

WHAT WOULD BE YOUR CHOICE:

POLITICS OR WEALTH ?

Man, only too often, could be likened to the childlike weaknesses as flights of fashion.

For every little thing appears to frighten the child in us, all, as does every trivial fancy appears to delight us, all.

When the key indices of international equity markets dropped markedly, following the overnight falls in the value of The Dow Jones Industrial Average, a key index of The New York Stock Exchange, panic gripped many an investor, worldwide, awakening, once again, that sudden, uncontrollable fear only too often leads to widespread anxiety.

As a direct result of that which had transpired on Wall Street, it caused material losses to be chalked up in the value of the key indices on most of the equity markets in Asia.

Many a self-proclaimed investment guru of certain large, international banks and finance houses gave reasons for The Dow's massive losses, stating, inter alia, concerns that The Federal Reserve System, the central banking system of The United States of America, was about to recommend, raising interest rates in order to keep inflation in check.

This was a repeat pronouncement of the near same story that had been making the rounds for most of the 2017 calendar year.

There was little that was new in respect of those prognostications of the past year – but they never materialised (!).

That The Fed, as The Federal Reserve System is commonly called in banking and investment circles, shall, at the appropriate moment, determine to lift interest rates is hardly newsworthy for, if it did not raise interest rates when called upon by circumstance so to do, it would not be in keeping with its sworn remit.

The economy of The United States of America has strengthened remarkably under the watch of President Donald John Trump – much to chagrin of certain lawmakers in the country, **TARGET** () hastens to add – and The Dow has hit one record-breaking high after another.

The promised economic policy of the Trump Administration has ignited the fires of hope of an enormous number of the people, living in the world's most-successful economy.

The overhaul of the country's tax system has released hundreds of billions of dollars into the economy, with many an employee, suddenly finding himself/herself with an unexpected cash windfall as managements of numerous domestic companies felt inclined to put extra money into their employees' weekly pay packets.

That inflation in the largest, single economy of the world must be contained need not even be mentioned for it is plainly obvious, but the violent rises and falls of the key indices of equity markets, around the world, after The Dow fell out of bed on Thursday, February 8, does not make too much horse sense, in the popular vernacular of Americans.

Then, again, do many of the violent rises and falls of the key indices of equity markets follow investors' horse sense, or are they simply fear, fuelling many an investors' concerns of *'the undiscovered country, from whose bourn no traveller returns, puzzles the will...'*, to quote William Shakespeare in his immortal play, *'The Tragedy of Hamlet, Prince of Denmark.'*

The unknown, but perceived, horrific catastrophes, often forming on the myopic horizons of the ignorant and innocent minds of investors, certainly puzzle the will for, more often than not, they are unfounded, having been proposed by those who stand to benefit from the gyrations of the indices of equity markets.

Thursday, February 8, 2018

On that day of Thursday, February 8, The Dow shed about 4.10 percent, plunging 1,033 points.

It was the second time in the history of The Dow that it had lost 1,000 points in a single day.

In truth, the Dow's losses had not been promulgated by any particular act of anybody or any statement by anybody of note, but a '*firm*' belief in the minds of a few that the worst was about to befall the key indices of the largest equity market of the world.

It was a self-fulfilling prophesy.

As this belief made the rounds, there was an almost immediate overreaction and investor lemmings started their migration, away from the bull market to the making of an horrific bear one, one from which the world is still '*enjoying*'.

In the Hongkong Special Administrative Region (HKSAR) of the People's Republic of China (PRC), on learning of the dramatic situation in respect of the key indices on The New York Stock Exchange, The Hang Seng Index, the key index of The Stock Exchange of Hongkong Ltd, followed suit, falling back about four percent.

The fall in the value of The Hang Seng Index was for no other reason than investors, having suddenly become shell-shocked on learning of The Dow's historic losses and, having made the determination that, in the absence of any definitive intelligence to explain the real reason for the situation on the world's largest and most-prestigious equity market, they decided that the wisest action to take was to be ultra-cautious in such a situation.

Translation: Sell equities while there are, still, buyers.

What appeared to be missing in respect of the judgments of many an investor of the HKSAR that was caught up in the panic of the moment, resulting in the making of the determination to dump stocks and shares, following the Dow's sudden diminution in value, was that the major economies of the world were in very good shape, with that of The United States of America, leading the way.

On Wednesday, February 28, 2018, exactly 20 days after The Dow fell 1,033 points, The Bureau of Economic Analysis, a division of The Department of Commerce of the Government of The United States of America, released its findings with regard to the Second Estimate of the Real **Gross Domestic Product (GDP)** in respect of the fourth quarter of 2017.

