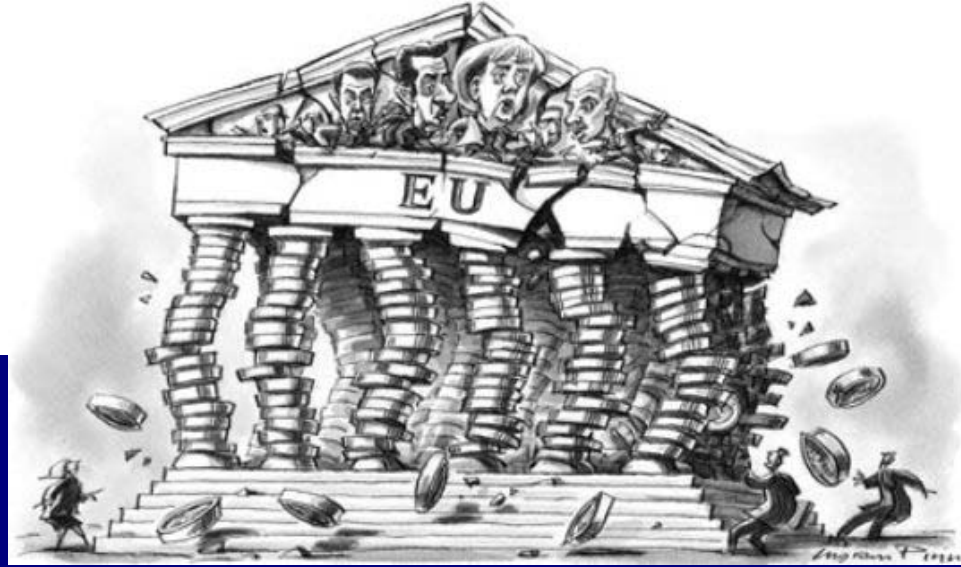


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# Market Outlook for the Last Lap of 2011.....




Kevin Scully, 15 October 2011



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At the InvestFair on August 13, 2011, I warned that markets would be volatile for at least four months.....

based on the Vix at above 40, the STI Index had downside risk to 2200 if it breached support at 2500.....



A quick look at what has happened  
in 2011 to date



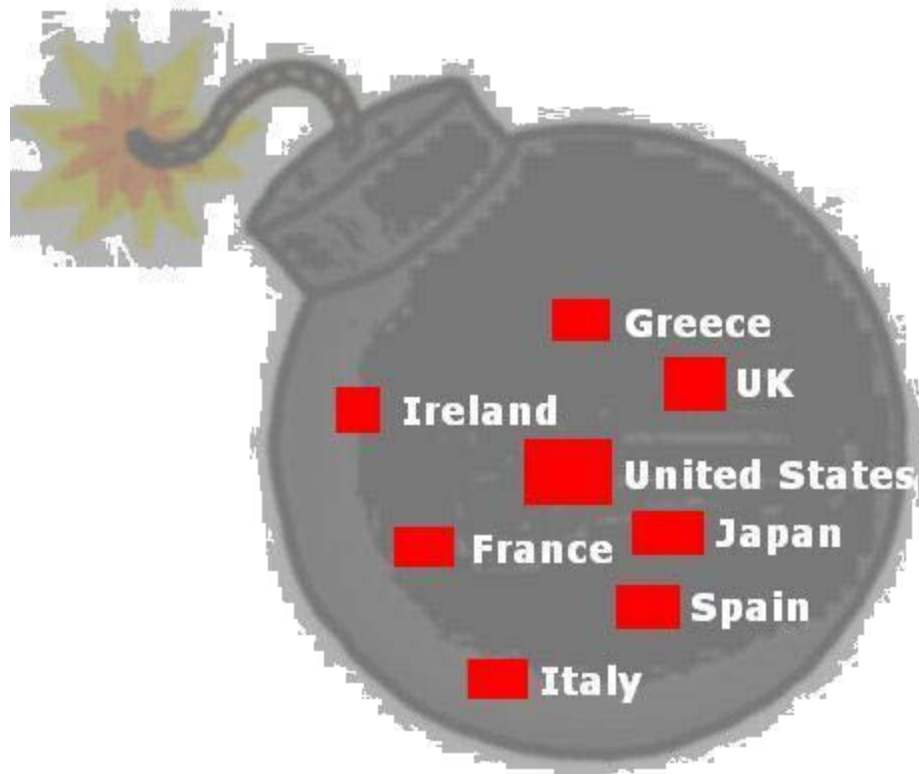
On a year to date basis, stock  
markets haven't done too badly.....

