

WHAT IS GOING ON WITH THE WORLD ECONOMY

What is the Wall St crisis?

It began a few years ago when US banks started lending too much money for home loans to people at very low honeymoon interest rates, who then couldn't afford to pay their loan repayments once repayments returned to normal. Even though banks have houses as security against the loans, housing values have fallen in price and the banks have lost money.

The money the banks were lending was not just their own, but tied to companies all over the world, which is why the loan crisis has had a global impact.

How does this affect the everyday Australian?

You don't necessarily have to have shares in global markets to feel the impact. The meltdown will likely make Australians more cautious and reduce consumer confidence. This will cause a knock on effect starting with us spending less, mostly in retail and hospitality, which will cause job losses and ultimately credit defaults.

It will probably get a lot tougher to get credit and consumer finance from the banks. The environment for lending is likely to get a little bit tighter.

The problem is really complex, but it is important to note that this crisis so far hasn't even created a recession in USA, let alone in Australia. Most economists are predicting the financial crisis might get worse, but markets should stabilise over the next 2 years, before resuming a growth path more reminiscent of the grinding growth in the mid-90's, rather than the extreme growth that we have experienced over the past 5 years.

So, does this create a lot of bargains in the current low sharemarket?

The general theme of buying into the low end of the market is essentially correct, but investors need to be cautious. There are a lot of opportunities, but the market is still extremely volatile and choosing the right companies is imperative.

Sticking to investing fundamentals is very important. A prudent course of action is to ensure you have a diversified portfolio and to begin averaging into the market.

If you have any questions regarding the above or to know how to prudently take advantage of some of the opportunities please do not hesitate to contact Ben Littleton or Tammy Caporn on 07 33917566.