

Where to invest in 2004?

BT's Sydney-based economist Chris Caton looks at the year ahead and gives his predictions.

When asked to pick the best place to invest money in the next year, BT's economist Chris Caton hesitates before saying international shares.

"If I was forced to pick a winner it would be international shares." However he says there is no clear winner.

Some people won't be surprised to hear that BT's chief economist is picking international shares. However, Caton qualifies his statement saying that shares will be better than bonds and residential property.

He says that investors still need to have balanced portfolios and should not be putting all their money into one sector.

When he looks more closely at the markets Caton favours Asia, ex-Japan as the highest growth area but warns that it is a wilder ride for investors and carries more risk.

Areas like the US and Europe fill the mid-tier range and Australia and New Zealand are least favoured. He expects that Australia and New Zealand markets are unlikely to do as well as other markets, mainly because they haven't been through a recession.

Countries, like the US, which has experienced the rough times are recording strong cyclical bounces. "This is a genuine recovery," he says of the US market. "This story has some years to run." However, he also acknowledges investors who have stuck with income assets have missed much of the growth.

Caton acknowledges the US's twin deficits (federal government and current account) are a potential problem and one of the biggest identifiable risks, but suggest they aren't too bad. (Short-term risks are another terrorist attack and the China growth story being 'temporarily interrupted').

Caton's picks	
<ul style="list-style-type: none"> World economic growth is improving 	The US had to move from a surplus to a deficit, he says. While the deficit is large by any standards there is no exit strategy. The country can only get out of it if it has strong and prolonged economic growth (eg: 4% annually for a decade).
6-10% gains on intl shares	
Australian and NZ economies doing "quite well"	He says the deficit will only be a problem if one day investors say they have had enough of it.
Housing in bubble territory (esp Aust)	
Some interest rate rises to come	
NZ\$ to rise further against USD	
Aust and NZ markets likely to trail others	When looking at the asset classes he picks international shares, however says there are

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He is saying that shares will be better than bonds and residential property.

Caton is worried about the housing markets in Australia and New Zealand and says that there is clearly a bubble occurring across the Tasman.

Investors in that market are accepting rental yields of around 3% and are expecting to make capital gains of 15-20% - because that is what has happened recently.

"The bubble is going to burst sometime in 2004," he predicts.

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