Ein55 Global Market Outlook
– 2015 and Beyond

Economy, Stocks, Bonds, Properties, USD, Gold/Silver/Oil

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1. Mass Market Sentiment Survey

Before sharing any personal views on current investment markets, I often like to begin with a unique "Ein55 mass market sentiment survey" for my investing workshop audience or readers:

"What do you think of the market trend for the next 1 year from now?"

A = Bear Market (STI < 10%)

B = Flat Market (STI within ±10%)

C = Bull Market (STI > 10%)

Please make your choice before continue reading further. This is an important move because you will be part of "Ein55 Indicator" on future market trend.

The participants with diversified background and experience representing the mass market will cast their votes. Here is the latest statistics based on average of last 6 months of surveys: Bear Market (13%), Flat Market (55%), Bull Market (31%). Please compare your choice with this overall distribution on market outlook.

The current majority market view (55% flat market) aligns well with the current market trend in Singapore as Straits Times Index (STI) has been trading sideways most of the time within 3000 points ±10% (2700 - 3300 points) over the past 5 years. This unique Ein55 Personal Indicator is making use of the psychological weaknesses in traders/investors who usually buy high (when greedy) and sell low (when fearful). Therefore, the recommendation of investing calls of buy / sell / hold, is against the mainstream view:

- **Buy**: when bear market view > 75%
- **Sell**: when bull market view > 75%
- **Hold**: when flat market view > 25%, <75%

This Ein55 Personal Indicator has monitored the investing market regularly since Nov 2011 (see Figure 1), successfully predicting a golden entry point to stock market after the US credit crisis in late 2011 with >75% bearish views. This unique investing methodology is consistent with the famous saying by Warren Buffett: “Be greedy when others are fearful. Be fearful when others are greedy”, but in a measurable form of investors emotions.

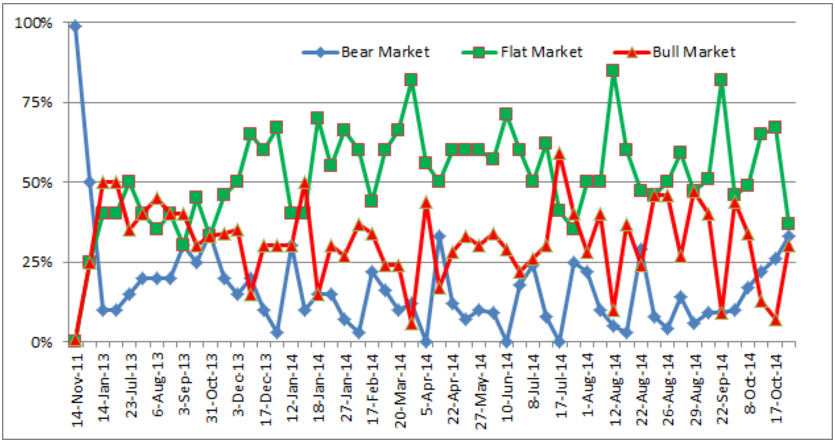

Figure 1. Personal Indicator: Mass Market Sentiment Survey

2. Review of 2014 Global Markets

Where are we? In year 2014, global markets have experienced a gradual but steady growth of investing journey with regional financial events such as China/Europe economy slowdown and stimulus plans, continuation of cooling in Asian property market (Hong Kong, China, Singapore, etc), larger scale of Japan QE (Quantitative Easing, i.e. printing money) as well as recent speculations on US tapering of QE3 and interest rate hike.

The fearful emotion of investors can be reflected by Volatility Index (VIX, see Figure 2), higher peak values usually occur when there are some potential financial crises with high volatility. The trend of VIX has been declining over the last 5 years since the subprime crisis in 2009, stabilizing within 10-20 points (historical bull markets with low VIX) in the past 1 year. This shows that the global investors are less sentimental over various political or financial events, paving the way for a stable and gradual-growth bull market. Investors may use VIX > 20 points (consistently above this level, eg. using moving average of 50 or 200 days) as the first alert to exit from the market.

Figure 2. Volatility Index as fear factor

In a bull market, every financial "crisis" provides an excellent opportunity for smart investors to enter the market, buy at lower price during market correction with much higher upside than downside. In Sep-Oct 2014, global market has corrected down by 10% in average, nearly recovered in 1 month. This is the secret of success for value investor and market-cycle investor.

One day, when the investment markets have reached the peak with very high % Optimism, then any of these regional crises could trigger the next global financial crisis. Until then, we are safe to stay in the market, as long as the global market is below 75% Optimism.

In this article of market outlook analysis for year 2015 and beyond, I will apply "Ein55 **FTP** Analysis" (**F**undamental/ **T**echnical/**P**ersonal Analysis) with % Optimism to evaluate the upside/downside of the markets with identification of undervalued investment sectors and regions.

A comprehensive market analysis should always start from macro level (world, region/country, sector), gradually zoom into micro level for individual investments (eg. individual stocks / bonds / properties / commodities). Based on MSCI World Index (23 developed stock markets) shown in Figure 3, the global stock market remains bullish, exceeding the last market cycle peak in year 2007 but the % Optimism still remains moderate due to the effect of stock inflation, there is still potential for further growth, especially for lagging regional markets such as China.

