

# *Top Investment Ideas for 2010*

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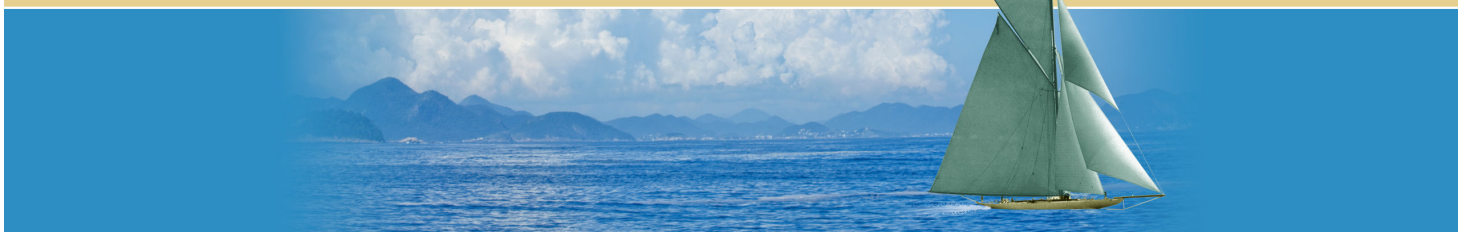
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## **Overall Outlook for 2010**

*2009's sizeable rallies in the equity markets on improving investors' risk appetite and favorable market drivers should continue in 2010, culminating in positive, albeit moderate returns.*

*Past market cycles indicate that as economic momentum settles down, stocks tend to flatten off as well. While growth on account of valuations has pretty much concluded, profits-based growth is still in the offing, although a considerable amount of this growth has already been discounted by the markets.*

*A consolidation phase, or at least the first meaningful correction since the rally started in March '09, could occur in 2010, on account of a change in variables that have supported the profit-oriented growth, catalyzed by concerns of interest rates and rising inflation or a bounce in the US dollar. A 'rifled' approach could be the trick to above-average returns in the year ahead.*

## **Our top picks for 2010 are:**

### **I. TECHNOLOGY STOCKS**

*After the burst of the tech bubble, the technology sector remained suppressed due to chronic under-investment, which has now led to pent-up demand for technology this year. Factory shipments have been rising alongside hours worked, on growing new orders and positive earnings, making technology our number 1 sector pick for 2010.*

*Despite relatively restricted pricing power, tech companies will see improved earnings having adapted their business models to riding out the deflationary storm, particularly as strong cash positions will help returns by funding investments through retained earnings, particularly if credit conditions remain tight during the economic recovery.*

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## 2. INDUSTRIALS

*Solid fundamentals, attractive valuations and rising demand make industrials another favorite pick for 2010.*

*In addition to a solid operating leverage, earnings estimates are still out-of-synch with the growing demand. In addition, labor costs have been successfully controlled as world demand, particularly developing nations demand has picked up.*

*Global demand for machinery reflects the nascent recovery in industrial output, particularly in developing nations. Furthermore, public sector infrastructure projects are likely to gain momentum as global governments step up their economic development programs to upgrade existing infrastructure and increase jobs.*

## 3. EMERGING MARKETS

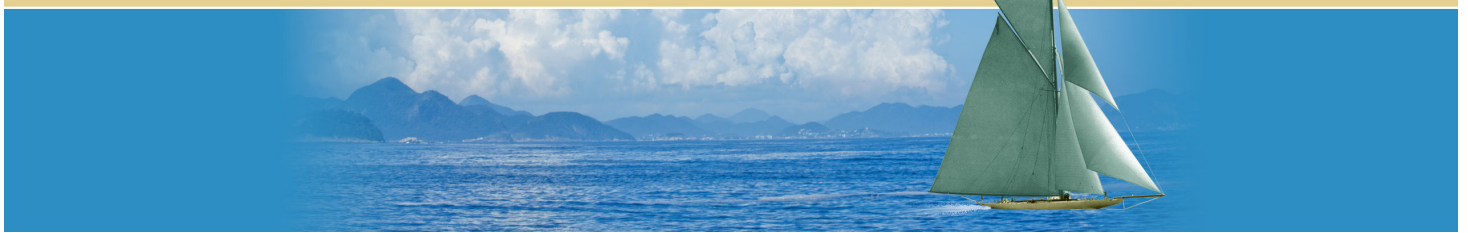
*Emerging markets present a long term bull market opportunity as low growth , weak banking, and low interest rates will prompt capital flows into high growth/return developing markets. Monetary policy tightening in developing markets is unlikely. Consumer spending in select emerging markets recovered well before the US economic recovery even started. For many developed nations, household spending should remain robust on account of low credit penetration, low interest rates, improving social safety nets and an overall macro-stability.*

