BUBBLE, BUBBLE, TOIL AND TROUBLE;
OR,
'FOR A CHARM OF POWERFUL TROUBLE,
LIKE A HELL-BROTH BOIL AND BUBBLE'

The Hongkong Special Administrative Region (HKSAR) of the People's Republic of China (PRC) is about to experience another bubble.

There is every indication that the Hongkong Bubble of 2009 is on the way.

This one appears to be centred on the territory's property market.

There will be quite a number of winners, emerging from this bubble, but there will be more losers than winners at the end of the day.

There will be no way of mitigating this bubble … until it bursts.

The HKSAR property bubble may appear, on the surface, to be the logical extension of supply-demand factors, leading to higher property prices, leading to record-high, property prices, leading to property, being offered at seemingly ridiculously low prices.

Those people, who get caught out, having overtraded, using illiquid assets as their collateral for bank and other loans, will have to offload their property asset at losses – if they can find buyers, that is.

One financial failure will lead to another financial failure, cascading down the line until, as with the Lehman Brothers mini-bonds debacle, appeals will be made to the HKSAR Authorities, followed by shouts of *'Foul!'*

At present, one sees only the faintest signs of the HKSAR property bubble of 2009, but it seems very clear that it is coming … and coming fast.

It is being fueled by money from individuals and entities of the PRC, proper, being distinct and separate from the HKSAR of the PRC, and from individuals and entities of the HKSAR, itself, where, after a dearth of credit, banks have loosened their purse strings, considerably, and these banks are hungry for customers.

Last week, it was admitted, openly, by the Hongkong Monetary Authority that it had been forced to defend the Hongkong dollar with an injection of not less than $HK385 billion between January and September, this year.

The demand for Hongkong dollars, probably, has already reached unparalleled levels and so the Hongkong Monetary Authority has seen fit to intervene on money markets in order to protect the Hongkong dollar with regard to its translation value vis-à-vis *'hard'* currencies.

If anybody thinks that current property prices of the territory are high, hold onto your underpants because property prices are likely to go much higher.

For investors from the PRC, proper, they have a number of reasons to look at these 416 square miles and determine to speculate and/or invest in the HKSAR property market.

Many of these reasons, **TARGET** () dare not commit to paper.

With the economy of the PRC, proper, bubbling as never before in the history of the country – which is the most-populace in the world – it may seem unreasonable for PRC money to flood into the territory, the HKSAR, being but a tiny pimple at the bottom of the fastest-growing economy of the world, today, but there are logical reasons for the flood of money into the territory.

The taxation system in the HKSAR is likely to be one of the major reasons for the flood of cash, and the HKSAR, being a convenient *'Laundromat'*, is yet another draw for PRC hot cash.

Lastly, the HKSAR is, still, safer than the PRC, proper.

<u>What Is A Bubble ?</u>

Bubbles come and bubbles go; and, bubbles will always be with us no matter what economists may claim.

All bubbles are different; and, all bubbles are the same.

All bubbles follow a similar pattern: A sharp rise in the price of an asset or a number of assets, with each increase in prices, leading to a promise of further increases.

All bubbles appeal to nearly all people; and, all bubbles require greed as the principal source of heat and power.

Greed leads to avariciousness; avariciousness, very often leads to financial disaster.

Greed is a bottomless pit which exhausts a person in an endless effort to satisfy the need … without ever reaching satisfaction.

The one factor about a bubble, vis-à-vis an investment, is that, in a bubble, there is a decided and expressed excess of the trading mentality, with little to no consideration as to the yield that might be obtained over time by holding onto the investment.

In short, an asset(s) is purchased with a view to making a turn in a relatively short period of time without any consideration of obtaining a recurrent return from the asset(s) by retaining one's position in the investment.

In a bubble, the market price of assets rise swiftly and, when expectations do not materialise, there is more than often a sharp decline in the market price of assets, leading to financial crises of one sort and another.

Securitisation of assets, as in the case of the US property market bubble of 2005 to 2007, exacerbated the problems, endemic of that bubble, and the resultant effect was, almost, the complete collapse of the largest economy of the world.

The recession that followed was the largest and deepest since The Great Depression of 1929.

Bubbles can be dangerous.

An expanded money supply is essential for any and all self-respecting bubble.

In fact, it is a prerequisite for a successful bubble.

Bankers, also, should be only half awake at the helm in order for a bubble to last any material length of time.

A fast-moving bubble, also, requires a policy that encourages excessive credit growth; and, the government of the day must make it known that it is there to be a financial *'parachute'* if needs by such.

In view of the above definition of bubbles, **TARGET** maintains that there is no way to prevent the proliferation of bubbles, especially asset-based bubbles, predicated by rapid increases in the market prices of bricks and mortar.

As long as man has the greed gene, bubbles will, from time to time, sprout, and, then, the roots will wither, temporarily, only to germinate, once again.

Debtors proliferate in bubbles of all sorts, but when the going gets tough, as the world witness, during the past 36 months or so, defaults by one or more debtors can result in others, finding themselves helpless to defend their positions.

Citigroup Incorporated would be hard-pressed to deny the above statement since this US financial services company, once the largest bank in the US, nearly went belly up due to the inability of its capital base to withstand the legions of defaulters with their many tens of billions of dollars' worth of problems.

With the fast expansion of an economy, it, invariably, leads to improved investor confidence.

In the latter stages of a fast-expanding economy, however, speculation abounds, leading to a bubble.

It is only after the bubble bursts that one notes the fragility of the economy with its very visible market participants, most of whom are badly over-extended.

At this point, debt service cannot be met.

Banks, which had been the willing partners in the bubble, helping speculators and showing them the road to the mythical horn of plenty, the cornucopia, if you will, seeing that their situation had become tenuous, pull the plug on debtors.

These same banks, then, have one of 2 ways to go: Take possession of the asset(s) in the hope that the banks can find a willing buyer(s); or, give the legal owner of the asset(s) a temporary forgiveness package, with a promise that the owner will repay his financial commitment when the situation is able to righten itself, again.

It is only when the dust has cleared can speculators and investors look back and say to themselves: *'For what reason did I do that?'*

As William Shakespeare wrote in his play, Macbeth, the Second Witch in Act 4, Scene One, chants:

'Fillet of a fenny snake,
In the cauldron boil and bake;
Eye of newt and toe of frog,
Wool of bat and tongue of dog,
Adder's fork and blind-worm's sting,
Lizard's leg and owlet's wing,
For a charm of powerful trouble,
Like a hell-broth boil and bubble.'

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