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Is this the start of a double
dip ??



..or just a healthy
correction ??

Kevin Scully, 5 June 2010


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On 18 July 2009 (AICE 2009) STI
Index was 2430.....

It hit a high of 3019 on 14 April 2010
(+24.3%).....

Yesterday it closed at 2806....down
3.1% in 2010



Stock markets have corrected since the middle of April 2010 from sovereign debt crisis in Europe

among the PIGS (Portugal, Ireland, Greece and Spain)....

Could a debt crisis in the EU !!... be the start of a double dip ???

Correction in 2010 is modest compared to gains in stock markets in 2009...

Index	Jan 1 2009	Dec 31 2009	% chng	June 4 2010	% chng
Dow Jones	9034.69	10428.05	15.4%	9931.67	-4.8%
Nikkei 225	9043.12	10546.44	16.6%	9901.19	-6.1%
Hang Seng	15042.81	21872.5	45.4%	19780.1	-9.6%
Shanghai	1880.71	3277.12	74.2%	2553.59	-22.1%
STI Index	1829.71	2897.62	58.4%	2806.51	-3.1%

Problems in EU among the PIGs small and still manageable....

	GDP US\$bn	% of world
World economy 2009	57937.5	
EU	16447.3	28.4%
USA	14256.3	24.6%
Japan	5068.1	8.7%
China	4909.0	8.5%
Germany	3352.7	5.8%
France	2675.9	4.6%
Spain	1464.0	2.5%
Portugal	227.9	0.4%
Ireland	227.8	0.4%
Greece	330.8	0.6%
Hungary	129.4	0.2%
Singapore	177.1	0.3%

Investors spooked by EU debt crisis - VIX index reflects this volatility

VIX 35.48Y as of close 6/ 4 Index GP

VIX INDEX Advanced Hide GP - Line Chart Page 1/13

Range 06/09/08 - 06/04/10 Upper Line Chart Mov. Avgs Currency USD

Period Daily Lower None Mov. Avg 15 Events

*Last Price 35.48
 †High on 11/20/08 80.86
 †Average 31.90
 †Low on 04/12/10 15.58



Australia 61 2 9777 8600 Brazil 5511 3048 4500 Europe 44 20 7330 7500 Germany 49 69 9204 1210 Hong Kong 852 2977 6000
 Japan 81 3 3201 8900 Singapore 65 6212 1000 U.S. 1 212 318 2000
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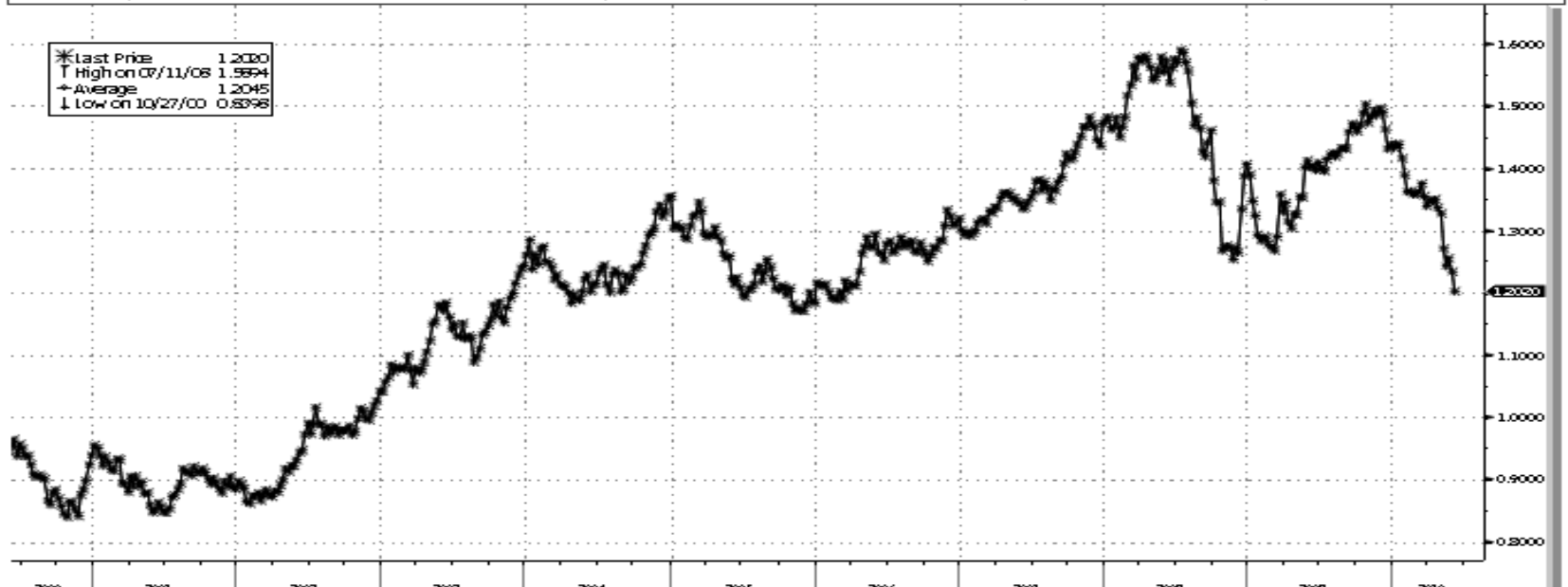
Euro should find support at US\$1.10 to US\$1.20 level but weak Euro will help EU economic recovery

