This Hudson Report was written by Hudson Adviser - **Phillip McGann** 9 December, 2011

ARTICLES in this EDITION

Total Reading Time: 14 mins

- 4 Timing IN the Market
- 3 Save the Euro! - Germany
- 2 Who is Losing Billions?
- 2 Property Market Update
- 3 Sharemarket Update
- 1 You crack me up

Time IN the market not timing OF the market is the key

Article read time: 4 mins

PSYCHOLOGY of INVESTING

The recent declining share market has made many an investor despondent as declining markets always do. Entering such a market is precarious for the uninitiated, whilst those already invested get despondent that their hard won gains are disappearing in front of their eyes.

If this is you then you are not alone!

I have taken quite a few calls from Hudson members of late who have "*had enough of the market volatility*". They despair as they see their super and investments declining as European leaders dither, the US congress becomes more intransigent and recession looms large.

They are ready to *"jump ship to the safety of CASH"* and will return *"when things look better"* and all the volatility is gone.

All of my adviser colleagues and myself here at the Hudson Institute have written in this publication many times about the folly of trying to time market movements. Really it is a mugs game. Trying to enter in at the very bottom of the market cycle is just about impossible and yet many try and do it time and time again – maybe with some limited success, but mostly with very poor results.

When members want to 'exit shares and go to CASH' for their super, they are really making two implicit decisions:

- This is the best time to exit the market (i.e. it will get worse from here and *"so I might as well get out now"*) and;
- I will be able to time my re-entry into the market perfectly (i.e. *"I will know when the market has bottomed and will buy back in"*)

Now quite frankly, this is a very ambitious scenario to achieve even one of the propositions above – let alone both.

So what do you do? Hudson advisers often remark to members that the key to long term success in share market investing is really a case of ***"Time IN the market not timing OF the market"***. This is what really counts over the long-term.

I was reminder again of this old adage when looking at the performance of the world share markets over the past week and a half. Two weekends ago the turmoil in the world economy was front and centre - again.

The European debt crisis was (and still is) at fever pitch as the leaders of Germany, France and smaller economies dithered from one summit after another. The Euro-zone is slowing on the back of a tightening credit crunch and many countries are staring into the abyss of default. Will the Euro survive, in what form and what will happen if it is broken up?

The US economy is growing slowly but fears over its own debt load and a grid locked Congress have caused consternation's in the equity markets that recession in 2012 is still a real possibility. It was all dome and gloom and the bears were circling. Many Hudson members were close to pulling the pin and "going to CASH".

THEN a few items came up that brightened the mood considerably:

- The world's 6 leading central banks announced coordinated action to provide $US liquidity to Europe's embattled banks;
- The European Bank indicated that if the EU governments could work more closely together fiscally, it stood ready to assist;
- The Chinese government eased monetary policy for its own banks to encourage more lending.

These few items that in specific practicality don't add up to a great deal of hard action - were enough for the world equity markets to ignite. By the end of the week, the share markets in France and Germany were up 11%. The US was up over 7% and the Australian markets likewise were up over 7%.

What the events of the past week and half throw up are the following questions:

-

Is this the start of the equity recovery we have all been looking for? – *Maybe*

- Is the downward slide in equity markets over? - *Hard to say*

However, what is born out by these events is that trying to pick the bottom of the market – any market – is very hard to do consistently. If you were in CASH and missed this past week's action you may well have missed 1 year's long-term share market growth in one week!

Being invested in line with your time frame and risk profile is the best investment strategy. **Don't try to TIME the market, just be IN the market** for the long-term and keep your focus on the future not on day-to-day volatility.

EUROPEAN CRISIS – Why Germany wants to keep the Euro

Article read time: 3 mins

A lot has been written about the European debt crisis and how smaller peripheral economies like Greece, Portugal and even Ireland are struggling under mountains of debt, and the yoke of common currency.

When the Euro began life 12 years ago, the idea of a common currency spreading over the continent seemed like a great idea. It would lead to a seamless borderless economic zone of 300 million + people and would enable a huge market place for them all. Whilst this nirvana has materialised it has benefited not the weaker less productive economies of southern Europe, but mostly Germany, its leading economy.

