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Investors wait for market to bottom



ON MONEY
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HERE is my confession. On Thursday, November 26, 2009, I sold almost all of my short-term speculative stocks, except the few in the Special Sits Portfolio. By close of trade on the Friday I was over 50% in cash with most of the rest in blue chips. The following week the market treated me with contempt. "Where in the hell is Dubai?" traders asked. But I had been there; worked there. I feared another GFC debt implosion — this time the ultimate sovereign debt slide. My timing was wrong but a couple of months later world stock markets caught swine fever. The PIGS are Portugal,

Ireland, Greece and Spain and their national debts have forced the euro to plunge against the US dollar. There have been partial sovereign defaults in the past — Argentina (2001), Russia (1998) and Ecuador (1999). They take place when a country issues bonds in foreign currencies but cannot afford to repurchase them at repayment time. It will not happen to the PIGS because they are members of the Eurozone with the euro as their single currency. They will be bailed out by the European Central Bank that includes member states such as economic powerhouse

Germany. But it has given world stock markets a real fright. There are fears that a second crash is on the way bigger than the GFC. The markets are wrong. It will not happen. However, the transfer of economic power from the West to Asia will continue. Now we should wait for the market to bottom. One knows that successful investment involves staying out of the market for long periods. Your columnist has already made impatient mistakes by buying more lead and zinc miner Kagara at \$0.90 cents. Already there is huge leverage in stocks such as Kagara that reached an

intra-day high of \$1.28 on January 11 and is now \$0.89 cents, a fall of 30%. Geophysical company Panax Geothermal was down 34% by February 3 to \$0.099 cents (9.9 cents) on the announcement that its well was spudding in. To me the market still looks expensive, especially the banks, and if metal prices continue to fall so will our resource stocks. Energy stocks look a bit more promising, for example AWE that has just struck hydrocarbons in its Rockhopper 1 exploration well in Bass Basin, Tasmania. But if Europe has problems so does oil.