



# MONTHLY REPORT

APRIL 2010

## QUARTER 1: 2010 SUMMARY



Benchmark indices such as the S&P 500 Index recorded the best quarter since 1998 on the back of improved sentiment as the global economy turning the corner emboldened investors to adopt more risk. For the quarter, the MSCI World Index gained 2.7% and the MSCI Emerging Markets Index 2.1%.

The major US indices outperformed the broad global indices with both the Dow Jones Industrial Index and the S&P 500 Index returning almost 5%. Running even harder, the small-cap Russell 2000 Index – the leading US index since the lows of March 2009 – gained 8.5%.

In stark contrast with most other stock markets, the Shanghai Composite Index was under water for the quarter with a loss of 6.7%. This underperformance (also seen in a decline of 3.0% in the Hong Kong Hang Seng Index) is noteworthy as Chinese stocks led global markets higher at the bottom and raises concerns that the same could be happening on the way down.

Notwithstanding the excellent quarter and solid rally since the March lows, only the Chile Stock Market General Index and the Mexico Bolsa Index have been able to reclaim their 2007 pre-crisis peaks and are now respectively trading 7.5% and 1.3% higher. Israel could be the next country to eliminate its bear market losses. The Dow Jones Industrial Index and

the S&P 500 Index still need to rise 30.5% and 33.8% respectively to reach their October 2007 bull market peaks.

Index	Current Index Value (March 31, '10)	Since High	Since Low	Performance						
				Since Mar 9	Year 2010	90 Day	200 Day	% to all time high		
MSCI World Index	1,891	22.8%	Oct 21, 2009	14.2%	3.9%	4.9%	2.7%	1,753	1,716	48.7%
MSCI Emerging Markets Index	1,810	24.6%	Oct 29, 2009	10.2%	1.6%	3.4%	2.1%	1,664	1,517	22.2%
DJ Industrial Index	10,821	22.4%	Oct 9, 2009	12.8%	3.7%	8.7%	4.7%	10,420	9,910	18.0%
S&P 500 Index	4,514	24.4%	Jun 9, 2009	11.9%	3.1%	8.2%	3.7%	4,134	3,999	21.9%
S&P 500 Composite Index	1,109	26.2%	Oct 9, 2009	12.6%	3.1%	8.2%	4.2%	1,034	1,000	13.9%
Russell 2000 Index	2,394	26.1%	Oct 21, 2009	19.9%	3.0%	7.7%	3.7%	2,212	2,120	12.7%
Russell 2000 Index	475	26.7%	Oct 13, 2009	17.2%	3.0%	8.4%	3.4%	441	399	26.7%
Canada S&P/TSX Composite	12,814	24.7%	Jun 16, 2009	12.4%	3.8%	9.6%	3.5%	11,876	11,238	22.2%
German DAX Index	4,114	24.4%	Jul 16, 2009	16.1%	3.2%	7.9%	3.9%	3,766	3,511	31.4%
Paris CAC 40 Index	3,974	24.4%	Jun 9, 2009	17.7%	3.8%	7.7%	3.9%	3,636	3,496	33.2%
UK FTSE 100 Index	5,880	23.3%	Jun 16, 2009	16.2%	3.2%	8.1%	4.9%	5,412	5,080	18.7%
Nikkei 225 Index	2,814	27.1%	Jul 8, 2009	16.9%	3.1%	8.1%	3.9%	2,526	2,426	39.7%
Brazil IBOV Index	3,844	24.2%	May 23, 2009	15.3%	3.0%	8.2%	4.0%	3,544	3,236	19.4%
Colombian IBSV Index	282	25.2%	Oct 11, 2009	19.7%	3.0%	13.9%	3.0%	264	232	32.0%
Indonesia Index	3,261	24.7%	Nov 7, 2009	16.4%	3.0%	8.1%	3.8%	3,044	2,901	23.4%
India BSE Index	3,179	24.2%	Feb 26, 2009	15.8%	3.0%	12.2%	3.8%	2,964	2,901	21.4%
Korean KOSPI Index	2,141	25.2%	Jul 16, 2009	17.2%	3.1%	8.1%	3.9%	1,936	1,919	43.2%
China Shanghai Index	8,100	22.2%	Jul 17, 2009	11.7%	3.1%	7.7%	3.7%	7,514	7,014	19.7%
Shanghai Composite Index	2,814	27.1%	Jul 8, 2009	16.9%	3.1%	8.1%	3.9%	2,526	2,426	39.7%
Hong Kong Hang Seng Index	9,281	22.8%	Jun 1, 2009	15.7%	3.2%	8.2%	4.0%	8,711	8,416	23.9%
Stockholm General Index	224	24.7%	Jul 16, 2009	17.2%	3.0%	8.1%	3.9%	204	194	21.7%
Australian All Ordinaries Index	4,211	24.4%	Nov 1, 2009	16.1%	3.2%	8.2%	3.2%	4,126	4,016	40.1%
NZ Wellington NZSX 50 Index	3,214	25.2%	May 8, 2009	11.1%	3.0%	8.1%	3.9%	3,176	3,116	22.8%
Nikkei 225 Index	11,800	25.2%	Jul 8, 2009	16.9%	3.1%	8.1%	3.9%	10,911	10,716	44.1%
Singapore STRAX Index	2,861	24.7%	Oct 11, 2009	16.9%	3.0%	8.0%	3.4%	2,611	2,461	14.2%
Hong Kong Index	21,211	22.2%	Oct 23, 2009	17.4%	3.1%	8.1%	3.8%	20,116	19,821	49.9%
Shanghai Comp Index	3,911	24.8%	Oct 16, 2009	14.9%	3.1%	8.1%	4.4%	3,566	3,211	39.1%
Bombay Sensex Index	17,211	24.4%	Jun 8, 2009	14.4%	3.4%	8.1%	3.9%	16,211	15,911	19.1%
Brazilian Ibovespa Index	79,211	23.2%	May 23, 2009	15.1%	3.1%	8.2%	4.1%	77,211	72,211	4.1%
Russian Trading System Index	1,121	21.2%	May 16, 2009	11.1%	3.1%	11.1%	3.7%	1,066	1,066	27.4%
China Shanghai Foreign Index	1,121	24.2%	Aug 8, 2009	16.9%	3.1%	8.1%	3.9%	1,066	1,066	43.4%
Indonesia Composite Index	10,121	24.2%	Jun 16, 2009	11.1%	3.1%	8.1%	3.9%	9,711	9,511	39.1%
Chile Stock Index	3,211	24.2%	Nov 1, 2009	16.1%	3.0%	8.1%	3.7%	3,066	2,966	1.3%
Taiwan TSE Index	1,111	24.2%	Nov 2, 2009	16.9%	3.0%	8.2%	3.7%	1,066	966	1.7%
South African JSE	26,211	24.2%	Nov 2, 2009	16.9%	3.1%	8.2%	3.9%	25,211	24,966	14.8%

