VOLUME XI No. 56 W E D N E S D A Y March 25, 2009

**MORE ABOUT GURUS AND GA-GAS**
**IT'S A LOAD OF CRAP !**

So, Citigroup Incorporated managed to produce positive trading results in the first 2 months of 2009.

So, Bank of America Corporation, also, managed to produce positive trading results in the first 2 months of 2009.

So, Wall Street gurus, mounted their makeshift podia and stated, something along the lines:

> *'I see a glimmer of hope in the economy of our great nation. Now is a good time to buy into selective stocks and shares while the prices are still low …'.*

Some high officials in the Administration of President Barack Hussein Obama went along with the prognostications of certain Wall Street gurus, supporting their statements and backing up their beliefs with questionable technical data.

In the Hongkong Special Administrative Region (HKSAR) of the People's Republic of China (PRC), last week, the ga-gas jumped aboard the US bandwagon, stating that the price-earnings ratios of many companies, listed on The Stock Exchange of Hongkong Ltd, were standing at decade lows.

*'Now is a good time to buy!'* one was told by one, well-known, geriatric ga-ga who loves to see his name in print.

One relatively young corporate executive went so far as to tell his shareholders – he is the Chairman of 3 publicly listed companies – that he sees everything, picking up in medium-term future.

Mr Robert Ng Chee Siong (), Chairman, Sino Land Company Ltd (), Code: 83, Main Board, The Stock Exchange of Hongkong Ltd, made the following statements on March 28, 2009, contained in his Interim Report to shareholders:

> *'2009 will present challenges but it is believed that the situation will be manageable as nations have already responded decisively to restore confidence in financial systems, and collectively address problems. Importantly, the abrupt downturn has encouraged policy makers around the world to work together to improve their respective economies and infrastructure to prevent the current situation from recurring.*
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> *'The property market in Hong Kong is fundamentally healthy. Banks are adequately capitalized with prudent capital adequacy ratio. Financial institutions have been positively providing mortgage loans to facilitate home purchases. Mortgage terms are favourable to home buyers with mortgage rates remaining low and under the structure of prime minus a credit spread. In terms of policy, HKSAR Government reiterates their stance on upholding the present system. We are positive of the property market in Hong Kong in the medium to long term.*
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> *'We, like others, believe that crisis also presents opportunities because it leads to more focused efforts and stronger teamwork to improve productivity and operational efficiency.*

*Despite the current economic situation, we face these challenges with confidence as we move forward. The Group continues to be prudently positioned to benefit from future opportunities that will arise, and will strive to optimise its earnings, improve the quality of properties and services, and enhance customers' lifestyles which will ultimately lead us to serve our customers better. As the Group has a healthy financial position with strong liquidity, management will continue to deliver value for shareholders. The Group will maintain a policy of selectively and continuously replenishing its land bank both in Hong Kong and China, which will enable it to strengthen earnings and profitability. The Directors are indeed confident in the medium to long term prospects of the Group.'*

**TARGET** () responds to the above-mentioned statements as follows:

***'Crap! Crap! And more crap!'***

**<u>Looking At The Facts</u>**

On the assumption that the worst of the recession in the US is coming to an end or that there is a glimmer of hope on the economic horizon, indicating that things will pan out by the middle or the end of 2009, for what reason would the US Federal Reserve, last Wednesday, make the following statement:

*'Information received since the Federal Open Market Committee met in January indicates that the economy continues to contract. Job losses, declining equity and housing wealth, and tight credit conditions have weighed on consumer sentiment and spending. Weaker sales prospects and difficulties in obtaining credit have led businesses to cut back on inventories and fixed investment. U.S. exports have slumped as a number of major trading partners have also fallen into recession. Although the near-term economic outlook is weak, the Committee anticipates that policy actions to stabilize financial markets and institutions, together with fiscal and monetary stimulus, will contribute to a gradual resumption of sustainable economic growth…*

*'In these circumstances, the Federal Reserve will employ all available tools to promote economic recovery and to preserve price stability. The Committee will maintain the target range for the federal funds rate at 0 to 1/4 percent and anticipates that economic conditions are likely to warrant exceptionally low levels of the federal funds rate for an extended period. To provide greater support to mortgage lending and housing markets, the Committee decided today to increase the size of the Federal Reserve's balance sheet further by purchasing up to an additional $750 billion of agency mortgage-backed securities, bringing its total purchases of these securities to up to $1.25 trillion this year, and to increase its purchases of agency debt this year by up to $100 billion to a total of up to $200 billion. Moreover, to help improve conditions in private credit markets, the Committee decided to purchase up to $300 billion of longer-term Treasury securities over the next six months. The Federal Reserve has launched the Term Asset-Backed Securities Loan Facility to facilitate the extension of credit to households and small businesses and anticipates that the range of eligible collateral for this facility is likely to be expanded to include other financial assets…'.*

This unprecedented action of The Fed is one that is clearly predicated by necessity not by choice.

