

Pitcher Investment News

To all our valued clients, we thank you for the opportunity to work with you during the year and wish you all the compliments of the season. Our office will close on 23rd December and re-open on 11th January.



Look Back:

At the start of 2009 market sentiment was bleak with expectations of a global financial meltdown and a re-run of the Depression conditions of the 1930s. Then governments and central banks around the world collectively bailed out financial institutions, embarked on public sector spending/investing and dropped interest rates to near zero levels. Share markets recovered, credit markets thawed, commodity prices rose and the green shoots of recovery began to emerge. The excess leverage in both the business and household sectors began the slow process of unwinding. In most countries activity remains subdued with unemployment high and capacity underutilised. Despite the massive boost to global money supply, inflation is unlikely to become a problem while so much capacity is available. Australia was once again the lucky country. We worried about the strength of our banks, but they proved to be resilient and well managed. We worried about China continuing to buy our resources, but China just paused briefly and kept buying. We ended up with no recession, a booming housing market and strong employment.

Look Forward:

The central case scenario for 2010 is of continued gradual economic and financial markets recovery - see forecasts overleaf. The biggest risk in 2010 is that private sector investment will not fill the gap left by the public sector as it withdraws the stimulus. The second risk is that something happens in China to slow their economic transformation. The third risk is that ultimately we could see rising inflation as capacity is used up. The fourth risk is that de-leveraging takes a long time and we should expect more aftershocks of the GFC such as Dubai, Greece and Austria. The fifth risk is that the US consumer (70% of the US economy) will take many years to recover to the spending levels of 2007 particularly if there is another wave of mortgage and credit card defaults. There are also risks of debt defaults, currency shocks, environmental and natural disaster risks, regulatory risks such as outcomes of current tax and superannuation reviews. There is also always the unpredictable X Factor - see table below. What will the 2010 X Factor be?

THE X FACTOR FILES

| | |
|--------------|---|
| 1991: | Collapse of inflation |
| 1992: | Souring of the vision of Europe |
| 1993: | Big improvement in Australian competitiveness |
| 1994: | Sharp rise in bond yields |
| 1995: | Powerful rally in US markets |
| 1996: | Global liquidity boom created in Japan |
| 1997: | Asian financial crisis |
| 1998: | Resilience of Australian economy despite Asian crisis |
| 1999: | Powerful cyclical recovery across Asia |
| 2000: | Overshooting of exchange rates |
| 2001: | September 11 terrorist attacks |
| 2002: | US corporate fraud in Enron and others |
| 2003: | Marked fall in US dollar |
| 2004: | Sustained hike in oil prices |
| 2005: | Modest impact from high oil prices |
| 2006: | Big changes to superannuation |
| 2007: | RBA raises interest rates 17 days pre-election |
| 2008: | Global Financial Crisis (GFC) |
| 2009: | Resilience of Australian economy despite the GFC |
| 2010: | ??? |

Source: Don Stammer, *The Australian*, 9 December 2009



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Independent advice you can trust

Financial Markets - 18 December 2009

| | Current Level | 2 Month Return | 12 Month Return |
|----------------------------|---------------|----------------------|-----------------|
| Share markets | | | |
| AUS ASX 200 | 4650.5 | 0.2% | 29.9% |
| AUS ASX 200 (Acc) | 32408.8 | 0.7% | 36.2% |
| US Dow Jones | 10328.9 | 6.3% | 20.0% |
| US S&P 500 | 1102.5 | 6.4% | 24.5% |
| US Nasdaq | 2211.7 | 8.1% | 42.5% |
| JPN Nikkei | 10142.1 | 1.1% | 17.0% |
| UK FTSE 100 | 5196.8 | 3.0% | 20.0% |
| German DAX | 5831.2 | 7.7% | 22.6% |
| French CAC | 3794.4 | 5.2% | 17.3% |
| HK Hang Seng | 21175.9 | -2.7% | 36.6% |
| Shanghai Comp | 3113.9 | 3.9% | 54.5% |
| India Sensex | 16719.8 | 5.2% | 65.9% |
| Sth Korea Kospi | 1647.0 | 4.2% | 40.1% |
| NZ All Index | 758.0 | -2.3% | 9.7% |
| MSCI AC Wld ex-AUS (LC) | 1145.5 | 1.6% | 23.3% |
| Property | | | |
| ASX 200 Prop (Acc) | 18333.2 | -1.5% | 4.4% |
| S&P Global Prop Index | 230.8 | 4.3% | 33.3% |
| Commodities | | | |
| Gold (oz) | 1112.4 | 6.4% | 30.5% |
| Oil (barrel) | 74.1 | -6.4% | 101.6% |
| Aluminium | 2214 | 16.3% | 54.7% |
| Copper | 6841 | 4.0% | 137.1% |
| Lead | 2315 | -0.3% | 144.8% |
| Nickel | 17050 | -7.7% | 80.2% |
| Tin | 15780 | 6.9% | 43.5% |
| Zinc | 2398.0 | 9.2% | 124.7% |
| CRB Index | 276.1 | 2.1% | 25.5% |
| Currency | | | |
| AUD/USD | 0.89 | -1.0% | 29.7% |
| AUD/EUR | 0.62 | 1.6% | 28.9% |
| AUD/GBP | 0.55 | 0.7% | 20.8% |
| AUD/JPY | 80.56 | -0.6% | 31.3% |
| Official Cash Rates | | | |
| New Zealand | 2.50% | | |
| Australia | 3.75% | | |
| China | 5.31% | | |
| United States | 0.25% | | |
| United Kingdom | 0.50% | | |
| Euro-Zone | 1.00% | | |
| Japan | 0.10% | | |
| Aust Interest Rates | | | |
| PPIS ANZ | 3.25% | *Cash rate less 50bp | |
| SGB AT CALL | 3.73% | | |
| ANZ 30 Day TD | 4.6% | | |
| ANZ 60 Day TD | 4.7% | | |
| WBC 90 Day TD | 5.0% | | |
| WBC 1 year | 6.8% | | |
| WBC 3 year | 7.0% | | |
| WBC 5 year | 8.0% | | |

