

## INVESTMENT NOTE

April 2011

### 1923 to 2011-Any Colour as Long as it's NOT Black!

Earthquakes and the Global Supply Chain

Henry Ford in 1923 is reputed to have said "*Any customer can have a car painted any colour - so long as it is black.*" Ninety years later Ford have now released a statement stating that customers can now order certain models in any colour BUT black as there is a shortage of paint pigments from their Japanese suppliers.



In 1923 bizarrely the Japanese were hit by the world's greatest natural disaster –the great Kanto earthquake! Roll the clocks forward to the present day, a month after Japan was again struck by a massive earthquake and tsunami, along with the problems at the Fukushima nuclear plant, ramifications are beginning to be felt across the globe. Globalisation has seen Japan rise to a dominance in the supply of a number of key components for the consumer-related electronic products and the auto industry. With production halted or disrupted at many plants in the tsunami damaged region, many downstream manufactures are facing supply problems. Japan, surprisingly, accounts for over twenty two percent of imports into China. Many components crucial for the assembly of products such as laptop computers, flat-screen televisions and other electrical items are not being delivered. Indeed Apple has recently indicated that supplies of their new iPad 2 will be limited due to Japan-“related supply issues”. Bearing in mind that Japan represents over twenty percent of global micro chip productions the supply disruptions could be far reaching.

**Will such shocks to the global manufacturing industry affect the fragile economic recovery? We do not believe so.** Although Japan still represents 8.7 percent (2010) of global output this has fallen significantly from 18 percent in the mid-nineties. Most forecasters now predict a flat, at worst, Japanese GDP growth this year (the collapse in the first half of the year to be offset by a rebound in the second half as reconstruction efforts begin), We believe that the effect on global output should be minimal. This is a supply side disruption rather than a demand side shock; the latter typically affects all products/services across many sectors whereas a fall in supply is more company/industry specific and usually quickly rectified. (Like the black paint)

There are many other issues that give us cause for optimism that the global economic recovery will continue;

- a) global unemployment in developed countries has begun to fall (according to the latest report from the Organization for Economic Cooperation and Development)
- b) US unemployment has fallen from a 9.8 percent last year to 8.9 this year so far.
- c) US Businesses are seeing exciting profit cycle uplifts and corporate earnings of the largest companies in the US surged over 36 percent last year, its fastest rate in twenty four years!

**We continue to remain optimistic we are in a long term Bull market for equities as the world economy shrugs off numerous significant problems in the first quarter of 2011 including the Japanese earthquake and tsunami, conflict in Libya and the Middle East and continued Sovereign debt issues in Europe. The real “gorilla in the room” will be the reduction in fiscal liquidity as central banks begin to inevitably tighten monetary policy; Europe became the first major area to raise interest rates last week. How this is process is managed will be the crucial factor in whether 2011 remains a year of positive market momentum, as we believe, or not!**

This document is not intended in isolation as an offer or solicitation or recommendation to use or invest in any of the services or products mentioned herein. Investors should be aware that the value of investments, and the income from it, can go down as well as up so you may get back less than you invested. Past performance is not necessarily a guide to future returns. The investments and services referred to in this document may not be suitable for all investors and, if in doubt, you should seek qualified independent financial advice. Any opinions, expectations and projections within this note are those of TAM Asset Management, represent only one possible outcome and do not constitute investment advice. TAM Asset Management is a trading name of Helvetia Asset Management Limited which is a Member of the London Stock Exchange and is Authorised and Regulated, in the United Kingdom, by the Financial Services Authority.

**For Further Information Contact:**  
**TAM Asset Management**  
 City Tower, 40 Basinghall Street  
 London, EC2V 5DE  
 Tel: +44 (0)207 549 7650  
 Fax:+44 (0)207 549 7786