

keep the faith



Fear of economic disaster is disconnected from day-to-day reality, says RiverTwice Research's Zachary Karabell.
Photo: BLOOMBERG

fear about nuclear annihilation that paralysed and distorted action until it was normalised.

"It never went away; it simply ceased to be a constant impediment to otherwise dealing with the world as it was.

"I think there's an element of that going through our financial system that's preventing us from recognising certain underlying realities."

One of those realities is that corporate America may be able eke out efficiency improvements and therefore sustain growing profitability much longer than many think.

Though Karabell says it doesn't necessarily constitute a short-term market call, this does mean that equities and corporate bonds are undervalued.

Still, another reason commonly cited for the resilience of US corporate earnings is the preponderance of multinational corporations, including the likes of McDonald's, Caterpillar, Boeing and Microsoft, which derive a significant portion of their revenues from faster growing overseas markets.

Karabell's other point is that this is still a world of incredible growth.

However, he cautions that the growth path of Europe and the US is not necessarily instructive of the development paths that countries such as China, India and Brazil will take. Fears of a Chinese economic slowdown and a collapse in its property market have also beset investors in recent months.

"The only thing I know about China for sure is that for the past 10 years almost every single thing that Americans and western audiences and investors and those who should know have said about China has been wrong," Karabell says.

"And it's been wrong because they expected China to do things that looked familiar and it didn't and that should tell us something about the growth pathway ahead."

from the financial crisis of 2008 is that while there is always a risk of financial Armageddon, companies sit in a privileged position relative to governments, he argues.

Karabell, who has written several books on history (including a biography of little-known 19th century American president Chester Arthur), compares the fear of financial system meltdown to the fear of nuclear annihilation that dominated the mindset of Americans during the Cold War.

As he sees it, that fear may be ever-present, yet people learn to live with it.

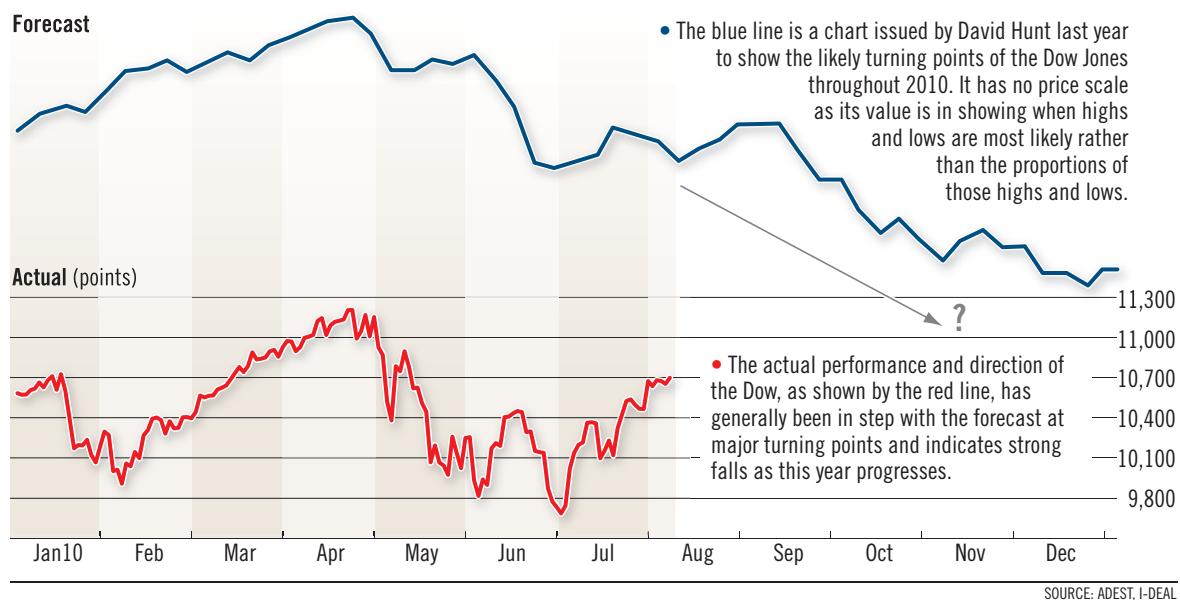
"No law, no legislation, no Basel 3 rules... no nothing, is going to remove the potential of complete systemic financial meltdown from the world we are living in," he says.

