



# Pitcher Investment News

## Financial Markets - 28 February 2010

	Current	2 Month	12 Month
	Level	Return	Return
<b>Share markets</b>			
AUS ASX 200	4637.7	-4.8%	38.7%
AUS ASX 200 (Acc)	32576.1	-4.1%	44.7%
US Dow Jones	10325.3	-1.0%	46.2%
US S&P 500	1104.5	-1.0%	50.3%
US Nasdaq	2238.3	-1.4%	62.4%
JPN Nikkei	10126.0	-4.0%	33.8%
UK FTSE 100	5354.5	-1.1%	39.8%
German DAX	5598.5	-6.0%	45.7%
French CAC	3708.8	-5.8%	37.2%
HK Hang Seng	20608.7	-5.8%	60.9%
Shanghai Comp	3051.9	-6.9%	46.5%
India Sensex	16429.6	-5.9%	84.8%
Sth Korea Kospi	1594.6	-5.2%	50.0%
NZ All Index	753.4	-2.5%	17.2%
MSCI AC World ex-AUS (LC)	1133.6	-2.9%	49.6%
<b>Property</b>			
ASX 200 Prop (Acc)	19150.3	-1.5%	40.6%
S&P Global Prop Index	235.2	-1.7%	84.5%
<b>Commodities</b>			
Gold (oz)	1117.3	1.9%	18.5%
Oil (barrel)	79.7	0.0%	80.5%
Aluminium	2051	-7.1%	59.0%
Copper	7072	-3.7%	108.6%
Lead	2139	-10.7%	108.6%
Nickel	20495	10.9%	111.8%
Tin	16675	-0.3%	51.6%
Zinc	21575	-16.1%	100.6%
Reuters/Jefferies CRB Index	274.8	-3.0%	29.9%
<b>Currency</b>			
AUD/USD	0.90	-0.2%	40.2%
AUD/EUR	0.66	5.0%	30.4%
AUD/GBP	0.59	5.8%	31.7%
AUD/JPY	79.70	-4.5%	27.8%
<b>Other</b>			
VIX Index	19.5	-10.06%	-57.93%
Baltic Dry Index	2738	-12.80%	37.87%
TED spread	0.13%		
<b>Official Cash Rates</b>			
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%		
<b>Aust Interest Rates</b>			
PPIS ANZ	3.25%	*Cash rate less 50bp	
SGB AT CALL	3.73%		
CBA 30 Day TD	4.68%		
CBA 60 Day TD	4.82%		
CBA 90 Day TD	4.85%		
10 Yr Govt Bond	5.50%		



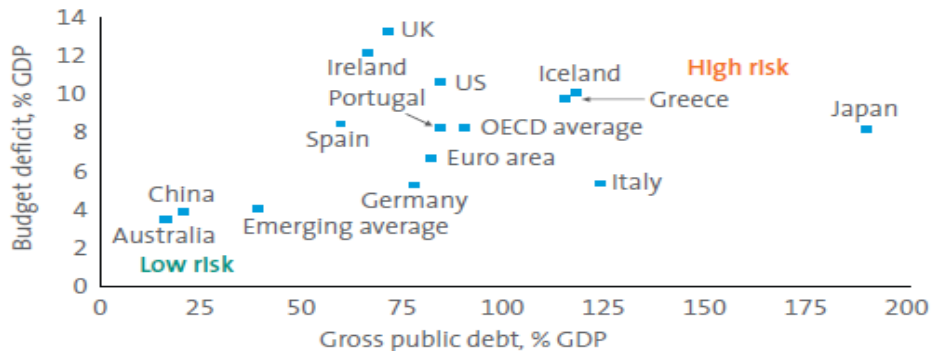
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**Investment markets** - Since returning to work after the holidays four major themes have emerged to unsettle investment markets. The first is the threat that the investment activities of major financial institutions would be constrained. US President Obama has expressed a clear wish for investment banks to be limited in their proprietary trading and hedge fund activity. However, he has not received the necessary support from other G7 countries without whom any constraint attempts would be ineffective.

