



building
shock resistant
portfolios

[Markets]

I've been thinking about...

... Alice in Wonderland meets the new reality

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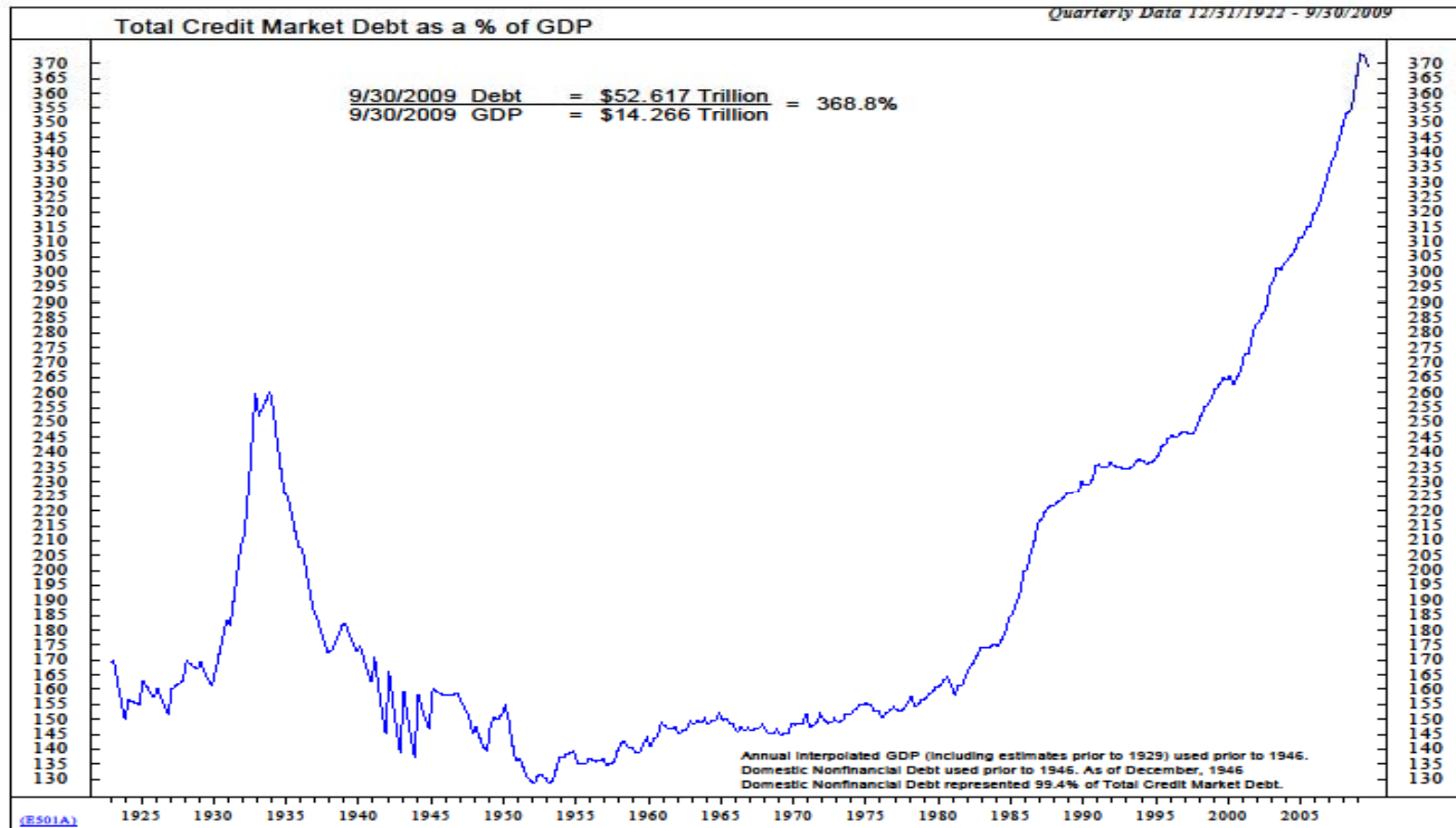
CONFERENCE

Tuesday 24 – Thursday 26 August 2010 | Sydney

Submerging versus emerging

- Submerging nations will spend less and save more
- Emerging nations will spend more and save less
- Yes, it is as simple as that

