

OCTOBER 2007

Economic Review

IN GOLD WE TRUST

WITH INVESTORS increasingly (and rightly) worrying about inflation eating up their capital and income, and the safety of banks and the financial system in general, we are often asked how far we expect the price of gold to rise. (Gold is the inflation-proof and counterparty-risk-free investment that we have been strongly advocating for the past five years.)

To put it into perspective, today's gold price is barely one-third of the inflation adjusted 1980 high of USD 2,400 per ounce. Regaining that high would be a minimum expectation. Yet much more importantly, we are witnessing a time where the debts and deficits on which this financial system depends are spiraling out of control. Historically, at such times, gold has always regained its safe haven and currency reserve status. We expect it to do so again shortly.

If the world's entire financial reserves of gold (held by central banks and global financial institutions such as the IMF and BIS), currently worth USD 650 billion, were to be matched to the present total debt of the United States alone (USD 48 trillion), the price of gold would have to rise by a factor of 74 to approximately USD 55,000 per ounce. And yet this number excludes any consideration of hyperinflation.

In hyperinflation money loses all value and accordingly there is then no limit to gold price increases. In Weimar Germany, the price of one ounce of gold rose from 75 German Marks in 1919 to 23 trillion Marks in 1924. Should the same scenario unfold in the United States and/or Europe today, as senior public figures have directly and indirectly suggested (see below), this

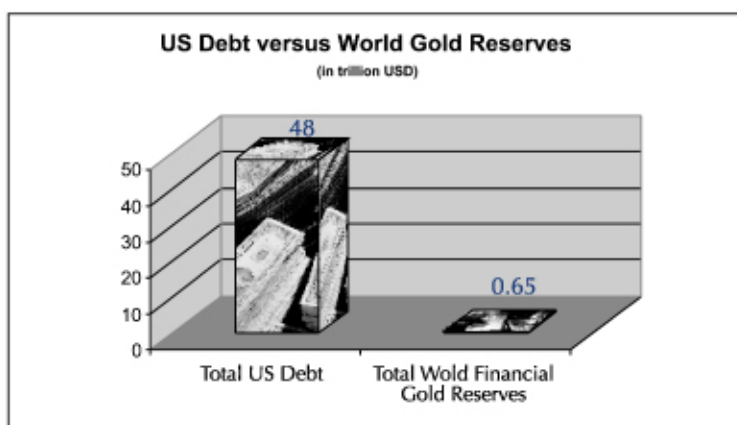
would equate to a rise in the gold price from USD 750 per ounce today to USD 230 trillion per ounce in 2012.

In August 2006, Mr L J Kotlikoff of the Federal Reserve Bank of St. Louis said that "the United States appears to

be running the same type of policies that engendered hyperinflations in 20 countries over the past century." Last month, French Prime Minister M. Francois Fillon said, "I am the head of a state that is in a state of bankruptcy."

While we do not know what exactly will happen, we feel that it is fair to say that an exposure to precious metals within anyone's portfolio at present should be a prudent measure both in terms of potential gains and security.

Martin W Hennecke
Tyche Group Ltd



RETIREMENT: WHAT YOU REALLY NEED TO KNOW

I'M GOING TO BE BLUNT. Whether you are years from retirement, about to retire or already retired, the time is always right to improve your retirement prospects.

Certain things will happen in retirement – nasty things like your health deteriorating (plan for retirement, but don't plan to beat your 100 metres personal best) and costs rising. And for sure, you will eventually be pushing up the daisies or going to meet your maker. The key to a carefree retirement is to address these nasty, not-to-be-spoken-of inevitabilities straight away or they will be little dark clouds following you around.

Let's start with inflation, a fundamental nasty which makes everything cost more with time and which will affect you more if you are healthy, assuming the healthy live longer! Whilst one solution is to adopt a terrible diet and take no exercise, this is not the one we usually advocate.

Advisers don't like inflation, economists around the world are nearly all concerned about it, and of course altruistic government continually fights it. In truth, all are just paying lip service. Inflation is good for business, good for the stock markets, good for the wage packet (makes it grow without need for promotion) and good for us – the "us" being anyone below retirement age. Whilst you are part of the rat race (a.k.a. economy) and linked to its growth (inflation) by your company making more dollars and paying you more dollars, who cares about inflation?

Of the six billion people on the planet, about 600 million currently care about inflation, which is not enough to make governments around the world take much notice. Governments will probably care a lot more by 2050, when nine billion will be residing on earth, including 3.2 billion retirees.