Figure 3. MSCI World Index (1990 – 2014)

In the last 1 year, comparing the major stock market indices (see Figure 4) in US, Europe, Asia and Singapore, we can observe that the global stock markets have grown up steadily. US has achieved new historical high, China and Japan have recovered rapidly, while Singapore, Hong Kong and Germany are moving sideways.

This could be a great disappointment to the local Singapore investors. However, it can be a blessing in disguise, especially for those who have not entered the market because Singapore stock market is relatively undervalued. More analysis will be given later.

In the subsequent sections, these 4 regional stock markets will be investigated with deeper analysis on selected topics of interests.

Figure 4. Comparison of regional stock markets

3. US Economy and Market Outlook

US is the world No. 1 economy, the weight of its stock market is nearly half of the world stock index, therefore its market outlook should be the top concern. Over the last 1 year, US stock market indices (Dow Jones, S&P 500, Nasdaq, Russell 2000) were new historical high every few months. Since the end of subprime crisis in year 2009, US stock market performed much better than its actual economy, mainly due to several political economy policies (eg. QE1-3 and near-zero interest rate). The future potential and growth rate of US stock market will mainly depend on outlook of its macroeconomy with fine-tuning in political economy which will be discussed below.

3.1 US Government Debt Limit

The American political show with power struggling among the Republicans and Democrats in US Congress and President Obama, has major impact on the global economy, touching the nerves of investors in the past few years. Historically, US government debt limit has been increasing significantly over the past 3 decades, the only period (1998-2001) with budget surplus was during Clinton administration.

The political impasse of debt limit has resulted in US losing the AAA credit rating in 2011, implying a higher cost of loan in future. However, since US is the world biggest economy with dominant US dollar, the stock market recovered quickly after a major correction. The same show will be repeated every now and then when the new debt limit is reached unless there is a budget surplus. There is great financial consequence if US government does not have enough money to operate, eg. default of US government bonds will be a world disaster because it has been the safe harbor of global funds. The hidden cost of sovereign default to be paid by Americans and the whole world will be much higher than increasing the new debt limit. As predicted in my last year report of "Global Market Outlook 2014", the US lawmakers have compromised again in year 2014.

In the recent mid-term election in 2014, the Republicans have fully controlled 2 houses in Congress: the Senate and the House of Representatives. This implies new major political economy related laws in future could be hard to pass through as the US Congress and the President belong to 2 opposing parties. US economy will still be the main agenda in future 2016 US Presidential election, the market is likely to remain bullish until then, provided the % Optimism remains below 75%.

3.2 Tapering of QE3

Since the last global financial crisis in 2009, US Federal Reserve (Fed) has introduced 3 rounds of QE to stimulate the economy. In fact, the global financial world was not in shortage of money but the major economy countries (US, China, Japan, UK, Europe) have been introducing various forms of QE in the last few years to help in accelerating their own domestic economy. In my opinion, the main purpose of QE is to enhance the confidence of investors. If everyone keeps the saving and investment funds in their own pockets, there will be lack of liquidity in the market. The government has to take the lead to spend or invest more through QE, then others will follow to invest, resulting in a spiral-up economy, which is self-sustainable one day.

Based on "Ein55 Tank Theory", global investing markets (eg. stocks, bonds, properties, forex, bank) can be simulated as water tanks inter-connected with pipes to support the boat (as if stock price). Usually there are competitions among the investment markets to attract the funds through higher/quicker return (eg. stocks) or safer/stable return (eg. US government bonds). Therefore, when water level of one tank is higher, the other tank has to be lower. However, QE is like a new injection of water (fresh fund), flooding most of the tanks at the same time. When US bought government bonds or mortgage securities, the sellers' fund may flow into global investment markets, resulting in higher stocks and properties prices, indirectly leads to global inflation.

QE is like an antibiotic for patient, one could recover quicker but there is a longer-term side effect, i.e. over-dependence of external stimulus plans for economy growth. Eventually, the patient (economy) must get rid of the walking stick (QE), walking on own ability (good fundamental of economy).

The addiction to QE is hard to be eliminated. In 2012, before QE3 was introduced, whenever there is negative US economy news, stock market would rise with expectation that the Fed will start QE3 soon. Similarly in 2013, after 1 year of QE3, whenever there is positive US economy news, stock market will have dilemma that QE3 may be tapered soon, although most people know that this should be the ultimate direction for US economy to grow steadily. Series of QE has disturbed the natural pace and market cycle of an economy, now the stock market must be supported by the fundamental of economy. The famous German investing master, Andre Kostolany, described it nicely: "The relation between stock exchange and economy is like a man walking his dog. The man walks slowly, the dog runs back and forth."

As predicted in my last year report of "Global Market Outlook 2014", tapering of QE3 is a must in year 2014 (confirmed in Oct 2014), especially with the support of positive

US economy. The last year prediction was confirmed to be correct 1 year later in 2014: "The bullish US stock market will not be terminated but a correction less than 20% awaits in the near future, severity depending on the degree of current US stock market rally before leaving of QE3." The higher it rises, the more correction is required to restore the mega market support. The global stock market correction of about 10% in Sep – Oct 2014 was a good example.

In year 2015, similar episode will be replayed, except the actor of QE3 tapering is replaced by US interest rate hike. Every "crisis" is an opportunity for mid-term traders or investors to enter the US or global stock market in 2015, buying low when others are fearful.