but compared to their peaks in  
July/August....the declines have  
been significant

# Year to date only HK is in a technical bear market....but

Index	Jan 2011	Oct-12 2011	% chng	Aug-01 2011	% chng fm Jan	Oct-05 2011	% chng fm Aug 1	Oct-12 2011	% chng fm Oct 5
Dow	11670.8	11518.9	-1.3%	12132.5	4.0%	10655.3	-12.2%	11518.9	8.1%
Nikkei 225	10345.1	8839.1	-14.6%	9965.0	-3.7%	8382.9	-15.9%	8839.1	5.4%
Hang Seng	23436.1	18584.9	-20.7%	22663.4	-3.3%	16250.3	-28.3%	18584.9	14.4%
Shanghai	2852.6	2426.3	-14.9%	2703.8	-5.2%	2359.2	-12.7%	2426.3	2.8%
STI	3235.8	2750.4	-15.0%	3215.3	-0.6%	2528.7	-21.4%	2750.4	8.8%

# Sovereign debt concerns in the US and Greece/EU caused this crisis in August 2011



# Vix index tells us where investors see the current risks in Eurozone

VIX 31.26Y as of close 10/12

Index GP





Vix at the 30-50 level means crisis similar to when PIGS crisis first surfaced in Q2-2010

.....and not a 2008 type meltdown yet

# Dow fell to 9500 in Q2-2010....10500 is a key support level....if not 9500

**INDU** 11518.85Y as of close 10/12

Index **GP**

