



MARKET REVIEW 2011

Forecasts at the beginning of 2011 were almost all positive. The markets had rebounded and performed well in the previous two years. Sentiments were bullish all round.

Reality was less rosy. There were plenty of gyrations and wild swings but in the end the markets went...nowhere. The S&P 500 started the year at 1257.62 points and ended at precisely 1257.60 points, in what some have dubbed as a sideways market. Probably no human being could have envisaged such a scenario. Was there more to it than meets the eye? The question may be more than theoretical. It seemed that there may have been a discernible pattern behind the chaotic madness that characterised the financial markets throughout 2011. Though it may be far-fetched, similarities may exist between market movements and earthquake aftershocks and other natural systems. It seems unreal if we think of markets as a system in equilibrium. But if we think of markets as being constantly driven out of balance and responding to these changes, then volatility of the kind experienced during the financial crisis may not seem so unnatural.

FIRST, THERE WAS THE ARAB SPRING – A TERM THAT WAS PROBABLY TOO OPTIMISTIC TO START WITH.

The string of protests and demonstrations by the common people in the Middle East that ended with the violent overthrow of dictatorships, were only to be replaced by less than democratic institutions. Then, an earthquake and tsunami hit Japan. For a while, the world watched as Japan struggled to contain the radiation leaks. International supply chains were disrupted as a result. The Nikkei fell 14%. Asian equities lost ground during that quarter. The DJIA crossed 12,000 points in February and managed to hang on to its gains for the first quarter, up 4.7%.



AND GLOBAL OUTLOOK 2012

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THE BIG STORY FOR THE SECOND QUARTER WAS THE US DEBT CEILING. There, the government was deadlocked over whether or not to raise the ceiling to allow more borrowings without which the government could not function. In the end, while the issue was resolved, the political impasse was a major contributor to the downgrading of the AAA status of the US. Markets fell universally. The Dow fell 1.86%. Commodities, including gold, were not spared. Pinebridge Singapore Bond Fund was one of few bright sparks that managed gains.

THE EUROPEAN CRISIS HOGGED THE HEADLINES IN THE THIRD QUARTER. Two years on, there is still no resolution in sight for the debt problem. The erratic responses seemed to follow a pattern of denial over speculations that certain actions would be taken, which in turn caused markets to fall. Then, following the denial and left without other alternatives, the same set of actions were implemented causing markets to rise.

Investors are fleeing, capital is leaving on a daily basis and the survival of the Euro is in doubt. Financial institutions have started making preparations to transact in their former country's currency. The UK government has begun preparations to evacuate her residents from Greece should it become necessary. So much is happening in the UK that the fact it has been replaced by Brazil as the sixth largest economy was barely noticed. The Dow went into free fall in the third quarter, tumbling every month for a combined loss of 6.7%. It was worse for emerging markets, which lost double digits. On the other hand, United and Henderson Global Bonds both exceeded 8% in growth for the third quarter. Asset class and security selection in bond fund management has now taken on greater importance.

A SPATE OF BETTER-THAN-EXPECTED GOOD NEWS AT YEAR END RALLIED THE MARKETS. The Dow put on 11.4% in the fourth quarter to end the year in positive territory. Measured in SGD, it gained 6.8% in 2011. Other equity markets likewise recovered but were unable to shrug off previous losses. Almost all were in red ink for the year. Gold was the notable exception though it experienced a roller-coaster ride in the fourth quarter. The SPDR Gold which tracks gold prices was down 3.4% in the fourth quarter but was up 12.6% for the year. Not a bad return since it has enjoyed a bull run for many years now.

Equities disappointed in 2011 despite overwhelming optimism at the beginning of the year. Bonds offered some relief as they were mostly positive. Real estate, technology and commodities all headed south. Healthcare bucked the trend to reinforce its status as a defensive sector. The United Global Healthcare Fund gained 6.2%, which is credible, given the heavy losses experienced by some of the other sectors.

Three years into the Global Financial Crisis that rocked the world, there is a sense of déjà-vu. It seems we have been here before. It is as if we are starting over. Some would say we are worse off than in 2008. Then, we escaped a depression even though industrial output, global trade and equity prices fell as much as it did, similar to the 12 months following the Great Depression.

In exchange, we now grapple with a European banking industry that needs as much as €650 billion in 2012, by some estimates, to stay afloat. Some of the biggest European names in banking are believed to be insolvent. In an interesting reversal of roles, banks are now borrowing from cash-rich corporations. In Italy, it is estimated that organised crime now generates an annual turnover of about €140 billion, and profits of more than €100 billion. With €65 billion in liquidity, the Mafia is Italy's number one bank. Its profits are equivalent to about 7% of national output.

Moving into 2012, it is prudent to be cautious. Adopt sufficient defences in your strategies. Dial down your risk exposure to equities.

For the diehards though, here's a statistic. Money has been flowing out of unit trusts for six months now. This represents the biggest bout of selling since March 2009. At that time, markets started to charge up. Some markets gained more than 50% in the following 12 months. They say it pays to buy when everyone is selling. It looks like everyone is selling now. Obviously, one must be nimble. Cycles are getting shorter and volatility has increased considerably. If you cannot be nimble, then invest with a dollar-cost-averaging programme. Also for the diehards, gold remains an attractive alternative when fiat currencies fail. Demand for gold as jewellery, however, has fallen on hard times as India and China struggle. China, for example, has gone on record to say it will not be jumping in to rescue Europe in any big way, despite reassuring her leaders a short while ago that she was ready to help.

2011 saw the death of one of the most recognisable icons of the business world. Steve Jobs was only 56. On the other side of the world, the ruler of one of the most isolated nations on Earth passed into eternity. Kim Jong-il was 69 when he died.

It is probably right to say that in 2012, the world needs another Steve Jobs to excite and challenge us to the hitherto unimagined possibilities that lie ahead. The comeback kid showed us that there are solutions that have yet to be explored, in places that we usually do not associate with solutions – places like Africa or North Korea perhaps?

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