

# FISCAL HANGOVER

How Global Stocks Will Help Your Portfolio  
Recover & **THRIVE** in a post crisis world



The recommendations and analysis presented to members is for the exclusive use of members. Members should be aware that investment markets have inherent risks and there can be no guarantee of future profits. Likewise, past performance does not assure future results. Recommendations are subject to change at any time.

# Today We'll Cover...



**Traditional Thinking No Longer Works**



**What You Can Do About It  
(To Win Bigger & More Often)**



**3 Specific Recommendations**

But First...



**Should you  
listen to anything  
I have to say**



# You Decide...



## Keith Fitz-Gerald

- Former Professional Trade Adviser
- 20 Years around the world...
- Advised clients in Europe, US and Asia...
- Founding member of The Kenos Circle...
- Been doing this a while...



# Let's Start

with why

traditional thinking  
no longer applies





# How bad is it?



## ***Ben Bernanke Action Figure!!***

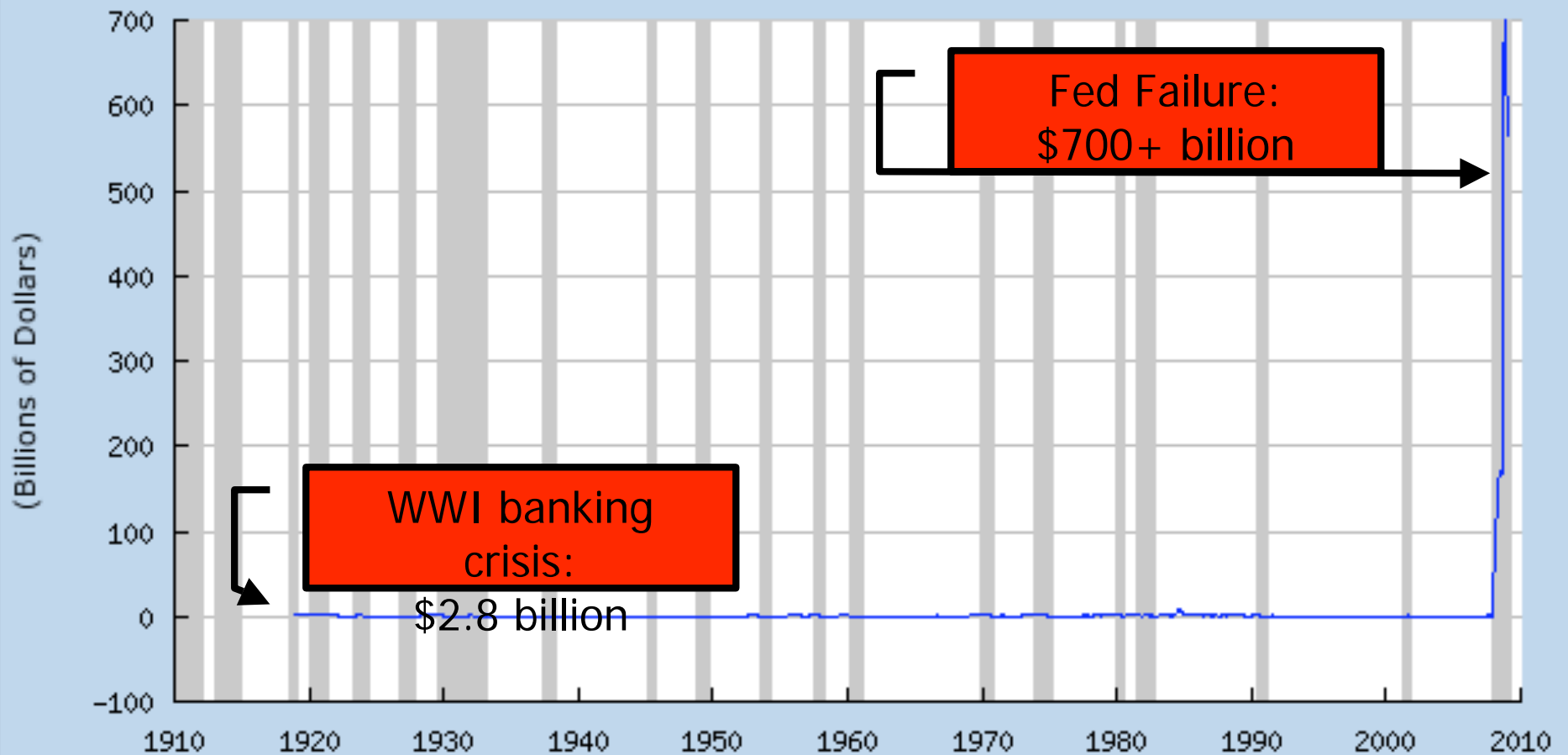


***Now YOU can drop  
money out of a  
helicopter!!***

Warning: cannot really prevent a severe recession



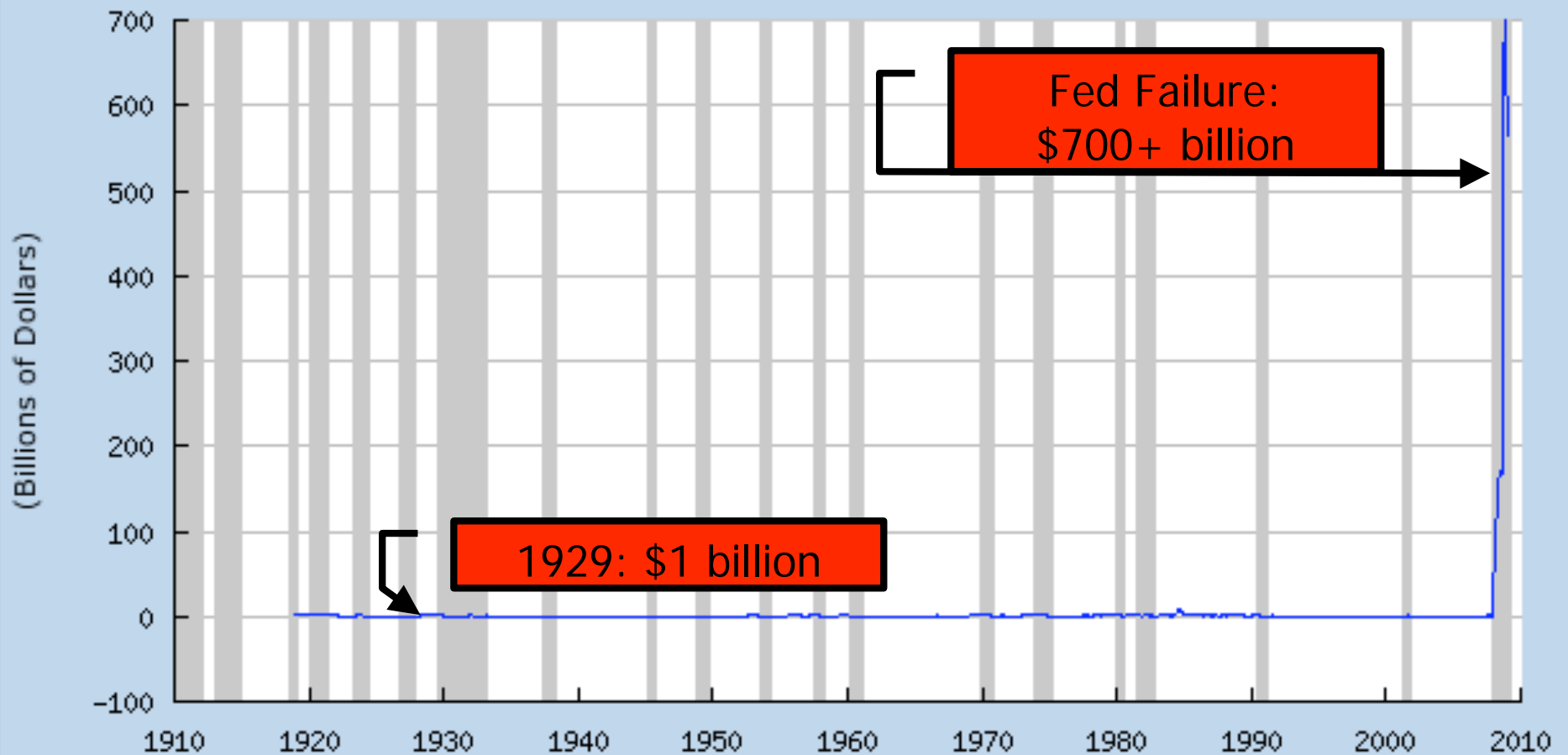
Total Borrowings of Depository Institutions from the Federal Reserve (BORROW)  
Source: Board of Governors of the Federal Reserve System



Shaded areas indicate US recessions.  
2009 research.stlouisfed.org



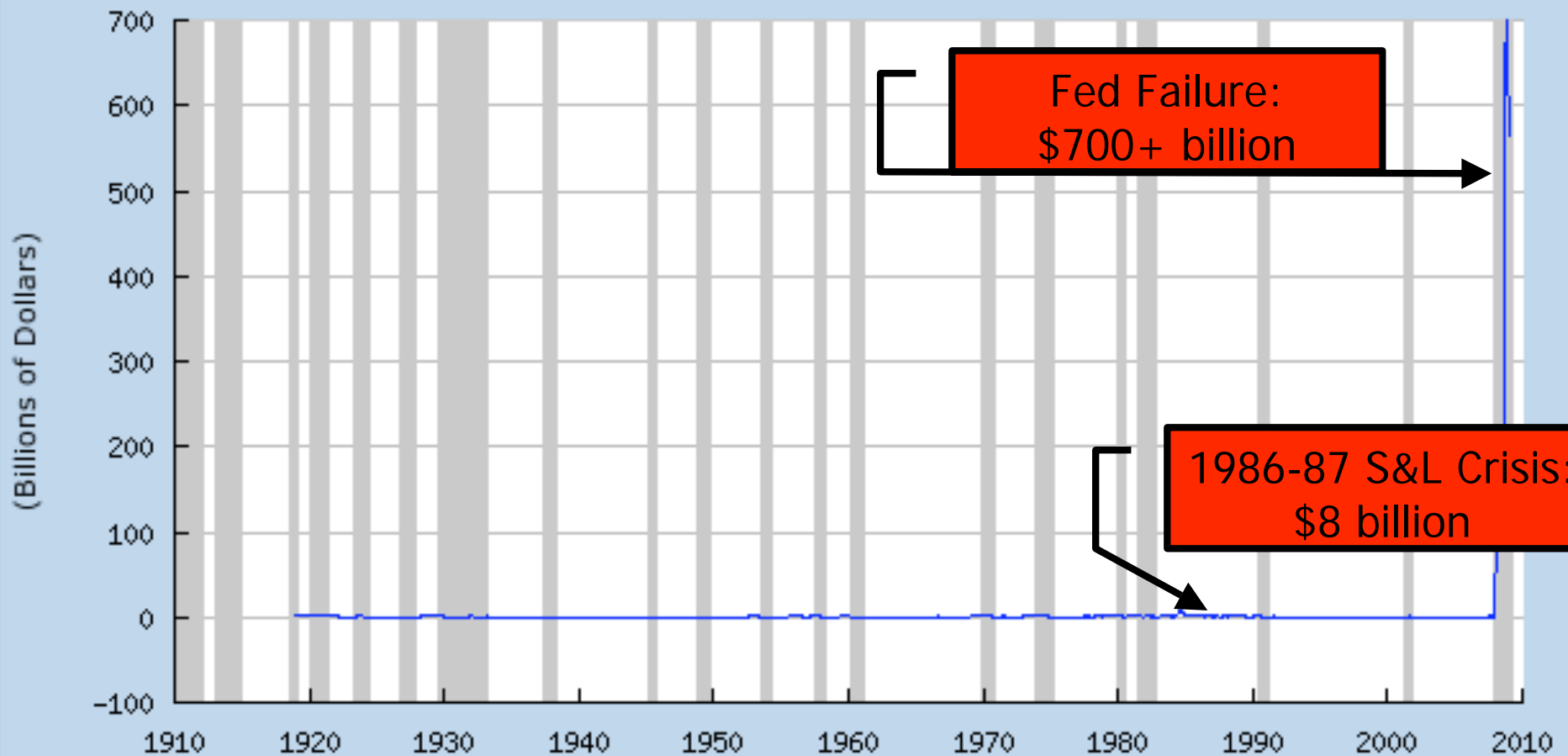
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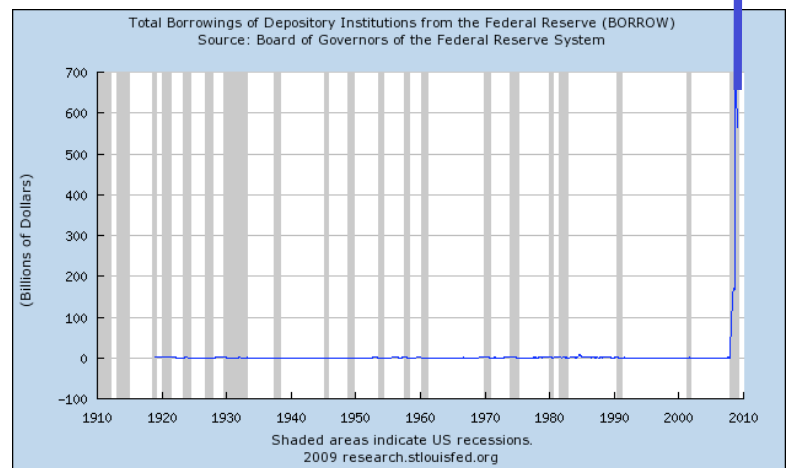