3.3 Fed Interest Rate Hike

Following the natural market cycle, the Fed and global bank interest rates should be increased before reaching the peak of economy or bull market. Then, during the next phase of bearish market, the policy makers will have the bullets to cut the interest rates to stimulate their economy again, like what they did in the last global financial crisis in 2008-2009.

Similar to inflation (due to higher liquidity in the market), moderate and gradual increase in interest rate is a good problem to have during the bull market. The negative impact of higher borrowing cost to the corporates can be compensated by higher earning at the same time.

Historical data of the last 2 market cycles (see Figure 5) show that the interest rate hikes (years 1994 and 2004 respectively) actually did not end the bullish stock markets, contrary to some public opinions based on intuitive. Instead, earlier stock market has at least 3 more years to grow after US interest rate hike before reaching its peak. The one million dollar question now is whether the history will repeat itself in the current market cycle when the Fed increases the near-zero interest rate, is the current US stock market considered overheated?

If one believes in market cycling, mega macroeconomy trend shall repeat itself sooner or later. The fact that the interest rate has been kept flat (near zero) for so many years, itself is a bullish sign. The US interest rate is expected to increase by about 1%/year from near-zero position, up to around 3%+ in about 3 years, approaching peak of economy. The rate of US interest rate increase (either 1% or higher) will affect the duration of bull run. A gradual and predictable growth of 1%/year or 0.25%/quarter is preferred to prolong the bullish economy.

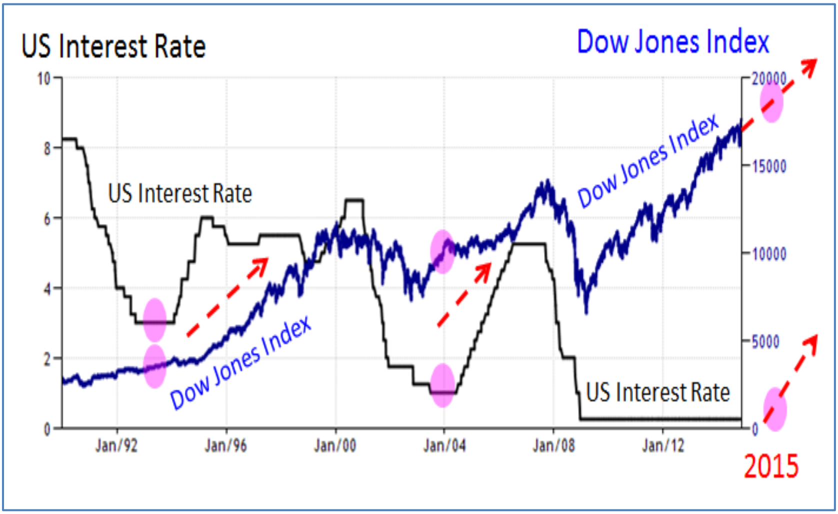

Figure 5. Correlation of interest rate and stock index

3.4 US Job Market

The Fed must have a few new pillars when the QE3 walking stick is discarded from Oct 2014. US job market and property market will be excellent sources of new funds to replace tapering of QE3, ensuring the liquidity in the investment market is not affected.

US is predominantly a consumer-driven market with consumer spending contributing to about 70% of its economy. US personal saving rate is about 3-5%, implying they will spend or invest majority of their earning. The funds and spending from US consumers will help to sustain the economy and stock market. Therefore, US unemployment rate is an important economic indicator, mega trend to a lower value is preferred. During the worst economy time of 2009, it recorded a very high unemployment rate of 10%. In the last peak of economy in 2007, it has only 4.5% unemployment rate (see Figure 6).

Figure 6. History of US unemployment rate

Historically, from the peak of US unemployment rate during the worst time of global financial crisis, the job market will then improve with an average of 0.5-1%/year reduction in unemployment rate. This trend has been followed consistently in the current market cycle as the unemployment rate was reduced from 10% to 5.8% (Oct 2014) in about 6 years, average of 0.7%/year. Based on this average rate, the next critical milestone of 5.5% unemployment rate will be reached by mid of 2015, which will justify the Fed to activate the interest rate hike, as long as the inflation rate is below 2.5%. Unemployment rate of 5.2 - 5.6% is considered to be healthy job market by the Fed, aligned with the projection given in my last report of "Global Market Outlook 2014".

From the projection of historical lowest points of unemployment rates in years 2000 and 2007, it can be estimated that the first reasonable peak of economy for the current market cycle will be around late 2015 with unemployment of 5.0%. If the global and US economy grow in a moderate way, there is a possibility that it could achieve optimum unemployment rates of 4.5% or 4.0%, prolonging the bull market till 2017. With the accelerated growth in US job market over the past 1 year, more aggressive milestones are required, implying bullish market are numbered within the next 1-3 years, actual ending period depends on the rate of economy growth and % Optimism of the global market.

3.5 US Property Market

The last subprime crisis was triggered by the US property bubble which was formed during super bull run in 1991-2007, far exceeding the 100% Optimism level of property market. The burst of this US property bubble coincided with the peak of global stock markets, resulting in a serious global financial crisis. Despite the introduction of QE1 and near-zero Fed interest rate (results in low housing mortgage rate), the US property market, based on S&P Case-Shiller Housing Price Index, only starts to recover from early 2012 till now, in a mega upward trend. Currently the average housing price is just above 50% Optimism, still having the potential to go up for another few more years before reaching the first alert, depending on the growth rate.

