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From: "sanjiv mehta" <sanjiv_mehta@yahoo.com>
Subject: Concise 2007 Market View
To: Sanjiv_Mehta@yahoo.com

CONCISE VIEW FOR 2007

GLOBAL ECONOMIC CYCLE STAGING

Global economy is enjoying a very good sustained spell. Various geographical areas are growing at a good pace, with China and India leading the pack with very impressive growth rates. The momentum is likely to continue even with U.S. economy slowing down and a soft landing scenario becoming more probable there. Additionally, Federal Reserve is likely to be on hold for quite some time. With low inflation, higher productivity and a record share of corporate profits in GDP growth as compared to salaries, the global economic cycle is still in expansionary phase.

INDIAN ECONOMIC CYCLE STAGING

Indian long-term growth story remains intact. Economy is growing at 8-9% rate. Inflation is moderate with RBI keeping a very watchful eye on any abnormal credit growth. Indian currency is trending up against other currencies albeit with corrections. Reforms are progressing well especially given the constraints of the ruling coalition. Corporate earnings are maintaining a strong momentum.

FACTORS TO LOOK FOR

- Global economic growth rates and in specific important countries
- USA stock market indices and interest rates and the comparative figures in Europe & Japan
- Emerging countries (Asia, Eastern Europe & Latin America) and their important financial indicators
- Central bank policies, especially Federal Reserve
- Prices of oil, gold and other commodities
- Currencies especially USD
- Stock valuation and premium for growth
- Geopolitical factors like Taiwan & China, Terrorism and US presidency

CONCLUSION & RECOMMENDATION

Ascent of asset classes and economies with strong underlying fundamental factors will remain intact. However, there will be more differentiation in the return profile.

Recommendation will be to continue to allocate a

higher proportion of portfolio to stocks, though selectively and with a more careful monitoring of markets and risk factors. Portfolio rebalancing might be required if valuations get stretched further.

NRI's will be able to enhance their total portfolio returns by allocating a significant part of their portfolio to Indian equities.

Best Wishes,
Dr. Sanjiv Mehta

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