

Extract from Daily Reckoning Australia's Letter to Stakeholders

By Dan Denning

So the China crash isn't coming.

It's here.

People here will go on thinking Australia is immune from all of this.

But just remember, the financial system is a global system. Weakness and instability in one part of the world are transferred to Australia via higher borrowing costs and, ultimately, lower demand for resources.

So, in short, I think the stock market will be lower in 12 months than it is today.

How much lower?

I don't know. A certain amount of indifference and lethargy – a lot of individual investors have simply given up – means stocks could just grind sideways all year long. Trading will be dominated by institutions, bots, and high frequency traders. Volumes will be low and volatility erratic. Because of the desertion of every day investors, the stock market will cease to be a leading indicator for the economy. It will become the playing ground of institutions that have huge money inflows from compulsory superannuation and have to do something with it other than being in cash.

I can't tell you where the market is going to be a year from now. But it won't matter. It will be the individual stocks that will matter. And in any event, I'm much more willing to make a solid prediction for the gold price. And I'm very confident bullion is going to breach \$2,000 an ounce in 2012...