

Planning for a healthy, wealthy and wise retirement, ensuring your income and preserving your estate, from one generation to the next



A word from Joy...

It was excessive debt that got us into the crisis in the first place and now governments are going into debt

to get us out of debt... (classic Keynesian economics)

Two very significant events have helped fuel the recent rally. First, we had the Federal Reserve embarking on the path of quantitative easing and second, the announcement of the public/private plan to purchase more than \$1 trillion of "toxic" assets from the banks. There is argument as to whether or not the latter is the best way to go.

The commencement of QE (quantitative easing) by the Fed is eclipsing almost everything else. In poker parlance they have played their last card but as yet are not "all in" as they theoretically can print an infinite amount of money. Just ask Zimbabwe how that's done. Their Minister of Finance is reported as saying they did not have sufficient goods in the shops to enable them to actually measure the full basket of goods required to

calculate inflation. While no-one knows their actual inflation rate, the estimate of 230 million percent is not something we can conceive, let alone approach with any understanding.

The Swiss are selling their currency, the Americans and the British are running the printing presses which will prompt creditor nations to look at the currencies of those countries that are not pursuing QE – the Aussie and Canadian dollars, and the Euro. The Euro, however, has problems with the growing risk of the European Monetary Union breaking up.

We are in a new and dangerous phase of the current crisis. The "goldbugs" are poised. However, with Aussie dollar likely to increase exponentially in this environment a huge rise in the price of gold could be neutralised by an equally huge increase in the value of the Aussie dollar. So tread carefully with that precious metal. In this environment when the time is right Aussie gold miners may well be winners rather than gold itself.

The sequence of events is likely to be deflation, followed by inflation. Central banks claim

that they can withdraw excess money once the economy stabilises to prevent possible hyperinflation. Can they? This is the multi-trillion dollar question which will soon become the question that markets will try and answer.

With the US dollar in serious trouble a commodity based currency has the potential to remain strong and outperform. Will the Rudd Govt. grasp this and make it work in everyone's favor? We hope so.

Think very seriously about what's next. We are in a cyclical rally in a very powerful worldwide bear market. Now is the time to be flexible. Set and forget, buy and hold strategies are incredibly risky when the tectonic plates of the financial landscape are grinding together.

- Courtesy Jonathan Pain – HFA

If you would like more information about Segue's active investing for managing the continuing crisis, call Jess or Laura to join a Boardroom presentation/discussion and find out how much you're risking by staying with your current buy and hold fund manager.

A Word from Segue's Investment Manager

History Repeats!

The chart below compares the current Australian sharemarket with the US sharemarket during the middle of the Depression. There are remarkable similarities. The pattern and depth of the fall from the peak are very similar.

Back in the Depression era the stock market plummeted in 1929 and did not start a proper recovery until 1942. This chart of the Dow Jones is therefore from the middle of that Depression era bear market.

In current times the United States sharemarket peaked in 2000, fell to a low in 2003, climbed to match the previous peak in late 2007 and then started the downward march of which we are all well aware. The US is therefore already 9 years into its current bear market. The chart here ends 9 years into their Depression bear market.

Given the enormous similarities between now and then, what happened next? In the chart on the next page I have extended the period another 4 years to the end of the bear market. As you can see the market was choppy, had rapid rises and falls, never recovered the high in that time and made a deeper low.



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News update:

After 71 issues spanning almost 15 years this print version of Segue news will cease. The way to access Segue News from June 2009 will be via our website: www.segue.com.au. We know you will enjoy reading the greater diversity of information and material – along with the opportunity to comment and solicit help. We look forward to your feedback so that we can continue to improve our services to all our readers.

This could be ahead for our markets.

A number of investment theories rely on history repeating itself in subtle variations. This includes the work of Charles Dow in the early 1900's, W D Gann who amongst other things predicted the stock market crash of 1929, R.N. Elliott who published his work during the Depression and Robert Prechter who has expanded Elliott's work and predicted the 1987 and 2007 market crashes to within weeks and warned clients accordingly. Each of these theorists have made considerable fortunes putting their theories into practice.

The theories put forward by these men are the basis of modern technical analysis. The similarities of the current market to that 70 years ago shows the expectations that history and markets repeat is correct and can be used to advantage in understanding current markets.



Beauty and the Beast

Who's who in the property market and unfettered debt.

Who is in the worst financial position, the government, the banks, or the borrowers?

If the Govt loses some of its income it can just borrow at will from the debt markets or increase taxes - no belt tightening required.