EUR 1.2020Y as of close 6/4

CurrencyGP

EUR CMPL CURRENCY		Advanced		Hide		GP - Line Chart		Page 1/15	
Range	06/09/00 - 06/04/10	Upper	Market Price	Mov. Avgs		Currency	USD		
Period	Weekly	Lower	None	Mov. Avg	15	Source	CMPL	Events	

* Last Price 1.2020
 † High on 07/11/08 1.5594
 ‡ Average 1.2045
 † Low on 10/27/00 0.8398



Australia 61 2 9777 8600 Brazil 5511 3048 4500 Europe 44 20 7330 7500 Germany 49 69 9204 1210 Hong Kong 852 2977 6000
 Japan 81 3 3201 8900 Singapore 65 6212 1000 U.S. 1 212 318 2000
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The Good News

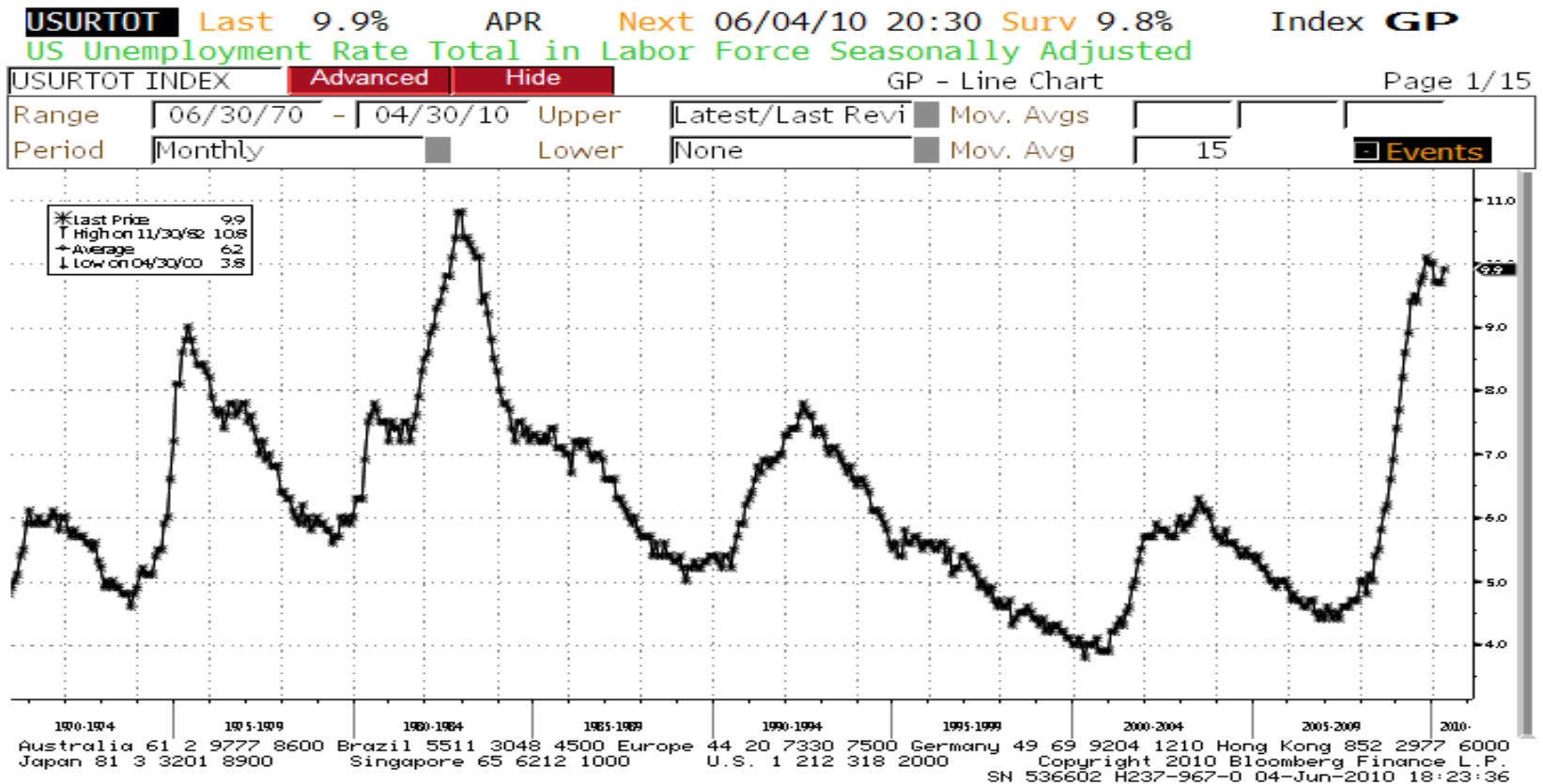
Global economy has recovered better than expected with OECD growth remains weak...but this was expected


- World Bank – Global economy contracted by 2.2% in 2009 but forecasted to grow by 2.2% in 2010 and 3.2% in 2011
- East Asia grew by 6.8% in 2009 and forecasted to grow 8.1% in 2010 and 8.2% in 2011
- OECD growth was -3.3% in 2009 and forecasted to grow at 1.8% in 2010 and 2.3% in 2011
- Interest rates likely to stay low till end of 2010

US economy recovering both in manufacturing and services



US unemployment near 10% but this is a lagging indicator in any economic recovery





Corporate earnings in 2010 have been good and market PERs are at the low end of their historic range