The New Reality of Frugality



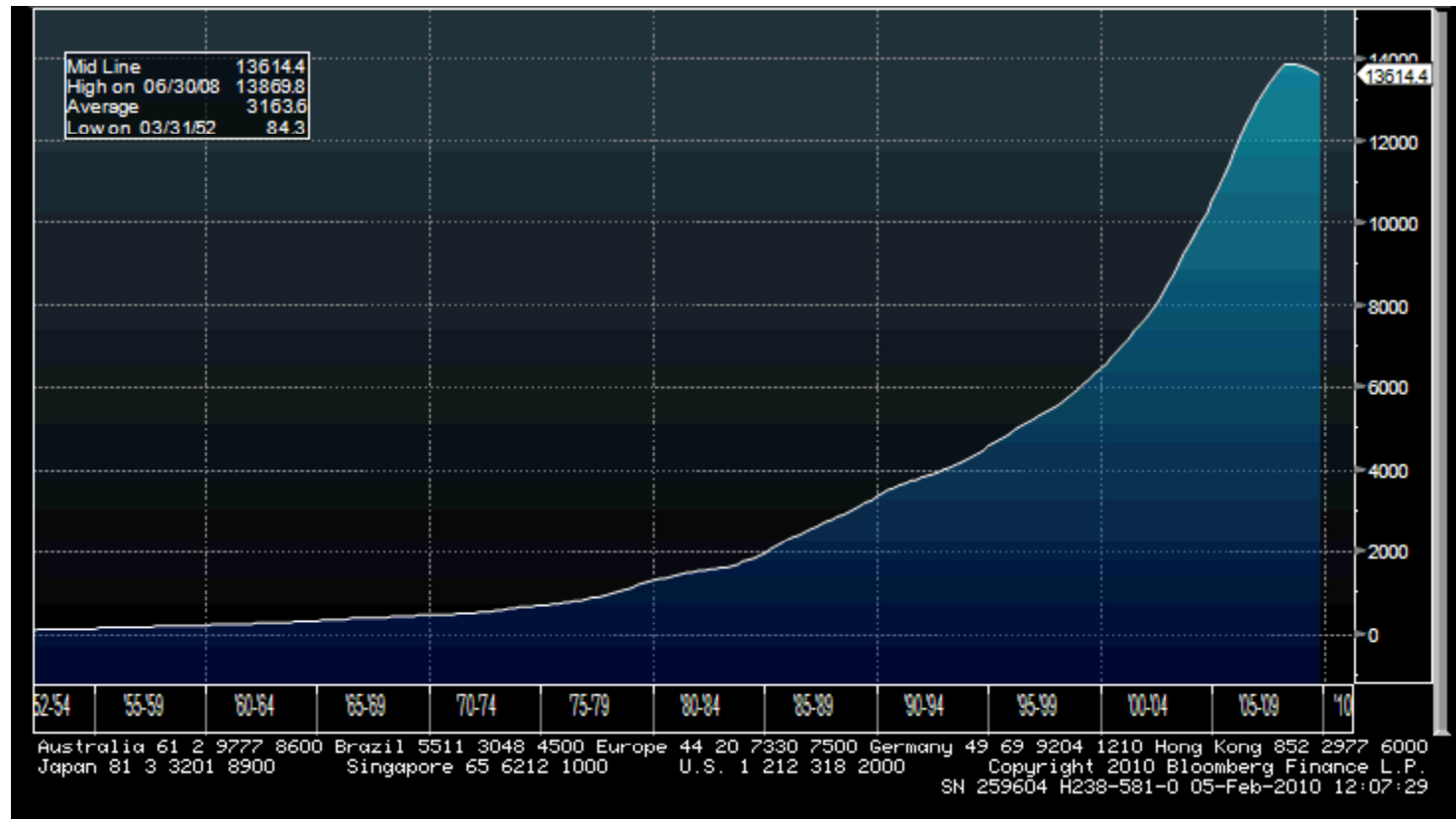
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Shop until you drop!?



Source: Bloomberg, Total US household debt



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The great new divide

Submerging

- Iceland...go fishing
- Ireland
- Spain
- Greece
- U.K.
- USA
- Dubai
- Japan

Emerging

- China
- India
- Brazil
- Indonesia
- Vietnam
- Australia?



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Chongqing Chongqing

It's up to you ~~New York, New York~~

- Over 3 billion consumers in Asia
- China's new frontier-its own backyard
- Discretionary spending \$2.9 trillion to \$5.0 trillion in five years
- Mobile phone sales in India (20 million a month)

2010

six million in 2002, six hundred million in



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Motorisation of worlds most populous nations

- China 6%
- India 2%
- Indonesia 3%

•By 2020 over 300 million cars in China, from 65 million today



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A maturing giant

- 10% average annual growth since 1978
- Deng Xiaoping and his black and white cat
- Composition of growth to change
- 7% growth in 2011

Introducing Alice

*“ There's no use trying,” Alice said
“ One cant believe impossible things”.*

*“I dare say you haven't had much practice ,”
said the Queen*

*“When I was younger, I always did it for half an hour a day.
Why sometimes I've believed as many as six impossible
things before breakfast”.*



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Six impossible things before breakfast

- EMH and we are all rational
- Life is a simple and elegant linear extrapolation
- Tracking error is a measure of investment risk

Six impossible things before breakfast

- You can eat relative returns for breakfast!
- News Corp was cheap at \$28
- There was no technology bubble, no housing bubble, no south sea bubble, no tulip bubble, no Japan bubble and no debt bubble

The tyranny and reality of benchmarks

- You thought 35% exposure to technology was bad
- International equity indices and a 70% exposure to the submerging world
- Perhaps we should now call them the 'Mainly Submerging Country Indices'
- This makes neither cents nor sense



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So how do we stop this nonsense?

- Cash benchmark
- Buy the stocks you like, sell the stocks you dislike
- Money manager and client in alignment

It is time

- To build portfolios which reflect reality
- To reject the relentless pursuit of mediocrity
- To question the research houses and their silly benchmark boxes



Calling all Martians

- *If ,however, you believe the Intergalactic Monetary Fund will save the submerging world, then continue as you are*



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The New Reality

- World divided between submerging and emerging
- A fusion of East and West
- In an age of globalisation...
- The emerging world will save the submerging

Welcome Alice, to The New Reality



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