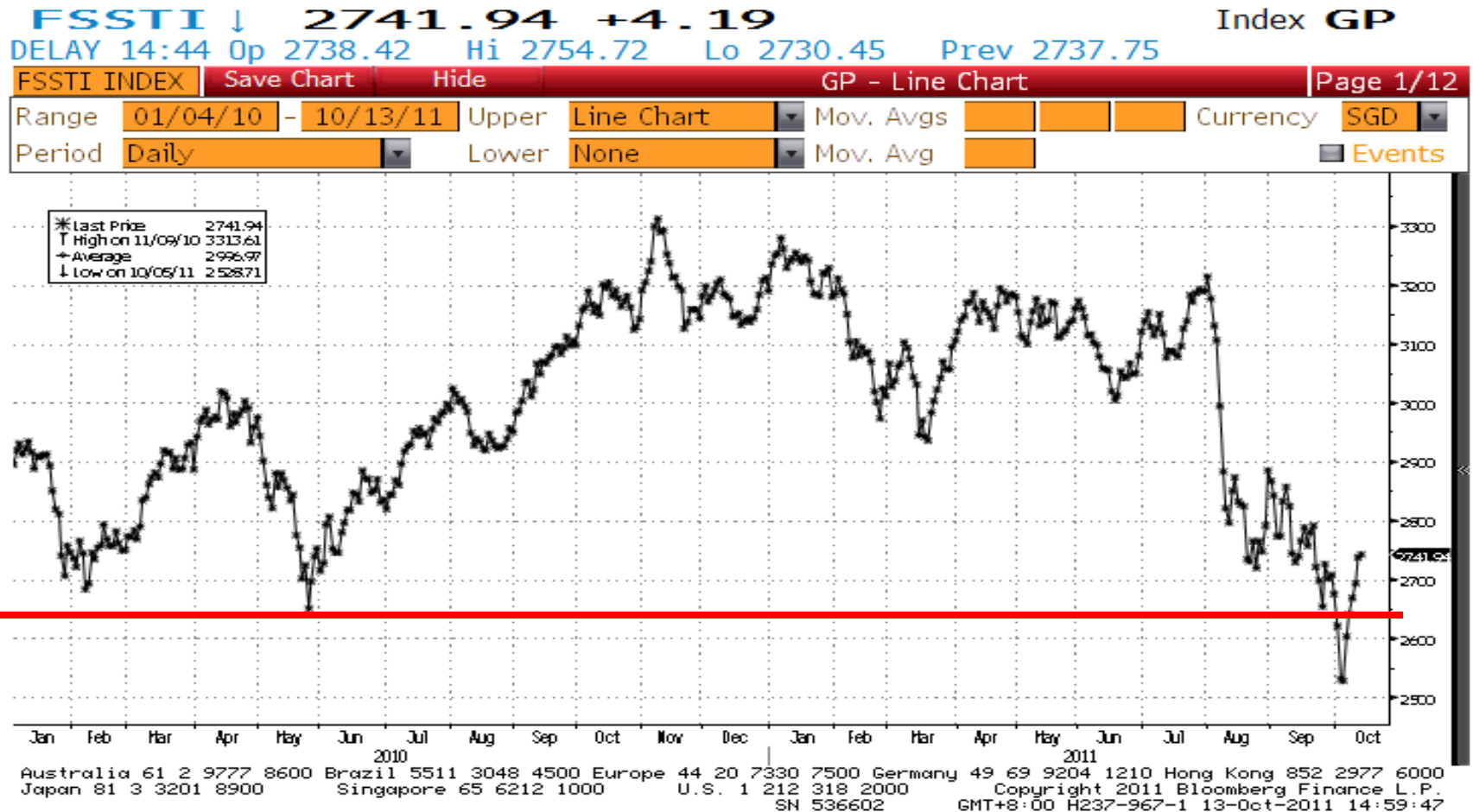
INDU INDEX Save Chart Hide GP - Line Chart Page 1/12  
 Range 01/04/10 - 10/12/11 Upper Line Chart Mov. Avgs Currency USD  
 Period Daily Lower None Mov. Avg Events

\* Last Price 11518.85  
 † High on 04/29/11 12810.54  
 ‡ Average 11241.60  
 † Low on 07/02/10 9685.48



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  
 SN 536602 GMT+8:00 H237-967-1 13-Oct-2011 14:59:07

# STI Index fell to 2650 in Q2-2010 but recently found support at 2500



# STI Index first support at 2500 then 2200

**FSSTI** ↑ 2744.43 +6.68 Index GP  
 DELAY 10:18 Op 2738.42 Hi 2746.26 Lo 2730.45 Prev 2737.75

FSSTI INDEX Save Chart Hide GP - Line Chart Page 1/23

Range 01/04/08 - 10/13/11 Upper Line Chart Mov. Avgs Currency SGD

Period Daily Lower None Mov. Avg Events



\* Last Price 2744.43  
 † High on 01/04/08 3416.46  
 † Average 2722.56  
 † Low on 03/09/09 1455.95

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# Is the worst over for the EU debt crisis ? !

