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Memories of a Crash

Due to some time constraints this week I decided to reprint an article from Middle-East Online, which describes in some detail the events unfolding currently in Middle-eastern bourses:

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Black Tuesday: Mideast stock markets nosedive

Value of Gulf bourses drops Tuesday to just under one trillion dollars after solid five-year upward run.

By Omar Hasan - KUWAIT CITY

Stock markets in the oil-rich Gulf region and Egypt suffered major losses Tuesday, heralding what some analysts said was a crash after a solid five-year upward run and triggering angry demonstrations in Kuwait. The market in OPEC kingpin Saudi Arabia, the largest in the Arab world, dropped sharply for the fourth consecutive day, reflecting what analysts said was a sharp correction across the region. The value of Gulf bourses dropped Tuesday to just under one trillion dollars, down some 150 billion dollars from their 2005 value and more than 250 billion dollars below the peak.

The **Saudi** Tadawul All-Shares Index (TASI) shed 4.82 percent to end the morning trading session below the 15,000-point psychological barrier for the first time this year at 14,887.74 points. The TASI has so far lost 10.92 percent since the start of the year and a whopping 27.9 percent from its all-time high of 20,634.86 points reached on February 25. It has shed 17 percent during the past four days.

"I think we are now at a serious turning point... It is certainly the beginning of a crash though the market is expected to resist at 12,200 points," said Ali Dakkak, professor of economics at Jeddah-based King AbdulAziz University. "We need swift actions and decisions to restore confidence to investors," a majority of whom are speculators who have been lured into the market by sharp price increases and handsome profits, Dakkak said. But Kuwaiti financial analyst Ali al-Nimesh characterised the fall as a "long-term correction" rather than a crash. "It's still early to call it a crash. The indices are expected to rebound slightly sometime soon, but this appears to be a long-term correction cycle. It may continue for two years," Nimesh said. He said he expected the Saudi market to lose between 50 percent and 60 percent of its peak before rebounding.

In **Kuwait**, investors staged a protest outside parliament, urging MPs to intervene after the market registered its biggest single-day loss and closed at a six-month low. "We want a complete probe into what has happened in the market since last Wednesday," when the index began to slide, demanded one investor. "Is our government weaker than those pirates." The Kuwait Stock Exchange Index finished down 3.7 percent or 382.90 points at 10,057.50 points, its lowest close since September 14. It is now 12.1 percent below its 2005 close and down 16.6 percent from its all-time high of 12,054.70 set February 7. The Kuwait Investment Authority, the state investment arm, promised to inject cash into the market on Wednesday following a protest by hundreds of small investors after the index dropped 257.8 points. But investors insist that no government money has reached the market. In the **United Arab Emirates**, the Dubai Financial Market Index shed 81.18 points or 11.7 percent to close at 611.86 points. It has so far dropped 40 percent from its end-2005 close and down 57 percent from its all-time high.

Abu Dhabi Securities Market ended at 4,021.26 points, down 4.44 percent. The index is now 22.7 percent below the 2005 close. In Egypt, the Cairo stock market dropped 11.3 percent in early afternoon trade, its biggest single-day drop in five years. The index was at 5,589 points compared with the close Monday of 6,296.

The **Doha** Securities Market closed down 3.3 percent at 9,282.42 points. It is 16 percent below last year's close of 11,053.24 points and down 25 percent on its all-time high of 12,400 points recorded late last year.

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Bahrain's stock market also closed at 2,131.23 points, down 1.84 percent. Dakkak attributed the regional loss to action by Saudi dealers, who invest heavily in all Gulf stock markets, and have recently pulled out to cover losses back home. "It is a chain reaction. Saudi investors have withdrawn much of their money from stock markets in the Middle East, including Egypt and Jordan, causing them to decline." Gulf markets have increased six to seven fold since 2001 due to abundant liquidity generated from a sharp rise in oil revenues. The upward trend and lucrative profits lured millions of small investors including women. "Almost 60 percent of Saudi investors are small dealers. They depend mainly on speculation and whenever a decline happens they try to exit, causing the market to slide," Saudi economist AbdulAziz al-Daghestani said. "Recently it became like gambling and not investment in most Gulf markets. That's why we are seeing the fast fall".

Similar events are unfolding in Iceland:

Investors flee Iceland banks as economy heads towards forecast 'hard landing'

By Ambrose Evans-Pritchard (Filed: 14/03/2006)

Iceland's banks were pummelled yesterday as the Nordic economy lurched into its third week of crisis, flashing an ominous early-warning signal for markets worldwide. The krona tumbled another 3pc against the US dollar and is now down almost 18pc this year, a victim of "hot money" flight by investors scrambling for the exit doors at the same time. Reykjavik's blue-chip stock index was down 3.3pc.

The cost of insuring against a bond default by Iceland's three big banks - Kaupthing, Landesbanki, and Islandibanki - shot up another 20 basis points yesterday as investors became increasingly alarmed over their use of foreign debt to fund an equity spree. "This is a warning sign the euphoria we've seen in global markets is dissipating rapidly," said Julian Callow, an economist at Barclays Capital.

Funds had piled into Iceland to milk 10.75pc rates but panicked after warnings of a "hard landing" by the credit agency Fitch. The krona's crash set off global dominos, hitting New Zealand, South Africa, Hungary, Poland and Turkey. The rumbling thunder of monetary tightening by all the world's big central banks provided the background music.

The banking crisis followed when Fitch and Merrill Lynch warned that the banks could have trouble rolling over their foreign debts. Merrill Lynch said the big three faced refinancing on \$17.8bn of foreign debt by the end of 2007, equal to 130pc of Iceland's GDP.

"With a debt distribution that is front-loaded, Icelandic banks are particularly vulnerable to shifts in market confidence," it said.

Analysts said the banks had leveraged the nation to the hilt, borrowing vast sums on the global capital markets for a Viking conquest of corporate Europe. "The whole country has become a hedge fund," said one economist.

Icelandic banks and investment groups such as Baugur and FL have snapped up chunks of Britain, with investments reaching £1.8bn by last year. They own supermarket-chain Somerfield, Booker cash and carry, Hamleys toy shop, Teather & Greenwood stockbrokers, Whittards tea and coffee, and a stake in Easyjet.

Their banking empire in Europe includes Denmark's FIH and Norway's Bnbank.

Paul Rawkins, a sovereign debt analyst at Fitch, said the country's net external debt had reached a colossal 450pc of GDP. "The risks of a hard-landing have increased, raising concerns about how well the broader financial system would cope," he said.

It seems that low interest rates and low yields have lead to "irrational exuberance" in certain parts of the world. These are usually the areas where the fast money is making risky bets in underdeveloped capital markets with lax regulatory oversight. Every so often, these bets go awry. Let us hope they don't amount to more than isolated instances of greed and fear.

Hermann Vohs