The Bureau stated, inter alia:

'Real gross domestic product (GDP) increased 2.5 percent in the fourth quarter of 2017... In the third quarter, real GDP increased 3.2 percent.'

'Fourth-quarter GDP highlights

‘The increase in real GDP reflected an increase in consumer spending, exports, business investment, housing investment, as well as state and local and federal government spending. These contributions were partly offset by a decline in inventory investment. Imports, which are a subtraction in the calculation of GDP, increased.

‘Prices

‘Prices of goods and services purchased by U.S. residents increased 2.5 percent in the fourth quarter after increasing 1.7 percent in the third quarter. Excluding energy and food, prices rose 1.9 percent after increasing 1.6 percent.

‘Annual GDP growth

‘For the year 2017, real GDP increased 2.3 percent, compared with 1.5 percent in 2016.

‘The increase in real GDP in 2017 reflected increases in consumer spending, business investment, exports, housing investment, and government spending.

‘These contributions were partly offset by a decline in inventory investment. Imports increased.’

EDITOR’S NOTE

Real Gross Domestic Product is an inflation-adjusted measurement that reflects the value of all goods and services, produced by an economy in a given year. It is expressed in base-year prices and is often referred to as ‘constant-price’, ‘inflation-corrected **GDP**’ or ‘constant dollar **GDP**’.

The Equity Market Of The HKSAR

On scanning the prospectuses of many an **Initial Public Offering (IPO)**, published and disseminated in the HKSAR, it can be very off-putting for knowledgeable investors.

From the standpoint of the financials of numerous companies, seeking to raise money on either the Growth Enterprise Market (the secondary equity market) or the Main Board of The Stock Exchange of Hongkong Ltd, it would appear that it is only too often, in investors’ best interests, not to consider, applying for the new shares on Offer.

However, notwithstanding this caveat, there are many well-established, publicly listed companies with long

histories of earnings' growth whose future is, almost, certain to delight its minority shareholders in the months and years to come.

Higher inflation is unlikely, dramatically, to affect the equity markets of the 416 square miles that constitute the HKSAR.

In fact, as the economies of the **European Union (EU)** and The United States of America continue their respective marches to higher levels, all things being equal, in the HKSAR, it is quite likely that the earnings of many a publicly listed company will experience earnings, in the next nine months or so, at a double-digit rate.

It is fact that the **Price-Earnings Ratios (PE Ratios)** had not been stretched at all as The Hang Seng Index rose, throughout the 2017 calendar year.

In terms of the PE Ratios of many a company, listed on the equity markets of The United States of America, the share prices of many HKSAR blue chips must be extremely attractive to international investors.

In spite of The Fed, doing its '*thing*' in order to contain inflation in the largest-single economy of the world, it is quite unlikely to have a deleterious effect in the intermediate-term with regard to gilt-edged equities, listed on The Stock Exchange of Hongkong Ltd.

Ironically, the actions of The Fed, in raising interest rates at a moderate pace, during 2018, might prod many investors from the EU and The United States of America to take a closer look at Asia as an alternative venue to making further investments on their traditional turfs.

Disregarding the '*kids*' of the HKSAR, who had, in the past, been somewhat of a disturbing pinprick to executives of a number of publicly listed companies, their antics appear to have been relegated to history; and, it is highly unlikely that one will, ever, see them return in their numbers of the past.

The HKSAR has been blessed in the manner that Beijing has viewed the HKSAR in spite of calls for independence by a minority of the Chinese residents.

If anything, one should be grateful for the benignity of the Government of the PRC toward the recalcitrant residents, living in the little '*pimple*' on its southern border of the most-populous country in the world.

In many parts of the PRC, such an attitude, as that displayed in the HKSAR by the leaders of the

independence movement, would not be tolerated, at all.

One recalls the actions of President Abraham Lincoln, the 16th President of The United States of America, when 11 Southern states seceded from the Union and formed The Confederate States of America.

The ugly war that followed lasted the best part of four years, from 1861 until 1865, and took the lives of about 2.40 million Americans, on both sides.

As the economy of the PRC continues to grow, the HKSAR stands to benefit, greatly.

The choice between an unknown and untried political regime, based on independence from the PRC Government, and bringing much greater wealth to the HKSAR might be considered as an unfair comparison because nearly all the residents of the territory would opt for more wealth rather than giving very much thought to the matter of a democratic Hongkong:

Damned be to politics!

-- End --

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