.....I don't think so.....expect more bad news in the coming months

# Why do I think the worst is yet to come ?

- The EFSF (European Financial Stability Facility) is too small (was Euro 440bn now Euro 780bn)....it can save Greece and maybe Portugal but not Italy, Spain, Ireland and even France
- Govt's will not be able to keep to their fiscal cuts in the face of strong social unrest
- They wont be able to save the European banks that hold the sovereign debt....
- I think we could see at least 10 European bank failures over the next one to two years

# Top 20 Public debtor nationals in 2010 from CIA World Fact Book

<u>Country</u>	Public Debt US\$bn	% of GDP	Per capita Debt	Public debt US\$bn in 2008	Public debt 2010 % change 2008
USA	\$9,133	62%	\$29,158	\$5,415	68.7%
Japan	\$8,512	198%	\$67,303	\$7,469	14.0%
Germany	<b>\$2,446</b>	<b>83%</b>	\$30,024	\$1,931	26.7%
Italy	<b>\$2,113</b>	<b>119%</b>	\$34,627	\$1,933	9.3%
India	\$2,107	52%	\$1,772	\$1,863	13.1%
China	\$1,907	19%	\$1,427	\$1,243	53.4%
France	<b>\$1,767</b>	<b>82%</b>	\$27,062	\$1,453	21.6%
UK	<b>\$1,654</b>	<b>76%</b>	\$26,375	\$1,158	42.8%
Brazil	\$1,281	59%	\$6,299	\$775	65.3%
Canada	\$1,117	84%	\$32,829	\$831	34.4%
Spain	<b>\$823</b>	<b>60%</b>	\$17,598	\$571	44.1%
Mexico	\$577	37%	\$5,071	\$561	2.9%
Greece	<b>\$454</b>	<b>143%</b>	\$42,216	\$335	35.5%
Netherlands	<b>\$424</b>	<b>63%</b>	\$25,152	\$392	8.2%
Turkey	\$411	43%	\$5,218	\$362	13.5%
Egypt	\$398	80%	\$4,846	\$385	3.4%
Belgium	<b>\$398</b>	<b>101%</b>	\$38,139	\$350	13.7%
Poland	<b>\$381</b>	<b>53%</b>	\$9,907	\$303	25.7%
South Korea	\$331	23%	\$6,793	\$326	1.5%
Singapore	\$309	106%	\$65,144	not available	
Taiwan	\$279	34%	\$12,075	not available	

# At least 10 European banks should/can fail ???!

- Remember the stress test on 91 European banks in July 2010/11 – 7 failed with 16 almost failing – failure means not having 5% Tier 1 capital if the whole sector were to suffer losses of EU200bn per year over two years
- Dexia which recently failed and is in the process of being rescued wasn't even in the list of 7 or 16 and infact had Tier 1 of more than 10% during the Test. Only 17 of the 91 banks had a higher Tier 1 than Dexia. This means that more banks are likely to need help.
- The estimated Sovereign bond hair cut ranged from 4-4.5% for Germany/Slovenia to 23.1% for Greece.....any higher haircut would mean more EU banks would be in trouble and a lot more money would be needed from the EFSF.

# The EU Bank Stress Test seems too conservative.....



# They rescued Dexia but remember Bear Stearns....it was also rescued...but

- Bear Stearns was the first US bank to succumb to the 2008 financial crisis and was rescued within 10 days by JP Morgan
- There are more than 8000 commercial banks in the US....in 2008 there were 25 failures, 140 in 2009, 157 in 2010 and 76 in 2011 compared to 11 over five years before 2008. Biggest failure was Washington Mutual (US\$307bn in assets).
- Other big failures post Bear Stearns included Merrill Lynch, CountryWide Financial, Indy Mac and Lehman Brothers and Northern Rock.
- So the rescue of Dexia doesn't mean other banks wont fail  
..sometimes it pays to be the first to announce bankruptcy.....



Markets have been very volatile since  
August 2011.....

