KMI EXCLUSIVE NEWSLETTER

8th February 2013

Dear Clients and Investors

Welcome to a new year; a little late you may say, but then I have an excuse. I spent most of January in Australia and New Zealand, amazingly an area unaffected by the financial crises that plagues Europe and the USA. As a result, the Australian dollar in particular continues to be very strong. My thanks to the clients there that made us so welcome.

Back to our newsletter

This month, at the start of the year, we look at investments that should do well in 2013 and I attach a KMI report on the financial crises so far and what might be done to improve matters.

2013 - How to invest

As the economy slows – where should you invest?

Europe and the UK is falling deeper into recession

Europe is teetering on the verge of break-up – no one knows what will happen next and that's keeping markets very jittery. For four years now, the markets have been wracked with fear.

The banks are becoming more solvent, but most of the high street names are still reluctant to lend.
The impact of the European slowdown is still hitting companies across the globe as trade slows.
Meanwhile China is in the middle of a difficult ‘hard-landing’, rocking the commodities sector and introducing another threat to growth.

The US outlook is clouded by the threat of tax hikes and austerity measures kicking in after the election. Companies are seeing sales fall or level off; some even think the US is already coming out of recession to the road to recovery, but others doubt this.

PROPERTY

Here's why we think property investors need to tread carefully…

1. **Prices are still overvalued.** Whilst the average house price has fallen from its 2007 peak, we believe prices are still way above where they should be.
2. **Interest only mortgages are dying out.** For years, interest only mortgages fuelled the housing market bubble, supporting unsustainable prices. But now the banks are starting to clamp down on them… removing a key support for the market.
3. **Interest rates are moving up.** Recently, Halifax raised its standard variable rate. Not much, about 0.5% – but as any seasoned investor will tell you, it's the direction that matters, and if rates continue to rise, without the economy having an upturn, it could sound trouble in the housing market.

Any one of these indicators could spark another fall in house prices… something that could damage the wealth of millions of hard-working Europeans.

GOLD - Stock Up Or Sell

GOLD – buy or sell?

Should you see the drop in gold price as a warning to get out… or an opportunity to buy in?

While gold's slide seems to have stopped at the 1650 level, we don't believe it's anything serious. In fact, this break in the ongoing bull market, could be a good time to invest.

The fundamentals for gold are so much better than the fundamentals for stocks, that we can't help thinking gold is still a place to be.

There's no sign that the mess in Europe will end anytime soon, and with the Bank of England buying up 50% of all UK debt since 2009, some kind of monetary crisis seems possible.

The 'bond bubble' (that's government bonds not corporate bonds) is about to burst?

Bond Bubble To Burst

Right now, the flow of money into UK government bonds (gilts) is frighteningly high.

Is it sustainable? Of course, it's easy to see why so many investors are pouring their money into government bonds. Ever since the credit bubble burst investors are wary of the risks

posed by stocks. They want a safe return. And sure, over the past decade, holding bonds was a considerably safer option.
Prices have now been driven up so much that yields are at rock bottom levels. 10 year gilts, for example, yield just 2% – less than the rate of inflation
Think about it... would YOU lend money at 2% for 10 years to politicians? No, and we don't understand why anyone else would. But they are. In a nutshell, we believe gilt yields are now as low as they're likely to get... they have nowhere else to go... and all the risk is that government bond prices will eventually fall.

Commodities

Profit From Commodities

Investing in commodities has become more and more fashionable recently as the price of oil, base metals and many soft commodities have gone through the roof. However if you're tempted to invest in commodities today, we would suggest caution. The commodities boom has been driven by surging demand from Asia and other emerging markets, but now that we're facing a global recession, demand will inevitably drop off in the short term, even in China. Falling demand can only mean one thing – falling prices.
Even so, it's not all doom and gloom for commodities. Long-term, the outlook is very promising for mining and other commodity-related stocks due to the 'supply versus demand' problems facing Asia and other emerging markets. And if you know where to look, there are still some commodity plays – including meat and water – that look extremely attractive.

Oil in 2013

Currently, we believe weak Chinese and global growth, points to the oil price falling.
That doesn't mean profit opportunities are thin on the ground.
No matter what happens over the coming months, unrest in the Middle-East could affect your investments…there is a big need to watch this commodity carefully in the near future.

Ways to make big profits from emerging markets

Emerging Markets

Emerging markets have been one of the hottest investment topics of the past few years.... and it's easy to see why.
They can no longer be hailed as the underdog, having outperformed their developed

counterparts time and again. In fact, while the economy's growth continues to accelerate from a much lower base, they seem pretty much like sure bets.

After several years of rapid growth, most emerging markets can hardly be described as cheap. You have to be selective. Talk of a bubble may be overblown at the moment, but the days when you could happily pile into any old "BRIC" (Brazil, Russia, India, China) fund or emerging market and put your feet up for the ride, are long gone.

The idea that the hub of wealth is moving from west to east is likely to continue. Even so, a fast-growing economy is no guarantee of a fast-growing stock market - in fact studies have found there is absolutely no relationship between the two.

How to choose

Frontier Markets (less developed than Emerging markets, example Emerging Africa)
These are riskier than those classed in the emerging bracket, but they are also under-exposed and far more exotic.

Consumer Stocks Track certain individual stocks that are set to profit from long-term themes such as the rise of the consumer (India).

Invest "through the back door" The third alternative is to get exposure through western companies that generate sales in the region.

Of course, this is just a very brief snapshot of the best ways we believe you can make money from emerging markets, but ask your consultant or Mike Towning in Prague for more fund ideas.

Happy investing

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New site http://corporatebonds.kmiconsultants.com/

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