

The Death of Wealth

by Clem Chambers

SAMPLE:

JANUARY 2012: US RECOVERY MEANS THE END OF THE BEAR MARKET

Recovery in the US indicates the end of a bearish five years for markets. What impact will this have on Obama's re-election chances?

Timing the market is notoriously difficult. While it's possible to accurately 'see the future' more often than not that future comes to pass much sooner, or later, than expected. For investors, 2012 will be all about timing.

The Maya thought 2012 would bring the end of civilisation. Here we have a great example of a superb prediction that was absolutely correct – only with terrible timing. The end of the world for the Maya was 1511 when the Spanish showed up (or perhaps 1697 when the last Mayan city fell to conquest). Either way, for the Mayans, the end of their civilisation came hundreds of years earlier than expected.

We can at least relax a little. The world is not going to end in 2012 – even though many financial pundits seem to think so. The benefit of making this prediction is if I'm wrong, no one will be around to tell me what a fool I was, whereas I can look forward to bragging rights if we're all still around in 2013 – whether as an economy or as a species.

The key question is whether the rollercoaster 'bear market' of the last five years is over yet, or at least, about to turn around?

I think it is.

The US remains the key driver of the world economy. Amongst much gloom and economic trouble, the first green shoots of economic regeneration appeared there in 2011. The new growth is only now beginning to show up in official statistics. 2010 was a worse year than 2011 for the majority of small businesses – and it is within these 'Mom and Pop' operations that first signs of recovery traditionally show up.

This recovery is, of course, very fragile and difficult to measure but if the progress is sustained, the US will soon be on its way to a 'bounce'.

This will not help the BRIC countries, which are entering a period of post-bubble bust.

Boom, bubble then bust is the fundamental cycle that repeats over and over again in markets. While the long-term future may be bright for all, in the economic medium-term, bust always follows bubble. The developing world has bubbled. Now it's 'busting'. The cycle will then repeat there, too, and recovery will follow.

It's too early to predict how fast the US recovery will be. It seems sane to imagine the road back will be long and hard. There will be inflation, there will be realignment of the public sector and there will be austerity in segments of the work force that have previously had a good run. The recovery will not be quick, easy or painless. Nonetheless, the road out of trouble is a better path than the road down into yet worse times.

Equity markets are still being driven by the realignment of bonds and currencies . That's set to continue. If you, like me, believe the giant bull market in bonds over the last decade is over, then it would make sense that equities will receive new attention and that this alone will drive prices up.

If you believe in the inflation story then likewise you will be bullish on stocks, or at least looking for somewhere to put your money that will not eat it alive as currencies fall in value in comparison to things of intrinsic worth.

If you believe in Obama's re-election chances – and it's hard to look at his proposed opposition and not conclude he has a good chance on that basis alone – then you will also expect a good year for stocks. History tells us almost all US presidents are re-elected. In most instances, this has occurred in a 'bull market' year.

In short, my three scenarios as follows:

- A bear market with strong bonds means a Republican election victory and more market mayhem.
- Weakening bonds indicate an uptick in US inflation; a buoyant Obama and an equity rally.
- A giant ball of fire in the sky means the Mayans weren't so stupid after all.

As a lover of equities and a Brit with no interest in US politics whatsoever, I say 'Vote Obama!'

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