in its uranium-enrichment programme, the Government of Iran has claimed that the intent of the US and of that country's international puppets is to remain as the supreme international bully, forcing weaker nations of the world to bow to its determinations.

In what may well be considered an attempt to find an alternative, international organisation to the UN, the spotlight has, recently, been turned to The Shanghai Cooperation Organisation (SCO) where, last Friday, in Moscow, Russia, Iran's Deputy Foreign Minister, Manouchehr Mohammadi, made some interesting comments, which could well have international repercussions.

Foreign Minister Manouchehr Mohammadi said, inter alia, that Iran wanted to review the growing international problem of the nuclear issue and that he hoped to discuss the matter with '*colleagues of this organisation* (The SCO)'.

The SCO comprises, today, Russia, the People's Republic of China (PRC), Kazakhstan, Kyrgystan, Tajikistan and Uzbekistan.

It was formed in June 2001 by Russia, the PRC and some Central Asian States.

India and Iran are expected to obtain full membership of The SCO before the year is out: These 2 countries enjoy only observer status, at this time.

Foreign Minister Manouchehr Mohammadi, last Friday, made the statement that, in order to make the world '*more fair*', the joining of Iran and India would lead to making The SCO, a strong international organisation that would be like a magnet, drawing other countries under its protective umbrella.

Iran is wooing both the PRC and Russia with the clear view to assisting this country in its economic and nuclear ambitions.

One day after the SCO meeting in Moscow, Iran announced that it would pledge \$US50 million to the HAMAS-led Government of the Palestinian people.

Both the US and Europe have cut off all economic aid to the Palestinian people because HAMAS refuses to recognise the State of Israel and to renounce violence.

Ayatollah Ali Khamenei has called on the entire Muslim world to help the Palestinian people and their HAMAS-led Government.

Last October, Iran's President Mahmoud Ahmadinejad provoked an international outcry by stating, categorically, that Israel should be wiped off the map of the world.

The US has vowed that, if Iran should attack Israel – presumably, overtly or covertly – the US would come to the aid of its *'friend'*.

At this point, Iran has stated that it will not back down from its avowed intent to be a nuclear power in the world; and, it has made no bones about its declared determination to be permitted, as sovereign right, to have military nuclear capabilities.

Less than a fortnight ago, Iran held military manoeuvres in The Persian Gulf, demonstrating that the country had missiles that could rain down death and destruction on its perceived enemies within thousands of kilometers from Tehran, the Capital City of Iran, and, in addition, it had torpedoes (or underwater missiles, as Iran sometimes refers to them) which, in addition to being stealth-like, can attain speeds, making them impossible to destroy by any warship of today.

The not-so-veiled threat is that Iran (a) could destroy its enemies in a push-button war and that (b) it could blockade the Strait of Hormuz, a vital waterway for the transportation of crude oil from the Middle East to the West. (Please see **TARGET** Intelligence Report, The Betty Letters, Volume VIII, [Numbers 27](#) and 32, published on, Friday, [February 10](#) and [February 17](#), 2006, respectively)

For the UN to get tough with Iran and to impose sanctions on the country could well cause the situation to become more tense, internationally – if not explosive.

For the US to attack Iran, militarily, the consequences could well be disastrous and the loss of life could well be in the hundreds of thousands.

Iraq would have the appearance of having been a picnic in comparison to the prospects of an armed invasion of Iran by the West or the US, even one restricted to an air invasion.

But, at this time, the US is adamant in its determination toward to Iran ... and so is the determination of Iran toward its enemy.

Iran, however, wants to expand any military conflict to the status of an invasion on the homeland of Islam: Rally round the standard of Allah!

### **Equity Markets**

For the first quarter of 2006, equity markets of the world, by and large, have performed strongly.

But one should not be carried away and think that this euphoria can be maintained, indefinitely.

Crude-oil prices have crashed through the \$US70 per-barrel level and could reach \$US80 per barrel or higher before receding back toward the \$US60 per-barrel level.

If Iran should, directly or indirectly, declare war, this country has the power to push oil prices to even higher levels, perhaps, approaching \$US100 per barrel if things escalate into a shooting war, with other Muslim countries, vowing to fight alongside the armies of Ayatollah Ali Khamenei, the Supreme Leader of Iran.

In addition to the war drums, key risks continue, internationally:

1. Liquidity is tightening, internationally, and will continue to tighten;
2. Interest rates are rising, internationally, and will continue to rise;
3. Corporate profits are being squeezed and, as interest rates rise, so corporate profits will be squeezed, even further;
4. Consumer spending, internationally, continues to wane, and it is quite likely to wane much further; and,

5. A cool-down in the US economy in the last half of 2006 is more than likely.

These are only some of the clearly visible key risks, today: There are many more that are not as visible.

The prospects for another war to explode before the end of the year is, by far, the worst possible scenario as far as investors are concerned.

It would appear, therefore, that investors would be well advised to consider liquidating part of their holdings.

Many international investing houses are, in fact, advocating such a move – now.

Aside from the above-mentioned, problematic considerations, there is, also, the fact that equity markets hate uncertainty.

While it is fact that, for every 10 problems, seen on the economic horizon, at least 9 such problems will never materialise, at the same time, there is that over-powering, psychological consideration and equity markets are ruled more by emotions than fundamentals.

Then, one must appreciate the fact that the era of cheap money is gone.

During the past few years, the US Federal Reserve Board has boosted interest rates by about 3.50 percentage points.

One should not believe that The Fed is finished with its mini, interest-rate rises because that would be foolhardy in the extreme.

The US housing market is quite likely to soften a great deal in the coming few quarters and, as it softens, a great deal of money will be at risk.

This will, undoubtedly, impact on the US economy, as a whole.

Consumer spending, as it dries up in the US, will have a cascading effect, worldwide.

Asia, which is a very large supplier of consumer goods to the West, will suffer as orders for goods dry up.

**In summary:** Caution will pay dividends in the months ahead.

--    **E N D**    --

*While TARGET makes every attempt to ensure accuracy of all data published,  
TARGET cannot be held responsible for any errors and/or omissions.*

*If readers feel that they would like to voice their opinions about that which they have read in **TARGET**, please feel free to e-mail your views to [editor@targetnewspapers.com](mailto:editor@targetnewspapers.com). **TARGET** does not guarantee to publish readers' views, but reserves the right so to do subject to the laws of libel.*