

Title:
Surf's Up Down Under

Word Count:
740

Summary:
Lucky?

This lucky country's economy is on a record-breaking 14-year roll. The big question: Will it continue?
Just imagine: From a few convicts dropped ashore in 1788, Australia has developed into a first world nation.

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Article Body:
Lucky?

This lucky country's economy is on a record-breaking 14-year roll. The big question: Will it continue?
Just imagine: From a few convicts dropped ashore in 1788, Australia has developed into a first world nation.

The national debt has been virtually eliminated, the currency is strong, the government has reduced the budget deficit.

This is all great news, and our portfolio allocation in the Australia iShare (AMEX: EWA) has done well.

Some Warning Signs

The question is of course, what should we do now. When things are going this well for so long, we should be cautious.

- A shortage of skilled and semi-skilled workers and relatively high labor costs (minimum \$400 per week)
- Complicated and rigid labor rules continue to hamper productivity growth, which seems to be slowing
- The total tax take by the Australian federal government is 22%, which is higher than the rest of the developed world
- From 2000-2004 housing prices were up 100%, and household debt is now 160% of disposable income

Australia is taking some measures to address these matters. It recently enacted a \$17 billion infrastructure program.

While much is made of Australia's dependence on China and commodity exports, the Australian economy is diversified.

Taking Profits

After looking closely at the situation, I have decided to keep Australia in our portfolio, but with a reduced position.

- The decline in housing prices has been incremental and has therefore not affected banking, or other sectors.
- International fund managers are underweight on Australia.
- The market is not especially expensive. The 12-month forward price-to earnings ratio is about 15x.
- Average dividend yield for Australian stocks is around 5%.

One company to keep an eye on is BHP Billiton (NYSE: BBL), the world's biggest mining group, with a market cap of \$100 billion.

Another great Australian mining company is Rio Tinto (NYSE: RTP), which has a lower valuation than BHP.

Last Bit of Advice

The center of gravity for the world's economy is shifting to the Asia-Pacific region, and Aust

For more information go to www.chartwellasia.com or call 877-221-1496

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