

JANUARY 2010

House Commentary

GREECE GOES BUST – SURPRISE, SURPRISE

The most surprising thing about the recent spate of sovereign (Government Debt) rating downgrades (that have left the bonds of Greece just a notch above junk bond status, with negative outlook), is the fact that it came as a surprise to most market commentators and investors.

Yet by doing just the most basic analysis of the sustainability of such debt / deficit developments, one could actually see a crisis like this one coming from a very long way, and therefore take action to stay well clear.

In our monthly newsletter Market Truth, we unmistakably and repeatedly warned (well in advance) about most of the major crisis that have occurred. The Tyche Investment Committee through both the Market Truth and other media (CNBC, Bloomberg, NDTV) called these well before the vast majority of experts saw anything coming, for example:

On the collapse of Iceland - in 2006 we wrote - *"Iceland appears to be the first victim of the changing trend. The possibility of Iceland defaulting cannot be ruled out."* [Market Truth, May 2006]

On the US Sub Prime Crisis - in early 2007, long before the crisis became public, we wrote - *"We expect the US economic downturn to worsen shortly as an estimated USD 1.2 trillion of exotic mortgages will be resetting at significantly higher rates in 2007, with severe effects on US financial asset prices."* [Market Truth, January 2007]

On the unfolding Greek and European Debt crisis - in June 2008 we wrote - *"The [European] Latin Bloc has gone deeper into deficits. Greece is leading the way with an incredible current account deficit. This is unsustainable."*

Greece, Portugal and Italy [are] landmines that could blow up anytime." [Market Truth, June 2008].



Precious Metals - We were among the very first to foresee and benefit from the continued rise of gold prices over the past 8 years, in 2002 we wrote - *"Gold has been lackluster for nearly 20 years [yet] quietly outperformed every other sector over the last year. We suggest that every investor allocates at least 15-20% of his/her overall portfolio towards gold/gold assets."* [Market Truth, February 2002]

Future Crises - Going forward, one of the lingering crises that has not materialized as yet, but appears likely to make headlines soon, would be (next to the obvious European candidates of Spain/Ireland/Portugal/Italy) that of the USA's and the UK's sovereign debt.

As usual, watched closely only by the few who know their field, the US budget deficit has actually more than tripled in 2009 to 10% of GDP. That's not too far from Greece's 12.7% and over 3 times the level generally considered to be the maximum sustainable.

Investment Committee, Tyche Group Ltd

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TYCHE FORUMS

Wednesday, 27 January 2010, 18:15 registration for 18:30 to 20:00

Podium Floor, at the Central Plaza Executive Club, Central Plaza, 18 Harbour Road

TYCHE MARKET OUTLOOK 2010

The year 2009 was clearly an extraordinarily interesting one. We saw stock markets crashing and thereafter recovering almost equally as fast. We saw commodities collapse, and rebound a good way too, with gold even reaching a new nominal high. So what's in store for this year?

At this moment, Greece's downgrading seems to not only be shaking the Euro foundations, but also putting investors' attention back to the rising budget deficits in most Western countries, such as the tripling of the same in the United States. So one development that we could witness in 2010 and beyond may well turn out to be the replacement of sub-prime with a U.S. and European sovereign debt crisis.

Against the backdrop of the recent strong rise in US wholesale inflation, it will also be very interesting to see if we have already passed the lowest point of the global inflation and interest rates cycle. Obviously, if inflation and rates were to move up from here, it would likely have significant implications on markets, such as on the prices of bonds, commodities and the rates on variable mortgages.

And how will Chinese markets be faring in this year where the IMF expects the country's economy to officially overtake Japan's as the world's second largest?

Please join us at our January Seminar presented in English by Julian Galvin (Associate Director) and Martin Hennecke (Associate Director), for a review of these topics and more! As always, we aim to make our forums as interactive as possible, with queries questions from the audience most welcome.

Our seminars are often oversubscribed, so please register early for you and your friends to avoid disappointment.

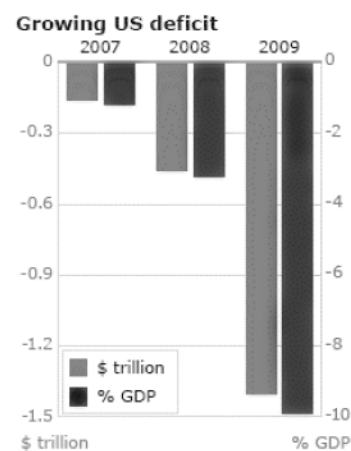
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Source: Congressional Budget Office

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- Tyche Group is a premier independent financial advisory firm based 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 specializes in holistic financial planning and investment advice. We offer a one-hour meeting with an SFC-registered adviser to 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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