Although it was a strong quarter for most stock markets, the closing day was less rosy. Time will tell whether this is a precursor of weaker performance ahead as we enter April – the last month of the so-called “best six months of the year” before the start of the traditionally weaker May–October.

Looking at just the G-7 countries, Japan is up the most so far in 2010 with a gain of 6.62%. Japan is followed closely by Britain (+6.13%). The US ranks third out of G-7 countries, while Italy has been the worst of the group with a decline of 0.18%.

Of the BRIC countries, only Russia is doing better than the US in 2010. Brazil, India, and China have all underperformed the US. China is one of the 12 countries that is down

## EUROPE

After a significant improvement in the last few months, economic indicators were mixed towards the end of the quarter. Data showed that the eurozone economy expanded by only 0.1% in the last quarter of 2009, as some peripheral countries including Spain and Greece are still battling with the effects of the debt crisis. German business confidence unexpectedly slid for the first time in 11 months as cold winter damped retail sales and construction. However, this does not signal the end of the recovery and the Purchasing Managers' Index for the manufacturing sector rose in February, by a surprisingly sharp 1.7 points, although the index for the services sector fell marginally.

Economic activity is still benefiting from the monetary and fiscal stimulus measures that have been enacted, while improved global economic activity and trade are lifting exports. However, headwinds persist, with consumers still reluctant to spend and excess capacity limiting scope for business investment.

Some eurozone countries are still battling with the effects of the debt crisis; Spain and Greece are still in recession. In contrast, French GDP growth accelerated in the last three months.

Most economists expect that eurozone recovery to continue, although the upturn is likely to be gradual during 2010. In its February forecast, the European Commission forecast 0.7% growth for the eurozone, unchanged from its previous November forecast. The commission emphasised that recovery is materialising but it is still fragile.

## UK

Revised data from the Office for National Statistics (ONS) showed that the UK economy grew by 0.3% in the final quarter of 2009, faster than the previously estimated 0.1%. The revision was mainly due to stronger growth in services and production. Discouraging data on the jobs front raised fears that an improvement at the end of last year may have been little more than a blip. The latest ONS figures also

showed that the number of people claiming jobless benefit jumped unexpectedly in January and at its fastest rate in six months. However, according to the Nationwide Building Society, house prices fell in February, raising concerns about the stability of the market. Against this backdrop, the Bank of England's (BoE) policymakers voted unanimously to keep interest rates on hold at a record low of 0.5% and to pause its quantitative easing programme.

## China/Asia

The Shanghai Composite Index lost 5.1 percent from January to March, the fifth-worst performer among 93 indexes globally tracked by Bloomberg, and the worst quarter since the three months ended Sept. 30, when the gauge fell more than 20 percent in August.