**China puts on the brakes** - The second is the dampening down of lending activity in China which raises concerns about the ongoing pace of Chinese industrial production. Our view is that the monetary tightening is welcome and evidence of the Chinese authority's ability and willingness to manage asset price bubbles, inflation and other imbalances. We continue to expect double digit Chinese growth in coming years.

**Sovereign debt default** - The third is the fear of debt default by Greece and other highly indebted countries. The gloomiest view is that Dubai and Greece are the Northern Rock and Washington Mutual of the sovereign debt markets and that their default will lead to another global investment markets meltdown. There is no doubt that a default of 250 or 300 billion euros of Greek debt would create financial turmoil for the funds, insurers and pension plans that hold them and that would risk contagion in Portugal, Italy, Ireland and Spain with the magnitude becoming trillions of euros. While the detail is not yet available, Greece is currently working on its self-help plan of fiscal austerity and this is expected to be underpinned by help from both the European Central Bank and the International Monetary Fund. However this help will be subject to tough conditions that are likely to see Greece experience a prolonged recession and potentially exit the Euro zone at some time. Other highly indebted European countries (see graph below) could follow a similar path while the US and the UK are assisted in reducing their indebtedness and their domestic deficits by the control of their interest rates and the free float of their currencies.

**Public debt blowout – Australia is low risk**



Source: IMF, OECD, AMP Capital Investors

**The new normal** - The final theme is related to the high level of indebtedness and fiscal imbalance as well as to the ending in 2010 of the 'emergency' stimulus measures put in place to manage through the global financial crisis. Governments are now withdrawing stimulus and await the contribution of the private sector again. But the private sector may be some time coming. Governments have become major commercial players, but are not driven by commercial outcomes. There is a major shift in the global wealth and power dynamics. These shifts create uncertainty and create a landscape for weaker economic growth in the developed markets. That said, developing countries without the burdens of debt and deficits are well placed for growth and Australia as a trading partner and neighbour of numerous developing nations is well placed for a growing economy.



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**Australian Reporting Season** – We have now had four weeks of the Australian corporate first half year reporting season and 92% of companies in the ASX200 have reported. Of those 38% have exceeded expectations, 35% have broadly met expectations and 27% have failed to meet expectations. On the basis of the results reported and the outlook statements made by companies, the expected market earnings per share growth for the 2010/11 of around 20% continues to look achievable, and a rise in Australian shares beyond the 5000 level by year end is expected with confidence.

**Asset Classes** – Don Stammer recently published the Mercer Consulting summary of the performance of major asset classes over the last twelve calendar years. It is notable that over those twelve years the so called defensive asset classes delivered an annual average of 6.6% while the growth asset classes delivered just 6.0%. Australian shares were the standout performer of the growth asset classes.

Twelve years of investment returns by asset class (%)

	DEFENSIVE ASSETS				GROWTH ASSETS			Average annual return
	Cash	Aust fixed interest	Aust Inflation linked bonds	Global fixed interest (A\$)	Listed property	Aust shares	Global shares (A\$ unhedged)	
1998	5.1	9.5	12.2	10.4	18.0	11.6	20.8	
1999	5.0	-1.2	2.5	0.9	-5.0	16.1	27.9	
2000	6.3	12.1	12.0	10.1	17.9	4.8	10.1	
2001	5.2	5.4	5.9	7.4	15.0	10.5	-14.5	
2002	4.8	8.8	10.0	11.2	11.8	-8.6	-24.3	
2003	4.9	3.0	3.6	5.6	8.8	15.0	25.2	
2004	5.6	7.0	11.9	9.0	32.2	27.9	11.0	
2005	5.7	5.8	9.9	7.5	12.7	22.5	15.6	
2006	6.0	3.1	1.8	3.9	34.1	24.5	15.4	
2007	6.7	3.5	4.2	7.0	-8.4	16.2	4.4	
2008	7.6	14.9	8.5	13.4	-55.3	-38.9	-24.9	
2009	3.5	1.7	0.4	-3.9	9.6	37.6	-0.3	
Average annual return	5.5	6.0	7.6	7.5	4.3	9.6	4.0	