If The Fed had a choice, it would just sit pat.

But it cannot: It sees the necessity for immediate, decisive and definitive action.

The Fed sees the urgent requirement for such action; it is not trying to be Mr Nice Guy.

The immediate aim of The Fed is to keep US mortgage rates low, or even lower than they are today.

This would be a fillip to US homeowners, of course, but, to many gurus and ga-gas, they interpret the effects of The Fed's actions as being inflationary before the year is out.

More crap!

Boosting the money supply in the US (and in most, developed countries of the world) in order to limit the effects of the continuing economic crisis, does increase the risk of inflation.

There can be no question about this.

However, as easy as it is to expand money supply, so it is just as easy to reduce money supply.

The central bank of the US, known as The Fed, as well as the central banks of most countries of eurozone and of Asia, have taken actions to broaden their respective money supplies in order to assist banks with the *'ammunition'* that they require to get things back to normal, as quickly as possible.

However, many banks do not trust their brother banks.

The financial failure of Lehman Brothers Holdings Incorporated in September 2008 put a new spin on banking in the US; and, that problem spread from one corner of the world to another, from the US, to Auckland, New Zealand, to Tokyo, Japan, to New Delhi, India.

Emergency liquidity had to be delivered to the banking sector of nearly every country of the world because interbank lending had come to a virtual standstill by the last quarter of 2008.

But that did not do the trick, as history has proved – because banks, even after being afforded loans by central banks, still continued to be distrustful and kept their purses, zipped up tightly.

When Citigroup Incorporated had to be rescued by the US Government, which bought up nearly 40 percent of the Issued and Fully Paid-Up Share Capital of what was, only a few years ago, the world's biggest bank, many a banker praised his actions of niggardliness, cloaked behind the façade of prudent banking practices.

Ironically, the actions of the US Government, in rescuing Citigroup Incorporated, followed interest rates in the US, falling to zero percent.

Bankers, around the world, continue to be distrustful of their fellows in other institutions, for the most part; and, that is one of the chief reasons that, today, the M1 – circulating money and money in accounts: An assessment of the amount of money in coins, notes, and current and deposit accounts – is growing very slowly.

This, being the case, the prospects of price increases of any great extent is minimal.

It follows, therefore, that the prospects of inflation of any great magnitude are, also, minimal.

As soon as stability returns to the money markets, central banks must reign in their respective monetary bases.

**TARGET** is fairly certain that that is exactly what will happen because there is no other option.

**<u>There Is No Magic Elixir</u>**

It is naïve to believe that the economic stimulus packages, proposed by the Obama Administration, is akin to a magic elixir whose properties make troubles disappear in the proverbial twinkling of an eye.

If the stimulus packages can do any good at all, their ameliorative effects will not be fully felt until the first quarter of 2010, at the earliest, in this medium's opinion.

This is because, believe it or not, the world has yet to learn of the full extent of the economic meltdown in the US, the tentacles of which have reached to nearly every nook of every economy of the world.

The problems in respect of Citigroup Incorporated are just one single example: Other such disaster areas in the US economy are almost certain to become manifest in the fullness of time.

The problems with regard to General Motors Corporation, once the world's largest producer of motor vehicles, are still unravelling, one notes.

There is good reason to think, at this juncture, that this company could well go to the wall.

In fact, a number of US Senators and Congressmen have suggested, strongly, that this would be best for the company and the US economy since, for General Motors Corporation to file for protection from its creditors, it could well result in its creditors and the labour unions, having to seek a compromise solution to the overall financial dilemma, facing management of General Motors Corporation, even though it may mean the biting of the proverbial bullet of creditors and labour union's benefits to the extent of 30 cents on the dollar.

Simply put, 30 cents on the dollar is far better than no cent on the dollar.