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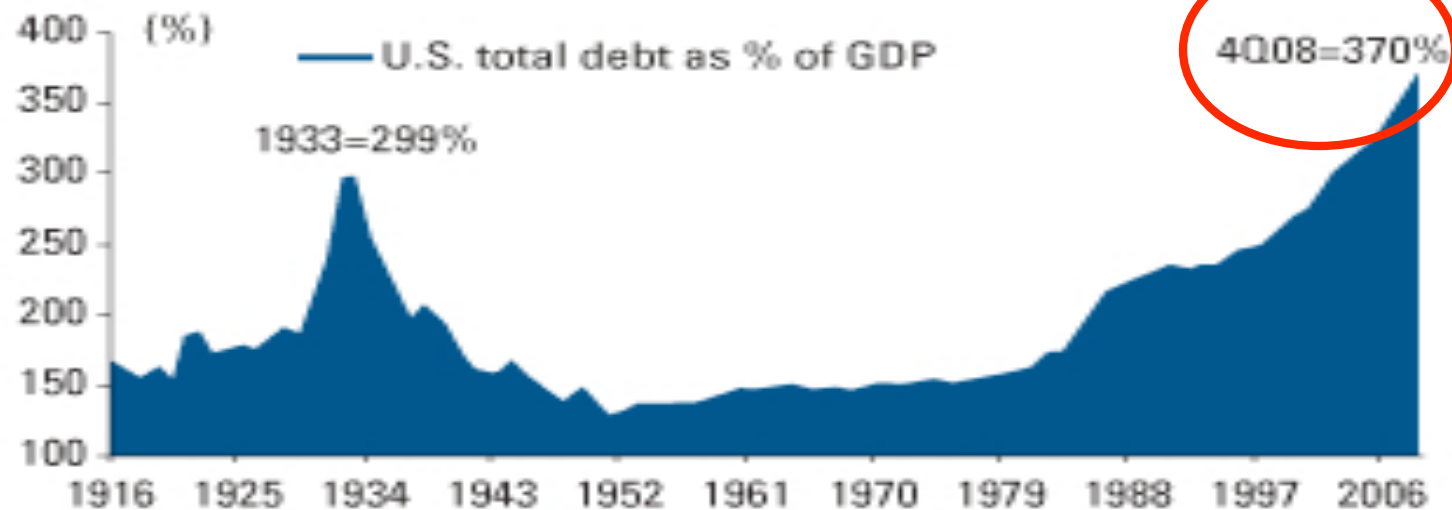
Now the Fed's putting in another \$2.0 trillion...





## The Scariest Chart ever...

### U.S. total debt as % of GDP



Note: Include public debt and private financial & non-financial sector debt.

Source: CLSA Asia-Pacific Markets, Federal Reserve – Flow of Funds Accounts (1945-2008 data), Census Bureau – “Historical Statistics of the United States, Colonial Times to 1970” (1916-1944 data).



*Gives new meaning to the old expression...*



a





**NO** *nation in recorded history*  
*Has ever bailed itself out by debasing*  
*Its currency like the US is doing now*

*On anything other than a short term basis*



*too big to fail is a myth*

*that will cost the taxpayers more  
than the crisis itself and is only  
perpetuating the inevitable*



# 4 Critical **Risks**

- 1 Inflation**
- 2 Recession**
- 3 Dollar fails**
- 4 Missing the  
Recovery**



*Some of you may not believe me...*

*That's okay*

*But understand this*



Now could be the **BUYING**  
**OPPORTUNITY**  
OF A LIFETIME



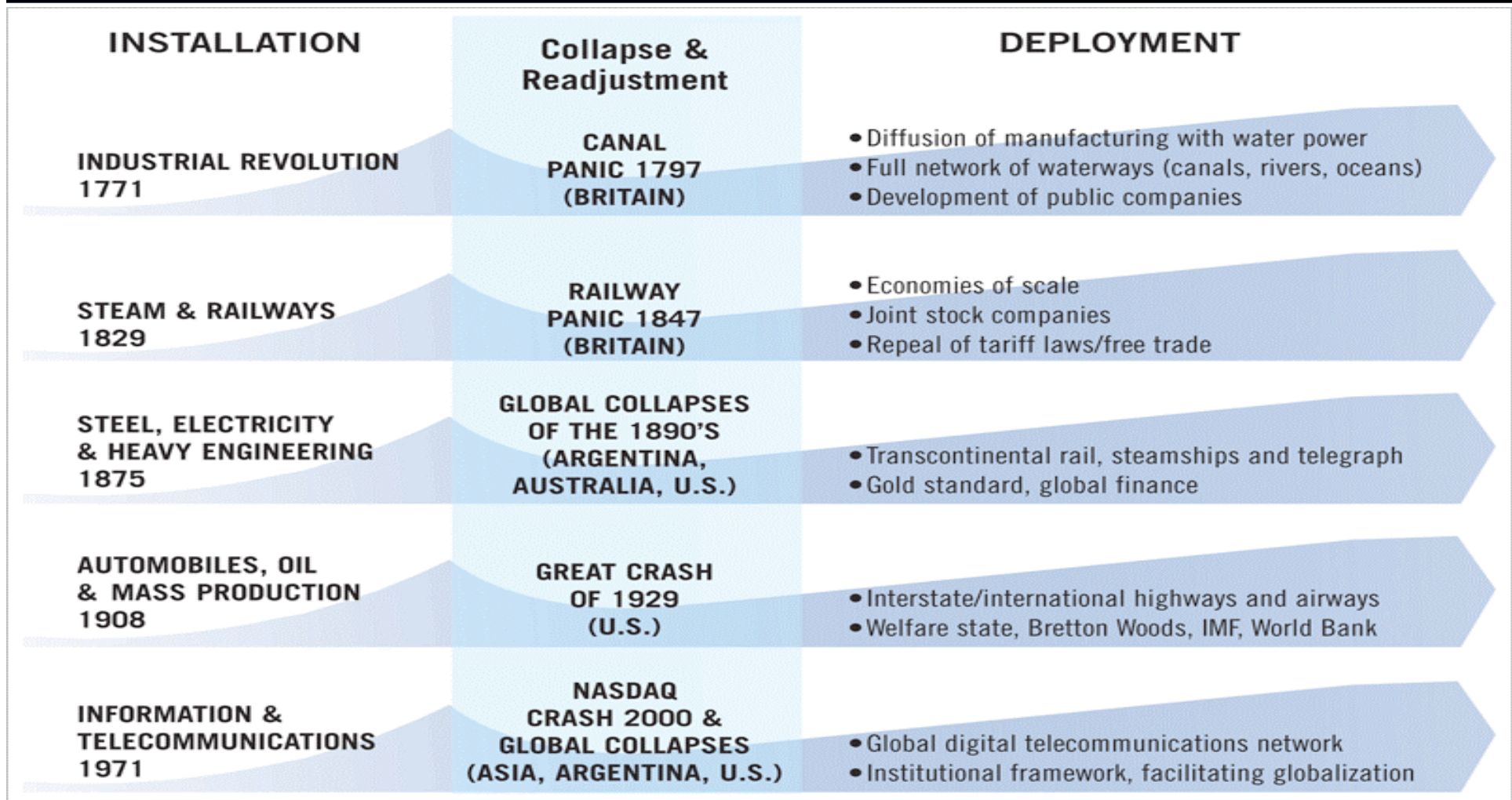
**History** strongly  
suggests that's the case

*(Even if we haven't hit the bottom)*



Just as it's been  
after every other  
market upheaval

*Let me show you*





Sadly

Most investors will be  
Too disgusted, too scared  
or too eager

So they'll miss it...again...



