

## Etsior Monthly Opinion 15 January 2010 - The Art of Forecast

Forecasting what the main economical trends of the next decade are is nothing less than an art.

Nevertheless it looks like there are some convergences in opinions but also some divergences.

Among the main trends that we could spot:

- An ongoing decrease in the value of the dollar due to the lack of fiscal discipline in the US. The total public debts (budget as well as social deficits now represent 141% of the US GDP). Consequently moves should be made to diversify the assets in different currencies and economies (China, Brazil, Asian countries) as well as to invest in commodities. Though expressed in dollars, they should continue on their upwards trend and among them scarce metals will be a very good protection: they are required by industry and not freely available. Also go into inflation protected vehicles.
- Demography: in developed countries, the burden of working people supporting each day more and more retirees will become just unsustainable. Consequences can be diverse: pensions will be reduced one way or the other, people will be asked to work extra years before retiring, and retirees probably have their golden days behind them. When the bulk of the baby boomer retirees will need money, they will be tempted to sell assets that working people will have difficulties to buy, unless people from emerging countries come in and buy these assets. In other words, be very selective in your asset selection.
- Meanwhile emerging countries have a younger population, a lower social network and huge reserves,

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Our selection is always put in the macro-economical perspective to exploit the short to medium term market trends.

generally expressed in US dollars, but not only. Emerging markets seem to be good candidates for investment, though more and more investors see China as the next bubble, on the verge of popping. The recent tightening measures taken by China show this country does not want excess liquidity pouring into the markets and increase already high stock valuations.

- Markets look expensive by historical standards. But a good surprise in earnings can always happen and there are always about 1/4 of the listed companies that are of high quality, showing high stable returns and have know how to find out where growth will take place. Some people expect small events or factors will give markets good reasons not to raise.
- There is a possibility that we have entered into a new cycle with growth being almost inexistent. In such case defensive stocks, utility stocks yielding a 5% annually may be a good move. But there is also the contrarian opinion: innovation and research will be stronger as ever and will generate new opportunities, a new growth and new wealth in the fields of internet, of communications but also in cleantech. This will offset the current low trend following the recession years. The natural impulse is to follow what performed well during the past years. This is probably the wrong strategy. Take the stocks which were one of the worst investment in the last 10 years with almost no change in value. Stocks could be the mover of the next decade, especially if we consider a large worldwide diversification, both in developed and emerging countries, looking for reasonably priced companies able to recognize where there is growth. These selected stocks could yield 6 to 7% after inflation.
- The next years will be characterized by
  - De-leveraging, following the excesses of the sub-prime crisis who saw most people lose a good share of their assets: this can lead to a very slow growing stock market;
  - Re-regulation as more and more countries or group of countries will be inclined to protect their market to avoid de-industrialization and job losses. It will take the form of higher tariffs but also new sets of social obligations to be respected. Not to tell about the trend to regulate tax heaven and hedge funds and bank control;
  - De-globalization: the global heating will push to



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challenge current practices as de-localizations, huge imports from overseas, including a CO<sup>2</sup> factor in the cost of all goods favoring a local production. Air travel may suffer a lot, but new industries and technologies will emerge without any doubts.

We trust the human spirit to find the best ways to new highs. One thing I can tell is this will happen through unexpected moves and probably through trends we have not commented here.

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