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KEEP THE CASH IN YOUR POCKET: DON'T BE TEMPTED BY GURUS OR GA-GAS

Investors would be wise not to harbour any notions of investing in stocks and shares for the foreseeable future.

This is **TARGET**'s opinion.

In fact, this has been this medium's opinion for the past 12 months, at least.

While the gurus of Wall Street like to stress that this counter or that counter is selling at a Price-Earnings Multiple, not seen for many a year, and, as such, now is the time to buy in, while ga-gas of the Hongkong Special Administrative Region (HKSAR) of the People's Republic of China (PRC) seem to take delight in making predictions as to the height that The Hang Seng Index will reach before Christmas, **TARGET** reiterates: Keep your money in your pocket and let others lose theirs for you.

There are so many reasons for the opinion of **TARGET** to be almost completely negative about investing in stocks and shares, at this time – there are, of course, exceptions to the rule; there always are – on any continent that it is difficult to know where to begin.

It is rare for this medium to write an article of this genre, but quite a number of **TARGET** Subscribers and people, who recognise this writer, have pressed, on numerous occasions, for answers to the simple question: Do I buy, sell, or hold?

The answer is:

(a) Do not buy equities at this time;

(b) If one is looking at a juicy profit from a previous investment in a counter, take the profit and run for the hills; and,

(c) If one is invested in a publicly listed company with which one feels comfortable and there is no urgent need for cash, holding one's position may be an acceptable alternative to selling the scrip, provided that there is a reasonable return on the investment.

TARGET's Reasoning

Internationally, things do not look very promising.

In Europe, the dire economic situation is only just starting to unfold, with at least the economies of Greece, Ireland, Spain, Portugal and the United Kingdom, looking wan.

There is a very good chance that Europe will slide into a recession in the coming 12 months and could face a difficult time for the next few years after that.

In Eastern Europe, only a handful of people, lodged in places of near absolute power, have an inkling of the true situation in these economies.

From time to time, one is treated to a statement by the head of this Eastern European government or that Eastern European government to the effect that things are looking very peakish and that the previous Administration did not tell the truth about the economy, falsifying some of the statistics.

This is quickly followed by the sale of some bonds, guaranteed by the government of the day.

In the United States of America, it was only on Wednesday, Washington D.C. time, that The Federal Reserve made definitive statements about the US economy which included:

> *'Household spending is increasing but remains constrained by high unemployment, modest income growth, lower housing wealth, and tight credit…*
>
> *'… investment in nonresidential structures continues to be weak and employers remain reluctant to add to payrolls ...*
>
> *'Housing starts remain at a depressed level. Financial conditions have become less supportive of economic growth on balance, largely reflecting developments abroad. Bank lending has continued to contract in recent months …'*

The Fed determined to keep interest rates at historic lows of between zero percent and 0.25 percent in order to help to stimulate the economy.

The unemployment rate in the US is almost certain to rise, probably higher than the previous record of 10 percent, especially in respect of the *'deep south'* where, thanks to BP plc and its negligence in allowing about 100,000 barrels of crude oil to pollute the waters of The Gulf of Mexico, daily, tens of thousands of people are staring at a very cold winter.

The oil spill continues to this day.

As long as people are without gainful employment and without any prospects of obtaining jobs in the foreseeable future, and as long as they are concerned about keeping a roof over their, and their families', heads, there will be widespread discontent.

Discontent, only too often, leads to increased incidences of lawlessness.

In the United Kingdom, the Chancellor of the Exchequer, Mr George Osborne, on Tuesday, London, England time, in order to try to rein in spending, among other things, increased the **V**alue **A**dded **T**ax (**VAT)** from 17.50 percent to 20 percent, reduced spending on welfare, froze child benefits, cut housing benefits, and increased capital gains taxes.

For the quarter, ended April 30, 2010, the unemployment level in the United Kingdom was standing at about 7.90 percent, an increase, Quarter-On-Quarter, of about 1.28 percentile points.

In Japan, once feted as the second-largest economy of the world, its government has had to take the drastic step of pumping ¥3 trillion into the economy at very low interest rates in order to try to stimulate economic growth.

For the past decade or so, Japan has been borrowing money in order to oil the wheels of its economy, but it is, today, a certainty, that The Land of The Rising Sun will never be able to retire its massive debt load.

In the industrialised world, Japan has the weakest finances.

In truth, it could be said that the country is technically insolvent.

The **I**nternational **M**onetary **F**und (**IMF**) has gone on record as stating that, by the year 2014, Japan's external debts will reach 246 percent of **G**ross **D**omestic **P**roduct (**GDP**).

Today, Japan is staring at a debt *'mountain'* of about 227 percent of GDP.

The sun is not setting on Japan – because it has, already, set.

Turning to the PRC and its economy, there is a widespread mistaken belief that the economy of the HKSAR will be shielded from any catastrophe because of the strength of the economy of the PRC and its huge, foreign-exchange surpluses.

This is, of course, a nonsense.

The size of the PRC's economy is about one third the size of the US economy.

It emerged as the second-largest economy of the world in December of 2009, in fact, although few people appear to realise this fact.

In 2009, however, it was officially recognised that the PRC replaced Germany as the world's largest exporter.

The PRC, today, is the largest holder of foreign exchange and the second-largest, net international creditor.

The US Government recognises that the PRC is its largest, single holder of US Government debt.

It is a guarantee that the PRC will go from strength to strength, financially, in the coming years.

But the PRC will, still, need to export its products to its 2 main trading partners, to wit, Europe and the US.

And here is the rub.

If Europe slides back into recession in the next 6 months to a year, the PRC's economy will be hurt.

If the economy of the US does not strengthen as the renminbi's translation value appreciates against the US dollar – The People's Bank of China suggested, last Saturday, that is would permit the renminbi to be more flexible from heron in – then, PRC-produced goods and services will become more expensive on the US High Street.

This will lead US importers to seek other sources of similar goods and services at cheaper prices than those, offered by PRC manufacturers.

Meanwhile, the PRC is facing demands from labour for higher wages and better working conditions.

The days of cheap labour in the PRC are relegated to history.

The increased cost of doing business in the PRC will be passed on to the consumer, those domestic and those of foreign lands.

Higher production costs will mean higher prices; will mean fanning the flames of inflation.

Inflation in the PRC is, already, a problem.

It will not go away easily in the same way that a fungus is difficult to eradicate.

If the PRC is in trouble, the HKSAR is in trouble – in spades.

All of the above and more suggest that things are not at all conducive to investments in many, if not most, companies, listed on equity markets around the world.

Naturally, there will be those companies, such as Apple Incorporated, whose share price will shoot ahead with investors, wondering as to the reason that they did not buy into them when the share price was much lower.

Then, again, who could have thought that Lehman Brothers Holdings Incorporated would have to file for Chapter 11 bankruptcy protection on September 15, 2008 – holding more than $US600 billion in assets?

Who would have thought that **A**merican **I**nternational **G**roup Incorporated (**AIG**), a leading, international insurance organisation with operations in more than 130 countries and jurisdictions, would have to be bailed out by the US Government?

The US Federal Reserve Bank, on September 16, 2008, created an $US85- billion credit facility in order to enable AIG to meet increased collateral obligations, consequent to the credit-rating downgrade in exchange for the issuance of a stock warrant to The Federal Reserve Bank for 79.90 percent of the entire equity of AIG.

It happened.

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