**“Every investor needs  
a global strategy”**

**NOW...more than ever!**



# Why?



**Worldwide investments  
will double**

**to \$300 trillion  
within 5-10 years**



...despite the credit crisis  
...despite an eviscerated dollar  
...despite falling U.S. reality



60% will come from  
new global markets



That's

2x the growth

of mature markets  
like the US or Japan



# THE BOTTOM LINE

**There's more  
opportunity  
abroad**

*Even though the world is reeling*



**Admittedly,  
it's tempting  
to "stay home"**



**You'll  
probably  
do okay**

**But you'll  
leave a lot  
on the table**

# For example...



## Annualized Average Returns (in \$US)

Ended 2/15/08

Name	YTD	12 Mo	3 Yr*	5 Yr*
<a href="#">MSCI Brazil USD</a>	-8.53	59.27	51.43	56.32
<a href="#">MSCI Indonesia USD</a>	-1.97	55.23	38.73	51.27
<a href="#">MSCI EM Latin America USD</a>	-6.41	35.4	41.45	45.45
<a href="#">BSE SENSEX LCL India</a>	-13.01	25.25	39.11	40.27
<a href="#">MSCI Argentina USD</a>	-7.79	-11.43	32.31	39.48
<a href="#">MSCI Turkey USD</a>	-23.58	21.06	17.97	38.65
<a href="#">MSCI World/Metals&amp;Mining USD</a>	-4.91	31.72	34.12	36.21
<a href="#">MSCI Mexico USD</a>	-1.31	5.23	29.56	34.04
<a href="#">MSCI EM GR USD</a>	-12.45	23.66	29.59	33.97
<a href="#">MSCI Chile USD</a>	-1.98	13.72	23.13	32.36

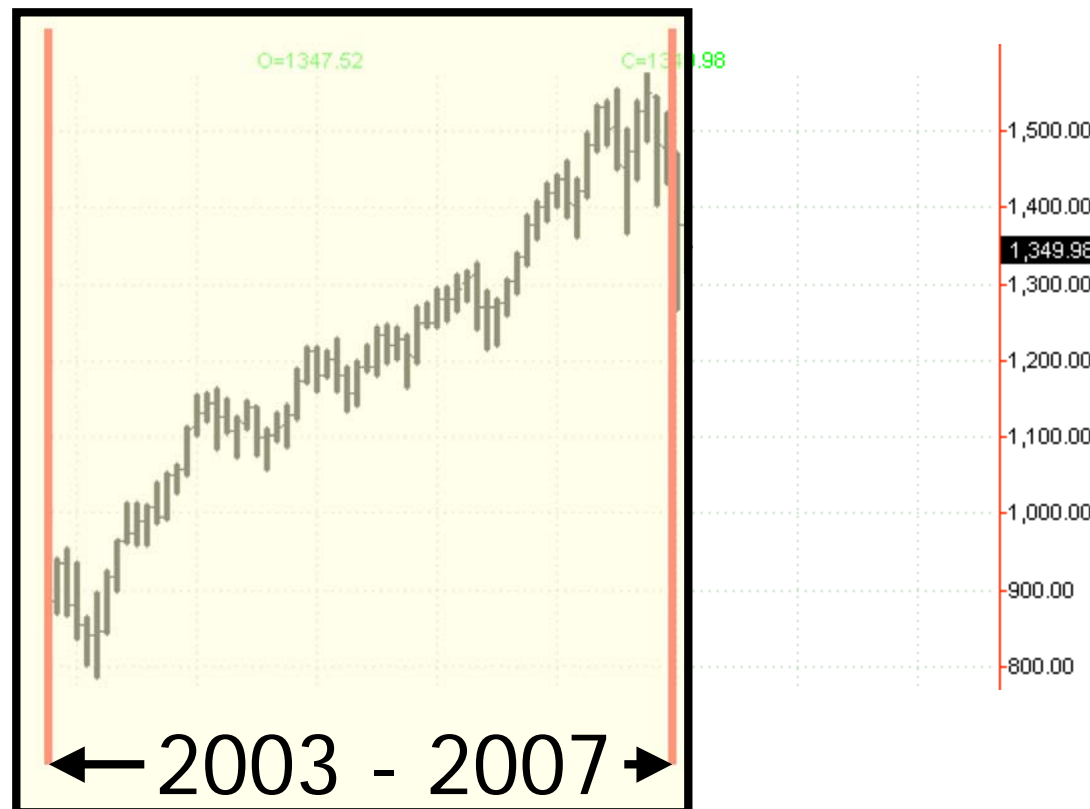


\*Source: Index Universe

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# And that's during up years!



Now...even after a 32%  
rebound...US still lags



## Annualized Average Returns (in \$US) Ended 4/30/09

	<u>3 mos</u>	<u>12 mos</u>	<u>3Yr*</u>	<u>5 Yr*</u>
MSCI Brazil USD	27.34	-47.94	2.04	26.73
MSCI Indonesia USD	43.48	-36.42	0	15.43
MSCI EM Latin America USD	22.08	-46.43	-1.56	19.4
BSE Sensex LCL India	21	-34.04	-1.28	15.08
MSCI Argentina USD	-4.78	n/a	-25.13	5.64
MSCI Turkey USD	23.51	42.53	-17.25	7.38
MSCI World/Metals&Mining USD	20.06	-54.46	-9.34	10.39
MSCI Mexico USD	12.6	-46.47	-9.37	-9.69
MSCI EM GR USD	25.93	-42.72	-5.23	11.46
MSCI Chile USD	9.75	n/a	2.26	12.88
<b>S&amp;P 500</b>	<b>6.48</b>	<b>-35.51</b>	<b>-10.77</b>	<b>-2.7</b>

S&P 500  
still lags badly

\*Source: Index Universe



# Right now...

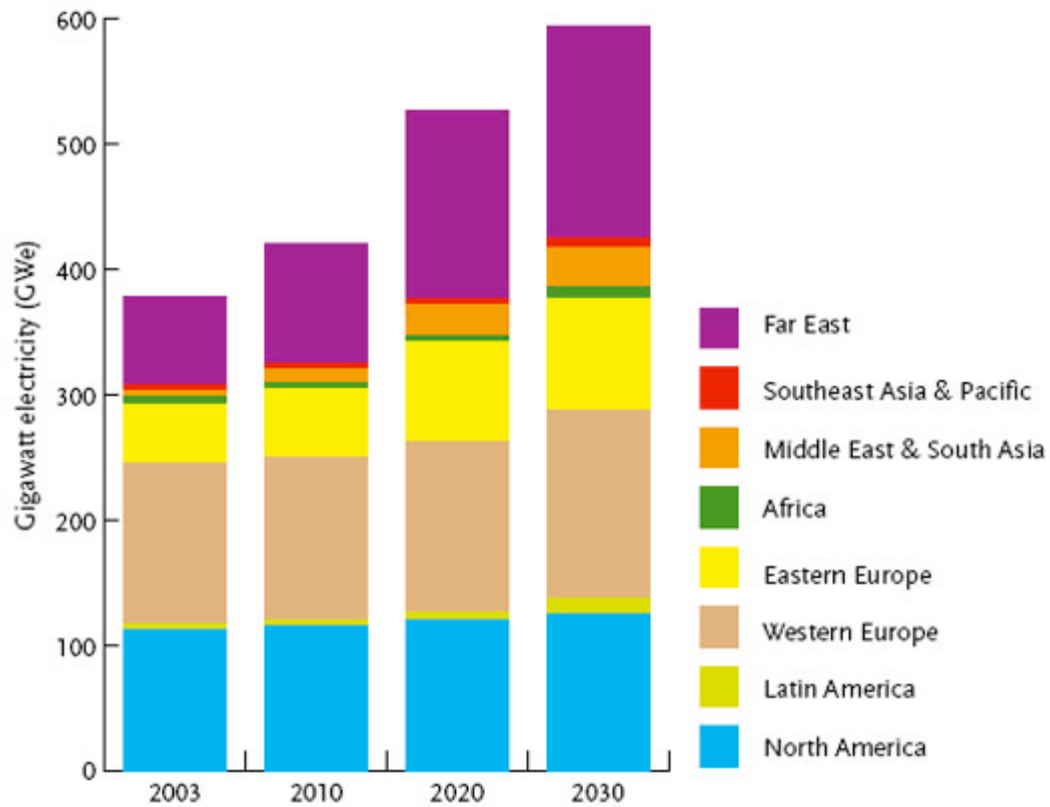


S&P 500 is just  
below 5 year lows

S&P 500 = June of  
**1997**



**We could  
make a case  
for an  
eventual  
US recovery**



Source: FGRP, EIA

I'd rather  
make the case  
for  
global growth



**I won't say investors who  
ignore overseas markets are  
wasting their time...**

**but you probably get the idea**

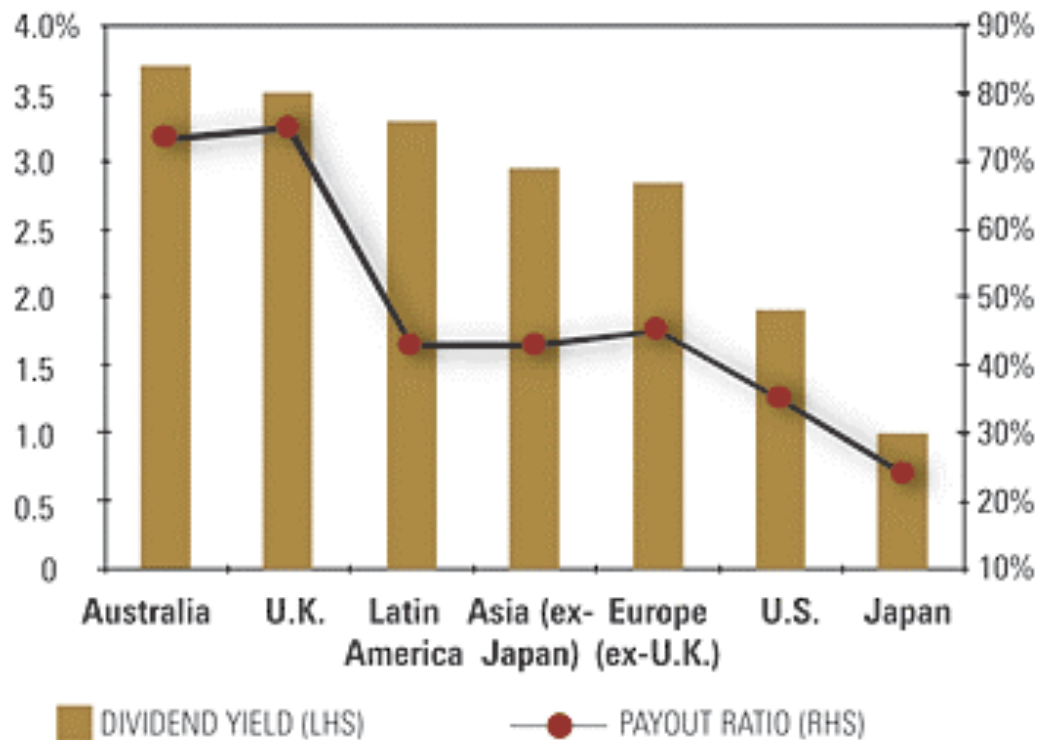


**It's much the same story with  
dividends and income...**



## THE BENEFITS OF GOING GLOBAL

YIELDS AND PAYOUT RATIOS FOR AUSTRALIA, U.K., EUROPE, ASIA, AND LATIN AMERICA ALL EXCEED THE RATIOS FOR THE U.S. AND JAPAN.