stock market volumes have been low as many investors are sidelined

PER of the Dow...below historical range



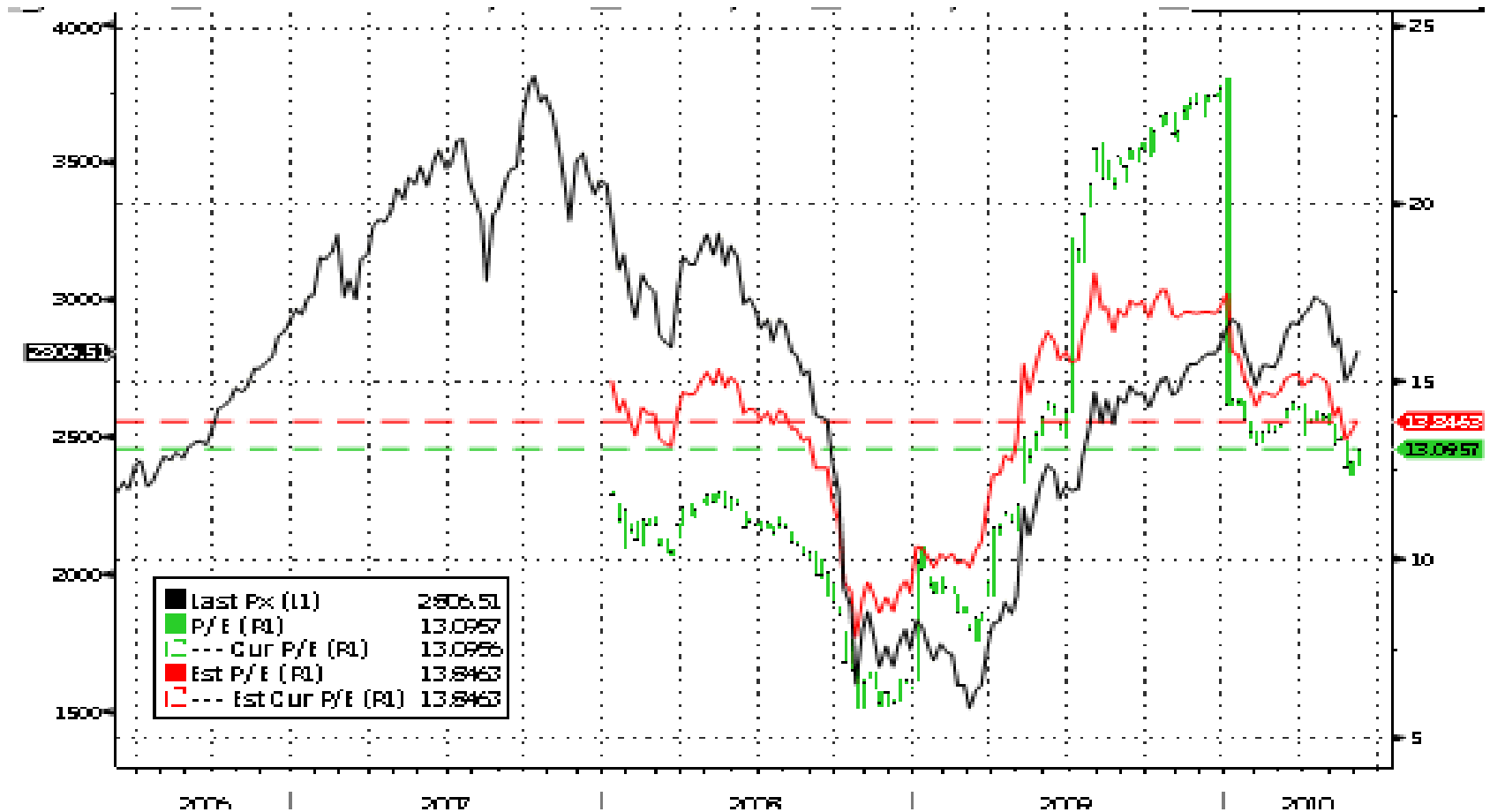
PER of Shanghai market now below historical



PER of Hang Seng Index – trading near historical lows



PER of STI Index now only 12-13 times 2010 earnings (part 1)