The Greeks, the Spanish and the Irish have mostly enjoyed the common currency as it has enabled them to issue debt in Euros, and they have benefited from drastically lower interest rates than if they had of been issued in their old currencies. Sure they paid slight premiums to those paid by stronger economies like Germany and France, but the margin was not too large in comparison to pre-Euro debt margins.

The debt was not use for productive purposes but mostly on government social largesse (Greece) and a housing construction boom that has now turned to bust (Spain and Ireland). Now all of this living beyond their means has lead to the current debacle, the bailouts and the austerity measures of late. Many are now calling for a break up of the Euro. It is said that this would make sense for smaller countries like Greece that could go back to the Drachma to devalue it dramatically and trade their way out of their problems.

This in theory may work but Greece manufacturing is notoriously inefficient and it would take more than a weak currency to make a big difference to their export performance, and besides, breaking away from the Euro would be a logistical nightmare.

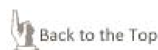
As for Germany, likewise they do no want to see the breakup of the Euro - They amongst the entire trading block have arguably benefited the most from a single currency by being in a currency union with such unproductive members as Greece and Spain. This has assisted the Germans export initiatives immensely. The 'weak' Euro has made German exported goods extremely competitive around the globe. The 'quality' of the products has always been there but a 'weak' currency has enabled the prices to be more manageable. German exports have risen from 29% of GDP in 1999 to 47% in 2008. They have a ready made an audience in southern Europe but also a thriving Asian market share. Germany is now the second largest exporter in the world.

If the Euro was broken up, the fallout in the short-term would be severe as banks in smaller economies may well collapse, and the logistical experience of recalibrating new currencies would be a nightmare.

For Germany a reconstituted Deutschmark would effectively become the default currency of Europe but would also convert at a higher level than the Euro in currency markets (with out the lagers of southern Europe), making German exports that much more expensive.

It has been calculated that a mid range German luxury car that currently sells for $50,000 US in the American market would cost US$75,000 with a stronger Deutschmark – this could lead to a dramatic fall off in exports.

Now you can see why Germany is keen to keep the Euro!



Australia's capital city home prices declined 4% YOY

Answer read time: 2 mins

According to the RP Data-Rismark October Hedonic Home Value Index, Brisbane led the drop in property values at 8% for the year to October 2011 (down 2.9% for the month). In other regions was a 5% decline for Melbourne, Adelaide and Perth home values but less of a drop was in Sydney at 1.1%. Other than Sydney which remained steady for the month, all capital home prices fell in October - only Canberra registered an increase over the month of 1.6%.

Tim Lawless - RP Data director of research says the year-to-date results highlight the divergent outcomes more clearly. *"Over the 10 months to October, Canberra and Sydney dwelling values have not moved a great deal: up 0.9% and down 1.4% respectively."*

"In contrast, Brisbane home values have been hit hard and are now off 7.5% while Melbourne dwellings have corrected 5.8% after very strong 25-30% capital growth over 2009-10."

Housing stock is still on the increase with an additional 5,631 properties added for sale in November according to SQM Research. This increase of 1.5% to the current stock bringing the total national listed housing stock to 388,848. At the current level of stock, Louis Christopher from SQM Research says, the market is now ***"generally considered to be oversupplied"*** meaning it is easier to find properties to purchase, reducing demand and competition.

The good news (if your desperate) is for property investors as the current 2.8% decline in house prices over 2011 has been offset by solid growth in rents.

SOURCES: News.com.au | PropertyObserver.com.au | SQM Research

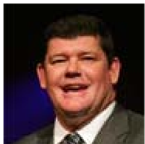
Making and breaking billionaires...

Answer read time: 2 mins

Prior to the GFC in 2008, the Australian economy was booming and the money was flowing. Post GFC and it's a different story - the heavy money ladened pockets of Australia's richest is getting lighter. Big names like Packer, Fairfax and Lowry saw their millions and billions slip away.

On the other hand, billions have been made post GFC - No surprises what industry they come from...

The Breaking...



