

September 2011

House Commentary

How reliable are the major rating agencies

We all know about the major Western rating agencies that assigned AAA ratings on subprime assets only to see them become worthless later on, and when probed, the inappropriate rating was blamed on a "computer bug". As ridiculous as this may sound, this explanation was offered rather than the more realistic explanation of a simple 'conflict of interest.'

Moody's Begins Probe on Report Bug Caused Aaa Grades (Update2)

By John Glover and Abigail Moses

May 21 (Bloomberg) -- **Moody's Investors Service** said it's conducting "a thorough review" of whether a computer error was responsible for assigning Aaa ratings to debt securities that later fell in value.

Some senior staff at Moody's were aware in early 2007 that constant proportion debt obligations, funds that used borrowed money to bet on credit-default swaps, should have been ranked four levels lower, the Financial Times said, citing internal Moody's [documents](#).

But still, despite these apparent shortcomings, the world continues to pay the greatest attention to what those rating agencies say nowadays, particularly in relation to sovereign ratings. For this reason we suggest to look beyond Moody's, Fitch and Standard & Poor's, and at least have a look and consider what other competing agencies may have to say, as a balance.

For example, the Chinese Dagong Rating Agency had downgraded the United States to A+ with a negative outlook long before Standard & Poor's did, while assigning China a higher rating of AA+, just below Switzerland and on par with Germany. Surely, critics would say to this that a Chinese rating agency would surely be biased (negatively) against its U.S. rival, and (positively) about its home country China, but when we dig yet deeper

to consider other, smaller, truly independent agencies, this may actually not be the case at all.

When comparing China's Dagong ratings with the U.S. based independent Weiss Ratings Agency, which covers 19,000 U.S. banks, credit unions and insurance companies, along with sovereign ratings, Dagong's judgments seem far too generous to the West, and still too modest about China. (This may stem from the Chinese culture of being polite to foreigners, and modest about oneself, aka 'hide abilities and bide your time'.)

So, according to Weiss Sovereign Ratings (which rates countries on a scale from A (highest) to E(lowest)), what is remarkable is that among the major world countries, only 6 got awarded an A or A-: China (A), Thailand (A), South Korea (A-), Malaysia (A-), Switzerland (A-) and Saudi Arabia (A-), while France (C), Germany (C+), the UK (C-) and US (C) are all classified as being much weaker and all falling into the C class range only.

Accordingly, we would stick with our view, that relatively healthier investment options present themselves in Asia (be it bonds/currencies, convertible bonds or equities), than in the 'developed' West, and we also maintain the view that the outlook for the Western economies debt problems remains serious enough to warrant maintaining a good precious metals exposure for crisis and inflation protection.

Investment Committee, Tyche Group Limited

To subscribe, or if you wish to have further discussion or seek financial advices from us, please write to contact@tyche-group.com.

TYCHE SEMINAR

Wednesday, 21 September 2011, 6:30pm to 8:00pm

Registration : 6:15pm

Podium Floor, Executive Club, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong

WHERE TO SHELTER FROM THE STORM

In line with the old saying “a picture (or a table) says more than a thousand words”, the alternative major countries sovereign debt ratings table of the U.S. based independent Weiss Ratings Agency is rather interesting to look at. And as a matter of fact, it is not even far off from a projection of sovereign ratings of the major Western countries made by Standard & Poor’s in 2005 (which they don’t really want to be shown anymore these days, it was presumably too good, or in other words making certain countries look worse than they would want anyone to see).

Accordingly, this month’s Seminar will be exploring where true safe havens can now be found amidst the latest crisis outbreak, and where presumed safe havens may turn out to be traps or false hopes.

Please join us at our September Seminar presented in English by Martin Hennecke (Associate Director), for a review of these issues and the outlook going forwards. As always, we aim to make our Seminars as interactive as possible, with questions from the audience most welcome.

Weiss Sovereign Debt Ratings

Country	Rating	Country	Rating
Argentina	C-	Kuwait	C+
Australia	C+	Malaysia	A-
Austria	B+	Mexico	C+
Belgium	C	Netherlands	B
Brazil	C	New Zealand	C
Bulgaria	C+	Norway	B+
Canada	C	Pakistan	D+
Chile	B+	Philippines	C+
China	A	Poland	C
Colombia	C	Portugal	D+
Czech Republic	C+	Russia	B
Denmark	B	Saudi Arabia	A-
Egypt	C-	South Africa	C-
Estonia	C	South Korea	A-
Finland	C	Spain	D+
France	C	Sweden	B+
Germany	C+	Switzerland	A-
Greece	E	Thailand	A
Hungary	C	Turkey	C
Iceland	D+	United Kingdom	C-
Indonesia	C+	United States	C
Ireland	D-	Uruguay	C
Italy	C-	Venezuela	D+
Japan	C		

As seats are limited, so please register early to avoid disappointment. Please register in any of the following ways: phone (852) 2525 3639; fax (852) 2525 3679; or e-mail forum@tyche-group.com

Please register me for your seminar on (please tick):

Name(s) (please print)

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