SAVE THIS DATE - 1 FEB 2010

Our special guest speaker will be John Sevier, Head of Australian Equities at Perpetual, who will share his insights on the outlook for Australian Equities in 2010.

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Lessons from 2009:

There are a number of important lessons that 2009 has reinforced.

1. Market timing matters, forget the idea of 'set and forget' and selling is an important discipline as buying.
2. There are great reasons to be in cash: it's value is only eroded by inflation; it earns interest; and it provides an option to buy well priced assets in the future. We note that we can now obtain 7% for 3 year term deposits and 8% for 5 year term deposits!
3. Bonds are as important as equities in a well diversified portfolio and within bonds the mix of government bonds, corporate bonds and high yield bonds is important.

We will be talking to clients more in 2010 about the ways in which the fixed interest, bond and hybrids part of their portfolios can enhance both risk and return.

Australian Shares:

After the 41% drop in 2008 of the ASX200, this year's return to date of 25% is a great relief. However the market would need to go up another 47% to reach the previous high of 6851. The ASX 200 has recovered 1530 points of its 3731 point fall during the GFC. 140 stocks in the ASX200 have risen by more than 100% from bottom to top. Just two stocks (BHP and CBA) have accounted for 50% of the rise. Just seven stocks have accounted for 67% and only twenty stocks contributed 82% of the total market gain (see table below).

These last few weeks of the trading year have been subdued. Volumes are low and it appears many institutions have already closed their trading books and gone home for the holidays. That said, the last few weeks of December and the first weeks of January have typically been a strong time for equity markets.

The Australian equity market is factoring in earnings per share increases of 20% or more for financial year 2010/11 and much of the share price performance over the next few months will be influenced by the half year results to be delivered in February 2010.

| | COMPANY | % OF INDEX PERFORMANCE | RUNNING TOTAL |
|-------------------|--|------------------------|---------------|
| MAGNIFICENT SEVEN | BHP BILLITON LIMITED | 16.6% | 17% |
| | COMMONWEALTH BANK | 16.4% | 33% |
| | WESTPAC BANKING CORP | 9.1% | 42% |
| | RIO TINTO LIMITED | 7.9% | 50% |
| | WESFARMERS LIMITED | 6.7% | 57% |
| | ANZ BANKING GROUP LIMITED | 6.2% | 63% |
| | NATIONAL AUST BANK | 4.3% | 67% |
| | <i>Source: Marcus Today (1 January to: 18 December 2009)</i> | | |



Source: AMP Limited

2010 Forecasts:

The table below provides AMP's Shane Oliver's return forecasts for the major asset classes for 2010:

| | |
|--|-------|
| International Shares (hedged) | -1.0% |
| International Shares (unhedged) | 12.0% |
| Asian/Emerging Markets Shares (unhedged) | 23.0% |
| Australian Shares | 17.0% |
| Commodities (in \$US) | 20.0% |
| International Listed Property (hedged) | 15.0% |
| Australian Listed Property | 20.0% |
| Australian Commercial Property | 9.0% |
| Australian Residential Property | 6.5% |
| International Bonds (hedged)/Aust Bonds | 4.5% |
| Credit/Corporate Debt | 7.5% |
| Australian Cash | 4.5% |

Our dynamic asset allocation preferences for the beginning of 2010 retain overweights in:

- cash;
- corporate debt;
- commercial property; and
- Australian and unhedged Asian/emerging market shares.

It's good to have money and the things that money can buy, but it's equally good to check once in a while and make sure you haven't lost the things that money can't buy.

George Claude Lorimer