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BUY, SELL OR HOLD ?
INVESTORS PONDER: WHAT IS THE BEST COURSE OF ACTION ?

Dr Ben S. Bernanke, the Chairman of the US Federal Reserve, makes a statement on Day One … and, on The New York Stock Exchange, the Dow Jones Industrial Average losses traction as investors bail out.

Then, on Day Two, Dr Ben S. Bernanke clarifies his statement of Day One … and, on The New York Stock Exchange, the Dow Jones Industrial Average gains traction as investors rush to buy stocks and shares.

Then, on Day Three, Dr Ben S. Bernanke, commenting on the changing fortunes of the largest, single economy of the world, makes another statement … and, on The New York Stock Exchange, the Dow Jones Industrial Average reverses its direction and investors try to bail out, once again.

And so it goes on … and on … and on.

In the Hongkong Special Administrative Region (HKSAR) of the People's Republic of China (PRC), it is a similar story to that, being told on Wall Street.

And this has resulted in The Hang Seng Index, rising on Day One, only to fall back on Day Two, and, then, make another feeble attempt to rise on Day Three.

The facts are only too clear: The key indices of major equity markets of the world are, for the most part, directionless.

And, it is a self-evident truth that, when the key indices of major equity markets cannot rise, then, they must fall. This is because a motionless index of an equity market does not exist – and never will.

Therefore, the answer to the question as to whether one should buy, sell or hold equities, is, simply put: Keep your powder dry, boys and girls.

This is the opinion of **TARGET** ().

The Herd Mentality

The fundamentals of a corporate entity or a bank may appear solid, or solidly based, but equity markets, it appears in today's world, are not very interested in fundamentals and have adopted the herd mentality, for the most part.

That being the case, one hears, from time to time, that investing in solidly based banks that have a long record of paying reasonable dividends may well be considered as targets for investors to buy such a bank's scrip since its current share price may, at first glance, appear attractive.

Well, Barclays plc, a bank with a 323-year history, announced in late July that it intends to raise £5.80 billion (about $HK68.90 billion) – and that there would be no half-yearly dividend.

On hearing the news, investors sought to bail out of this well-known, once considered solidly based, British bank.

In terms of Great Britain, Barclays is the third largest, and, in terms of Europe, it is the sixth largest.

In two days of investors, selling Barclays's scrip, the share price had given up about 9.50 percent.

The underlying reason for the selling spree of Barclays's scrip on The London Stock Exchange was not just on digesting the news of the cash-raising exercise in order to shore up the bank's balance sheet, but due to some other startling news.

Aside from the news of the One:Four Rights Issue, this bank, in its report in respect of the first half of the Current Financial Year, admitted that it had been forced to make provisions in the amount of £2 billion (about $HK23.76 billion) for compensation for mis-selling, and another £1.35 billion (about $HK16.04 billion) for payment protection insurance.

It was in February, this year, that Barclays announced a Net Loss Attributable to Shareholders of £1.04 billion (about $HK 12.36 billion) in respect of the 2012 Financial Year. It was the first time in two decades that this bank had had to bite the bullet.

So, in which bank can one be certain?

TARGET's answer: Probably none.

As for HSBC Holdings plc, a bank with a history of about 148 years, it is (or was) the largest bank in the world.

On May 11, 2011, the bank's new Chief Executive, Mr Stuart Gulliver, announced that there would be a radical change in the business of this lending institution.

Since his pronouncement, about 46,000 people have been sacked and 54 businesses have been closed down in addition to the selling of some gilt-edged scrip.

Mr Stuart Gulliver has had the bank that he controls, during the past two years, sell, and sell, and sell, and, although in some cases, these sales have thrown up material, one-off gains, what is missing from his plans is the creation of a newly revised banking structure that can, on the one hand, diversify its interests, and, on the other hand, guarantee that not all of the bank's income, or too large a portion of it, comes from just one basket.

It is well known that, during the first half of the Current Financial Year, ended June 30, 2013, about 65 percent of the bank's Pre-Tax Profits have come from the Asia-Pacific Region.

The Net Profit Attributable to Shareholders was $US10.284 billion (about $HK80.22 billion), an increase of about 21.92 percent, Year-On-Year.

As for the rest of this Financial Year, Mr Stuart Gulliver has stated that the bank's performance would depend on this and that.

What was very clear was that he was completely non-definitive about the future prospects of HSBC Holdings plc.

The bank's share price today is about $HK85. It will be interesting to see whether or not the share price will stay at the current levels or fall to a much lower level between now and December 31, 2013.

In this medium's opinion, the bank's share price, today, is much too high.

The International Situation

It is a well-worn axiom that, in the bullish phase of an equity market, it would take international news of stupendous proportions before investors could be swayed from their chosen path of buying stocks and shares from the moment that markets opened for business on trading days.

But, in the bearish phase of an equity market, the slightest hint of negative news could cause panic selling of stocks and shares.

Today, the world is looking square in the face of bearish equity markets, for the most part, and, as such, on any trading day, the key indices of equity markets could drop very materially at the first hint that something was amiss.

If the economic situation in the People's Republic of China (PRC), for instance, were to deteriorate, significantly, during any one quarter, watch out! Anything could be possible.

The Hang Seng Index, as one example, could drop by as much as 20 percent in one trading day – or even more.

One should not rule out such a sudden fall in the key index of The Hongkong Stock Exchange: It has happened before.

The PRC has become the growth *'engine'* of the economies of a number of countries so that any substantial economic hiccough in the Middle Kingdom would have an immediate and deleterious effect that would be felt round the globe.

Then, there is Egypt, Lebanon, Iran, Iraq, Israel, Syria and Libya, to name but seven Middle Eastern nations, any one of which could become politically unstable and flare up like a tinderbox.

In fact, Egypt and Syria are, today, teetering on complete political instability, which could well lead to anarchy, with the prospects of Egypt, joining Syria by putting in place the building bricks of its own civil war as two factions, the pro-ousted President Mohamed Morsi Faction and the anti-ousted President Mohamed Morsi Faction square off for a showdown that could become very bloody.

The Middle East, still, holds the trump cards when it comes to supplying most of the world with oil.

OPEC – the **O**rganisation of **P**etroleum **E**xporting **C**ountries – which includes all of the Middle-Eastern oil producers, exported 30.34 million barrels of crude oil, during the month of July.

Those exports represented a fall of about 110,000 barrels, compared with crude-oil exports for the month of June.

A fall in the production and exports of crude oil from Libya, as well as from South Sudan, Egypt and Syria are being cited as the reason that oil prices are stubbornly remaining relatively high in the consuming countries of the world.

If more of the major, Middle Eastern oil producers should determine to reduce crude-oil supplies further to the West, for whatever reason, contrived or due to political and/or religious necessity, up would jump the price of petrol at the pumps; and, it would not be a very large leap of one's imagination to realise that that would have a knock-on effect on consumers, throughout North America and Europe.

Chaotic situations, political and financial, would follow in quick succession as the tap was turned so that crude oil only trickled out of the spout.

This scenario has happened before, also.

And there is still al-qaeda and large, fundamentalistic Islamic groups that use murder as their weapon of choice in order to obtain nebulous gains.

The war on terror is in full bloom.

At any time – as the world witnessed just last week – the strong suggestion of manifest terroristic tactics, about to be employed against Western interests in the Middle East by agents of al-qaeda, has the potential to influence, at some considerable expense, the actions of states.

And should there be successful, widespread terrorism, lodged against Western interests, it must affect prices of just about everything, directly or indirectly.

So, taking into consideration all of the above factors, should one be holding, buying or selling equities?

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