*This is obviously in flux right now*

----

*Companies with highest % of global operations are most stable*

Source: Bloomberg; Merrill Lynch



## Something the MSEAFAE confirms...

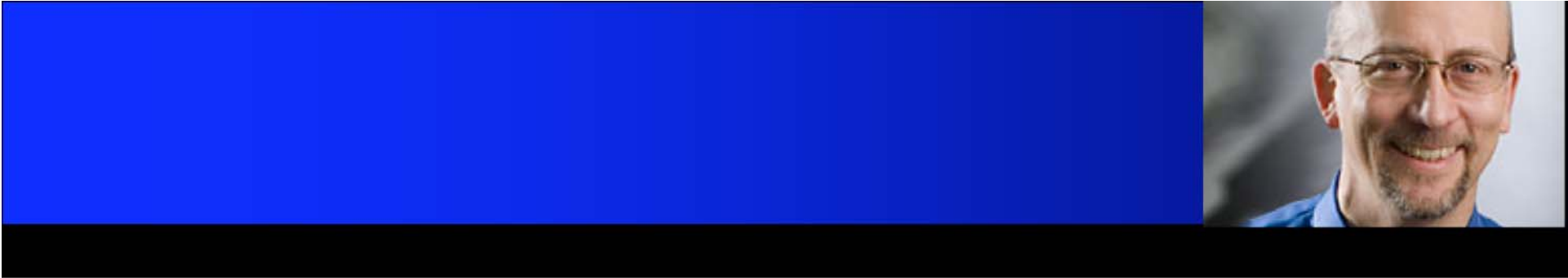


US markets  
already falling  
behind  
(again)



*But China rose so fast and fell so far...  
Is this really true?*

**YES**



# Shanghai vs. S&P 500 last five years





## Hong Kong vs. S&P 500 last five years





## Key Takeaway:



**Even at their very worst, overseas markets have outperformed the US in recent years**

*And will probably continue to do so for the foreseeable future for reasons we'll talk about now*



**Lots of investors think they  
have this covered with  
traditional allocation models**



**The problem is that**  
**traditional allocation models**  
**no longer apply**



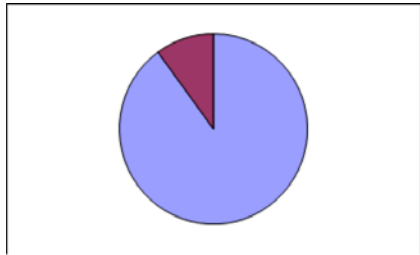
**They're like driving using  
rearview mirrors.**





**As a result**

**Most investors are  
dramatically under weighted  
when it comes to  
international holdings**



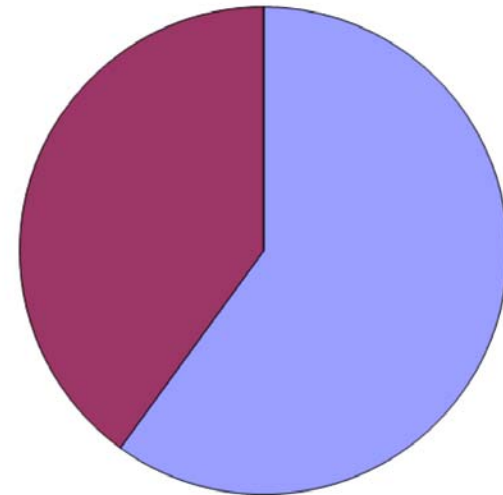
**Most have 10%-15%**

*Which is fine  
if you're looking in your mirrors*



# 40%-60%

may be more appropriate





here's why...

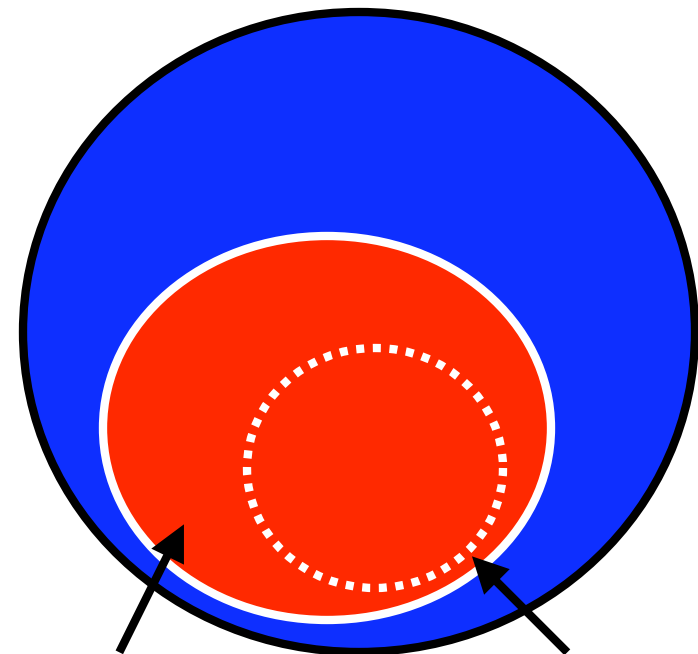


In the 1980s the  
US accounted for  
1/3<sup>rd</sup> of the global  
economy

\*\*\*

By 2030 that will  
be cut in half

## World GDP



34.2%

17.1%

US Share in 1985

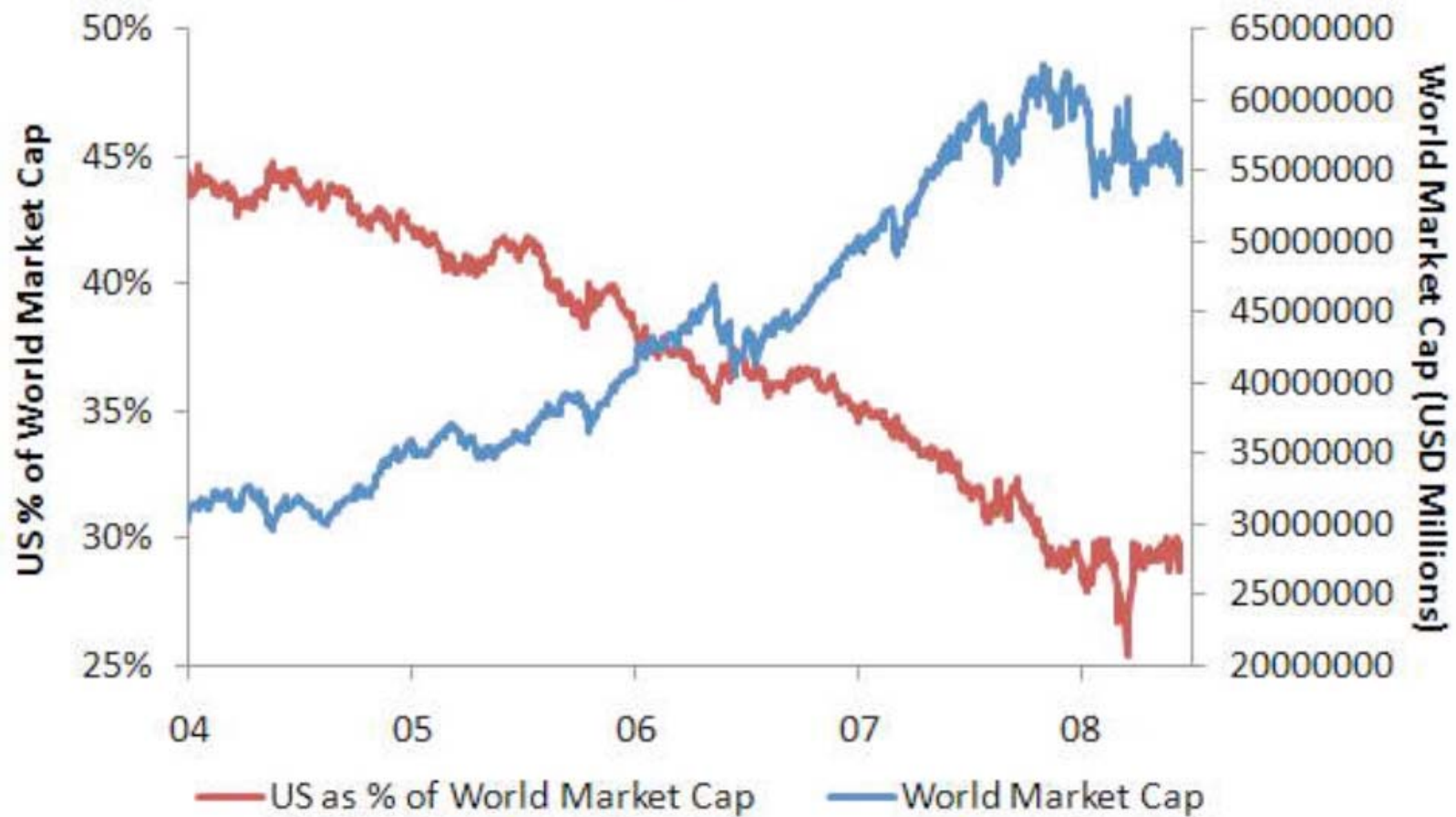
in 2030



**You can clearly see why**  
**When you look at market  
capitalization...**



## World Market Cap and US Market Cap as % of World: '04-Present





On June 3<sup>rd</sup>, 2009 ... the Center for Economics and Business Research (CEBR) reported that the U.S., Canada, and Europe will only account for **49.4%** of global economic output in '09.

In the same report referenced above, CEBR also forecasts that Western economies will decline to just 45% of global economic activity by 2012, which is **far ahead of the original estimates** that predicted the West wouldn't fall below 50% until 2015.



# THE BOTTOM LINE

## REMEMBER

The fastest growth  
(and biggest gains)

likely from abroad

(for the rest of our investing lifetimes)