In the month of September alone the  
Dow fluctuated +/- 2% 18 out of the 24  
market days – it would take about  
**FOUR** months for markets to stabilise

# Volatility of the Dow from Apr to Oct 2010 when PIGS problem surfaced

**INDU** 11518.85Y as of close 10/12

Index GP

INDU INDEX	Save Chart	Hide	GP - Line Chart			Page 1/6
Range	03/01/10 - 12/30/10	Upper	Line Chart	Mov. Avgs		Currency USD
Period	Daily	Lower	None	Mov. Avg		Events



\* Last Price 11518.85  
 † High on 12/29/10 11555.38  
 ‡ Average 10722.48  
 † Low on 07/02/10 9685.48

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  
 SN 536602 GMT+8:00 H237-967-1 13-Oct-2011 16:23:25

# Volatility of the Dow from Aug to Oct 2011

**INDU 11518.85Y** as of close 10/12

Index **GP**

INDU INDEX Save Chart Hide GP - Line Chart Page 1/3  
 Range 08/01/11 - 10/12/11 Upper Line Chart Mov. Avgs    Currency USD  
 Period Daily Lower None Mov. Avg  Events



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 Japan 81 3 3201 8900 Singapore 65 6212 1000 U.S. 1 212 318 2000  
 SN 536602 Copyright 2011 Bloomberg Finance L.P. GMT+8:00 H237-967-0 13-Oct-2011 10:37:15

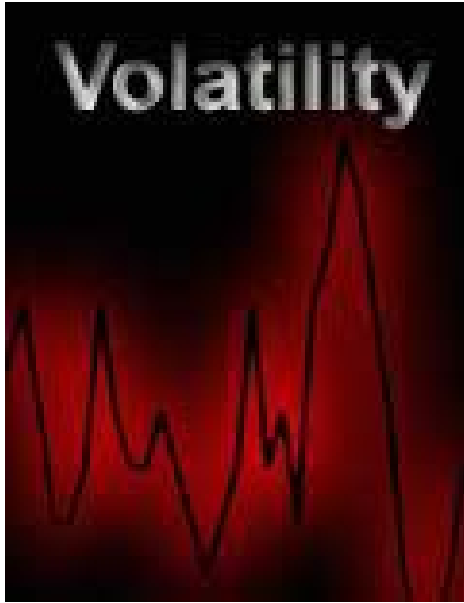


I expect the volatility to continue into  
November/December 2011

....or until we have a sovereign default or  
more bank defaults – we can then see the  
impact of the defaults instead of trying to  
guess their impact



# Investment strategy for rest of 2011 into 2012



Singapore market likely to be volatile and range bound with downward bias until the end of 2011 with STI Index finding first support at 2500 and then 2200.....

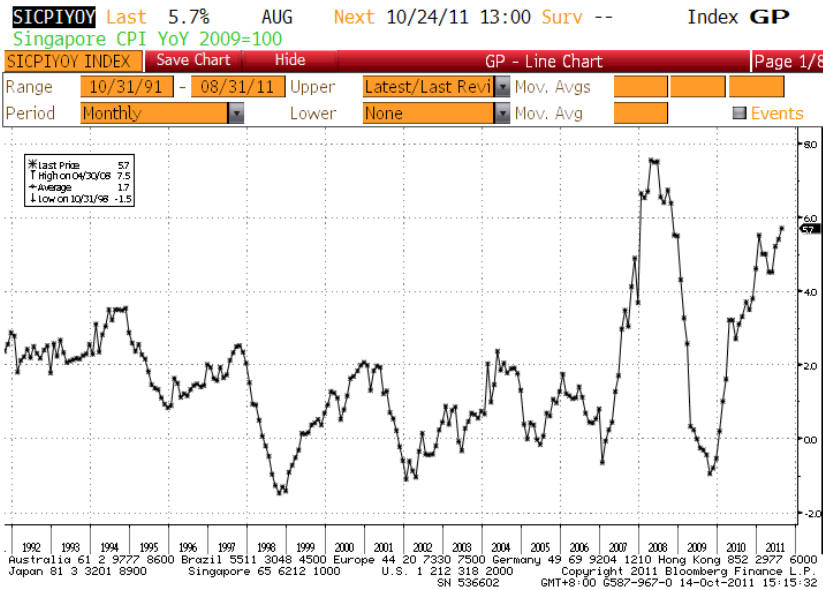


If you cannot stomach  
the volatility.....then  
you should reduce  
your weightings in  
cyclicals into any rally  
and move into  
defensive yield plays

