



## A Decade of Possibilities

Dear Reader,

Welcome to the first edition of my monthly investment e- letter.

It might seem like an obvious opening statement, but our personal finances are hugely important. Yet bad advice, bad timing, bad planning and investing emotionally instead of rationally mean that far too many investment decisions end up as costly mistakes.



A classic mistake is joining an investment trend late - individuals buy near the top, get burnt when the market turns, then, with substantial losses, they throw in the towel and vow never to invest again.

One simple aim of this regular e-letter is to help prevent the latter from happening.

Over the coming months, I will help you spot trends early and show you - clearly and in plain English - how to take advantage of such opportunities. In short, I will help you navigate through a lifetime of financial planning and personal investing.

### This week's highlights:

- **State of Play - Where we are, where we're going**
- **Beware the Ring of Fire - Look to Asia and the emerging nation**
- **Commodities - The natural choice**

### State of Play

Since March 2009 we have seen a V-shaped recovery in global equity markets and we hope that a similar recovery will take hold in the real economy.

However, last week saw a sharp sell off in global equities, triggered by two catalysts, growing worries over sovereign debt, especially problems with the PIGS (Portugal Italy Greece Spain) nations and concern over US employment data.

***If we see a deeper correction on equity markets, it will signal a buying rather than a selling opportunity.***

As it happened, better than expected US jobs data gave the markets a late rally on Friday, but nonetheless we've experienced a mini-dip.

Indeed, a correction of 10% or more has been widely anticipated, and at this stage rather than panic my broad strategy would be to 'buy on the dips'.

If we do see a deeper correction on equity markets, then I believe that it will signal a buying rather than a selling opportunity.

Looking ahead I see the key investment issue in 2010 is how governments manage their exit strategies from fiscal stimulus packages and when monetary authorities start to raise interest rates.

Timing is crucial: move too early and the authorities risk choking off the fragile recovery. Act too late and risk runaway inflation.

"With that in mind, I believe that the majority of international equity markets in 2010 will see modest gains with some minor bumps along the way."

### **Beware the Ring of Fire - Look to Asia and emerging countries**

*"When the price is right, go where the growth is, where the consumer sector is still in its infancy, where national debt levels are low, where reserves are high, and where trade surpluses promise to generate additional reserves for years to come."* – Bill Gross

I've just read the latest investment outlook from Pimco founder Bill Gross. Pimco are one of the world's leading bond fund managers and Gross, who runs the \$200 billion Pimco Total Return fund, is known globally as a bond guru.

He understands debt and the effect it will have on an economy and when he speaks about bonds, we should all pay attention and listen.

As the chart below shows, Gross singles out the countries that he thinks are most vulnerable in 2010 - the '**Ring of Fire**' – and suggests we stay well clear.

These red zone countries are ones with the potential for public debt to exceed 90% of GDP within a few years' time, which would slow GDP by 1% or more,' he says.

***Asia and developing nations offer the best combination for the safest and best returns.***

Conversely, he believes that of the developed countries, Canada and Germany stand out as the safest bets.

The yellow and green areas are considered to be the most conservative and potentially most solvent, with the potential for higher growth.'

The clear message here is that countries with high levels of debt will under perform countries with low levels of debt as increasing taxes and spending cuts will act as a drag on economic growth.

*“Look, in other words, for a savings-oriented economy which should gradually evolve into a consumer-focused economy. China, India, Brazil and more miniature-sized examples of each would be excellent examples”.*

Gross suggests that the established G7 and their look-a-likes have lost their position as drivers of the global economy and that Asia and developing nations offer the best combination for the safest and best returns.

*“Risk/growth-oriented assets (as well as currencies) should be directed towards Asian/developing countries less levered and less easily prone to bubbling and therefore the negative de-leveraging aspects of bubble popping.”*

It is a conclusion that it is very hard to disagree with.

### **Commodities – The Natural choice**

Let's start with some indisputable facts. The combined population of China and India is around 2.5 billion people. Add in the populous emerging nations of Brazil and Indonesia to take the number to well over 3 billion.

That's a staggering amount of people - some 43% of the whole world - all looking to increase their standard of living and start a journey of growth that will consume energy and natural resources at a ferocious rate for at least several generations.

In fact, by 2030, the world population is forecast to grow to over 8 billion with around 2 billion new city dwellers expected.

That's roughly an extra two billion people in need of housing, light, power, roads, cars, food and so on.

And, with few exceptions, the resources that are needed to provide for this surge in economic and population growth are, if not finite, then in dwindling supply or hard to extract and process.

Coal, oil and steel are very obvious examples of these growth materials. Less obvious are phosphate-based fertilisers that squeeze yields out of land to feed growing populations and the copper that wires the homes of the new urban class.

***The evidence that emerging market growth is fuelling a long and deep boom in various commodities prices is, I believe, irrefutable.***

As economies industrialize they suck in raw materials like a vortex, and the good news for commodities investors is that China in particular is both cash rich and resource poor in many areas.

## **Riding the commodities super-cycle**

Commodities go through what analysts call super-cycles. These are peaks and troughs of supply and demand for natural and manufactured base materials. The key for investors is that these cycles are deep and long lasting. Most importantly, we are now in an emerging market growth led cycle that has much, much more development ahead of it.

The commodities super-cycle led by the mass industrialization of the United States began in the late 19th century. It took around 40 years to complete and impacted some 100 million people.

By comparison the current Chinese and Indian led commodities super-cycle we are in now is only less than a decade old. Yet it is way off the charts already. We are talking about a cycle driven by several billion people charging forward towards modernity at breakneck speed.

Most analysts expect this latest emerging markets commodities super-cycle to last for at least twenty years and, perhaps, much longer. And it is this irresistible force of growth that will drive the price of natural resources through the roof.

### **A ton of copper and an oil tanker to go...**

The evidence that emerging market growth is fuelling a long and deep boom in various commodities prices is, I believe, irrefutable.

So, that accepted, how does one take advantage of this truly gilt-edged investment opportunity?

Try to jump headfirst into the commodities market alone and you might encounter serious barriers. Firstly, these are tangible, physical investments; a ton of copper needs storing and will likely not fit in your spare bedroom.

Indeed, if you're thinking of gold as an inflation beating investment, what about the security issues involved in warehousing a precious metal. If you think oil will boom, fine, but where are you going to park that oil tanker?

The answer is to seek professional advice to take the guesswork and potential hazards out of these varied markets.

This is most easily done not by investing directly in the commodities themselves, but into investment funds.

There is a very wide range of such commodities based funds available, all offering differing rates of risk, return and exposure to the underlying base materials than a single individual acting alone could ever hope to achieve.

My preference would be a highly diversified fund that can invest in a wide range of companies spanning base metals as well as energy, gold and other precious metals

and minerals. The aim of such a fund would be to maximise returns and help reduce volatility.

History shows us economic development is an unrelenting and insatiable force. Don't miss out on this golden opportunity to ride the growth in emerging markets.

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All the best,  
Richard Holmes



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