The borrower should be fine providing they can keep their jobs. And providing they are sensible managing the cash flow. However, not so good once interest rates start to rise again - which they will at some point.

What about those in the middle - the banks? Australian banks are not in as good a shape as you're being told.

A low interest rate environment is supposed to be good for banking. Their profit margins should be higher. That would be so if it wasn't for the recession. And the price they're paying for debt.

Instead all four banks are relying on the federal government to run their businesses.

The latest (scam) is an agreement between the 4 Pillars (ANZ, Commonwealth, NAB and Westpac) and the government to allow some borrowers that have been made unemployed to delay their mortgage repayments for up to twelve months.

This isn't really a new initiative at all. Whether it is the good times or the bad times, a bank will always prefer to negotiate a repayment plan with a customer rather than foreclosing on a property.

But here's the rub. It's pretty easy for the bank to do this for borrowers that have built up equity in their property and/or are ahead on their repayments. However, those that have taken out a loan within the last two years don't have the same flexibility.

And that, we assume is why the government has become involved. Based on what we've read on this supposed new initiative so far, the government isn't openly taking on any risk exposure. Yet it has been in there negotiating the deal with the 4 Pillars.

The government does have a vested interest. Since last December, the government has agreed to underwrite the balance sheets of the banking system. If the banks are going to do anything that increases their risk exposure the government needs to know. That's the real reason the government has become involved now, a sign that the Australian banking system is following the example of US and UK banks - it is in a rotten state.

The main reason the banks don't want to foreclose is because they know it will destroy their balance sheet. They've got two options, they can either admit they've overexposed themselves and foreclose on marginal loans now, or they can try and carry the losses hoping the borrower can service the debt and/or asset prices will move higher.

The problem? With property prices already high, debt levels super high and new borrowers being sucked in with artificially low rates, a deepening crisis is around the corner.

Although the plan involves a repayment 'holiday', the interest just gets added to the loan every month so the distressed borrower will be charged interest on interest.

That would be better than being on the street - so long as property prices don't fall further as we believe they will. By then, not only will the borrower have built up a bigger loan, but the property it is secured against will be worth less.

It's just one giant mess that is being made worse by government intervention and the cartel position of the 4 Pillars.

And that's where it gets worse for the Australian banking system. The government cosying up to the big four banks makes it harder for the smaller banks to gain market share. The inference is that only the 4 Pillars can offer this type of service. It encourages people to take the opinion that only the 4 Pillars will get help from the government so why risk staying with one of the other smaller players.

This kind of intervention will disadvantage the second tier banks, and will further consolidate the banking sector within the hands of a select few.

Managing your health to enjoy your wealth...

There are a lot of things you can do to improve your overall health – and each step you take is a good move in the right direction. But there is one specific disease that merits special attention: heart disease.

One reason heart disease is on the rise is directly related to our dietary habits. Australians eat copious amounts of red meat, which is high in artery-clogging saturated fat. We also eat entirely too much junk food and fast food that is loaded with sugar, refined flour, and sodium. Eating these high-calorie, low-nutrient foods on a regular basis raises your cholesterol, boosts your blood pressure, and triggers artery-damaging inflammation.

Doctors are beginning to recommend a healthy diet low in saturated fat and sodium, that includes omega-3-rich fish, vitamin-E-rich almonds, and soluble-fiber-rich oatmeal. Eaten in conjunction with the following supplements they can be as just effective as statin drugs

for lowering blood pressure and unhealthy cholesterol levels in people with heart disease. Better yet, taking pre-emptive action now can help ward off the disease even before it takes hold.

Vitamin D. Now, a growing body of research suggests that the sunshine vitamin may be more strongly linked to heart health than experts previously thought. People with low blood levels of 25-hydroxyvitamin D are at a greater risk for heart attack, congestive heart failure, hypertension, diabetes, and death. Aim to get 1,000 to 1,500 IUs of D – the amount researchers now recommend for strong bones and cancer prevention.

Another critical nutrient for heart health is

coenzyme Q-10. Studies show that people who suffer from all types of heart disease – but especially heart failure – tend to have low levels of CoQ-10.

If you have an unhealthy cholesterol profile ask your nutritionist about niacin. In its nicotinic acid form, niacin has a long history of lowering LDL and raising HDL cholesterol. Research also suggests that niacin may help to prevent a second heart attack. And doses of 1,000 mg. of extended-release niacin can improve blood vessel function.

Always seek the advice of your nutritionist for the right form and quantity- you could be wasting your money or not getting enough! .