Pitcher Partners
INVESTMENT SERVICES PTY LTD
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Pitcher Investment *News*

Meltdown in Global Financial Markets – During September and October the financial markets crisis reached a new peak. Credit markets effectively froze and governments were required to inject capital, bail out financial institutions, cut interest rates and otherwise seek to keep markets operational. The US$700B bailout package was eventually passed and European and other governments engaged in their own 'state directed capitalism'. In Iceland the banking system effectively collapsed. The massive 'deleveraging' and crisis of confidence saw world equity, credit and property markets meltdown in October. The global 'bear' market is now officially 12 months old and showing no sign of abating.

A Global Recession – In the 'real' economy the credit and financial crisis is also now becoming fully felt with recession conditions in place in all major world economies. Slowing growth is forecast globally almost without exception including a material slowing of the China powerhouse of the past five years. Rising unemployment, reduced spending and falling consumer and business confidence suggest weaker conditions will prevail for some years.

Inflation Fears Subside – Still in the real economy, an offset to the recessionary drivers are the lower costs of energy and commodities which have declined materially from their recent high levels. While food and interest expenses remain significant, cheaper energy and materials have taken some of the immediate concern out of the inflationary worries of central banks thus allowing them to drop rates more aggressively.

Lower $A Opportunity for Exporters – For Australians the massive recent fall in the $A, caused largely by the drop in commodity prices and the unwinding of the Yen 'carry trade', has meant that imported goods including energy have not fallen as much as they could have. The good news is that the low $A will provide an important opportunity for exporters to contribute to an economic recovery.

State Directed Capitalism to the Rescue – As well as the bailouts of companies, injections of capital, guaranteeing of bank deposits and bank lending and regulatory changes such as bans on short selling, global governments have announced numerous stimulatory measures such as spending programs and central banks have aggressively cut interest rates. In Australia the application of the budget surplus and the falling $A are also a positive.

Is Capitalism Broken? – Market capitalism is alive, just not as well as usual. While Governments have become key players in markets, private investors such as Warren Buffett are investing again, merger and acquisition continues as does capital raising. We expect to see new asset classes such as Private Credit emerge soon and also expect there to be excellent capital raising opportunities for private investors in both equity and credit issues over the next 6-12 months.

Are we past the worst? – Changes to currency, oil prices and interest rates, some easing of interbank lending rates and levels of market volatility, the resolution of who will be the next US President – all these are now behind us. What is still in front of us is the impact of a world recession, continued falls in property prices and above all, the lingering loss of confidence of investors in equity markets which takes two things to turn it around – (i) time and (ii) much poorer relative returns from cash investments. With the ASX All Industrials now yielding 8%+ and 10%+ on a grossed up basis, an increasing number of private investors will accept the capital risk of shares rather than the risk that interest rates will go to 4.75% or lower.

Financial Markets - 31 October 2008

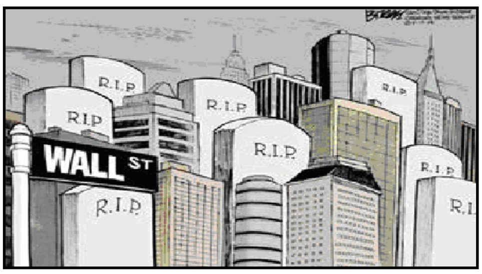
Share markets	Current Level	2 Month Return	12 Month Return
AUS ASX 200	4018	-21.76%	-13.01%
AUS ASX 200 (Acc)	26515	-21.21%	-12.98%
US Dow Jones	9325	-19.22%	-1.29%
US S&P 500	969	-24.48%	-2.76%
US Nasdaq	1721	-27.31%	-1.93%
JPN Nikkei	8577	-34.39%	-15.55%
UK FTSE 100	4377	-22.34%	-4.95%
German DAX	4988	-22.33%	-6.36%
French CAC	3487	-22.21%	-6.57%
HK Hang Seng	13969	-34.30%	-16.87%
Shanghai Comp	1729	-27.89%	-19.88%
Jakarta IDX	1257	-41.98%	-22.41%
Philippines	1951	-27.42%	-19.52%
India Sensex	9788	-32.80%	-16.31%
Sth Korea Kospi	1113	-24.50%	-18.52%
NZ All Index	730	-17.02%	-35.81%
Saudi Tadawul	5538	-36.76%	-30.76%
MSCI AC World ex-AUS (LC)	1660	-25.58%	-38.72%
Property			
ASX 200 Prop (Acc)	20073	-29.50%	-26.47%
Commodities			
Gold (oz)	721	-13.11%	-18.45%
Oil (barrel)	68	-41.06%	-24.48%
Aluminium	1971	-26.54%	-11.56%
Copper	3995	-46.80%	-30.39%
Lead	1469	-25.01%	-11.00%
Nickel	11305	-44.31%	-19.28%
Tin	13860	0.00%	-14.97%
Zinc	1091	-36.59%	-28.03%
Currency			
AUD/USD	0.6679	-22.16%	-5.39%
AUD/EUR	0.5233	-10.47%	0.69%
AUD/GBP	0.4140	-12.08%	2.40%
AUD/JPY	65.7650	-29.56%	-8.21%

Official Cash Rates	
New Zealand	6.50%
Australia	6.00%
China	6.66%
United States	1.00%
United Kingdom	4.50%
Euro-Zone	3.75%
Japan	0.30%

Aust Interest Rates	
10 Yr Govt Bond	5.18%
PPIS ANZ	5.50%
SGB AT CALL	5.98%
SGB / BWA 30 Day TD	6.13%
SGB / BWA 60 Day TD	6.12%
SGB / BWA 90 Day TD	6.11%

Sue

Sue Dahn
Executive Director
Ph 03 8610 5124
sue.dahn@pitcher.com.au



"My firm belief is that the only thing we have to fear is fear itself."

Franklin D Roosevelt (1882 -1945) in the 1933 Presidential Inaguration Address