

# Growth Stocks Weekly [www.gsweekly.com](http://www.gsweekly.com)

**Publisher:** Agilis Capital Corporation, Inc. ~ **Since:** May, 1995 ~ **Editor:** Richard Reinhard ~ **E-Mail:** [reinhard@shaw.ca](mailto:reinhard@shaw.ca)

Performance: YTD April 30: '96 16.9%; '97 28.1%; '98 36.4%; '99 39.4%; '00 180.9%; '01 -50.5%; '02 18.7%; '03 28.8%; '04 166.7%; '05 28.2%; '06 153.3%; '07 8.8%; '08 -25.2%; '09 -50.3%; '10 162.3%

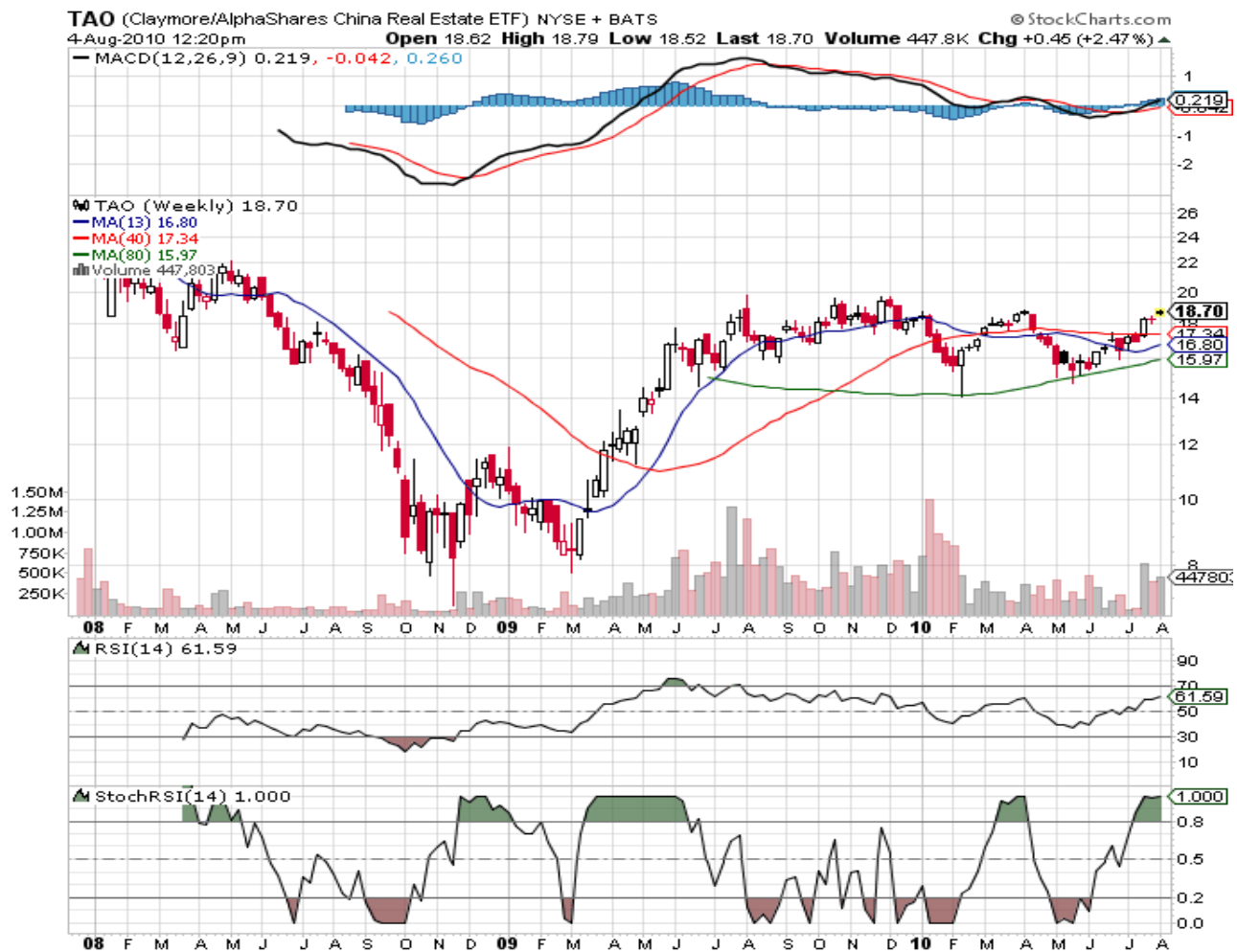
## Junior Gold and Natural Resource Sector Report

August 3, 2010

### Playing U.S. Fed Interest Rate Policy

## Claymore/AlphaShares China Real Estate ETF (TAO-NYSE)

### INITIAL REPORT



Last month Chairman Ben Bernanke of the U.S. Federal Reserve, which sets short-term interest rates in the U.S., indicated the Fed will keep money as "easy" as possible, for as long as possible. We believe interest rates will likely remain below 1% for longer than anyone believes. This will create new bubbles - the collateral damage of his efforts to fix the U.S. economy.

So we have to ask the obvious question – if rates do stay low “too” long where will new bubbles form? One smart analyst we like to follow believes there's an obvious answer ... Hong Kong.

The Hong Kong dollar is pegged to the U.S. dollar. Because of the specific way the Hong Kong dollar is pegged (through a "currency board"), Hong Kong is stuck with whatever the U.S. policy is on interest rates. Of course U.S. interest-rate policy might not always be the right policy for Hong Kong. If Hong Kong and China are soaring, low interest rates in Hong Kong might not make sense. But that currency board is a "straightjacket" for Hong Kong.

