KMI Consultants

KMI EXCLUSIVE NEWSLETTER

19th May 2012

Dear Clients and Investors

At a time when the financial news items are full of Europe, Greece and the effects of the refusal of the Greek parliament to action austerity measures, we look at the potential dangers of Greece leaving the Euro and also the way debt can be dealt with worldwide. Can we learn lessons from history?

In this Issue

4 ways to deal with the extreme excess of debt

The full report is attached but in essence there are four ways to deal with extreme debt,

1) **Inflate - This is tried tested and failed generally. In the report it gives much more detail, however despite its failures, Inflating out of the debt is the USA's preferred option.**

2) **Austerity - Again this method has been shown to fail unless it's taken to the extreme where there are other consequences. Preferred method of the Germans and to a lesser degree the UK however the French are about to switch sides with their new president, from Germany to the USA; who would have thought!**

3) **Wars - This was shown to work in 1939-1945 but not earlier, there are signs of national unrest but hopefully, this can be avoided.**

4) **Default - Surely the way for Greece to go. Never easy but a lifetime of austerity is the alternative. Leave the Euro and replace with the Drachma. The problem here is, if one country leaves the Euro, will others?**

The report gives quotations that are very relevant; the most pertinent, "Those not learning the lessons of history are destined to repeat them."

The new French President, The Euro & Greek Debt

With the coming of the new French President, François Hollande, there also comes the biggest yet threat to the Euro. Up to now, France has stood squarely behind Germany promoting austerity measures to solve the debt crises. That has now changed with Hollande promoting the inflation views of the USA. This could seriously undermine the European Union's way of dealing with the debt problems; we are already seeing European stock markets decline on the concerns of Hollande's plans.

It is now surely time to allow Greece to exit the Euro currency and move back to the Drachma. The results ultimately can only be good. The Euro will become stronger after allowing a weak economy to exit. Greece will allow the currency to deflate, interest rates will rise and Greece will become a cheaper place to holiday. The Greek economy will slowly recover with employment increasing.

In the short term the Greek Sovereign debts will have to be written off, but much of this has been done already. Importantly, the Euro uncertainty will disappear and I doubt very much that many other nations will follow the Greeks in a Euro withdrawal although the precedent will have been set. Markets will understand that if a country leaves the Euro then all is far from lost, the Euro will actually become stronger.

New funds

We attach a new fund from The Kotak Funds group
Investment Objective – India Midcap Fund aims to achieve long term capital appreciation by primarily investing at least two thirds of its total assets in equity and equity linked securities of mid capitalization companies registered in India or deriving a significant portion of their business from India.
Good performance is expected as this region should benefit from being outside the debt regions; however we regard this fund as "higher risk".

Stock Markets - are they on the way up or down?

Over the last week we see the major European stock markets have receded due to the Greek problems and also the election of the new French President.
We do not think this will continue unless the Greek exit of the Euro is handled badly. However it would be wise to limit exposure to European equities until the situation is clarified.

Corporate bonds, the three we like

The three corporate bonds we prefer this week are:

Halifax (Bank) Maturity dated 15.05.2021 - £ - Yield 9.4% per annum
Barclays Bank, Maturity dated 30.03.2022 - € - Yield 7.17% per annum
Credit Suisse (Bank) Maturity Dated 31.12.2049 - US$ - Yield 7.79% per annum

Please contact your own consultant or Mike Towning in Prague for further information regarding any of these items or any other matters.

Happy investing

Lee R.J. Green *Cert.PFS*

New site http://corporatebonds.kmiconsultants.com/

Web site www.kmiconsultants.com

Head Office: Vladislavova 46/3, 110 00 Praha 1, Czech Republic,

Tel: +420 224 942 421 Fax: +420 224 942 426