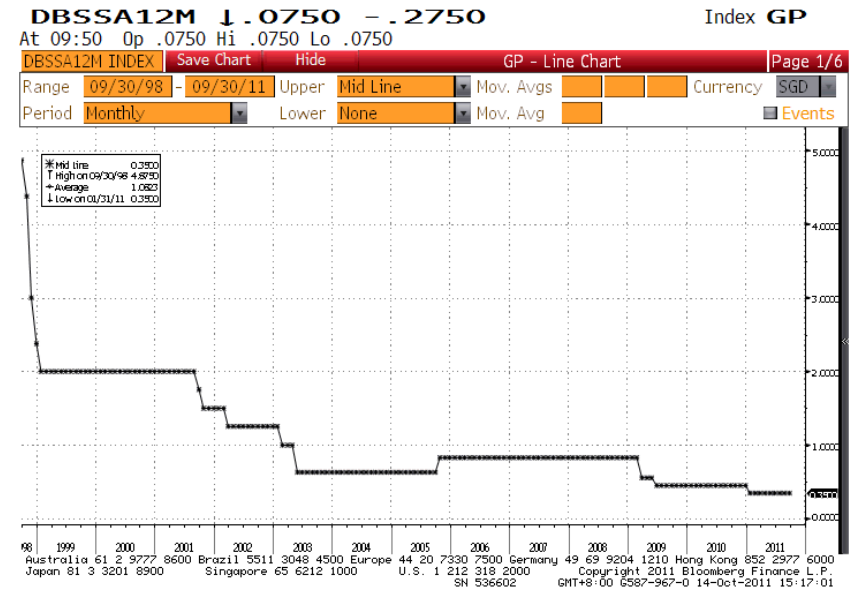


# Our problem – how to beat inflation without taking on too much risks

## Singapore CPI Index



## Singapore 12 month FD rate




# Some investments to help you try and match our inflation of 5% when deposit rates are low

## Dividend yield plays

Name	Price S\$	Dividend			Q2-2010
		Yield	PE	P/B	low
Singapore Telecom	\$3.19	4.95%	13.3	2	\$2.67
SPH	\$3.81	4.20%	15.5	2.7	\$3.60
Cerebos	\$4.81	5.20%	17.9	4	\$3.50
Sabana	\$0.89	9.8%	na	0.89	na
CapitalMallTrust	\$1.86	5.1%	na	na	\$1.71
M1	\$2.44	5.90%	13.6	7.4	\$2.36
OCBC 5.1% NCPS	\$105.80	4.80%	na	na	
UOB 5.05% NCPS	\$105.40	4.79%	na	na	
Tee Intl	\$0.26	8.60%	4.59	1.46	\$0.16
AdamPak	\$0.25	8.00%	6.4	1.2	\$0.26


Stocks are still the cheapest asset class today but expect huge volatility in the short term

<b>Index</b>	<b>2010 Hist PE</b>	<b>2011 Prosp PE</b>	<b>2000-2011 PE range</b>
Dow	12.3	11.7	12 to 25
Nikkei225	16.3	14.1	13 to 45
Hang Seng	8.5	9.9	7 to 25
Shanghai Comp	12.9	11.1	12.9 to 45



Investors who are prepared to wait one to two years can expect to make good gains in both blue chips and mid/small caps

- Most stock markets are trading at the low end of their PE range since 2000 and unless earnings collapse will give good returns on a one-two year view
- Start with blue chips first using the levels they fell when the PIGS crisis started as a reference point to start accumulating.
- Mid/small caps are already offering huge value with some stocks almost back to their 2008/2009 levels and could give 1-3 time returns (but choose wisely) using the strength of the balance sheet and business outlook as guides.



What blue chips and what price levels should we be looking at ?

