# Alchemy

## Kismet Financial Services

WINTER 2010

Leader
BUSINESS ACHIEVER AWARDS
• 2008 •
WINNER


kismet
Financial Services Pty. Ltd.
"Guiding you to a better future"

Commentary taken from "Oliver's Insights". Dr Shane Oliver is AMP's Chief Economist. Market update of 17/6/2010

**Oliver's Insights Has growth peaked? What is the risk of a double dip?**

- Some leading indicators of economic growth are showing a loss of momentum, fuelling talk of a double dip back into recession.
- However, some loss of momentum in growth indicators was inevitable. Double dips are rare and apart from Europe there hasn't been the sort of policy tightening that could drive a fall back into global recession. (See page 2 for a more detailed analysis of Europe)
- Shares often go through a rough patch in the second year after a bull market ends, but providing we are right and a double dip doesn't eventuate, then resumption of the cyclical recovery in shares and other growth assets is likely. Share market action over the last few weeks suggests that this might already be underway.

## Planner In Profile— Natalie Mercovich

Financial Planner & Mortgage Broker

Natalie is an experienced Financial Planner who has recently broadened her skills to become a fully accredited loan provider with the MFAA (Mortgage and Finance Association of Australia). She also has fourteen years of service with Centrelink in various policy and administration roles, this has given her a unique skill base to enhance the service she is able to offer our clients, particularly our pensioners. Natalie has a rich and vibrant social life that generally includes the consumption of fine wines - she is quite a connoisseur as you may already be aware from her section on page 3. She is an avid reader and a paid up and proud member of the Richmond Football club. Natalie is a volunteer with Meals On Wheels in Whittlesea, is a fortnightly plasma donor with the Red Cross and is an active member of the YCW Patriotic Fund.

# The euro-zone debt debacle and the global recovery

## Introduction

Late April to early May saw the Greek debt debacle degenerate into a major crisis, with significant contagion to bond markets in other European peripheral countries and a slump in global share markets on worries about a re-run of the GFC. Fortunately, the European authorities appear to have got the message and have provided a strong package of support involving access to funding for troubled European countries and the European Central Bank (ECB) buying public and private securities in the euro-zone. So where does this leave us? Will the European stabilisation package work or is it just a temporary reprieve on the way to GFC Mark II?

## Greece and GFC Mark II

The problems in Greece took a turn for the worst in recent weeks following another upwards revision to Greece's 2009 budget deficit, a downgrade to its sovereign credit rating and more violent strikes; leading to worries that it will end up defaulting. This resulted in an accelerating contagion to other perceived high risk countries and a flight to public sector bonds in countries thought to be safer, such as Germany. This led to sharp falls in share markets, commodity prices and growth-oriented currencies on worries that capital flows and lending would freeze up on concerns about counterparty risk and that this, plus increased pressure for austerity measures across Europe, would threaten the global economic recovery. Many began to fret about a second leg of the GFC. Contagion was arguably starting to become irrational and self-feeding, particularly when it came to countries like Spain and Portugal which have lower budget deficits and public debt levels than Greece. If left to run its course, there was a danger that investor fears about high public debt levels could have spread to France, the UK, the US and Japan, which to date have seen their bond yields remain low.

## Why GFC Mark II is unlikely

Although the risk of a broader public debt crisis is high, particularly given the now high levels of public debt in many developed countries, the fallout from the Greek crisis is unlikely to be the trigger for anything as severe as what followed Lehman's failure back in September 2008. Firstly, the amount of debt involved in southern European countries is small compared to the trillions involved in the US mortgage market, particularly once leverage had been allowed for in relation to the latter. The exposures are more transparent this time around and the risks are better understood than was the case for many of the financially engineered investments at the centre of the sub-prime crisis. Secondly, global monetary policy is very easy today, compared to when the GFC hit. Thirdly, the global economy is far stronger today than was the case when Lehman Brothers went bust in 2008. Back then, the world was already entering recession and leading indicators of economic growth were in free fall. By contrast, today's global economic indicators point to the commencement of a significant economic upswing. In other words, the global economy is far less fragile than it was two years ago. Finally, policy makers now appear to be acting more decisively than occurred in 2008. The fact that Europe has not let Greece fail (funds will be disbursed by 19 May to Greece) and the European Commission and the ECB have now adopted a massive policy response indicate they are very keen to get on top of the problem and put an end to irrational contagion. Uncertainty still remains over parts of the package. The bilateral loans still require parliamentary approval in individual countries, details are lacking about the ECB's bond purchasing plans and the package does nothing about the longer term solvency problems of Greece and potentially other countries (and nor could it). However, the size of the package at €720 billion or US$915 billion indicates the European authorities are serious. The existing package for Greece means it won't have to tap bond markets for three years and so will have little reason to default in the short term. Similarly, the availability of the backstop could remove the need for countries such as Spain and Portugal to have to borrow in the market for the next year or so. If that isn't enough, the commitment of the ECB to buy public sector debt will serve to keep a lid on bond yields. In fact, the announcement of ECB buying saw ten-year bond yields fall by 467 basis points (bps) in Greece, 163 bps in Portugal and 51 bps in Spain. As such, the support packages have helped these and other high-debt countries buy time to make some progress in cutting their deficits.