Will Hong Kong try to get out of the straightjacket? Apparently not. Asked about it earlier this summer, the Hong Kong Monetary Authority responded: "*We have no plan to alter the USD/HKD peg as the currency regime has been effective.*"

Whenever the U.S. Federal Reserve has dramatically cut short-term interest rates to well below long-term interest rates, there's been a strong affect on the Hong Kong stock market's performance. Specifically, when the spread between short-term interest rates and long-term interest rates was wide – that is, when one-year Treasury bond rates were more than two percentage points below 10-year Treasury bond rates, 40 years of historical data suggests a strong correlation that one can take an advantage of.

Obviously past performance is no guarantee for future returns - but it's the logic that's most important here. Whether it's appropriate to make an investment decision is beyond the scope of this report, as there are simply too many variables and unknowns involved. Still, especially for our American cousins, this may offer another way to hedge U.S. dollar weakness.

So, let's take a look at what history tells us. Over the last 40 years the Fed cut rates to these low levels four times ...

The spread got wider than two points in late 1970. For those who bought into the Hong Kong stock market when the spread got wide, they enjoyed an eight-fold gain in 27 months.

The Fed cut rates again in late 1984 and in mid-1991. In both of those cases, if you'd bought when the spread got wide, you'd have made three times your money in Hong Kong stocks – again in three years or less.

The spread got wide again in mid-2001 after the tech-wreck. In that case the market didn't bottom until 2003, but then it did go on to double.

<b>Date of Signal</b>	<b>Gain</b>	<b>Months</b>
11/30/1970	717%	27
9/28/1984	293%	36
5/31/1991	221%	31
7/31/2001*	13%	31

*\*For the last signal, the market didn't bottom until 2003.*

So, in three out of four cases, you'd have made about three times your money, and as much as seven times your money, in three years or less.

In the last year the U.S. interest-rate spread has widened to a record amount. In April of this year, the spread went to around 3.5 percentage points. A month later, the Hong Kong stock market hit a low for the year and has rallied.

While you could buy the overall Hong Kong stock market, the best value in Hong Kong appears to be in property stocks. Hong Kong property companies aren't like U.S. property companies in that they aren't heavily indebted. Hong Kong's stock market has always been dominated by property-heavy conglomerates.

These Hong Kong developers are in a unique position. They can borrow money at ultra-low U.S.-type interest rates because of their currency system, and they put that money to work in the world's fastest growing economy. Right now, most Hong Kong property developers are trading at a 30% discount to net asset value.

One interesting way to play the sector is through a basket of these developers through an exchange-traded fund called the Claymore/AlphaShares China Real Estate Fund (TAO-NYSE) – pictured on page one. The stocks in this fund are cheap. According to Bloomberg, the average price-to-earnings ratio of the portfolio is 7.65.

Technically, we see a long base being formed with the key 80-week longer term moving average (MA) offering strong rising support – now at US\$16.00. Price is above all our key MAs and is nearing the top of the one-year trading range. A move through US\$20 would suggest a breakout move to test historical highs from early, pre-crash, 2008.

It might not be the most obvious trade - that a high-return, low-risk way to take advantage of the Fed's forced interest rate policy is to buy Hong Kong property developers - but it makes perfect sense – and history shows huge gains are possible.

*Your Source for High-Potential Early-Stage Growth Stocks Since 1995*

[www.growthstocksweekly.com](http://www.growthstocksweekly.com)



*(c) 1995-2010 Growth Stocks Weekly. ALL RIGHTS RESERVED.*

**DISCLAIMER**

*Growth Stocks Weekly is an independent electronic publication committed to providing our subscribers with factual information on selected publicly traded companies, business, and economics. All companies are chosen on the basis of certain financial analysis, and other pertinent criteria with a view toward maximizing the upside potential for investors while minimizing the downside risk, whenever possible with the added aid of technical analysis.*

*Growth Stocks Weekly and its editors do not accept compensation from public companies featured in this publication. All statements and expressions are the sole opinions of the editors and are subject to change without notice. A profile, description, or other mention of a company in the newsletter is neither an offer nor solicitation to buy or sell any securities mentioned. While we believe all sources of information to be factual and reliable, in no way do we represent or guarantee the accuracy thereof, nor the statements made herein. The publisher and the employees, staff and consultants of Growth Stocks Weekly are not registered investment advisors and do not purport to offer personalized investment related advice. The publisher, staff, or anyone associated with, or associated to, Growth Stocks Weekly may own securities mentioned in this newsletter and may buy or sell securities without notice. The profiles, critiques, and other editorial content of the Growth Stocks Weekly may contain forward-looking statements relating to the expected capabilities of the companies mentioned herein. The reader should verify all claims and do their own due diligence before investing in any securities mentioned. Investing in securities is speculative and carries a high degree of risk. The information found in this profile is protected by copyright laws and may not be copied, or reproduced in any way without the expressed, written consent of the editors of Growth Stocks Weekly. We encourage our readers to invest carefully and read the investor information available at the web sites of the Securities and Exchange Commission ("SEC") at <http://www.sec.gov> and/or the National Association of Securities Dealers ("NASD") at <http://www.nasd.com>. We also strongly recommend that you read the SEC advisory to investors concerning Internet Stock Fraud, which can be found at <http://www.sec.gov/consumer/cyberfr.htm>. Readers can review all public filings by companies at the SEC's EDGAR page in the U.S. and SEDAR's electronic filing of securities information as required by the securities regulatory agencies in Canada at [www.sedar.com](http://www.sedar.com). The NASD has published information on how to invest carefully at its web site.*