QE3 tapering and Fed interest rate hike in 2015 will result in slower US property growth or even a mid-term correction (similar to second half of 2014), but unlikely to change the mega upward trend. Long-term housing mortgage rate has been increasing gradually in the past 2 years but again this is a good problem to have during a bull market.

Compared to stock market, the property market in US has much higher upside, there will be liquidity connecting these 2 investment markets, minimizing the difference in % Optimism. This implies the future stock market could be partially supported by property market, eg. one could sell the house, taking the profit, reinvest in stock market for quicker return, or vice versa.

3.6 US Bond Market

Due to the excessive asset purchase by the Fed through QE, the US government (treasury) bond price has gone up to a historical high, while the bond yield which is always opposite in trend, recording as low as 1.5% for 10-year bond in Jul 2012. The speculation on QE3 tapering and Fed interest rate hike has added pressure to the bond market, resulting in growing bond yield, at 2.4% as of Nov 2014. For year 2015 and beyond, with tapering of QE3, the US government bond price will continue to drop due to lower demand and 10-year bond yield is expected to break the critical level of 3%, increasing at a rate of about 1%/year, aligning with the expected annual growth rate of US interest rate.

US bond market has been on a mega bear market since year 1981 stagflation till 2012. There is a good chance from technical analysis point of view that the mega trend may change to upward direction if the 10-year bond yield can break the major resistance of 5% record in year 2007 market peak. Due to the positive correlation between bond yield and stock market, this implies future stock market may benefit from this mega reversal of bond market.

3.7 US Dollar, Inflation & Gold / Silver / Oil

The topics of QE, US Dollar (USD), inflation and commodity market (eg. gold, silver, oil, etc) are inter-related, will be discussed together here.

US Dollar

USD index is a measurement of average US Dollar performance against other major foreign currencies. Traditionally, USD index is the highest during global financial crisis as it is the safe harbor for investors. After QE, USD index continues to decline, then moving sideway for the past 2 years. With tapering of QE3 from Oct 2014, USD is expected to appreciate significantly, but performance varies, depending on individual foreign currency. For USD/SGD pair of forex, the upward trend is more gradual, partly due to appreciation of SGD at the same time, resistance of 1.3 likely will be broken in 2015, then the growth rate will be more gradual or even possibly reversed after the QE3 tapering effect has subsided. Under a normal market cycle, US Dollar Index will decline during bullish market due to higher risk tolerance level of global investors to consider non-US currencies. Therefore, the recovery of US dollar index after QE3 tapering may not be for long term.

US Inflation

Inflation or CPI (Consumer Price Index) in US has been under control, currently at 1.7%, well below the Fed limit of 2.5% based on historical high. The expected upward trend of USD Index will help to slow down the growth of inflation, which is a bullish market indicator. Based on the mega trend, US inflation will continue to grow gradually, approaching 2.5% limit only a few years later, allowing the Fed to have more flexibility in the timing of interest rate hike, not necessarily to trigger immediately when the macroeconomy data has improved significantly.

Commodity Market

Global commodity market (Commodity Price Index) usually has positive correlation to the trend of inflation (Consumer Price Index), higher during the bullish economy, lower during the bearish economy, due to the relative demand and supply. Commodity market has far exceeded the 100% Optimism in the last economy peak of 2007 but the global financial crisis in 2008-2009 has seriously corrected the prices, currently trading around 30% Optimism based on the trend of last 22 years. Commodity market is only suitable for mid-term investing because its trend for the next few years will likely to be upward, following the gradual-growth world economy with weakening of US Dollar eventually (which usually opposite in long term trend against the commodity market). However, in the next global financial crisis, commodity market in general is expected to have a major correction, therefore a risky investment with equal upside and downside potential at the moment.

The individual commodity sector correction has created opportunity for investing. For example, palm oil price now is at 32% Optimism, affected related stocks such as Golden Agri, First Resources and Wilmar, correcting to 0-25% Optimism. After effect of QE3 tapering has subsided, growth of US dollar is slowed down, the commodity market includes palm oil price will recover for mid-term in the next few years. The prices of these stocks will be supported due to improving palm oil price and increasing earning per share during second phase of bullish economy.

Gold / Silver

Within the commodity market, the precious metal, gold, has been a favorite investment of choice. However, in the past few years, gold has been used as a tool for speculation, not really a hedge against inflation (which has been at low level for US) as its last historical peak in year 1980. The price and trend of silver follows gold very closely. In late 2011, supported by QE2, both gold and silver reached another historical high over a 30-year market cycle. Since gold and silver have exceeded 75% Optimism of their historical prices, the correction in the last 2 years have been substantial, about 50% of the gained accumulated in one decade of bull run: gold price varied from US$400 to U$1900 with average at US$1250, close to the current price of US$1168. Similarly for silver, price varied from US$5 to nearly US$50 with mid-point at US$27.50, but the current price of US$15.66 (near to US$15 mega support predicted in my last year report of “Global Market Outlook 2015”) is far below the reasonable 50% correction, mainly because silver is more speculative than gold, requiring more correction to support the falling price.