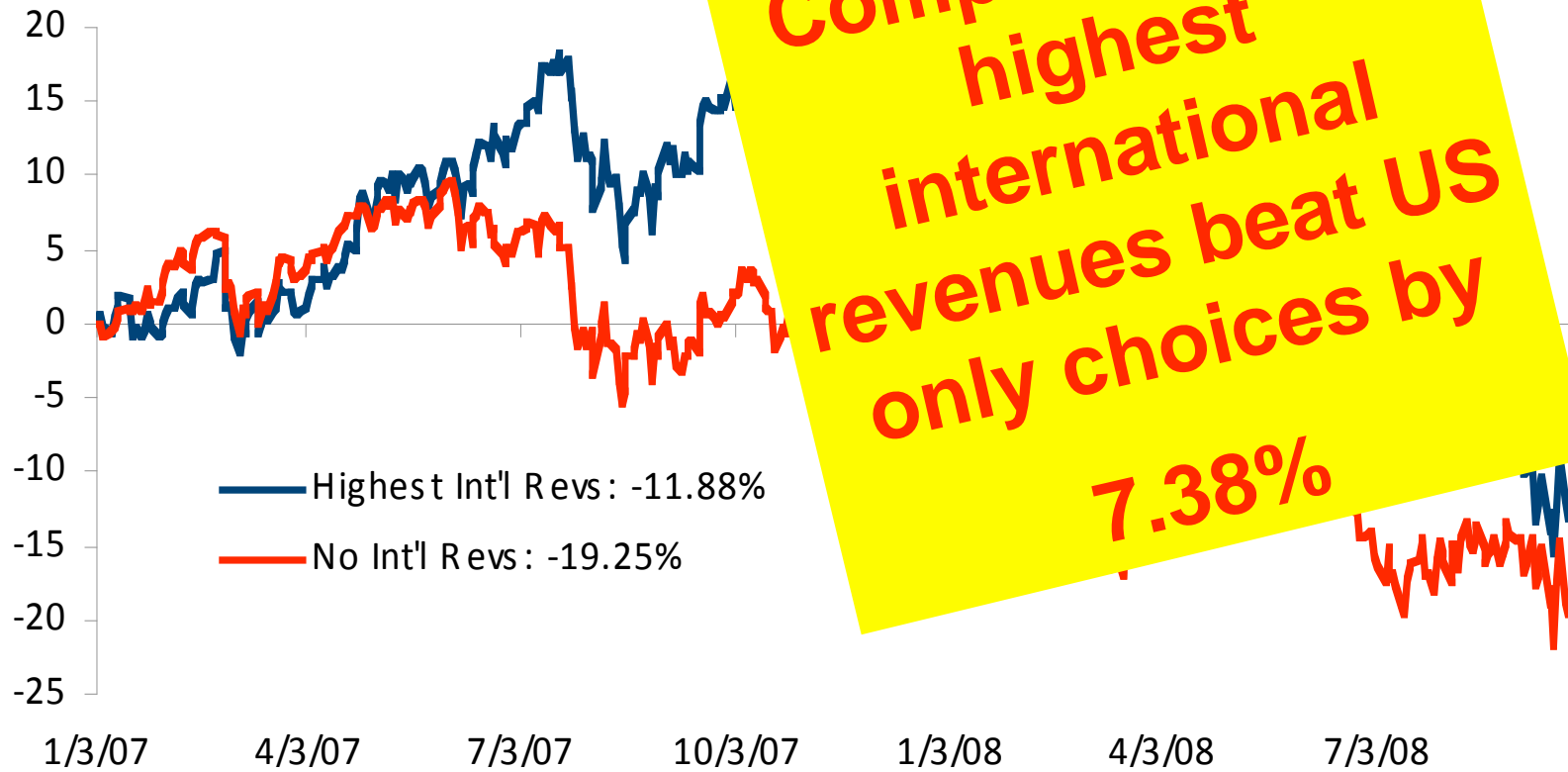


# WHAT ABOUT **Now?**



## 2007 - 2008 Performance

ues

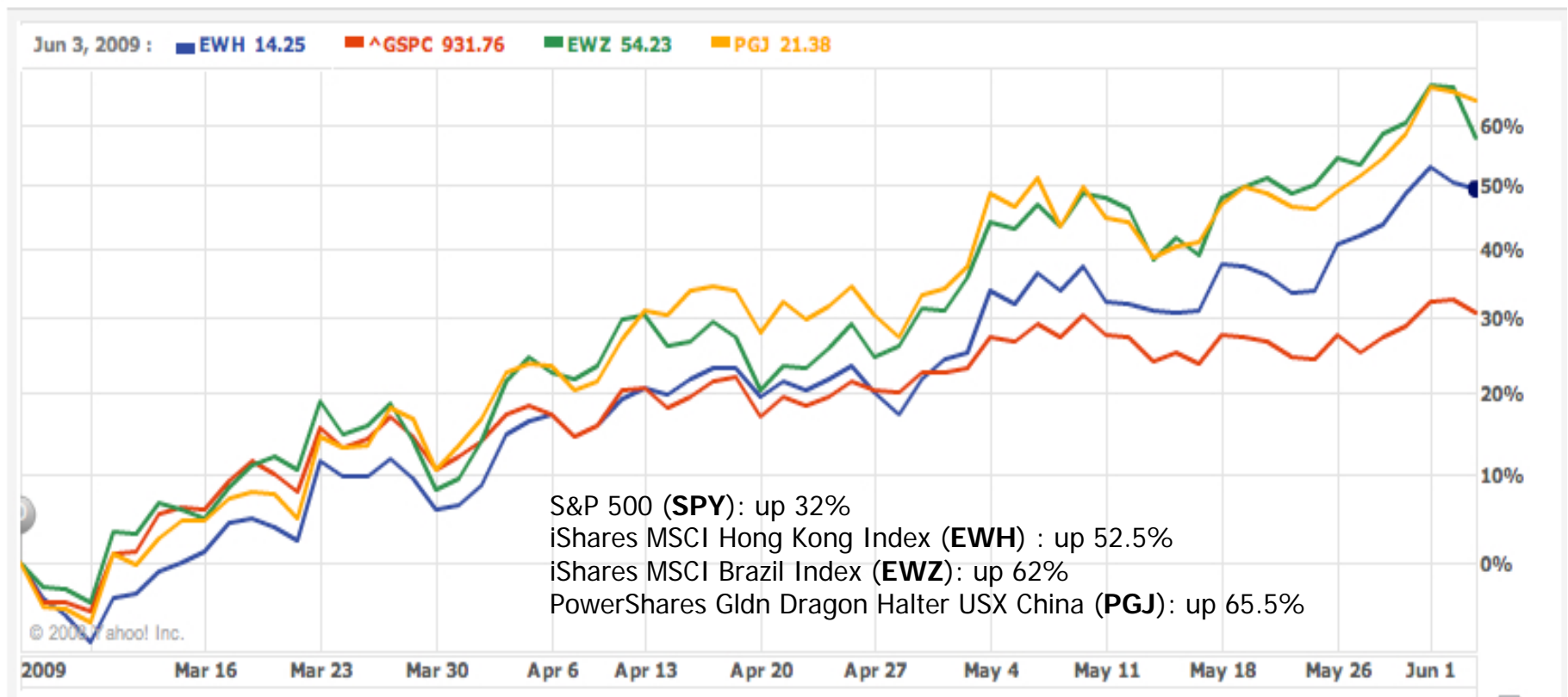


Source: Bespoke

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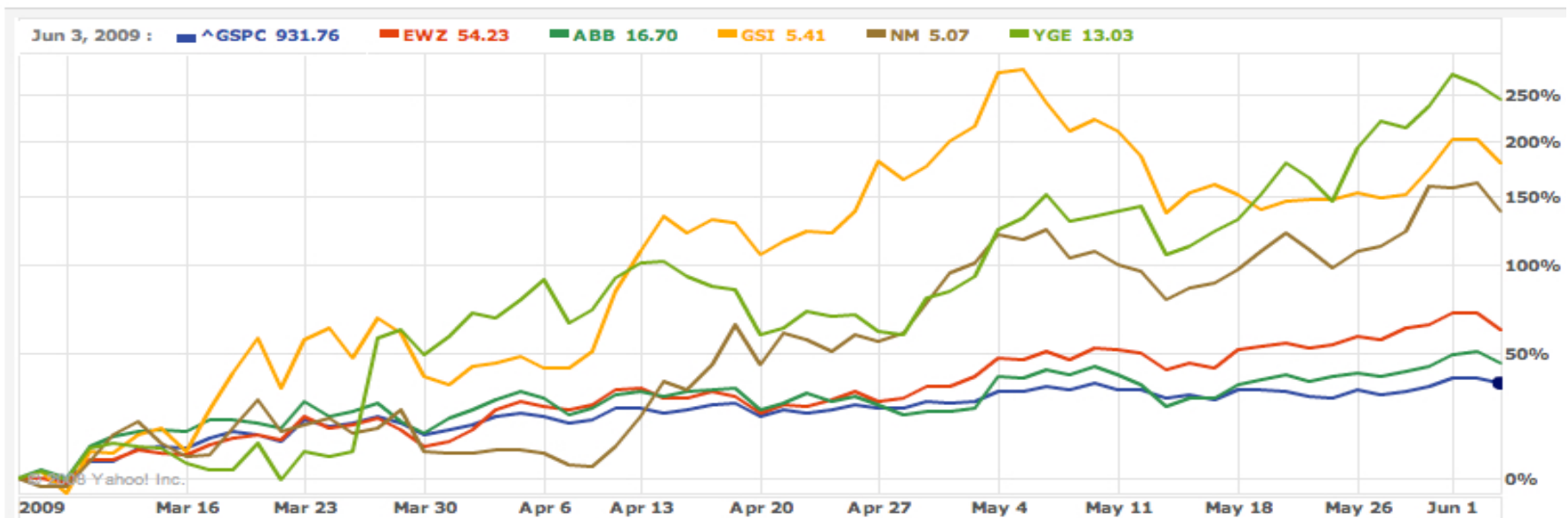


# This year they've CREAMED the S&P





Several of the companies we follow have done **even better...**



Since March 5	YGE	up
	288.0%	
	GSI	up
S&P up 32%	186.0%	
	NM	up
	135.8%	
	EWZ	up
	62.0%	

*Past performance does NOT guarantee future results.*

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**They're more viable and less risky**

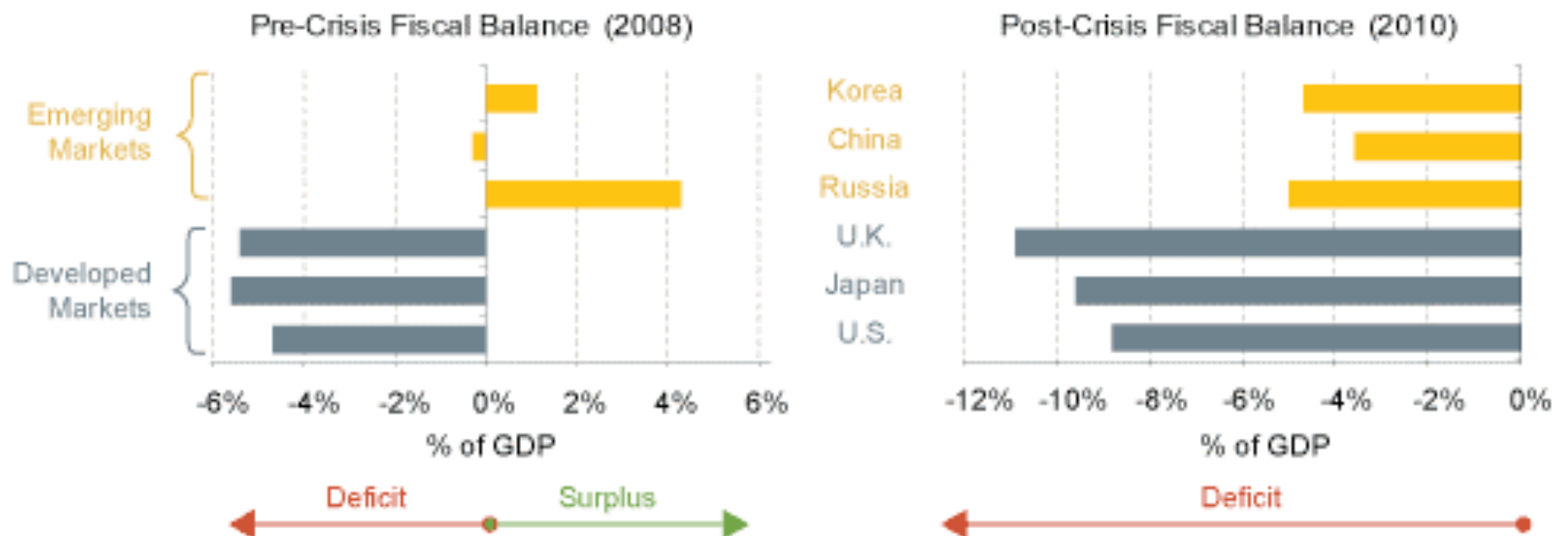
**Because they're focused  
outside the US**



**Let's put this into perspective**



**EXHIBIT 2: Many emerging-market countries entered the global crisis in better fiscal shape than major developed countries (below left), and are expected to emerge with smaller budget deficits (below right).**



2010 figures are IMF estimates. Source: International Monetary Fund, FMRCo (MARE) as of 4/26/09.