## What are the risks and what to watch?

In the short term, the main risk is the European package is insufficient to stem contagion or its introduction is half-hearted and drawn out (as we saw with the Greek package). Key to watch here would be bond yield spreads between troubled country debt and German yields and credit and money market spreads (as indicated in the next chart) for signs of a return to a global credit crunch. So far the impact has been minor. German business conditions indicators are worth keeping an eye on to see whether the continuing turmoil in southern Europe is having much impact. Longer term, the key issue for Greece and other troubled countries is one of solvency. While the European support package addresses concerns about such countries' access to funding (i.e. liquidity) over the next few years or so, bringing the deficit and debt under control will be very hard, particularly in Greece. Its public debt to gross domestic product ratio will continue to rise for many years to come, even as it cuts its deficit. So while there is no incentive for Greece to default in the next few years, it remains a longer term risk. More broadly, the Greek public debt crisis has fired a shot across the bow of major counties such as France, the UK, the US and Japan, all of which have problems with public debt. While they are arguably in better shape than Greece and have been given some breathing space by the European support package, they will nevertheless have to start bringing their budgets back under control next year as private sector growth starts to become more sustainable. This in turn will result in several years of constrained growth in advanced countries.

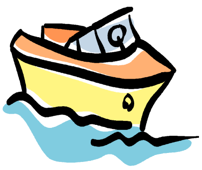
## Conclusion

The public debt crisis in Greece and other countries is unlikely to signal the start of another round of the GFC. Moreover, the European support package has likely provided a bit of breathing space to troubled economies. However, it provides a longer term reminder that high public debt levels will be a key constraint on major advanced countries in the years ahead as well as being a key risk factor to keep an eye on.

**Except from a paper by Dr Shane Oliver Head of Investment Strategy and Chief Economist AMP Capital Investors**


### Need a home, commercial or personal loan?

Natalie is accredited to broker loan solutions to our clients. If you are looking for a personal loan, commercial loan or a home loan or simply wish to see if your current loan is the best available for your needs, call the office for an appointment on 94673355 or 59646099.



"Winter is the season in which people try to keep the house as warm as it was in the summer, when they complained about the heat" Author unknown

# Luscious Winter Warmer

## Chicken, Leek & Mushroom Casserole

Serves 4

**Ingredients**

8 chicken thigh pieces
1tbs olive oil
250g rindless bacon rashers coarsely chopped
2 leeks, pale section only, washed, ends trimmed, cut into 2cm thick slices
400g button mushrooms halved
2 garlic cloves, crushed
2 tbs plain flour
1 cup salt reduced chicken stock 250ml
1 cup white wine 250ml
6 sprigs fresh thyme
1/2 cup thickened cream 125ml
Mashed potato to serve

**Method**

Preheat oven to 180c. Heat a 3 litre (12 cup) capacity casserole dish over medium to high heat. Add half the chicken and cook for 3-4 minutes each side or until golden. Transfer to a plate. Repeat with the remaining chicken, reheating the dish between batches. Use kitchen paper to wipe the dish to remove excess fat.

Heat oil in the dish over medium high heat. Add the bacon, leek, mushroom and garlic and cook, stirring, for 5 minutes or until golden brown. Add the flour and cook, stirring, for 1 minute or until well combined. Add the stock, wine and thyme and bring to the boil.

Return chicken to the dish. Cover and bake in the oven for 1 hour or until the juices run clear when the chicken is pierced with a skewer.

Use tongs to transfer the chicken to a plate. Transfer the remaining leek mixture to a medium saucepan. Add the cream and bring to the boil over a medium-high heat. Cook for 5 minutes of until sauce thickens slightly.

Divide the mash among serving plates and top with the chicken. Pour over the leek mixture to serve.

**From taste.com.au**

## To accompany our wine guru and cover girl Natalie suggests;

< $15 Dowie Doole Chenin Blanc. Light zesty wine with a fresh apple flavour. Lightly acidic which cuts through the creaminess of the casserole. Retails for $13-$16.

$15-$20 Guigal Cote De Rhone Rouge '05. 50/50 Syrah and Grenache. A light style red that won't overpower the casserole. Flavours of cherry and ripe berries.

$30 Try any of the Chateauneuf du pape wines from the southern Cote de Rhone region of France. The '05 wines are drinking very well now and would provide an excellent balance to the creamy chicken

**Level 1, 93-97 Plenty Road**
**Bundoora VIC 3083**

**Phone: 03 94673355**

**&**

**Shop2 1385 Healesville Road**

**Woori Yallock VIC**

**Phone: 59646099**

**Check out our website at www.kismetfs.com.au**



**'As to the seven deadly sins, I deplore pride, wrath, lust, envy and greed. Gluttony and sloth I pretty much plan my day around. "**

Robert Brault

## Some Completely Useless But Amazing Facts

- Dolphins sleep with one eye open
- Its against the law to have a pet dog in Iceland
- Coca Cola would be green if colouring weren't added to it
- Months that begin on a Sunday will always have a Friday the 13th in them
- Slugs have 4 noses
- Beetles taste like apples, wasps like pine nuts and worms like fried bacon (wonder who checked that out and why!)
- Fingernails grow nearly 4 times faster than toenails
- Queen Elizabeth 1 regarded herself as a paragon of cleanliness. She declared that she bathed once every three months, whether she needed it or not
- There is a city called Rome (or Roma) on every continent
- Owls are the only birds that can see the colour blue
- The longest recorded flight of a chicken is 13 seconds
- Women blink nearly twice as much as men
- What is called a "French Kiss" in the English speaking world is known as an "English Kiss" in France

Taken from www.word-english.org/facts

# Kismet Supports The New Carer's Card

Kismet is one of the first business to get on board and sign up for the new Carer's Card that is being rolled out from August the 1st. From August, Carer's will gradually be sent the new concession card along with a business directory to show which businesses are participating in the scheme. A huge range of discounted offers will be available to holders of the card, including services from Kismet! We are proud to empower the Carer's in our community and recognise their vital contribution.

**Don't forget that your finances should be reviewed at least once a year, so call us on 94673355 or 59646099 to make an appointment!**