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Eye on the US Economy

by Goh Yang Chye, Chief Executive Officer

Mr Goh Yang Chye, CEO of GYC, was asked by The Business Times to comment on Prime Minister Lee Hsien Loong's May Day rally statement about how the US economy downturn will play out. Yang Chye's comments were featured in the article "Eye on the US economy" – published on 12 May 2008.

The recovery could be V-shaped, U-shaped, L-shaped or even W-shaped. It doesn't matter. What is important is where are we now in relation to these economic cycles. Going forward, what should we do? And are there any dramatic shifts in mega-trends or changes in the global market space that demand that we conduct our business or investments differently? I would say, as financial adviser and portfolio manager to HNWs (high net-worth individuals), we were more nervous four months back than now.

In every major crisis, there will always be a notable 'big name' victim. On March 14, we saw the plight of an 85-year-old institution, Bear Stearns. Bear announced a rescue by JP Morgan Chase and the Fed. It once traded as high as US$172 but was sold to JP Morgan at US$2 a share, later renegotiated to US$10. It was Fortune's top securities firm in the 'America's Most Admired Companies' survey for three years running, from 2005 to 2007.

History has shown that when a 'big name' victim emerges, it is normally the beginning of a healing process for an 'injured and over-fed market'. Will there be another casualty in the months to come?

Possibly, one more. But we at GYC Investment Desk believe that 80 per cent of the risk has

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been removed. Going forward, if we have $1 to invest, we would have already invested 30 cents two months back in March and we will invest another 30 cents in the next three months. And we will continue to monitor the situation to further invest the remaining 40 cents when the opportunities arise.

Our favoured asset class remains high-quality equities. Implied yield of equities are still higher than bonds. Balance sheets are still healthy, so are profit margins. Valuations are at a historical mid-to-low range. Emerging markets are offering growth and a US dollar shield. The crisis of confidence appears to be ending or simmering down.

Sub-prime-related writedowns 70–80 per cent disclosed + big-name casualty = improved investing environment compared to three months ago. It is time to be contrarian, not time to realise losses.

Look to shift towards more aggressive allocation. We expect equities to reward within a three to four year time horizon.

The ability to recognise a major shift of power in the years to come is important. There is certainly more than one engine of global growth for the next decade. History has shown us- the rise and fall of major empires. We are certainly looking at a turning point of a significant transfer of power in the world economy.

www.gyc.com.sg enquiries@gyc.com.sg +65 6349 1441

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GYC Financial Advisory Pte Ltd | Co Reg No: 199806191-K | 1 Raffles Place #15-01 One Raffles Place, Singapore 048616

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