PER of STI Index now only 12-13 times FY2010 earnings— part 2



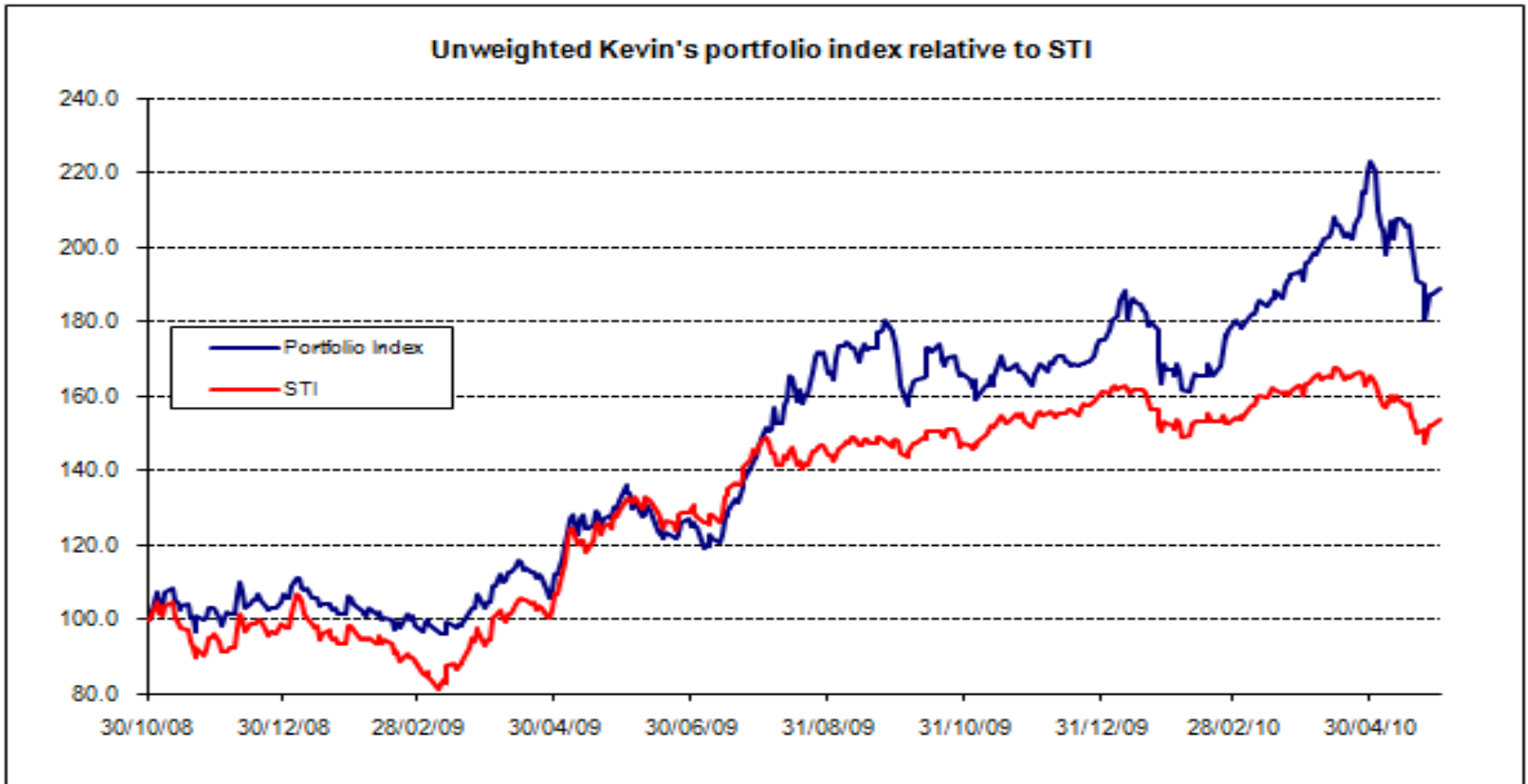
Summary

- Uncertainty in stock markets will continue....it took six months for markets to stabilise after the crisis started in the US in Sept/Oct 2008....this would imply market stability sometime in Q3-2010
- Look at the VIX for guidance....a sustained fall below 30 is a good signal to start accumulating again
- Global economy has recovered better and faster than expected (exception of EU) – Global GDP growth rates have been raised by 0.5% to 1% to 2.2% and 3.2% for 2010 and 2011 respectively
- Corporate earnings growth has been strong and market PERs are at their historic lows for the Dow, Shanghai and Singapore

My strategy.....

- Easy money is over - stock selection is more important now !
- Look for undemanding PERs and attractive dividend yields as you may need to wait until Q4-2010 for markets to resume their uptrend.
- I favour the technology sector (which is experiencing very strong Q1 and Q2 2010 performance and with good visibility until year end
- Banks offer good exposure to the economy
- Look out for China – as further credit tightening to avert and asset bubble can be expected

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Thank You