Let's do a trip around the world:

USA (*the world's biggest economy*)

Has some problems with the amount of Government debt. But is this really a problem? The cynic in me would say they will simply inflate their way out of the problem by printing more money and keeping interest rates low. Even if money isn't worth as much (*because of inflation*) and everyone is a little worse off purchasing power wise, tax revenues increase while the Government debt is fixed. i.e. not inflation adjusted. Add to this a very strong corporate sector (*lower debt levels than in the past*), and a slowly improving economy – unemployment is gradually declining (*down to 7.5% from over 10%*), residential property activity and prices are now steadily improving; due to fracking technology there is an energy revolution in the USA resulting in cheaper energy and they say energy and oil self sufficiency by 2020; due to this and other global factors many US companies are now relocating their production facilities back on shore. Bottom line is there is more good stuff happening in the good old USA than any bad stuff that some in the financial media might have us believe.

CHINA (*the 2nd biggest economy*)

Some genius's are having kittens because "shock horror" the Chinese economy is only growing at 7.5%. Guess what, 7.5% growth is the official target growth rate of the Chinese Government (*their target for the next 5 years*). Please bear in mind this is 7.5% of a much bigger base than it used to be. Just about any other country in the world would love to have a growth rate like that. Sure they are trying to change the drivers of that growth to be less infrastructure driven to more consumer driven (*which may be slightly negative for Australian coal & iron ore mining companies*), but that all makes perfect sense. The other criticism I hear with regards to China relates to their one child policy and that at some stage down the track they will have less working people to support an aged population. What Crap. Don't you think the Chinese have thought about this. The hypothesis is based on the assumption that everyone retires at a set age. But guess what, with health care (*particularly in developing countries*) improving at a rapid rate it is not too much of a stretch to think that normal retiring age will increase, thereby mitigating the supposed problem.

OTHER EMERGING ECONOMIES (*very large number of people*)

Many, but not all, countries that fit this description (*India, Russia, Brazil, Indonesia, Mexico, Turkey etc*.) in recent times have grown their economies at rates well above what would be considered normal for a developed country. There is every reason to think that many of these will continue to do so. Even parts of Africa are starting to join in. Many of these countries have very low Government debt and as a consequence are not faced with the problems some of their developed world neighbours are suffering. Historically financial markets in these type of countries can be more volatile, but over the long term they also produce higher returns.

EUROPE (*the world's basket case*)

Perhaps that's being a little unkind. Certainly some countries in this region would be worthy of that description, but interestingly if you drill down to their component parts, some are performing very well – in particular those companies (*whilst domiciled in Europe*) who are probably better described as global businesses e.g. Nestle, Siemens, Glaxo, Shell etc. The big problem as I see it is having a common currency without a common government and set of rules. So the countries that work hard and are innovative (*e.g. Germany*) get dragged down by the lazy, corrupt ones (*e.g. Greece*). That said there are some signs of green shoots e.g. Spain's Labour Ministry reported the number of people filing for jobless benefits dropped for a second consecutive month in May, by 98,265 – the biggest ever decline. This good news comes on top of Spain's manufacturing Purchasing Manager's Index jumping to a two-year high in the same moth. Not just that, Bloomberg also reports that in March "Spain registered its first trade surplus since records began being kept in 1971". What does this all mean? It means there are opportunities to invest in selected European companies and also some fixed interest offerings. But we need to be selective.

ENGLAND

Well they need a reality check. They think they are going to retain the Ashes. But seriously they have similar problems to other parts of Europe with-out the disadvantage of a common currency. Same as for Europe there are opportunities for selective investors.

AUSTRALIA

Red tape is ruining our competiveness. Everyone I speak to from all manner of occupations says the same thing – they are spending way more time filling out paperwork (*whether it be manually or electronically*) and less on productive activities than they ever used to. We should round up all the law makers (*not you lawyers whose job it is to interpret the rules they give us*) and deport them.

Over the last 2 to 3 weeks the price of Australian shares as measured by the S & P / ASX 200 have fallen by just under 8% from their recent peak in May. While it is still 18% higher than it was 12 months ago it is none the less 30% below its all time high on 1/11/07. However the price movements have not been uniform. Due to what is referred to as the "chase for yield" the big 4 banks, Telstra and some of the other high dividend paying shares (*including listed property trusts*) have been responsible for basically nearly all the gains. Resource company shares and in particular smaller resource companies have been hammered by the market and are down up to 80% relative to those high yielding shares mentioned above. Also the price of other blue chip companies that choose to retain a higher proportion of their profits for reinvestment (*rather than paying them out as dividends*) have not fared as well as those high yielding companies even though their profit performance is just as good (*or better in some cases*). Does that mean you should avoid the high dividend paying shares? The answer is no; it is still better in my opinion to get a grossed up dividend yield from say Westpac in excess of 9% p.a., with the prospect of some long term capital gains rather than give them your money on a term deposit earning only 4% p.a. That said there are plenty of other shares to invest in that will likely produce considerably higher capital growth over the next few years given that they are starting at much lower valuations (*in a relative sense*). As I always say, selective diversification is extremely sensible.

SECTOR OUTLOOKS

<u>Cash</u>	Always useful to have access to some cash but probably don't keep too much in this form for too long at rates below 3%.
<u>Term Deposits</u>	Mostly safe, but don't appeal to me at all at current rates on offer.
<u>Other Fixed Interest Securities</u>	
- Australian	Avoid Australian Government Bonds – ignoring the short term there is way more downside than upside at current rates. Selected corporate securities are fair value but due to complexities in their structure some are over priced.
- Global	Avoid most developed country Government Bonds like the plague (*particularly US, Japan, UK, Germany and a few others*). Some Government Bonds (*not those mentioned above*) and selected corporate securities look to be fair to good value.
<u>Shares</u>	Need to be selective. I prefer global (*unhedged*) over Australian at the moment. I still like emerging markets. In Australia I prefer smaller companies to larger ones for those of you who are patient and I have a slight leaning towards resource companies from a "contrarian" point of view – the resources boom may have taken a breather but it ain't over and as the supply and demand sides respond (*as they do*) another surge will occur (*but to be fair I don't profess to have a clear timetable in mind*).
<u>Property</u>	
- Australian & Global	Listed Australian property funds are in my opinion only just fair value at current interest rates. Expect to generate returns of around 8% p.a. (*6% income + 2% capital growth*) from some of the better ones. Retain existing exposures but if an opportunity arises to switch some of the listed exposure to quality direct exposure then take it, because some direct property looks to be better value than listed alternatives, despite not being as liquid. e.g. good yields (*8% +*), new or near new properties, well located, with zero or very low vacancies, on long term leases to blue chip tenants, with ratchet clauses built into the leases. Global property is a bit of a mixed bag with some good value and some to be avoided.