Source: Mercer Consulting

**Asset Allocation** – As we reinforce with all our clients regularly, the greatest contributor to both risk and return in investment portfolios is asset allocation. Rainmaker recently released the asset allocations of the major superannuation funds sorted by asset consulting group and the table makes for interesting review.

	AE	IE	Prop	Au Fix	Intl fix	Cash	Alts	Total
JANA	31%	22%	10%	9%	4%	11%	14%	100%
Frontier	31%	21%	10%	4%	5%	10%	19%	100%
Mercer	27%	21%	9%	6%	13%	10%	15%	100%
Russell	23%	19%	11%	6%	6%	10%	26%	100%
Watson Wyatt	26%	22%	11%	15%	10%	5%	11%	100%
Access Econ	24%	15%	12%	3%	1%	12%	33%	100%
Sovereign	29%	20%	6%	5%	10%	12%	18%	100%
ipac	18%	15%	7%	7%	0%	18%	35%	100%
CPG Research	23%	13%	12%	6%	2%	14%	29%	100%
Morningstar/Intech	29%	21%	10%	8%	8%	19%	5%	100%
The rest	22%	16%	5%	8%	4%	12%	32%	100%
<b>Total</b>	<b>29%</b>	<b>21%</b>	<b>10%</b>	<b>7%</b>	<b>6%</b>	<b>10%</b>	<b>18%</b>	<b>100%</b>

Source: Rainmaker Information

**Cash Rates** – The long term performance of cash over the last twelve years may be 5.5% but right now term deposit rates of 7% for 3 years and 6% for 1 year are very attractive propositions. The Reserve Bank has signalled that while rates did not increase in February they will continue increasing over the course of the year. However we continue to expect official rates will reach 4.75% by year end and may rise to the long term average of 5.5% in 2011. In the meantime we hope to be able to offer CPI plus 4% for three years at no risk and no fees!

**Fund Managers** – Morningstar recently compared the performance of the average Australian equity fund manager with the performance of the market over a range of time periods. Fund managers typically do worse than the market because their fees must be taken off their gross investment returns. Over time however, the statistics improve because the less successful managers whose businesses do not survive are removed from the data.

	The Market	Average Fund Manager
5 years to December 2009 - Return	8.3%	8.0%
5 years to December 2009 - Risk	15.7%	16.0%
10 years to December 2009 - Return	8.7%	8.5%
10 years to December 2009 - Risk	13.2%	13.7%
15 years to December 2009 - Return	10.7%	10.8%
15 years to December 2009 - Risk	12.9%	13.4%

**Self Managed Super** - Self managed super funds now control 30% of all superannuation assets and have reached 410,000 in number. The Cooper Review of Superannuation recently provided some interesting comparisons between self managed super funds and other forms of superannuation structures.

	SMSF	Non SMSF
Growth in assets over 5 yrs to June 2009	20%	8%
Average taxable member income at June 2009	\$92,000	\$47,000
Average member balance as at June 2008	\$456,000	\$25,000
Investment return in year ended June 2006	12.6%	12.2%
Investment return in year ended June 2007	16.9%	13.3%
Investment return in year ended June 2008	-6.1%	-7.8%
Average costs at June 2008	0.7%	1.2%
Members aged < 50 year at June 2009	33%	78%
Members aged 50 - 65 years at June 2009	48%	19%
Members aged > 65 years at June 2009	19%	3%

*There is no quick fix in the financial department and, if you look into it, you realise you don't actually need it.  
Normal is great.  
Marcus Padley*