In the interim, most governments will continue to think no more than five years ahead. Expect little preparation, other than the reductions in state benefits which started 10 years ago. In 30 years' time, only Denmark looks likely still to have a welfare system, thanks largely to tax rates which

most Danes have the nerve to suggest are a little high. With VAT and salaries tax combined reaching a trifling 84 per cent, it is clear that you simply cannot please some nationalities!

Prepare to rely more on your own wealth, less on the state, and take far more heed of inflation. The average 65-year-old can expect 20 years of retirement (and rising), during which time inflation averaging four per cent a year will erode annual spending power of US\$50,000 down to \$22,000. Not relaxing or enjoyable. If you retired 20 years ago, having saved hard to amass US\$400,000, you were looking forward to spending \$44,000 a year. Since then, interest rates have dropped from 11 per cent to four, inflation has averaged four per cent a year, and the spending power of your income is now \$7,000!

First big tip: you will have to consider other investments at retirement, so test out the options both in terms of assets and advisers now, even though you may be happy with your deposit account today. Make the mistakes while you can still earn them back.

As for the other nasties, make sure you have good medical cover, whether via the state or private. Uninsured medical procedures can destroy your pension fund. For the final departure, make sure you have a will and/or trusts in place (legal for where the asset is located) for all major assets. Don't leave a mess for your partner or children to sort out. It might take years to resolve and could easily see many assets going to those you did not intend to receive them, not least the tax man.

Second big tip: don't delay. Much of this type of planning is prompted by some terrible news event which reminds us how fragile we are. Even then, the majority of us make a decision to do something but never do it. Take control now and initiate it yourself, on your own terms. We would be happy to assist you if you wish.

Stephen P Gollop, CEO
Tyche Group Ltd

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TYCHE FORUMS

Tuesday 13 November 2007, 12:30 to 2:00pm; Saturday 17 November 2007, 2:00 to 3:30pm
Podium Floor, Executive Club, Central Plaza, 18 Harbour Road, Hong Kong

PRECIOUS METALS: WHY AND HOW?

Gold is at a 28-year high and seems to be entering a new investment-driven phase as it reasserts its safe-haven status in the ongoing credit crunch. With the next sub-prime disaster about to hit Spain, Martin W. Hennecke will be discussing how recent and future global macroeconomic developments will likely affect precious metals prices, and which price targets are realistic.

The Forum will also look at the "how" of gaining exposure to this sector and point out the pitfalls to avoid when investing. Finally, the prospects for other commodity sectors relative to precious metals will be touched upon. The Forum is aimed to be as interactive as possible and questions will be very welcome.

To avoid disappointment please register early so that we can guarantee a place for yourself and your guests. Please register using any of the following: phone (852) 2525 3639; fax (852) 2525 3679; e-mail forum@tyche-group.com.

Please register me for your investment forum on (please tick):

13 November 2007 17 November 2007

Name (please print)

phone e-mail

DECEMBER FORUM – CRYPTIC NOTE

Christmas forum? It must be festive and full of mirth, which in the world of finance means an occasional smirk. The problem? The subject! Markets may have crashed by Christmas, bonds might just be junk, property may have plummeted and even our gold (to say nothing of frankincense and myrrh) might not be glittering (unlikely!). What will be holding its value in eight weeks' time to buy little Pat's puppy? Hedge funds! Many ignored inflation fears and sneered at sub-prime. Add an entertaining Canadian who knows, followed by 'hedge strange but true' and it would be no surprise to see Father Christmas attending something that sounds so joyous, assuming he faxed back in time!



ABOUT THIS NEWSLETTER

You are reading Market Truth, Tyche Group's no-cost monthly newsletter. It offers insights into local and global markets and indicates investment opportunities, based on its "house view" of the financial markets.

Each issue has an investment theme to help investors identify opportunities and make sound decisions. For access to the archives and to receive future issues, register online and we will post it to you each month.

- Tyche Group is a premier independent investment adviser in Hong Kong. Its principles and practices can be defined as the process of providing advice and assistance to clients for the purpose of achieving financial goals.
- Tyche Group specialises in comprehensive financial planning and investment advice. We offer a one-hour meeting with an SFC-registered adviser to review your overall requirements and objectives, at no cost to you and with no obligation to proceed further. To arrange a meeting, register online or call or fax us. We will contact you.

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