**In other words...**

**They can spend their way out of this  
While the west prints up  
imaginary money**



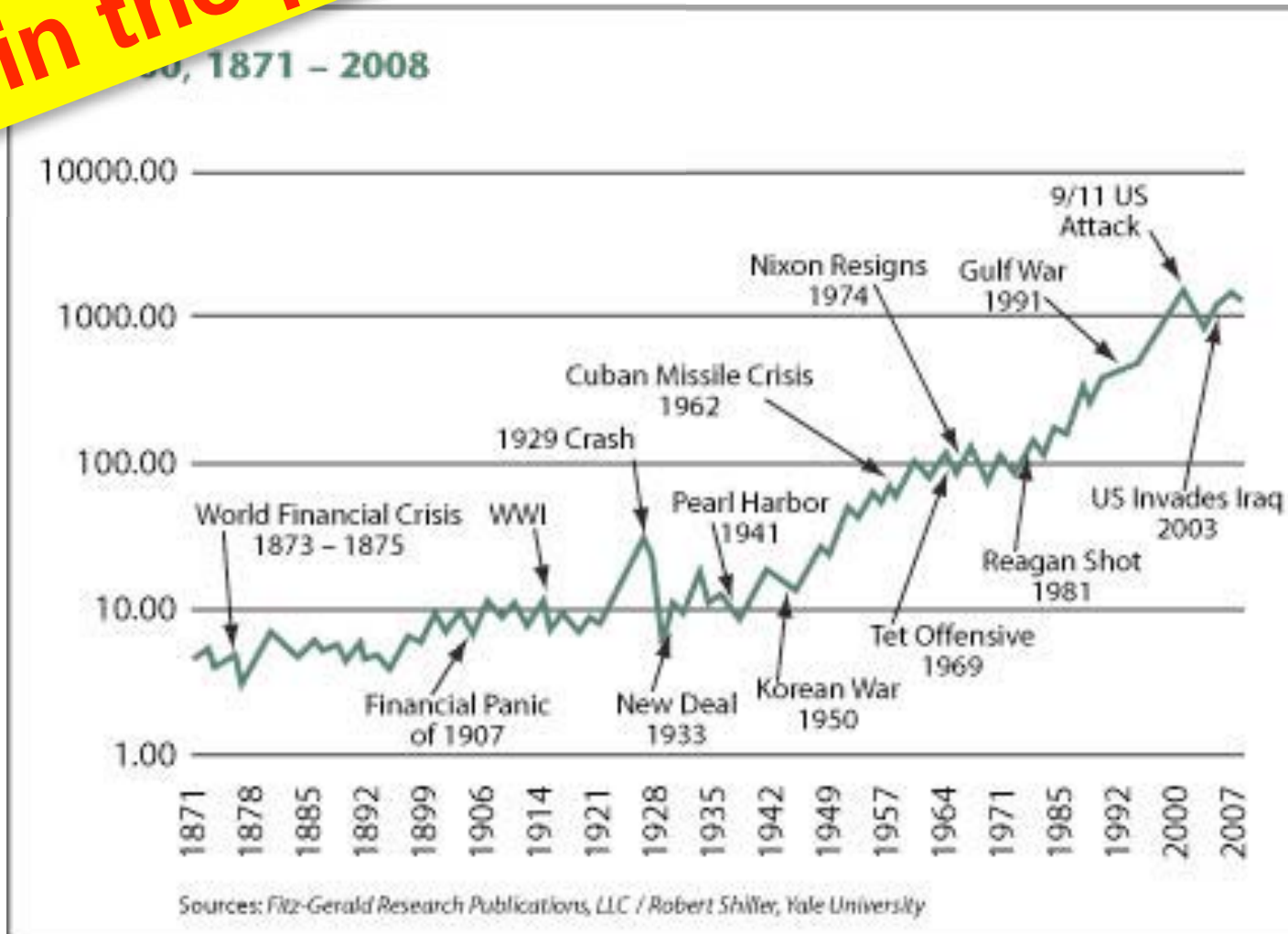
**Just so we're clear here...**

**...we still need US equities**



**This is a great country  
filled with resilient people &  
we will recover eventually**

Just as we have  
in the past





WHY'S  
IT FEEL  
**DIFFERENT**  
THIS TIME?



