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IS THIS THE TIME TO REBUILD PORTFOLIOS ?
THE FRUIT SEEMS RIPE

When everybody and his cat are praising the advantages of buying shares in an equity market, or voluntarily offering tips about the future profitability of buying shares in this company or that company, in this industry or in that industry, it is the time to sell – without question.

Don't think too hard: Just sell if one is heavily invested in an equity market.

Conversely, if one was pondering that it was the time to considering a flutter on an equity market, modify that thinking, immediately: Stay clear of the equity trading – because the trap has been sprung.

On the other hand, when an equity market has been beset by one problem after another, and those problems have been made abundantly clear to all, the time may well be approaching to consider buying certain shares, very selectively, in certain equity markets.

Over the past month or so, one has seen tens of billions of dollars, shaved off the market capitalisations of many publicly listed companies, in the US and in Europe, first due to the US housing market crisis – which is far from being relegated to history – and, then, by the chaos in the subprime, mortgage-lending industry.

With regard to the subprime, mortgage-lending industry, the problems, here, must be coming to an end with the filing in the US of numerous applications by financially distressed companies in bankruptcy courts in order for these companies to seek protection from creditors.

Finance houses and banks have taken their licks and are trying to rebuild or modify portfolios and/or are finding solutions to their respective problems, brought about, for the most part, by over-exuberance in the past about the state of the US economy, in general.

To a great extent, Asia has not been mauled anywhere to the extent of the US and Europe with regard to the subprime mortgage-lending problems or the commercial paper market, backed by subprime mortgages, notwithstanding, of course, the clear admissions of HSBC Holdings plc (Code: 5, Main Board, The Stock Exchange of Hongkong Ltd).

In the US and Europe, on August 17, according to **TARGET**'s calculations, the key indices of major equity markets had retreated by about 6 percent, on average, compared with the situation of just 5 days trading prior.

Whether or not this is the end of the sell-off, one cannot be absolutely certain, of course, but at some point, and probably very soon, the time will come that it is time to get back in and purchase select stocks and shares.

(**TARGET** is, however, excluding purchases of stocks and shares on equity markets of the People's Public of China (PRC) where even cats and dogs are continuing to be unable to satiate their desires for more and more shares in very questionable companies. On The Shanghai Stock Exchange and The Shenzhen Stock Exchange, the investment euphoria, today, is reminiscent to the situation that existed, just prior to the burn-off on the US stock exchanges in October 1929, days before what is now referred to as The Great Depression).

Last Tuesday, Mr Josef Ackermann, the Chief Executive of Deutsche Bank AG, the largest bank in Germany, went on record to state that, after some weeks of turmoil in the financial markets of Europe and the US, things had started to right themselves.

For Mr Josef Ackermann to go on record with such a statement must be considered very encouraging because, if he is proven to be incorrect, it would suggest, inter alia, that he is incompetent.

His record does not suggest incompetence.

The Federal Reserve And Interest Rates

Although it may be considered that The Federal Reserve of the US has been dragging its feet for the past 3 months or so, it is quite likely that, all things being equal, The Fed will reduce interest rates by between 25 basis points and 50 basis points, come Tuesday, September 18, if not earlier.

This will be the stimulus that investors in the US badly need and, if the interest-rate cut had not been factored into the prices of stocks and shares by September 17 (which is unlikely), there is likely to be a show of strength of international equity markets as soon as The Fed's announcement with regard to the interest-rate cut is disseminated.

Interestingly enough, the problems in the US over the past month or so are not related to equities, at all, but are restricted to the financial markets, only, specifically the lack to liquidity in the money markets.

The Fed's statement of a fortnight ago, that it would make oodles of cash available to the US money markets in order to guarantee liquidity, was the catalyst that caused other central banks, from Tokyo, Japan, to London, England, to Wellington, New Zealand, to come to the financial *'party'* in order to smooth the ruffled feathers of many an investor and banking executive, alike.

In August, there was, without question, a financial crisis, one not seen for some time.

Interbank markets saw liquidity dry up as many a bank fretted that it had been *'banking'* on quantity in the past, rather than quality.

The commercial, asset-backed paper markets of both the US and Europe looked a little jaundiced as it became only too apparent that the collateral, used to issue this commercial paper, was highly suspect.

Making matters worse was an announcement from BNP Paribas to the effect that it would stop redemptions of 3 of its funds because the French bank's pen-pushers were having a great deal of trouble in calculating valuations of the assets, backing up the bank's funds.

What the powers-that-be at BNP Paribas had determined was that the bank's investment funds, backed as they were (and still are) with commercial paper and/or other assets, were difficult to value with any degree of certainty due to the high volatility in the money markets and the lack of liquidity in the credit markets, at that time.

Investors got very cold feet, almost immediately.

Panic selling smartly followed.

One bank would look at another bank with askance.

Worrying times, to be sure.

In order to secure short-term funding, many companies issue commercial paper, based on the values of assets, used as collateral for the commercial paper at the time of the issuance of the asset-backed instruments.

If the assets are heavily weighted with subprime mortgages, as they were, only a short time ago, the value of the commercial paper is highly suspect.

The announcement by The Fed, followed by other central banks, including the **E**uropean **C**entral **B**ank (ECB), coming to the rescue of the money markets of the world with temporary emergency liquidity, put paid to that situation – and things righted themselves, once again.

To say that the credit squeeze of the world is completely over, today, may be a little premature because one cannot always see around the investment corner, but it must be coming to an end, all things being equal, in this medium’s opinion.

It should be noted, however, that the crisis of mid-August was not one, predicated by the equity markets or frightened investors, locked into equity markets, but by the financial markets, which, in turn, spilled over into the equity markets.

For many publicly listed companies, they were unaffected by the credit squeeze.

It was business as usual.

For banks and finance companies, however, many of them were caught with their trousers, down around their ankles.

Liquidity problems, for the time being, at least, have abated: Time to rebuild portfolios and to reassess the situation as it stands, today.

It seems highly unlikely that there will be another crisis in the short term of the likes of the middle of August because, among other things, banks are on their guard and The Fed and the ECB are monitoring the situation, worldwide, very carefully.

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