

THE RAIN ALWAYS FOLLOWS THE SUNSHINE

There is a very real possibility that the Hang Seng Index could drop like a mallard duck fall from the sky after being hit with an arseful of buckshot.

The Hang Seng Index has risen from 7,565.54 (as at October 5, 1998) to 13,333.20 (as at April 30, 1999) -- and it could fall just as fast as it rose.

This is not to say that The Index will fall a similar amount as the steep rise of 76 percent, within a similar period of time, but there is a bigger chance of a deep and quick correction than another fast rise of the magnitude of the past 6 months.

One of the main reasons: There are, still, too many companies, public and private, in deep, deep financial trouble.

Winding-Up Petitions are not uncommon, these days, and last week's Petition to wind up Star Telecom International Holdings Ltd, over an alleged non-payment of about \$HK106 million, is no laughing matter.

It is just too small, relative to the former earnings and reported Gross Assets of this publicly listed company, to be anything other than a very serious matter.

The Hang Seng Index is no barometer of the present day's economy of the Hongkong Special Administrative Region (HKSAR), and should not be taken as such.

It may, sometimes, be investors' hopes of things to come, but it is never, and may never be, a reflection of the present state of the economy.

If truth were known, much of what has happened in the Hongkong market, over the past PPP months, has been the result of the bulging pockets of investors who have scored well in other markets, outside Asia.

TARGET remembers the Latin idiom, Post Hoc, Ergo Proctor Hoc (After This, Therefore Because of This), and how it is explained in universities, the world over, in the following manner:

An African witch doctor, standing at the foot of Mount Kilimanjaro, used to adorn himself with a white mantle, at certain times of the year. When the snows came to Mount Kilimanjaro, soon after the mantle-adorning ceremony, which was accompanied by loud incantations and much revelry, the witch doctor would proclaim, proudly, that the snows came because he donned the white mantle of the snow – Post Hoc, Ergo Proctor Hoc

The fact that some people have been able to produce a profit, by purchasing and selling shares on The Stock Exchange of Hongkong Ltd, does not mean that the economy of the HKSAR is out of the woods.

The fact that the property market appears to be on the mend may mean nothing, too, for that matter, because property prices are linked, directly, to interest rates so that, when interest rates are high, property prices decline ... and vice versa.

Interest rates in the HKSAR are still, relatively, very high, compared with Canada, for instance, where mortgage lending is being pitched at about 7 percent for 5-year money while, in the US, mortgage lending is about 6.50 percent for 5-year money.

Today, in the HKSAR, mortgage lending is about 8.50 percent for one-year money.

Unemployment in the HKSAR, today, in at a 18-year high, with the latest statistics, indicating a rate of 6 percent of the workforce, being out of work.

It was only late last year that many HKSAR companies cut back on the number of workers they employed; Telecom is still cutting back, drastically.

And Chinese New Year bonuses are fast becoming a fading memory for many a company and employee – because that was a luxury of times gone by.

The HKSAR has undergone a great deal of dental surgery since 1997, and still the cavities in the economic mandible have not healed, completely.

If one may be frightened by statistics, the following table, compiled by The International Monetary Fund, is enough to put the fear of God into many an economic pundit:

Gross Domestic Product – Percentage Change		
Country	1997	1998
The People's Republic of China	+8.89	+7.80
Australia	+3.60	+5.10
Singapore	+8.00	+1.50
New Zealand	+2.10	-0.30
The Philippines	+5.20	-0.50
Japan	+1.40	-2.80
The HKSAR	+5.30	-5.10
South Korea	+5.50	-5.50
Indonesia	+4.60	-13.70
The USA	+3.90	+3.90
11 Euro-Zone Countries	+2.50	+2.90

In addition to the above statistics, which speak for themselves, to be carried away with the euphoria, generated by any violent, upward movement of The Hang Seng Index, would be big mistake.

A careful look at the number of companies, listed on The Stock Exchange of Hongkong Ltd, the price of whose shares have risen to any material extent, indicates that, mainly, only the 'big boys' have really made an appreciable upward movement in prices.

How many of the banks, operating in the HKSAR, will have to bite the bullet again, this year, remains to be seen: Investors got a rude awakening, at the last reporting season for banks, and there is, likely, more bad news still to come.

For investors, who are looking at satisfactory profits from trading on The Stock Market, it behooves them to cash in their chips while they still can ... just in case.

If TARGET is wrong, the premature selling of publicly traded shares, taking in a profit, along the way, can only mean that those people did not ride the Stock Market roller coaster to the last stop.

But, if TARGET is correct, then selling shares, today, means a guaranteed sum of money in one's pocket – and it will not burn a hole there.

Then, when there is a substantial Market correction, one can always go in for a second ride.

Halcyon days are usually followed by periods of rain.

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