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Around the World in 3 minutes

Weekly Commentary for Clients of BH Global Advisers S/B only **Author: YH Wong** **Monday, Oct. 2, 2012**

One can get lost in the trees and forget to see the forest

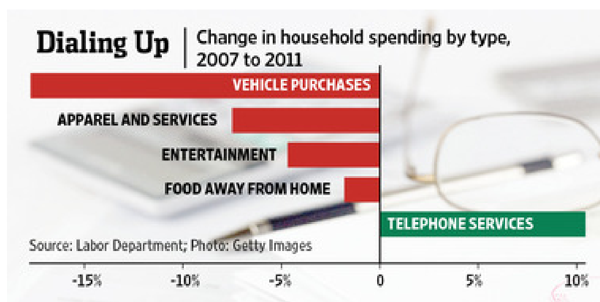
According to a mainstream story, more than 70% of financial professionals surveyed by State Street Global Advisors believe that over the next year we will get a “tail-risk event,” known to regular folks as a shock that triggers a sell-off and possibly poses a real threat to the financial system. The list of tail-risk events includes: global recession, Eurozone breakup, bank insolvency, China hard landing, oil prices, and new asset bubbles arising from central bank stimulus. Oh yes, it all sounds so familiar. So, what is going on in China? We were one of the “silly” ones warning about a harder landing in China a long time ago. Well, some of our more bullish friends are not laughing at us now. As for investment strategy, contrarian thinkers like us have been bullish on China’s equity market amid the negative sentiment and underperformance.

Beware of those who pooh-pooh Chinese equities all the time. We have seen a big drop. China’s stock market is more undervalued than we have seen for a long time. Technically, it is bottoming out in a range. Still, patience is required and investors must really know what they are buying. Beware of extreme predictions to seek a 3-minute fame to impress the girls. There are always people appearing on financial media talking crap. Why? Everybody talks his or her book to promote own business interests. So what now? In the new world of unprecedented QE, there will be trading opportunities on the long side and on the short-term bubbles that would create bigger opportunities when they burst.

The real picture is that central banks bought time but nothing has changed in the underlying causes of the crisis. Desperate central banks know that the situation is dire especially in Europe. Even gold smells like a risk asset these days. October could be a tough month for gold but the yellow metal will continue to benefit from continued debasement of money longer term. Buy on dips.

The last few years taught us valuable things. Your young girlfriends will dump you if you do not make enough money from markets to cope with inflation, half-baked politicians have no shame, fundamentals have no value without free money, we can ignore the classic economic model of supply and demand, there is no real safe haven, some hedges can be more harmful, real economic collapses are not based on reality but on perception and much more.

Chart Porn of the Week



Have you bought the latest iPhone? Americans spend less on food, movies to pay for soaring cell phone obsession

Mainstream theme:
Volatility risk will increase and could further impact investor behavior.

Around the World in 3 minutes:
With that in mind and with some comfort, there are ways to overcome volatility risk for investors.

Our money game in 3 minutes:
We will update in the next issue.

Oh ya, we know there are always plenty of reasons for the fools not to buy when an attractive asset is cheap and plenty of reasons to buy when even junkies are expensive. Investors who buy distressed assets will be rewarded benefiting from the ever increasing flood of leveraged liquidity. In a few years time, many will regret not buying anything when they had the chance of a life time. So what about politics? Regardless of the outcomes of the coming elections in the US and other parts of the world, there are clearly turbulent times ahead. Again, in the world of casino capitalism, it is just too easy to blame the high frequency trading boys for any mess.

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