Although prices of gold and silver are very attractive now, I don’t recommend entering the market immediately because a much stronger mega support will be US$1000 for gold and US$15 for silver based on historical low points. Due to speculation, the prices may be even lower than these values. Before tapering of QE3, gold and silver were traded sideways with uncertain direction. After QE3 tapering is confirmed from Oct 2014, likely their prices will fall towards or below US$1000 and US$15, which can be a safe entry point for mid-term investment (technical analysis is required to fine-tune the entry points) because their prices will likely to grow together with the bullish global economy in the next few years. However, in the next global financial crisis, gold/silver will continue to drop in prices, completing the mega bear market cycle. The super-long market cycle (30 years) of gold and silver forbid any long-term position, especially for value investors, unless the price drops below 25% Optimism, eg. US$750 for gold. If there is a choice, don’t consider gold and silver at all due to its high risk, both in short term and long term. They are tools for speculation or trading, not for investing at the moment.

Crude Oil

Price and trend of crude oil has been following the general trend of commodity market mentioned earlier, as well as the US Dollar Index, which is also moving in the sideway direction in the past 2 years with Brent crude oil price varies around US$100-120 most of the time.

Due to QE3 tapering, Brent crude oil price has been corrected from US$115 to just above US$80, nearly 30% dip. As a result, the crude oil price is now at 0% Optimism based on past 15 years of trend. This has resulted in oil & gas sector correction, affecting stocks such as Keppel Corp and Sembcorp Marine, approaching 0% Optimism.

After effect of QE3 tapering has subsided, growth of US dollar is slowed down, the commodity market includes crude oil price will recover for mid-term in the next few years. The prices of oil & gas related stocks will be supported due to improving crude oil price, increasing demand for the related business during second phase of bullish economy.

Similarly to other commodities, crude oil is only recommended for mid-term (<2 years) trading during the bullish economy. Brent at US$80+ is an opportunity to enter at mid-term low, fine-tuning with uptrend technical analysis.

4. Regional Economy and Market Outlook

4.1 Europe Market

Europe market experienced Euro Debt Crisis during 2010-2011, mainly due to the high national debt with poor fundamentals of these 5 countries from EU: PIIGS (Portugal, Italy, Ireland, Greece and Spain), resulting in potential sovereign defaults. In 2011, this Euro crisis was coupled with US credit crisis, bringing the global market to a new mid-term low with correction around 20-25%.

In late 2011, I was one of the few bullish market viewers, despite majority of the market views were bearish (see earlier

Section 1 on Mass Market Sentiment). Main consideration is that the global market (including Singapore) was at only 50% Optimism, the downside was limited. Therefore, I determined that the Euro Debt Crisis and US Credit Crisis were only regional crises, unlikely to evolve into a global financial crisis. This is similar to the Asian Financial Crisis in 1997, only limited to a region, but not globally. I recommended longer term investors to hold on to their investment positions (Asia/US markets), ignoring the market correction. Indeed, after 6 months, the global market started to recover with accelerated growth for stock markets. Those who have followed the trend to sell at low, need to buy at high again.

Since late 2011, the Europe stock market including PIIGS (6 months later for Greece), have officially recovered from the regional crisis. The Euro Crisis has officially ended with more positive economy data such as PMI > 50 from EU. The current stock market indices have gone up more than 50% since the most pessimistic stage in late 2011.

However, in the second half of 2014, European stock market has started to correct due to slowing economy with declining economy indicator such as lower PMI and weaker inflation rate. Similar to other QE tools, LTRO used by ECB has limited useful life, the effect has subsided. ECB has even applied a policy of negative interest rate to stimulate the economy through spending. Similar to Japan, these forms of economy stimulation without solid economy restructuring may not sustain for long. With recovery of US and China, the lagging regional markets such as Europe and Japan will be supported but they are only suitable for trading due to weaker fundamentals. It is likely ECB will continue to stimulate the market but the investors have to pay back a few years later in the next global financial crisis.

4.2 China Market

In the late 2008 during the US subprime crisis, China government was the first in the world to start its QE with 4-trillion RMB fund injected to the domestic market. However, the side effect of high inflation and property bubbles forced the China government to tighten the liquidity in the market through its central bank, as well as implementing various cooling measures for the property market.

World No 2 economy, China's stock market only had 1 year of bull market after the China QE, then experienced a bearish market over the last 5 years due to the restructuring of economy. Fundamentals of China economy has been good with bullish global economy, but the political economy is the invisible hand limiting its growth.

China SSEC Stock Index at 2000 points (crossing many times in the past few years) was near to 25% Optimism, providing a rare opportunity for new investors. In my last year report of "Global Market Outlook 2014", I have been recommending to buy China SSEC Index through ETF (eg. UETF SSEC50China100) when SSEC is near to 2000 points. As of now (Nov 2014), SSEC index has been around 2500 points, 25% higher than the recommended entry points of 2000 points. With the linkage of Shanghai and Hong Kong stock markets since Nov 2014, more global investors could invest in China stock market, higher liquidity and demand are expected to push up SSEC index and Hong Kong Hang Seng Index (HSI) further.

The current SSEC is 25% higher compared to the entry points of 2000 points but it is still worth consideration (long term optimism of 34% is still relatively low) if investors can consistently wait for the market correction in 2015, then overcome the fear to enter the market.

There are more positive economy news from China, eg. PMI > 50 consistently in year 2014 and this trend likely to continue in year 2015. Moderate inflation gives confidence to the market with high liquidity for the price to rise. Negative impact of political economy in China has come to an end. After tapering of QE3 by US, China is more willing to loosen its fiscal policies as risk of inflation will be lower, while ensuring the bottom line of 7% GDP growth is safe. Year 2015 is likely to be early spring for China stock market, entry through Hong Kong market.