The biggest concern for investors has been the risk of inflation, of overheating and tightening. The Shanghai Composite's retreat has sent valuations falling by 23 percent to 29.1 times reported earnings from last year's high of 37.7 times in August.

China is still not cheap at 29x earnings, but then again Shanghai was substantially higher than that last year.

China's new lending fell in February from a month earlier after the unprecedented record expansion of 9.59 trillion (\$1.4 trillion) in 2009. The government this month ordered 78 state-owned companies to exit the real estate business and raised the deposit requirement to increase costs for developers and cool the real estate market.

## On the bullish side...

We are predicting a rebound for China stocks, citing the prospect the government will ease its tightening stance, the possible appreciation of the yuan, the introduction of stock-index futures and faster global growth.

## US

Stock markets in the U.S. continued their strong recovery during this year's first quarter. The S&P 500 Index generated returns of 5.4% for the quarter ending March 31, 2010 and has advanced 75.8% since the bottom of the market on March 9, 2009. Clearly, those investors who stayed the course during the market panic have seen a substantial recovery in their portfolios over the past year. However, even with its stellar performance, the S&P 500 would have to rise another 34% to match its previous all-time high set in October 2007.

The strong recovery of the stock market has surprised many, especially considering that numerous economic statistics continue to indicate significant problems.

Foremost among the negative numbers is an official unemployment rate of 9.7% - the unofficial rate, which includes those who have quit looking for jobs, is probably much higher. The housing market remains weak despite low interest rates and government incentives for new home buyers. The U.S. budget deficit exceeded \$1.4 trillion in 2009, surpassing the previous record deficit by more than \$1 trillion.

Most other western economies are in even worse shape than the U.S., as they struggle with large budget deficits due to an increase in spending on stimulus programs combined with lower tax revenues. Worries over Greece, Portugal, and several other European economies caused both stock and bond markets to falter early in the quarter.

Many in the U.S. worry about the increased role of government in the economy. Indeed, government outlays in 2009 equaled about 28% of GDP, significantly higher than the average of 20% for the last twenty years. While this percentage is expected to decline as the economy recovers and the government unwinds its stimulus and bailout programs, the recent signings of healthcare and student lending bills have many concerned that the government's role in the economy will continue to expand. Most experts predict higher tax rates in the near future to offset increased government spending.

So while it would be difficult to categorize the current economic environment as positive, it is possible to point to signs of improvement. Gross domestic product is expected to rise in the first quarter of 2010 by at least 3%, marking the third consecutive quarterly increase. Earnings for S&P 500 companies are expected to grow more than 30% in the first quarter of 2010. It will be the second quarter in a row of earnings growth, following nine consecutive quarters of negative comparisons. Emerging markets are proving to be an engine of growth for the world economy. In fact, China and India have both taken steps recently to slow their growth in an effort to head off possible future problems.

The recovering stock market and stabilization in the housing sector have helped to restore investor wealth and confidence. In addition to recovering asset values, consumers reduced their outstanding debt by 4.1% in 2009, in spite of the worst recession in decades. As consumers feel better about their household balance sheets, they are more likely to spend on major purchases and discretionary items.

There is an old investment adage that says the stock market climbs a wall of worry. It refers to the observation that most major bull markets occur during periods of economic uncertainty and a considerable amount of negative news. In a bull market's early stages, the economic indicators are generally contradictory and many investors have a concern that the recovery will stall or reverse. This old saying seems to aptly describe current market conditions. The market's skepticism regarding a recovery is considered to be healthy, since it keeps speculation in check.

While the economy and stock market still have a long way to go for full recovery, there are many signs that indicate business fundamentals are finally moving in the right direction. Although there are still many serious economic issues facing governments, corporations, and consumers, there is tremendous upside potential for investors, if these concerns are resolved favorably.

## FOREX

### GBP

GBP has been sold heavily since breaking down out of the 7 month range.

The currency depreciated against a backdrop of the UK's deteriorating fiscal position and prospects of a hung parliament. Moreover, the BoE's quarterly inflation report suggested that the bank remained cautious on economic growth and was not particularly worried by rising inflationary pressures. Sterling's decline against the euro can be partly attributed to concerns that the European Union (EU) is close to an aid package on Greece.

The fall is beginning to look excessive in the short term so expect a correction around current levels. The problems in Greece have investors looking at other countries.

The Bank of England will not be unhappy with that especially as the UK economy may be sliding back into recession.

### EURO

Once the worst of the Greece crisis is over the Euro will find support. That means that the 2009 lows are unlikely to be broken but in the medium term the Euro has been damaged.

As a result it is unlikely to rally strongly against the USD & both the USD & Euro will be weak against Asian & Emerging Market currencies.

### AUD

Interest rates have risen again further extending the differential to the US. Against a basket of currencies the AUD is within 4% of its all time highs. A global double dip recession is the main risk for the AUD. Failing that interest rates & rising commodity prices will continue to underpin the AUD

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