"All that we can hope for and will in fact attain is a level of integrating that as an ever-present threat that does not paralyse us from rational action.

"There was a degree of irrational

Forecast v reality

The Dow Jones forecast for 2010 v how the Dow actually performed



Stand by for U-turn in shares

The charts

David Coe

Three analysts with proven track records in picking market tops and bottoms are warning global markets are in danger of reversing this week. They say tops will form in stocks, currencies, gold, oil and bonds.

"It is decision time this week for most markets," said David Hunt, who is known as a bell-ringer for his ability to pick market turns to within a day or two. We are at a tipping point and investors should use any rallies to clean out their portfolios.

"They should take profits and go to quality while reducing their exposure to equities to 35-40 per cent of their super portfolios."

Mr Hunt is principal at ADEST and vice-president of the Australian Professional Technical Analysts Inc. He expects Australian, US and UK equities to top, then drop for two to three weeks before a final rally into late September, which will give investors a second chance to get out. After that, prices would fall hard into late October and early November, he said.

"When European and US investors get back in the saddle after their summer holidays, the big money will

start to move markets again. This has been a low volume corrective rally. Weakness is coming and you don't want to be caught like a shag on a rock.

"Commodities like oil are starting to fail and Woodside has been going down while oil had been rising. As well, the banks are in trouble technically and any rally in the Australian market needs the banks if it is a genuine rally. The major stocks have been loved too much. They are overbought."

Mr Hunt said US bonds, similar to many other markets, had rallied to major resistance and any fall would push up borrowing costs. This change in credit risk would trigger an unwinding of carry trades, leading to falls in share prices and currencies such as the Australian dollar, sterling and the euro. Of the major currencies, only the US dollar would strengthen.

"The S&P 500 relies on bonds rising to provide easy money," he said. "A fall in bonds would also make it harder for Americans to fund their lifestyle and debt."

US-based Jake Bernstein, a veteran of 40 years in the futures markets and an adviser to global banks and hedge funds, told clients over the weekend: "We are in the final days of the bond bubble. Bond prices, particularly at

the longer end, will fall and rates will rise."

Even though inflationary pressures seem benign, Mr Bernstein is on the lookout for signs of inflation — and the fearful reactions of investors to rising interest rates.

"I wouldn't be surprised if world governments try to inflate their way out of budget deficits," he said.

"We are seeing confluence in all the major markets. The Swiss franc is bearish, the yen is bearish, the Australian dollar is bearish."

One of the measures he uses is the sentiment of small traders, who tend to be the last into rising markets and the last out of falling markets. Extremes in sentiment coincide with extremes in prices and 94 per cent of small traders think the US dollar will go lower and 86 per cent think the euro will go higher — clear early warnings of a change in trend.

Elliott Wave International, the organisation headed by renowned wave theory proponent Robert Prechter, told its clients: "The wave structure of the market's near-term advance is very close to ending if it did not do so [last week], which means a trend reversal from up to down in stocks. The next major stockmarket move... will be a decline of thousands of Dow points over the coming months."

ENTRY, STOP AND LIMIT POINTS

THE TIME PERIOD AND FORECASTED NUMBER OF PIPS

Forecast Pips	Forecast Period	Pattern Detection (GMT)	Hide	
STOP @ 84.045 LIMIT @ 84.119	37	6h 30m	04-Jan-10 21:45	(X)
STOP @ 1.4412 LIMIT @ 1.4446	14	6h 14m	04-Jan-10 22:00	(X)

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