4.3 Hong Kong Market

Hong Kong market is like twin to Singapore market in the past few decades, for both stock market and property market, simply because both regional markets are highly internationalized, susceptible to global economy cycles. The stock market in Hong Kong is more volatile historically, influenced predominantly by both China and US markets. After the recent correction of about 10% (due to worry of political movement of students occupying city area), Hong Kong Hang Seng Index (HSI) has again arrived at major resistance of 24000 points, which is similar 3300 points of Singapore STI.

Overcoming this barrier (likely especially with the help of linkage with China Shanghai stock market from Nov 2014 onwards), will lead to a significant new high with about 15-20% upside in year 2015. However, the expected correction of US interest hike will continue to limit HSI true potential until the US interest rate is officially increased. The correction of Hong Kong property price due to cooling measures by the government is a positive one, so that the leading market (eg. properties) could wait for the lagging market (eg. stocks), then growing up together at the later stage of bullish global economy.

4.4 Japan Market

Owing to the Japan massive QE initiated by Prime Minister Abe, the Nikkei Index has risen over 50% in year 2013 but it has gone sideways in year 2014 when the first round of Japan QE has subsided without solid economy restructuring. Recently in late 2014, second round of Japan QE has again pushed up Nikkei Index by nearly 20% in 1 month. Again, these artificial economy stimulus plans could be short-lived if not coupled with real economy restructuring which are on-going now but requiring more time to show its effectiveness.

Once the mega resistance of Nikkei Index at 18000 points (last peak in year 2007) is broken, there will be another round of significant rally due to the confirmed reversal of its mega bear market over the past 2 decades since the asset bubble.

Japan has very low inflation rate, therefore QE is the right tool to stimulate the market during the initial phase while restructuring its economy at the same time. Since the mega trend of Japan is still unclear, value investors should avoid taking long-term position with its stock market. Value investing is more suitable for an investment market with positive CAGR over the decades, ensuring a longer term stability, despite the volatile market cycles in between the bull and bear markets.

4.5 Southeast Asia Market

Over the past few years in this market cycle, several Southeast Asian (SEA) emerging markets (eg. Malaysia, Indonesia, Philippine, Thailand) have very strong performance in their stock markets, partly due to strong support of foreign investments, exceeding the 75-90% Optimism limits much earlier than the rest of the world. However, since the world economy is not ready yet for the peak, some of these SEA stock markets have been corrected by about 20-30% from its historical peak in 2013, having weaker currencies, narrowing the gaps with global markets. In year 2014, SEA stock market has started to recover steadily, fundamental is considered by the regional investors.

Foreign funds are double-edge sword, they could support the local economy quickly but the reverse is also true, the funds could be withdrawn when the outlook of return is much lower than other regions. This is the reality of investing fund flowing around the world, looking for quicker and higher return. These markets currently could be suitable for traders or investors who follow the mid-term trends, but not a good choice for longer term investors as the market could be overvalued with relatively high risk. In year 2015 with strengthening of US Dollar after QE3 tapering and also US interest rate hike, the SEA currencies vs USD will be corrected in mid-term, limiting the foreign funds. However, eventually a stable global economy will help the global stock market including emerging markets in SEA with strong fundamentals to grow steadily. Political stability would also help to enhance the confidence of regional investors in SEA.

5. Singapore Economy and Market Outlook

5.1 Singapore Stock Market

Singapore stock market has been "sleeping" over the past few years, an investor who invested in Straits Times Index (STI) ETF (representing 30 blue chips) in the late 2010, will virtually has no capital gain after holding for 3 years (see Figure 7). However, some lagging local stocks and sectors (eg. properties) have risen consistently in 2014 after the correction in year 2013.

STI itself is a lagging investment market worth consideration. At the moment, it is just below 50% Optimism, therefore in terms of capital investment, one should not invest more than 50% cash because currently is not the same golden investing time as in early 2009 or late 2011. Upside is getting limited when % Optimism is higher. The monthly stochastic chart has indicated bullish divergence trend with a gradual growth in STI. The weakening of monthly trading volume is due to limited uptrend. The trading volume of STI has to be consistently above 5B per month with rising in prices to show significant upside.

Figure 7. Stock market trend of Singapore STI

In a flat market with sideway trend, stock index or prices are usually traded in an oscillating manner within a channel. Mid-term investing or trading methods with smaller profit and loss targets, may fit in the current stock market in Singapore. However, if we recognize STI itself is a "penny stock market" in the world (<1% weight), its lagging behavior can be understood, especially it has achieved much higher peak (over 3X) in year 2007 vs. valley in year 2002, therefore it requires more energy to overcome the last peak of 3875 points in year 2007.

In addition, due to the political economy in Singapore to fight against the rising domestic inflation, Singapore dollar has been appreciated gradually over the years. This is like reversed QE, liquidity (especially foreign funds) in stock market is getting less, therefore its mid-term upside is limited. However, from a longer term point of view, the appreciation of SGD will be an important stimulus tool in future, when SGD can be depreciated to stimulate the export during crisis time.