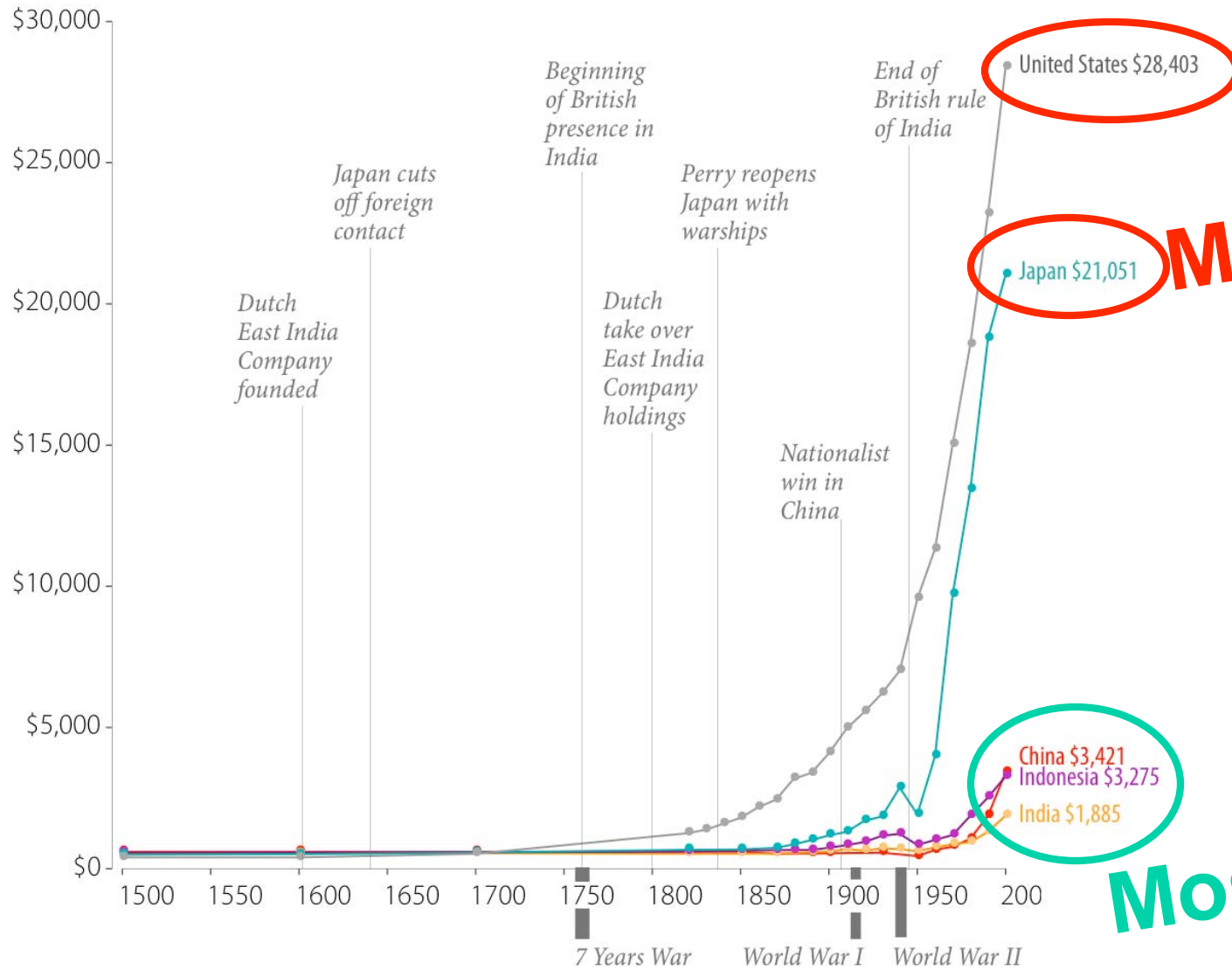
**We're not getting poorer**

**Other nations  
are getting richer**



## GDP per Capita: East Asia Compared to United States

China, India, Japan, Indonesia, and United States



**Most to lose**

**Most to gain**

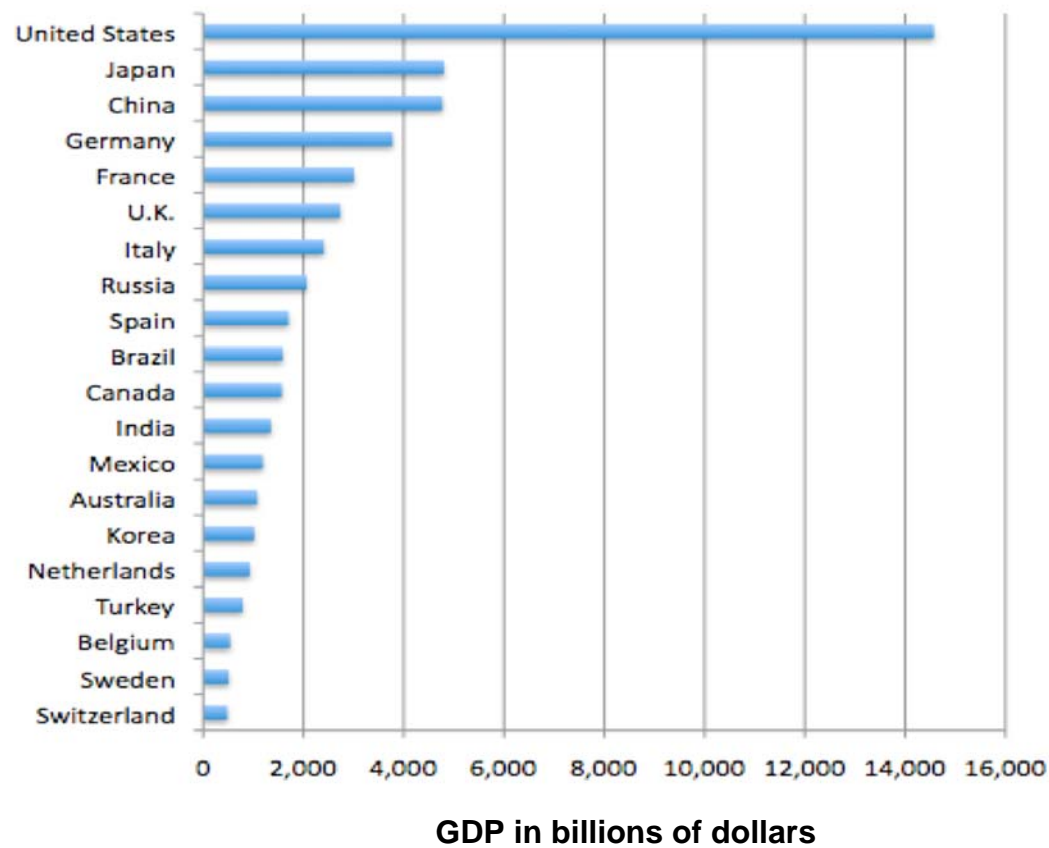


# Who will have the largest economies in 2009?



## Top 20 Economies in 2009

### GDP



**US & Japan**  
are functionally  
**bankrupt**

Source: International Monetary Fund

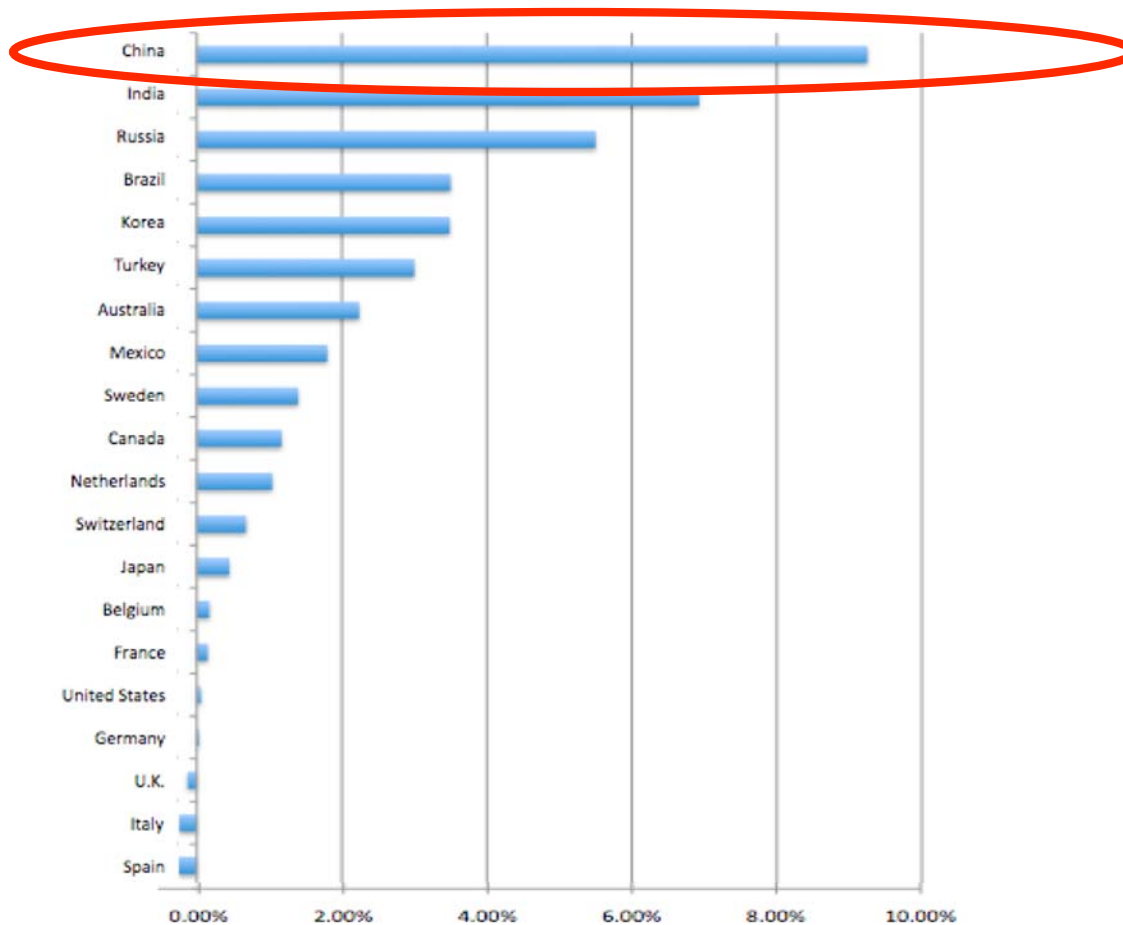
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**where** will the growth be?



## Economic Growth Rates 2009



**China**  
Asia  
tops the list

Source: International Monetary Fund

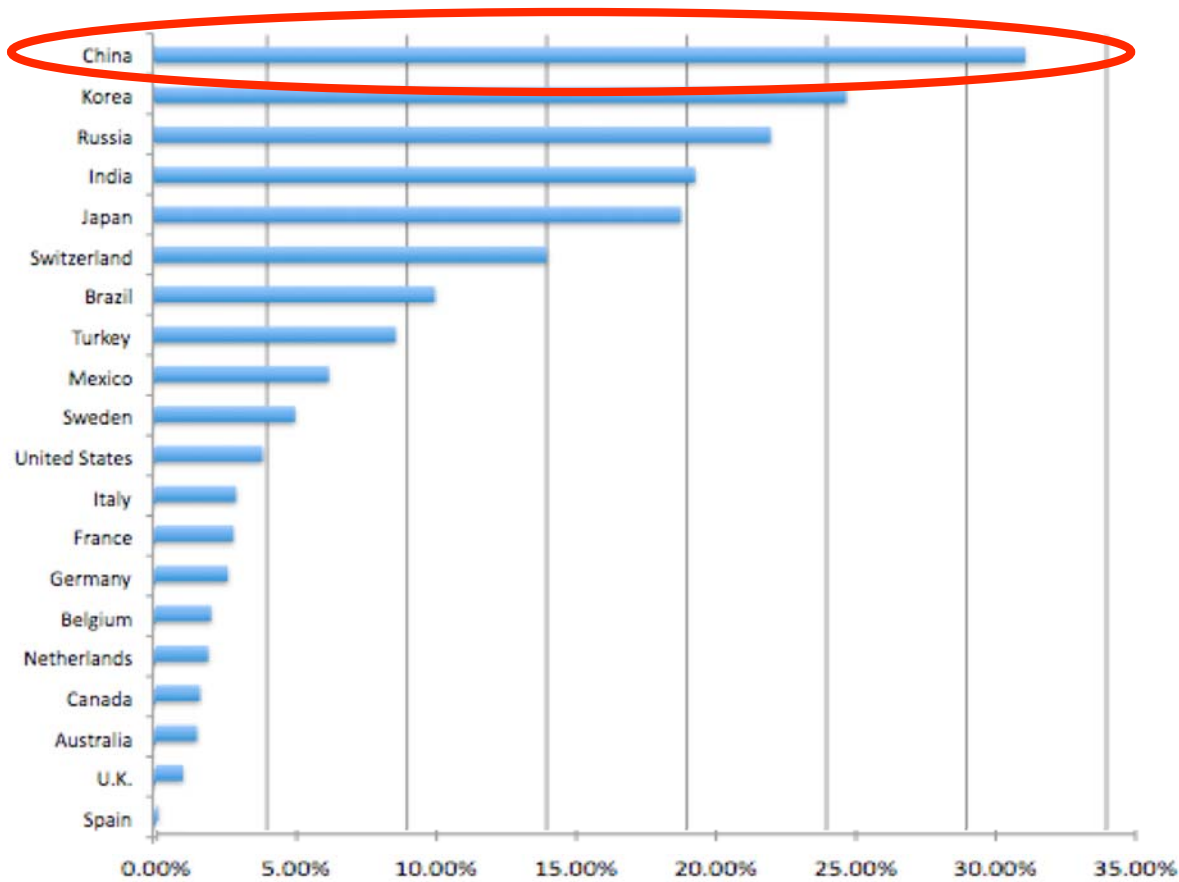
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Region	Average Growth Rate
Asia	5.12%
South America	3.5%
Australia	2.24%
North America	1%
Europe	0.5%

**May be 8%+  
this year**

Source: International Monetary Fund



**China has  
highest reserves  
per GDP on the  
planet**

Source: Central Intelligence Agency



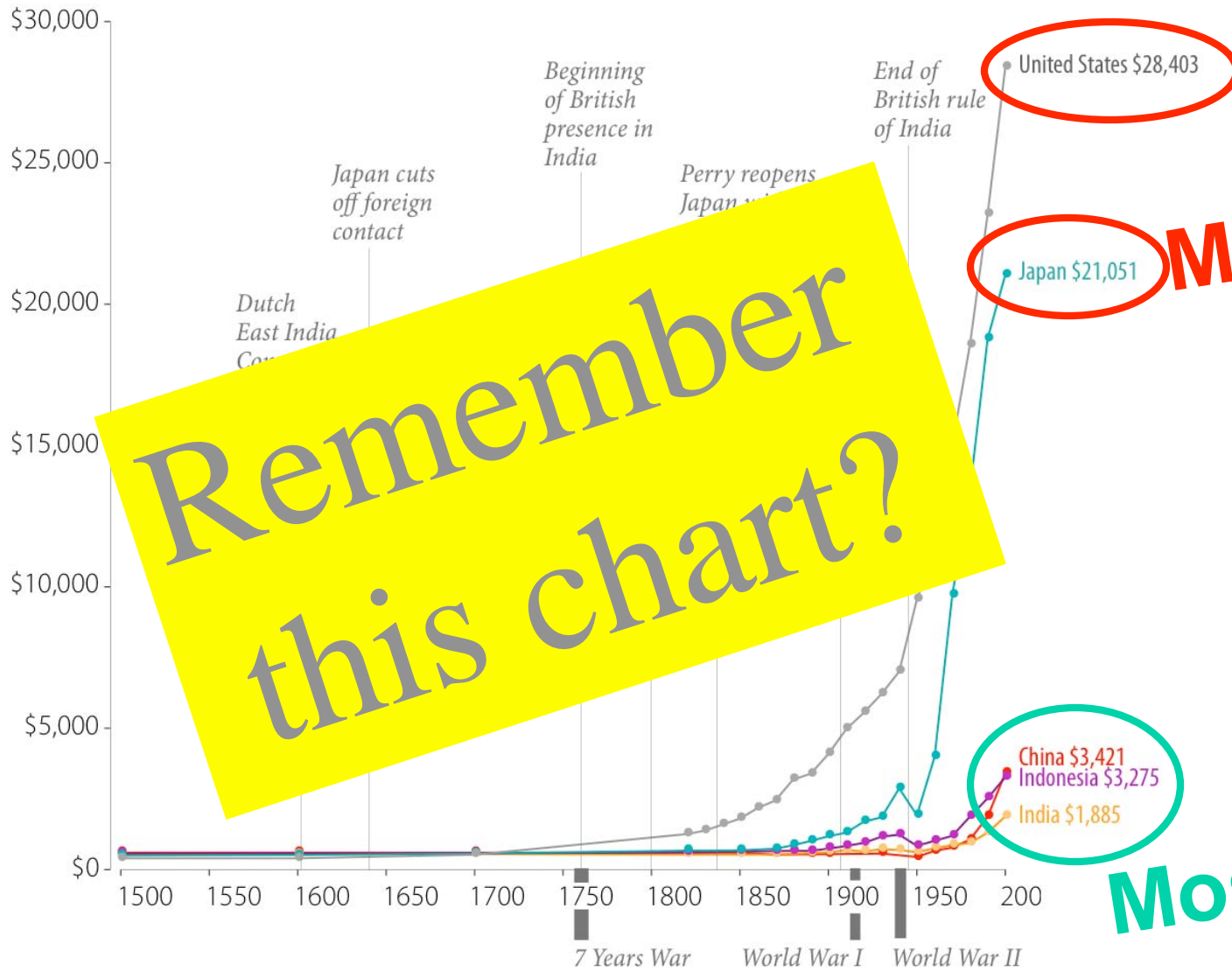
Region	Reserves / GDP
Asia	24.1%
South America	11%
Europe	5.09%
North America	4.8%
Australia	2.5%

