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Offshore Holding Advisory

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**Offshore Holdings Advisory
November 2009 Newsletter**
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Market and Currency Update – November 2009
(A Personal View by R B Skepper)
(For professional investors and businessmen/women only)

FTSE 100: 5142 – 6th November 2009

It's worth remembering that in May 2006 the index was at 6025. So we are still a long way away from the position nearly 4 years ago in spite of the recent recovery, and that is in nominal terms not real terms. But of course since then the dislocation of the world economy has happened and a lot of wealth destruction has occurred.

By contrast China, India, Asia, and countries like Brazil have made real progress in the development of their underlying economies over this period.

In December last year I wrote a paper on "What is the likelihood of a Sterling crisis in 2009?", starting with the point: "Who will bail out the bailer outers?" There is no Marshall plan around this time. The answer was no one - other than ourselves.

So another £30 billion hurled into the U.K. banks last week (probably a necessary measure but hardly instantly wealth creating) just adds to the burden.

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The other main point was that those countries that used the extra borrowing they were taking on most productively and creatively, would put themselves quickest into the economic recovery mode.

Last autumn's mini budget was described by Simon Heffer as:

“It was an aggressively sectarian set of measures. Labour has identified its people - the client state of public sector bureaucrats, operatives, and claimants, sedulously created by Brown since 1997, and the autumn budget's main purpose was to protect them.”

Since then, our “Cash for Clunkers” programme has primarily helped the Korean economy. Hyundai's small cheap car imports to the UK have surged, as have the small Renaults, made in Slovenia. By contrast the similar schemes of Germany, France and the U.S. have at least 80% benefited their own domestic car industries.

Gerard Lyons, chief economist of Standard Chartered Bank states:

“I have been struck by how different the debate is here to other parts of the world. Because of the depth of the recession, the focus in the U.K. has been on the size of the public debt and the quantity of government spending.

In contrast there is more focus in Asia on the quality of government spending. It's not about boosting the economy now but positioning it for the future.”

He gives examples: “In South Korea (world's No. 12 economy) the government stimulus has gone into tax cuts and infrastructure spending, but an essential focus is on



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positioning the economy as a global leader in fusion and green energy. In China, the huge stimulus - and they could afford it - has gone into domestic infrastructure and they have unveiled 20 new industry funds to seed more investment away from old industries to new sectors such as environment, software, and I.T.

He points out that “growth is the best way to reduce the U.K. budget deficit” and The U.K. “needs to create, like successful economies elsewhere, the right hard infrastructure (such as road and rail) and soft infrastructure, boosting skills and education.”

A study for the business council of England showed the U.K. 24th out of 27 countries on infrastructure (France was 4th), and that excluded China. Equally damaging is the comparison by the OECD on Research & Development spending: with Finland 3.5%, Germany and U.S. 2.6%, Japan 3.4%, and U.K. 1.8% of GDP.

Anecdotal evidence indicates that current government priorities continue to favour the non productive sector, and tightening on any infrastructure spend such as reducing the water companies future infrastructure budgets, cutting defense expenditure - except where there is huge media outcry - and according to the construction industry, less government contracts, not more.

The new government after May must concentrate on increasing capital expenditure projects, but cutting sharply expenditure on “paper shifters” and “committee sitters”, who produce no real work for anybody else, and leave nothing to show for it.

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Meanwhile the increasingly intrusive government agencies of this government seem to proliferate so that the feeling one gets is not far from how a 19th French anarchist described the behaviour of governments in his time:

“To be governed is to be watched, inspected, spied on, regulated, indoctrinated, (global warming!) controlled, ruled, and censored, by persons who have neither wisdom nor virtue.”

“Under pretext of the public good it is to be exploited, embezzled (pensions), robbed, and then at the least protest, fined, harassed, vilified, bludgeoned, imprisoned, shot or garotted.”

The latter sentiment one feels has been done to one when dealing with any one of our spawning regulatory authorities - DEFRA taking pride of place. I daren't mention the FSA.

The really important point of Gerard Lyons' comments is that it is “The quality of the public expenditure that is so important to economic recovery.”

Here the quality so far has not been good. Yet the quantity, increasing what eventually has to be repaid, has been the highest of the European nations.

Brown is spending (badly) like there is no tomorrow to give the illusion of a recovery before the election. But once that is past reality may return with a nasty bump.

As to the stock market, it is important to remember that the FTSE100 is composed principally of companies with little or no U.K. business, and that anyway the London market is merely a “tail” these days wagged by the much larger dog of the U.S.A. and ASIA combined.

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If they manage successfully to emerge well from the crisis and get their exit strategy right, those markets will continue to improve and the FTSE will follow them up, however bleak our own domestic outlook.

After the large and almost non stop rise from March, apart from the July blip, everybody sees markets as being too high and ripe for a reaction.

Markets don't do what people expect for the simple reason that what everybody expects is already discounted.

There are big "shorts" out there. But as happened this week, just as it seemed the setback had really started, Buffet bids for Burlington Northern. This is the U.S.A.'s largest railway network and is utterly dependent on U.S. recovery for doing better – so his action - the world's most admired and followed investor - is a huge vote of confidence in the U.S. economy - (he could have bought our National Express).

The "bears" had to cover quickly, and Wall Street jumps 200 points.

But at some point there will probably be quite a sizeable setback - when everyone least expects it. Bull markets don't go up in a straight line. And of course there are some people who do not believe we are yet out of the old BEAR market. They will resurface loud and clear with tales of gloom and doom when the setback does come.

That will be a buying opportunity, but by then probably everybody will be fully invested.



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R.B. Skepper
6th November 09

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Asia Office

245/43 Moo 3, Srisoonthorn Road
Srisoonthorn, Thalang
83110 Phuket, THAILAND
tel: +66 (0)76 270 925 fax: +66 (0)76 270 926
cell: +66 (0)89 871 1782
global cell: +1 207 249 9602
heathnorris@investrightnow.com
www.investrightnow.com

Administrative Office

2 Clifton Road
PO Box 2339
Clifton, Bristol BS8 9BT
England UNITED KINGDOM
tel/fax: +44 (0)117 330 6767
cell: +44 7976 261 627
info@investrightnow.com
www.investrightnow.com

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