Singapore is a highly globalized economy with many international links. This is the reason why Singapore market usually follows the leads of other major markets, eg. opening by overnight US market, late morning by Japan / China / Hong Kong, late afternoon by Europe. Another way to estimate the future of Singapore market is through the outlook of global or US markets. With recovery of China and Europe markets, Singapore will benefit gradually, translating into higher corporate earning to support the stock prices in long term.

With the rising China economy, one may start to consider S-chips (China-linked stocks) with fundamentals which have been over-corrected in the past few years, aligning well with the bearish China stock market. Alternatively, one could consider H-shares in Hong Kong or entering China stock market directly.

In stock trading and investing, both the fundamental analysis and technical analysis have to be considered to compare value vs price, in order to understand the safety margin. Application of % Optimism strategy will help one to truly buy low sell high. In year 2014, stocks with low optimism such as SMRT have appreciated when the individual business and sector cycle is recovered. Oil & gas sector, commodity sector (eg. palm oil related business), casino sector, etc, presenting a mid-term investing opportunity in 2015 as the current sector corrections in year 2014 likely will be recovered with stronger global and local economy.

Investing in Singapore market at the moment requires great patience. However, the reward can be much higher than other markets which have appreciated significantly in this market cycle, partly due the strong fundamental of Singapore as a whole.

5.2 Singapore Property Market

On the other hand, Singapore property market has been performing very well and stable until the cooling measures by government over the last 3 years, price growth or correction in each quarter is limited, fulfilling the ultimate goal of government to stabilize the housing price, making it affordable to new buyers and protecting its value (price) from becoming negative asset for house owners during crisis time in future.

The Singapore property market has about 75% Optimism over the past few years (see Figure 8), therefore the recent gradual declining market will help to restore its fair value over the next few years (eg. similar to the correction of property market in years 2002-2005), before climbing up again with the global economy a few years later.

As predicted in my last year report of "Global Market Outlook 2014", Singapore housing price indeed has a moderate correction of about 5%/year, a huge drop in price is unlikely because the government can always reverse the cooling measures if there is a strong need during the crisis time (not at the moment). Together with rental yield, the current property market has a moderate CAGR return <5%, still suitable for very longer-term value investors, but not for market cycle investors who aim at high volatility of the property cycle. It is recommended to enter Singapore property market only after the next global financial crisis with significant correction in prices and % Optimism is less than 25%. The return from Singapore property market can only be maximized with leverage and it has been limited due to various cooling measures. For mid-term, trading with property related stocks (eg. REITS) could be safer and having higher upside than buying actual properties which require 4 years of commitment to minimize the taxes.

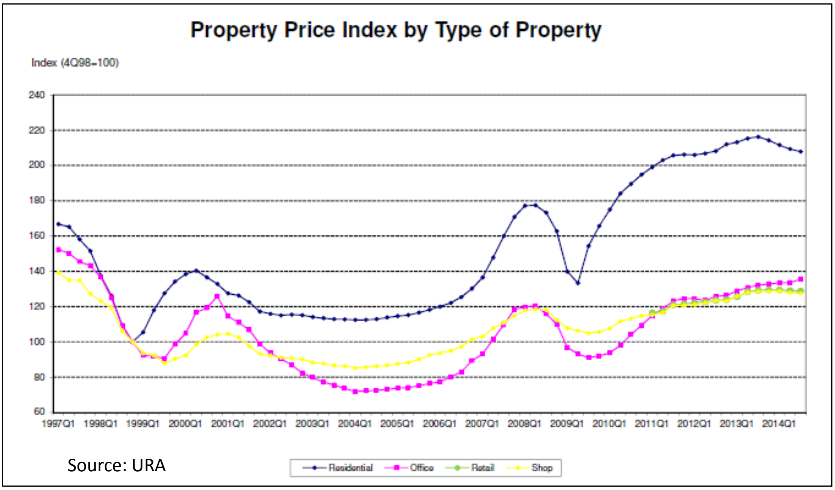

Figure 8. Singapore property market trend

6. Stock Market Potential for 2015 and Beyond

The world stock markets are currently positioned between 30%-60% Optimism with different regional performances. The world major stock markets and economy must exceed the same peak, eg. 75% Optimism and above, before the next mega bear market may be triggered. It is a real challenge to predict the future potential of world stock indices, considering the political economy such as QE3 tapering, US interest rate hike and local property cooling measures, which have disturbed the natural market cycle of economy and stock market.

By balancing the differences in lagging and leading regional economy with consideration of % Optimism of global stock markets in a mega-market-cycle, the following mid-term and long-term stock indices targets are estimated by Ein55 Styles (see Table 1). Four common indices: MSCI World Index, US Stock Indices (Dow Jones and S&P 500) and Singapore STI are tabulated.

Table 1. Ein55 global stock prediction model

Year End Target	2014 Predicted in Dec'13	2014 Actual Nov'14	2015 Predicted in Nov'14	2016 Predicted in Nov'14	2017 Predicted in Nov'14
MSCI World	1750	1716	1900	2100	2300
Dow Jones	17000	17614	18500	20000	22000
S&P 500	1950	2039	2150	2300	2500
STI	3500	3283	3600	4000	4400

Mid-term (<1 year) prediction is always challenging as the outcome could only be estimated due to uncertain short-term crisis and opportunities. One may not know the actual growth rate of stock market but we could estimate when the market will become feverish when a critical limit or danger zone is reached. In short, we could estimate the upside of a stock market but the timing to reach the limit will depend on the pace of economy growth which is a complex function of global events including political economy and uncertain financial events.