*However, larger emerging markets could also risk becoming targets of financial speculation and asset bubbles. The easy money advantage is long gone, and in the short term, a pullback is a distinct possibility due to:*

- a. A weak US dollar has led to explosive rallies, which could lead to a sharp reversal in the near term, both for the dollar and developing equity markets.*
- b. Emerging markets are no longer undervalued; in many cases even expensive or overvalued.*

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#### **4. HIGH YIELD BONDS**

*After an exceptional performance in 2009, the high-yield bond market should continue in the green this year, albeit moderated compared to last year.*

*A rebound in equity prices, low cash rates, and a search for yield have worked in this segment's favor. Corporate bonds have offered a safe haven for retail investors who are playing it safe against equities. High-yield corporate bond spreads, although a third of what they were at the height of the financial crisis, still offer attractive yield pickup, compared to their long term averages.*

*The non-financial corporate sector's financial strength has improved, primarily on account of profit growth and balance sheet retrenchment. In addition, a substantial reduction in leverage and restraint in net debt issuance alongside positive net equity issuance for the first time since 2002, have helped.*

*Overall, a gradually recovering economy, improving corporate balance sheets and continuing Fed support to credit easing will contribute to the sector's performance.*

#### **5. LARGE COMPANY STOCKS**

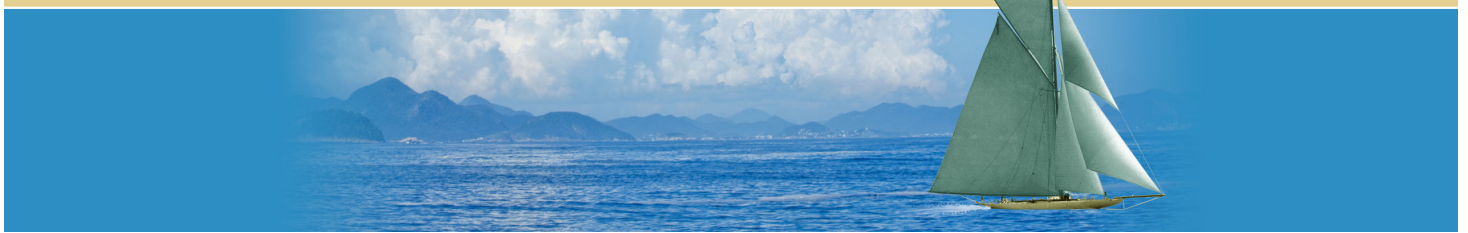
*Large cap stock should be the top performing capitalization segment of the equity markets for 2010.*

*Small caps have been underperforming large caps since their peak in September '09, resulting in a broad based shift to large caps as indicated by the 'Small Cap/Large Cap advance-decline line'. This is consistent with the fact that the equity rally has moved from being liquidity driven to earnings driven.*

*Furthermore, large multinational corporations have benefitted from the combination of a depreciating dollar and an upturn in developing markets, while small business owners suffered from slow domestic demand and tight credit. This is further seen in the divergence in hiring plans for larger versus smaller companies.*

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**If you need help in implementing these investment ideas and would like to see how they might fit in with your portfolio and financial plan, contact us at [info@regattaresearch.com](mailto:info@regattaresearch.com) or at one of our investment offices near you.**

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