If the market value of stocks and shares, listed on equity markets, is to be considered a *'barometer'* of the likely financial successes or failures of companies down the road a bit, the scrip of which is traded, actively, then, most of the market values of the scrip of companies, from Wall Street, to London, England, to the HKSAR, are grossly overpriced.

The price-earnings ratio of shares of certain companies may appear cheap on an historical basis, but, on a prospective basis, they may well turn out to be astronomically overpriced.

The HKSAR gurus and ga-gas have claimed that, at about $HK48 per share, HSBC Holdings plc is very cheap.

**TARGET** wonders whether or not the gurus and ga-gas of Wall Street made similar statements in respect of Citigroup Incorporated when its shares were trading at $US20-plus – before its share price fell back to below $US1.00.

Based, solely, on the Obama Administration's stimulus package and/or the recent Fed's stimulus package or the latest initiate by the US Treasury Department, it would be the height of insanity to maintain that these actions would result in gains in respect of infrastructural-related equities.

They may, in the fullness of time, come to fruition, of course, but it is highly unlikely that they will bear fruit this year.

There is no suggestion on the part of **TARGET** that the actions of The Fed and/or various branches of the Obama Administration are not constructive and required, but what this medium is stating, definitively, is that they will not bear fruit in the short or medium term.

The first quarter of 2010 is, perhaps, a target date to be considered as a sure-shot indication as to the efficacy (or otherwise) of the US economic stimulus packages.

Last Monday, the US Treasury released information about its latest initiative to kick-start the US economy.

The Treasury announced the launch of a *'**P**ublic-**P**rivate **I**nvestment **P**rogramme* (**PPIP**)*'*.

The aim of the PPIP is to get toxic assets off the books of banks, once and for all.

Initially, the US Treasury will commit between $US75 billion and $US100 billion to the new initiative with the private sector, coming to the party, also.

In the cross-hairs of The Treasury is about $US1-trillion worth of toxic assets on the books of US banks.

The Treasury explained the way in which the new initiative would work as follows:

Step One: Banks sell mortgages, the book cost of which is, say, $US100;

Step Two: It is determined that the market value of the banks' assets has fallen to $US84;

Step Three: The US Government and private enterprise each contribute $US6 in order to buy the distressed assets;

Step Four: The US Government and private enterprise, both, borrow $US72 from the US Government;

Step Five: The US Government loan is guaranteed against any losses;

Step Six: If the market value of the distressed assets appreciates and the assets are sold, the US Government makes a profit, as does private enterprise, and repayment of the loan is made to the US Government; and,

Step Seven: If the assets are sold at a lower price than the buying-in price, then, the US Government and private enterprise lose their respective initial investments.

The bugbear of the PPIP, of course, is that private enterprise could, if it so determined, at any time, walk away from its initial $US6-investment commitment if things go sour, cutting its losses without any further bloodletting and without any recourse from anybody or anything.

Whether or not the PPIP will work wonders, as it is hoped by many, remains to be seen, but investors on Wall Street, last Monday, seemed to be completely enamoured by the approach of The Treasury.

Unlike the thinking of the gurus of Wall Street and the gurus and ga-gas of the HKSAR, it appears to this medium that the earnings of many companies, listed on The Stock Exchange of Hongkong Ltd, are not proportionate with their current share prices – because they are terribly overpriced on a prospective-earnings basis.

This would suggest, in the case of HSBC Holdings plc, that, if the Rights Issue Price is $HK28 per share, then, after the dust has cleared and it becomes public that earnings are continuing to drift to lower depths, the share price could well fall closer to single digits before rebounding to double digits – in 2010.

All of the initiatives of the US Government and its many and varied departments will not come to the rescue of diminishing profits of private enterprise, especially a British bank.

Again, **TARGET** is not suggesting that there is anything wrong with HSBC Holdings plc, which, at one time, was the Number 4 in the world in terms of its market capitalisation, but, as with many banks, it is subject to the same, or similar, problems, facing the banking industry of the world's economies.

Shipping companies are suffering losses, not seen in decades, and banks are looking at writing off tens of billions of dollars/pounds/euros in respect of what is commonly referred to these days as *'toxic assets'*.

Playing the blame game is of no value, of course, but one must face reality: This is not the time to invest in equities – anywhere.

Hold onto the cash!

There are considerably risks out there and the many initiatives, now underfoot in a number of countries of the world, will not pay dividends for some months to come.

There must be an end to the financial turmoil of the world, but it ain't over until the fat lady sings.

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