Source: Central Intelligence Agency



## GDP per Capita: East Asia Compared to United States

China, India, Japan, Indonesia, and United States



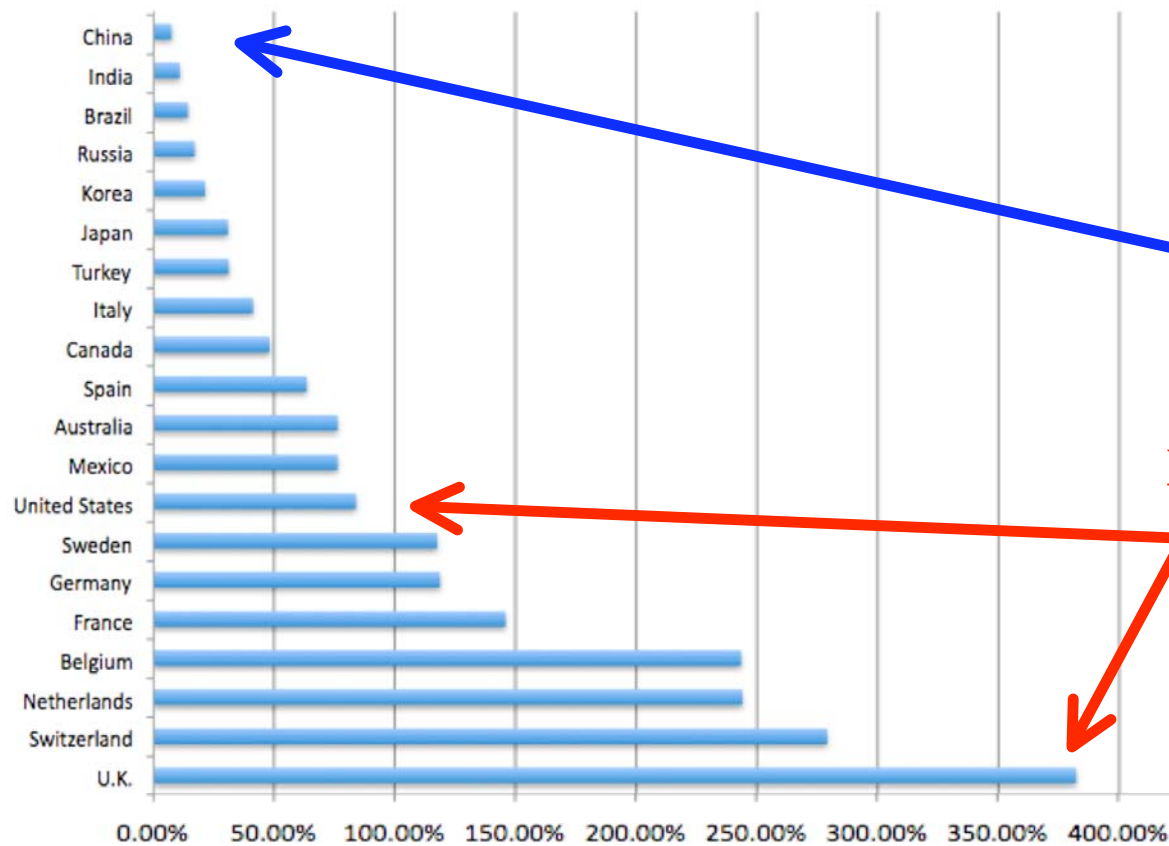
Remember this chart?

Most to lose

Most to gain



## External Debt / GDP



**Nations with lowest debt can spend their way out**

---

**Nations with highest debt are trying to borrow their way out**

Source: Central Intelligence Agency, IMF, Fitz-Gerald Research Publications, LLC

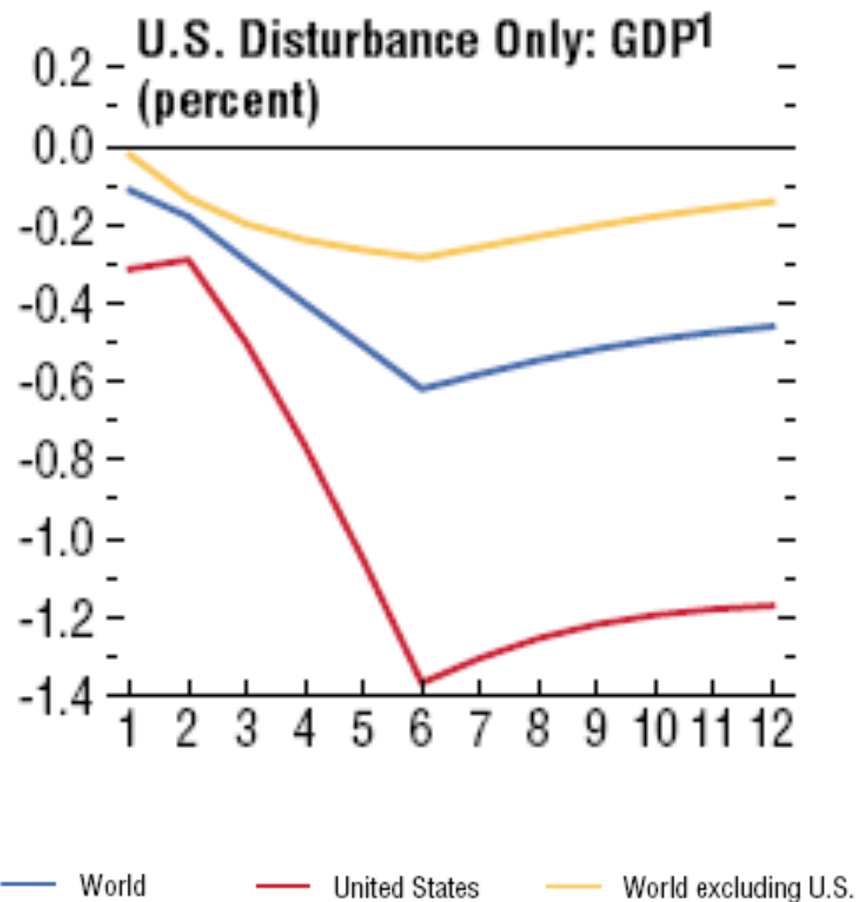
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Region	External Debt / GDP
Europe	166.73%
Australia	76.4%
North America	69.5%
Asia	17.6%
South America	14.4%

Source: Central Intelligence Agency

# Which Suggests



- 1. US hurt for a long time**
- 2. Stocks with global exposure may be more stable & recover faster**
- 3. Include opportunities for up & down markets**



# Key Takeaways

The global economy remains mired although there are **signs of stabilization** in the most important two economies: **China and US**

**Developing countries** maintain **better long term growth prospects** and will emerge from this with **fewer fiscal hangovers** and post crisis credit problems

Foreign stock **valuations remain near historically low levels** and have **more to gain than to lose** at this stage of the game



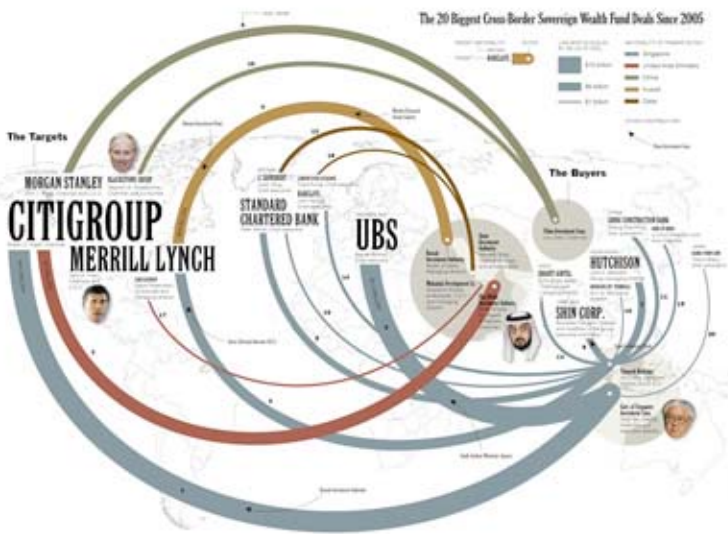
**Now let's talk about**  
**What we can do about it**



WHERE

TO INVEST  
**Now**

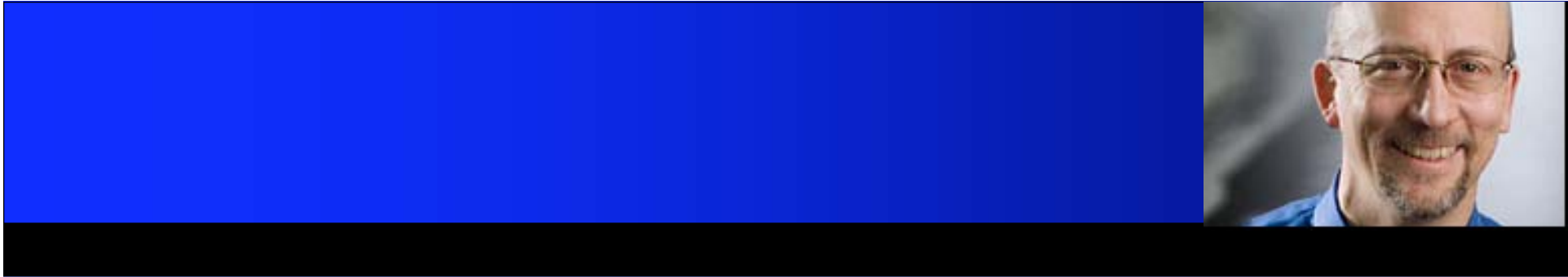




# 1 Follow THE Money



2  
**Choose**  
GLOBAL  
Companies



3

**With**  
Little  
**Debt**

**Paying**  
2.5% or more  
**Dividends**

**Profiting**  
Unstoppable  
**Trends**



Generally

**Long** Resources  
Inflation

Hedged for more downside



## ABB

- \$16.76
- Yield = 2.6%
- Riding \$41 billion trend
- Global infrastructure
- ROE 23.88%, \$25 bb backlog
- May alone inked another \$450 million in contracts



Bottomed out 3 ½ months  
before S&P 500 (Nov. 20, 2008)  
Up 83.9% of its recent bottom

*Past performance does NOT guarantee future results.*



## EWZ (Brazil iShares ETF)

- \$56.07
- 4.77% yield
- Economic engine of the future
- Petrobras plus (25%)
- For example: China and Brazil signed 13 agreements – tech, science, energy and infrastructure, and food
- Energy 31.72%, Industrial materials 16.15%, Financials 12.72%



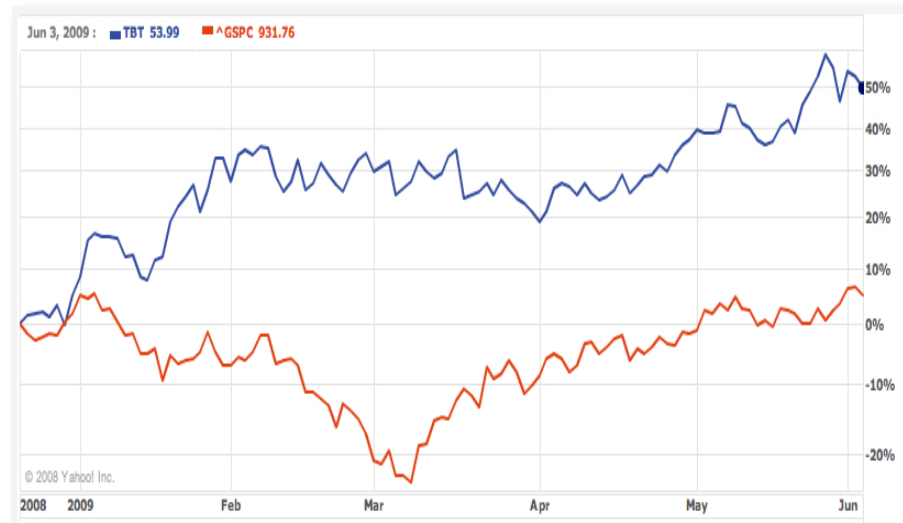
Bottomed out 3 ½ months  
before S&P 500 (Nov. 20, 2008)  
Up 110% of its recent bottom

*Past performance does NOT guarantee future results.*



## TBT (Ultrashort 20+ Treasury ProShares)

- \$56.00 / .33%
- It ain't over yet...
- Treasury has a trillion \$ problem
- A real rally means less need for bonds
- Long term rates already up 78% since December...and climbing



TBT: Bottomed out 2 ½ months before S&P 500 (Dec. 19, 2008)  
Up 57.7% of its recent bottom

*Past performance does NOT guarantee future results.*



Thank you!

Please see our team  
if you'd like to learn more