## STI Index Component Stocks

Name	Price 3-Jan-11	Price 5-Oct-11	% chng	Price 13-Oct-11	% chng	Price in Q2-2010
Starhub	2.63	2.86	8.7%	2.80	-2.1%	
Singapore Telecom	2.96	3.13	5.7%	3.15	0.6%	2.67
Jardine C&C	36.60	37.98	3.8%	41.80	10.1%	
Jardine Matheson	44.00	44.00	0.0%	48.60	10.5%	
Capital Malls Trust	1.95	1.85	-5.1%	1.88	1.6%	
SPH	3.98	3.75	-5.8%	3.78	0.8%	3.58
Jardine Strategic	27.68	24.47	-11.6%	26.96	10.2%	
SIA Engineering	4.13	3.66	-11.4%	3.75	2.5%	
UOB	18.10	16.04	-11.4%	17.38	8.4%	17.90
ComfortDelgro	1.55	1.32	-14.8%	1.35	2.3%	1.39
ST Eng	3.34	2.84	-15.0%	2.80	-1.4%	2.97
F&N	6.41	5.42	-15.4%	5.87	8.3%	4.55
Wilmar	5.63	4.45	-21.0%	4.89	9.9%	5.50
OCBC	9.88	7.70	-22.1%	8.28	7.5%	8.10
DBS	14.32	10.93	-23.7%	12.06	10.3%	13.26
SIA	14.42	10.93	-24.2%	11.28	3.2%	13.10
SGX	8.42	6.13	-27.2%	6.26	2.1%	7.11
Global Log	2.16	1.56	-27.8%	1.60	2.6%	
City Dev	12.39	8.76	-29.3%	10.00	14.2%	9.98
Olam	3.13	2.21	-29.4%	2.46	11.3%	2.20
Golden Agri	0.80	0.56	-30.0%	0.62	10.7%	0.48
Keppel Corp	10.29	7.12	-30.8%	8.58	20.5%	7.48
Genting	2.19	1.45	-33.8%	1.60	10.3%	0.93
Semb Corp Ind	5.12	3.37	-34.2%	3.90	15.7%	3.83
Capitaland	3.71	2.36	-36.4%	2.52	6.8%	
Capital Malls Asia	1.94	1.19	-38.7%	1.28	7.6%	
Semb Corp Marine	5.14	3.11	-39.5%	3.89	25.1%	3.50
HK Land	7.22	4.23	-41.4%	4.98	17.7%	
Noble Group	2.17	1.27	-41.5%	1.44	13.4%	1.57
NOL	2.18	1.08	-50.5%	1.15	6.5%	1.76

# My blue chip stock picks

- Singapore Telecom – accumulate at \$3.00
- SPH – accumulate at \$3.60
- OCBC – accumulate at \$8.00
- SGX – accumulate at \$6.00
- Keppel Corp – accumulate at \$7.50
- Olam – accumulate at \$2.20

# Summary

- EU debt crisis far from over. EFSF fund too small to save more than two small members of EU expect 10-20 bank failures in the EU.
- US and EU almost or in recession/stagflation. Interest rates are useless as a recovery tool.....need fiscal expansion but huge Government debt prevents aggressive fiscal expansion plan which can kick start economies
- Markets likely to remain volatile for another one to two months until a trigger event takes place such as a sovereign default or more EU bank failures.
- STI Index has support at the 2500 level but if this breaks, we could test the 2200 level.

# Summary.....cont'd

- If you cannot stomach the volatility you should sell your cyclicals into any rally and invest in defensive yield plays.
- Current approach to try and beat Singapore inflation which is running at about 5%, against bank deposits of less than 0.5%.....check my dividend yield recommendations.
- Stocks remain the cheapest asset class today with most stock markets trading at the low end of their 10-12 year PE range.
- In Singapore, I have identified six blue chip component stocks in the STI Index to consider using their Q2-2010 price lows (when PIGS crisis first started) or the recent Oct 5, 2011 lows as a guide.



Thank You