


## THE AUSTRALIAN

STOCK QUOTES		Enter company code		
<b>MARKET</b>	<b>.53%</b> 34.73	AMP <b>-1.75%</b> 6.19	WOW <b>-0.50%</b> 27.66	BXB <b>-1.46%</b> 10.79   WES <b>-0.1</b>
S&P/ASX 200	AUD/USD	TOP GAINER TME	TOP LOSER MIN	
<b>-1.04%</b>	<b>-0.65%</b>	<b>+1.97%</b>	<b>-6.81%</b>	
<b>5541.3000</b>	<b>\$0.76</b>	<b>\$3.10</b>	<b>\$6.43</b>	

# Global investor: Look for market fundamentals and liquidity

STIRLING LARKIN THE AUSTRALIAN JULY 04, 2015 12:00AM

**The “Blue Marble” was a famous photo taken of Earth by the Apollo 17 astronauts, who at a distance of 45,000km away saw our deep blue planet as having the appearance of a glass marble.**

This 1972 photo was taken by the astronauts in their original orientation, which meant the South Pole was near to the top and our planet in space was actually upside down. So when it came to publishing, NASA rotated the image 180 degrees, following the convention of orienting maps with the North Pole at the zenith.

Just like NASA did then, many institutionalised stakeholders across global markets have once again turned the fundamentals of our world upside down. This means that what formerly what would be considered good news now presents as bad and vice versa and basic common sense has been lost.

For instance, today poor US manufacturing numbers — a reliable lead economic indicator — are welcomed by an uptick in the S&P 500, because this is interpreted as an excuse for the US Federal Reserve to further delay hiking interest rates, which is perceived as a drag on stockmarket ascension.

But expelling this illogic from our frames of mind, what's equally beautiful about our planet and global financial markets is that the gravity of common sense and basic fundamentals always brings us back down to earth.

As Australian global investors, this fact should bring us some reassuring comfort and critical guidance during these turbulent times.

Australian ultra high net worth investors enjoy a particular affinity and respect for these paradigms because none of them, or any of us, accumulates great wealth by one lucky roll of the dice. An investor may shrewdly invest or trade their way from "retail" to "mass affluent" status, from mass affluent to "high net worth" and then to UHNW — any individual or family entity with investable assets above \$250 million — but no one leaps from retail to UHNW in one single bound without respecting the basic fundamentals of business, commerce, economics or markets. No one.

But it is not difficult to identify which economic blocs and respective investable markets enjoy sound market fundamentals that are worth more of our attention, given the return of irrationality and undue volatility currently witnessed abroad.

Nearly one business quarter away from rising interest rates in the US, America remains on a particularly strong footing and continues to exhibit robust corporate earnings, growth metrics and positive financial momentum commensurate with a large developed real economy, three-quarters the way through a textbook seven-year business cycle.

Remembering that the US real economy only began growing again at the tail-end of the first US quantitative easing (QE1) program, in March 2010, what is timely for global investors who access the S&P 500 stockmarkets via exchange traded funds, hedge funds and similar synthetic exposures, today to remember is that one of the most important fundamentals to always keep front of mind is "redemption liquidity" — the ability to sell your investment at a stable price come what may.

Bond market industry leader Bill Gross of Janus Capital recently flagged this fundamental issue of the "liquidity illusion" in which, if a market event triggers a sell-down, say, for example, an S&P 500 ETF product, all investors cannot fit through a narrow exit at the same time. Also, unlike the immediate years following the GFC, the US Federal Reserve today cannot ring-fence an ETF provider, even if they are designated a "Strategically Important Financial Institutions".

This reminder of the importance of liquidity as an investment fundamental is not to suggest the global investor avoid these investment solutions, but it serves to highlight what is important when our worlds are upside down.

Alongside North America, other economic blocs have exciting fundamental "green shoots", including continental Africa, parts of western Europe, and even Cuba. But concern should be held when reviewing the fundamentals of Australia's economy and investable markets.

The ASX 200, for instance, remained 5122.00-5996.90 rangebound last year and given current economic fundamentals, corporate output and future prospects, there is no legitimate reason for the ASX 200 to rise above 6000 anytime soon without some form of artificial stimulus.

Even if stimulated, an economy that hasn't faced the healthy machinations of a cyclical recession since 1991, and whose bourse is heavily constituted by four banks running at full capacity and two mining juggernauts also stretched, cannot surpass its current high-watermark by perennially ignoring these basic fundamentals.

Lastly, one of the most important investment fundamentals that needs to be continually respected is the importance of "Rule of Law" in any economic bloc. Without it, investment decisions because

illusionary because without contractual rights, legitimate redemption of capital-invested and similar assurances, no degree of investment returns is worth that risk. This is particularly important for the global investor considering investments in China's CSI300, Russia's MICEX or the Athens (ASE) General Index.

On this, America's Independence Day — a moment in history when common sense, fundamentals rights and the world's most successful ever economy was born — let us remember what primarily matters, what remains the wisest course and where the real investment opportunities lie.

Larkin Group is a Wholesale Wealth Adviser focusing on high yielding global investments.

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