James Packer (Media/Gaming)

2007 Valuation: $7.25 billion

2011 Valuation: $3.75 billion

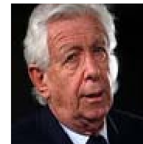
Loss: $3.5 billion

John B Fairfax (Media)

2007 Valuation: $1.39 billion

2011 Valuation: $472 million

Loss: $918 million



Frank Lowy (Westfields)

2007 Valuation: $6.51 billion

2011 Valuation: $4.68 billion

Loss: $1.83 billion

The Making...

Andrew Forrest (Mining)

2007 Valuation: $1.3 billion

2011 Valuation: $6.9 billion

Gain: $5.6 billion

Gina Rinehart (Mining)

2007 Valuation: $1 billion

2011 Valuation: $9 billion

Gain: $8 billion

NOTE: The 2007 valuations are taken from the BRW Rich 200 of that year, while 2011 valuations are estimates based on share prices movements as mentioned on Crikey.

SOURCE: Yahoo finance

Article read time: 3 mins

Share market update for week ending Wednesday 7th December, 2011

Well what a splendid week for share investors. Markets around the globe were up strongly on the back of hopes for a resolution to the ongoing saga that is the European debt crisis. The world's 6 largest central banks banded together to make US dollar loans cheaper for struggling European Banks, and hence provide more liquidity for the limp economy as well as to give politicians more time to come up with a enduring solution.

The local share market, as measured by the All Ordinaries index - was up a strong 3.9% or 167 points to close Wednesday at 4351 points.

Yet another European summit this coming weekend will dictate the immediate future direction of the world's share markets. The leaders of Germany and France have indicated they will resolve the crisis this weekend on the back of a re-write of the many treaties that back up the European zone, to draw all countries closer to together fiscally and under more direct control of Brussels, where the EU is head quartered.

Will this closer integration 'fly' with all 17 members of the Euro currency block or even the larger 27 members of the European Union? Only time will tell...

Locally, the RBA cut interest rates another 0.25 % on Tuesday citing the European crisis as detrimental to the future near term health of the world economy, and a danger of financial contagion for our economy as well. The share market fell steeply after the rate cut but mostly over fears of a near term economic decline highlighted by the RBA, rather than the cut itself.

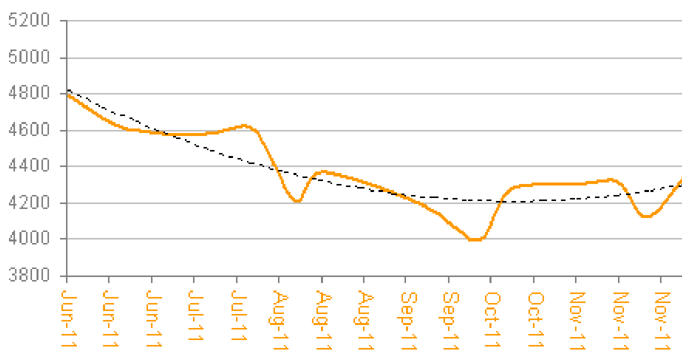
The September GDP figures came out yesterday and showed the economy in rude health – mostly on the back of the mining boom kicking into a higher gear. The economy grew at a higher than expected 1% in the 3 months to 30 September for a yearly growth rate of 2.5%.

Offshore markets were mostly higher for the week ending Wed the 7th:

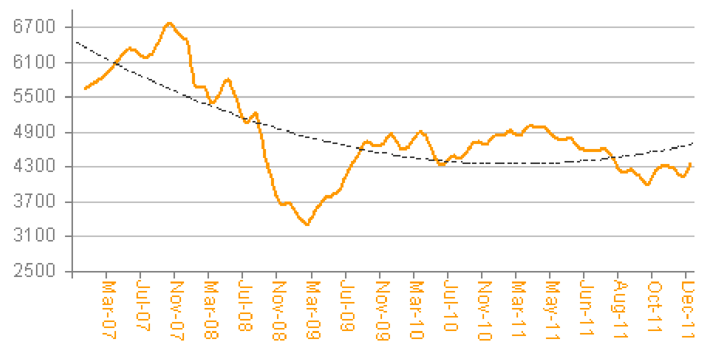
Index	Index	% change from last week
All Ordinaries (Aus)	Closed at 4,351	Up 3.9%
Dow Jones (US):	Closed at 12,196	Up 1.2%
Nikkei 225 (Japan):	Closed at 8,722	Up 3.4%
Hang Seng (Hong Kong):	Closed at 19,213	Up 1.1%
S&P 500 (US):	Closed at 1,261	Up 1.1%
FTSE 100 (UK):	Closed at 5,547	Up 0.7%
Australian Dollar	Closed at 103 US cents	Up 3%