For example, in my last year report of “Global Market Outlook 2014”, the 1-year predictions of 2014 stock market evaluated in Dec 2013, are very close (<5% difference) to actual MSCI world index, Dow Jones Index, and S&P500 but larger difference (about 10%) for STI due to the prolonged lagging market. One should not apply the indices predictions in an absolute way, rather it is more useful to understand the relative mega trend and ultimate limit. Compared with last year report, I still remain the same projections for years 2016-2017 for MSCI world, Dow Jones Index, S&P500, but adjusting 1 level lower for STI due to the declining speculation factor over the years.

The annual growth targets are based on progressive-growth model, assuming average regional performance, more susceptible to mid-term market corrections, such as US interest rate hike in 2015. The actual bull market duration does not depend on the actual number of years. If the global markets reach the peak of 100% Optimism much earlier than predicted, then the bull market duration may be shortened, forming a new mega bear market, behaving like a typical market cycle as the past decade. Following the market-cycle model, beyond 75% Optimism, there will be a euphoric stage with significant hike in stock indices but highly risky.

A more practical way of global market monitoring would be following the respective stock market % Optimism, checking against the feverish range of 75% to 100% Optimism, while aligning with mega trend of various economy indicators to evaluate the risk vs opportunity. Targets for MSCI World and US market indices should be compared with STI, if higher % Optimism is reached earlier, an earlier exit may be considered.

However, if the global markets grow gradually with multiple corrections and staying below 75% Optimism most of the time, this could be a super bull market from year 2009 to 2017 and beyond, comparable to the previous decade-long bull run in US during 1990-2000, ideal for value investing, as opposed to the highly volatile decade of 2000-2010, suitable for market cycle investing. Adoption of long-term investing strategies, either value investing or market-cycle investing, will depend on the growth rate of the economy and stock market. A mega-market-cycle investing approach will be a good compromise between these 2 strategies.

For market-cycle investing model, 75-100% Optimism are reasonable exit targets (not necessarily following the years of bull duration), while the value-investing model with super bull will be subjected to the global market growth rate, may or may not occur one day. These predictions will require fine-tuning on yearly basis, considering the new pace of economy growth, new political economy and unexpected regional financial crisis. As a result, the mid-term annual target may be affected (leading or lagging) but the mega target such as 100% Optimism can only be reversed by global financial crisis. If an investor did not buy a good stock nor enter the market at low price, then it is important to know when to exit at longer term to maximize the profit before the next bear market.

7. Conclusions and Recommendations

Both QE3 tapering and interest rate hike are actually blessing in disguise to a bull market. As mentioned in my last year report, Janet Yellen indeed has found the best timing in Nov 2014 to taper QE3 (similarly for interest rate hike in 2015) without permanent damage to US economy due to reduction in investor confidence.

The US stock market could not climb up linearly, must take a rest somewhere to wait for the US and global economy to catch up. Therefore, an annual market correction: tapering of QE3 in 2014 and the Fed interest rate hike in 2015 will be helpful to slowdown the US and global stock markets, so that it is not overheated with high % Optimism which may reverse the bullish trend.

Recovery of China, Japan and Europe economy, US job market and US property market, will inject new investment funds to the global markets, compensating for the liquidity loss due to QE3 tapering and interest rate hike. Global stock markets have to be supported by the fundamental of economy to sustain the future growth after QE3. The importance of macroeconomy analysis has to be emphasized when analyzing the stock markets potential. The master plan of economy given in Appendix will be an useful guide to investors to understand the interactions among different investment markets and economy indicators.

Overall, the current global markets remain bullish and the upside is significant but it requires patience of value investor and % Optimism mindset of mega-market-cycle investor to be successful in this bumpy and long investing journey.

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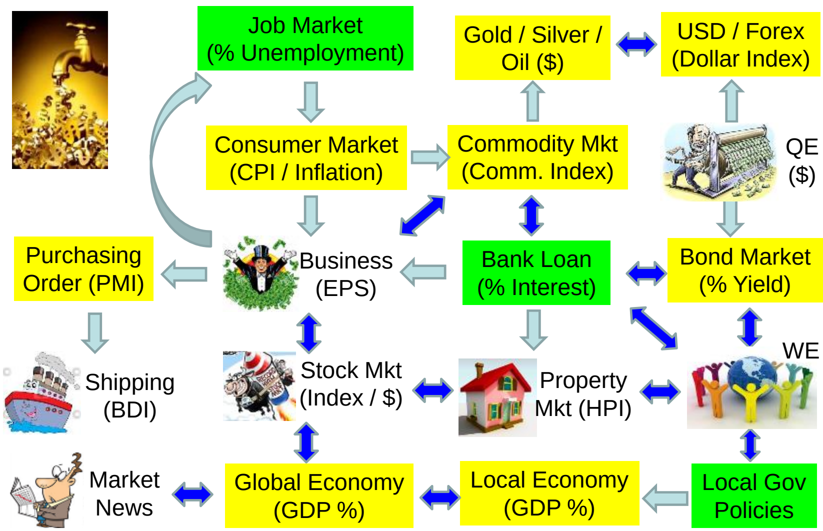
Appendix. Ein55 Style #9: Economy Master Plan



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