Data Sources | The Australian Financial Review | www.finance.yahoo.com.au

All Ords - 6 month - Price History June 2011 - Dec 2011

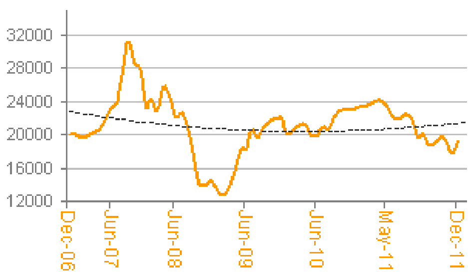


All Ords - 5 year - Price History Dec 2006 - Dec 2011

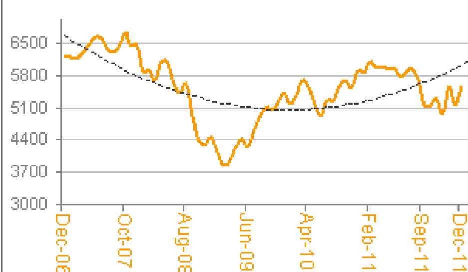


5 Year International Price History Graphs

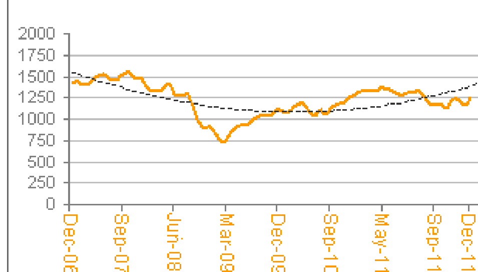
Hang Seng - 5 year - Price History, 2006-2011



FTSE 100 - 5 year - Price History, 2006-2011



S&P 500 - 5 year - Price History, 2006-2011



Back to the Top

Comics from Home

Nicholsoncartoons.com.au >>

General Advice Warning Information *contained herein is general financial product advice and does not take into account individual situations, needs or goals. It should not be relied upon and persons should satisfy themselves through independent means that any decisions based on this material are appropriate.* ***We recommend that you consult with your qualified and licensed Hudson Adviser who will be able to make a recommendation based on your specific circumstance***

Disclosure: The Hudson Institute is not a stock broker. The research for our stock recommendations is collected from various sources: Intelligent Investor, Morning Star, Ord Minnett, ABN Amro Morgans and Citigroup. Employees of Mainview Securities Pty Ltd currently hold shares in: ASX Codes: ANZ, BHP, CCL, CCA, EWC, GUD, LLC, MAP, NAB, SHL, TAL, TLS, TWR, WDC, WEB, WRT, WPL - Managed Funds APIR Codes: - FSF0264AU, FSF0035AU, FSF0409AU, FSF0877AU, FSF0041AU, FSF0090AU, FSF0976AU, ARSN120329026 - **This is not a recommendation**

Copyright & Disclaimer - The content in the Hudson Report is written by a Hudson Adviser, and editored and created by M. Arrighi. The views expressed in any article are those of individual advisers, and do not necessarily reflect the views of The Hudson Institute. The material provided in the Hudson Report and at Hudson Institute web site by Mainview Securities Pty Ltd, is copyright protected.As this information is copyright protected, it is not for re-distribution. Any requests to use information provided for commercial use may be directed to - The Hudson Report Editor. The Hudson Report Online is published by The Hudson Institute, trading under Mainview Securities Pty Ltd, Australian Financial Services Licence No. 241177

MAINVIEW SECURITIES trading as THE HUDSON INSTITUTE helpdesk@hudson-institute.com | free call 1800 804 296 | Fax 07 3368 3028 | GPO Box 1875, BRISBANE QLD 4001 website | http://www.hudson-institute.com