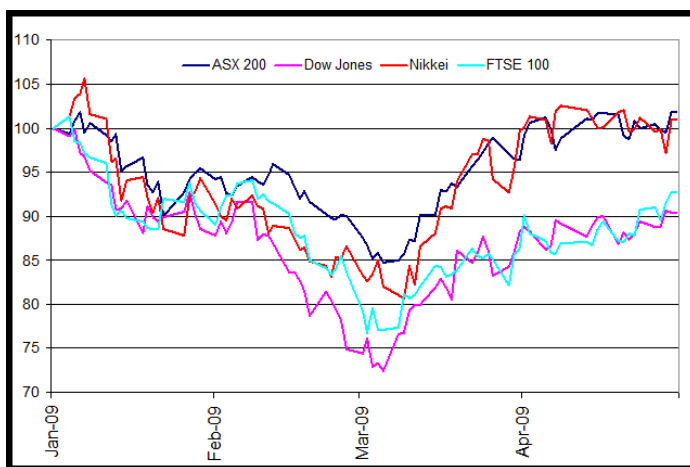


Pitcher Investment News

Share Market Rally – Since our last newsletter, global equity markets have enjoyed a much longed for global price rally which to date has exceeded 20% and lasted some 8 weeks. The strong rebound since early March has certainly brought relief from the relentless falling of prices, but it was still not enough to generate positive returns for the March quarter in most developed markets. The mood of the market has certainly lifted however, with a positive spin on newsflow prevailing – eg. focus on an increase in profits despite it being set aside as increased provisions. At a closing level of 3781 on 30 April, 2009 we have already reached the median of economists forecasts expected for October, 2009 !



SOURCE: BLOOMBERG, 1 MAY 2009

Credit Markets – Credit markets have also shown a recovery of similar magnitude. The TED spread has fallen from 1.1% to 0.9% since 6 March 2009. Notwithstanding this improvement, credit spreads or pricing, which reflects the perceived riskiness of assets and expectations of defaults, still remain high and access to credit remains difficult.

Are we there yet ? – The debate that is raging at the moment is between those who are saying we have seen the bottom of markets and that we are at the start of the next bull market, and those who characterise the current buoyancy as a rally typical of the 3 to 5 that are usually seen in bear markets before a sustained upward momentum takes hold. Our view, cautiously (and we'd be happy to be wrong) is in the latter camp. Having said that however, in the words of Warren Buffett "If you wait for robins, spring will be over".

Economic Blues – The daily economic news around the globe remains bleak. The troubled global financial sector and the automotive sector grab daily headlines, aggregate growth figures are being revised downward, unemployment figures upward and the fear of either deflation or inflation or both prevail. More recently the spectre of a global flu epidemic is adding to the overall gloom.

Global Co-ordinated Economic Rescue – Our Governments, central banks and regulators continue to work on the problems. We were right on the extension of the financials short-selling ban, further interest rate cuts and additional rescue and stimulus packages. As global leaders met in London for the G20 in early April, we saw announcements regarding the Supervisory Capital Assessment Program (or 'stress-testing' of banks in the US), the Geithner Toxic Assets Plan (where the private sector can buy impaired assets from banks on very generous terms) and a change to the US accounting rules to make sales more attractive to the selling bank. We also saw massive extra funding for the IMF to bail out struggling countries/currencies, the establishment of the Financial Stability Board and a renewed commitment to underpinning growth and trade.

Financial Markets - 30 APRIL 2009

Share markets	Current Level	2 Month Return	12 Month Return
AUS ASX 200	3780.5	13.0%	-32.4%
AUS ASX 200 (Acc)	25663.6	14.0%	-28.8%
US Dow Jones	8168.1	15.6%	-36.3%
US S&P 500	872.8	18.7%	-37.0%
US Nasdaq	1717.3	24.6%	-28.8%
JPN Nikkei	8828.3	16.6%	-36.3%
UK FTSE 100	4243.7	10.8%	-30.3%
German DAX	4769.5	24.1%	-31.4%
French CAC	3159.9	16.9%	-36.8%
HK Hang Seng	15521.0	21.0%	-39.7%
Shanghai Comp	2477.6	19.0%	-32.9%
India Sensex	11403.3	28.2%	-34.0%
Sth Korea Kospi	1369.4	28.8%	-25.0%
NZ All Index	689.0	7.2%	-27.2%
MSCI AC World ex-AUS (LC)	892.6	17.8%	-41.1%

Property

ASX 200 Prop (Acc)	14444.8	6.0%	-56.9%
--------------------	---------	------	--------

Commodities

Gold (oz)	888.0	-5.8%	2.1%
Oil (barrel)	50.4	14.0%	-55.7%
Aluminium	1419.0	10.0%	-51.0%
Copper	4301.0	26.9%	-50.3%
Lead	1318.0	28.6%	-50.8%
Nickel	11100.0	14.7%	-61.6%
Tin	12300.0	11.8%	-47.9%
Zinc	1362.0	26.6%	-38.0%
Reuters / Jefferies	222.4	5.1%	-45.7%
CRB Index			

Currency

AUD/USD	0.73	13.7%	-23.0%
AUD/EUR	0.55	8.9%	-9.2%
AUD/GBP	0.49	10.0%	3.4%
AUD/JPY	71.64	14.9%	-26.9%

Other

VIX Index	36.5	-21.25%	75.57%
Baltic Dry Index	1786.0	-10.07%	-80.91%
TED Spread	0.89%	-11.99%	-40.64%

Official Cash Rates

New Zealand	2.50%
Australia	3.00%
China	5.31%
United States	0.25%
United Kingdom	0.50%
Euro-Zone	1.25%
Japan	0.10%

Aust Interest Rates

PPIS ANZ	2.50%
SGB AT CALL	2.98%
NAB 30 Day TD	3.10%
NAB 60 Day TD	3.09%
NAB 90 Day TD	3.70%
10 Yr Govt Bond	4.75%



Pitcher Investment News

Green Shoots – All this effort is seeing some encouraging results in sales, lending, housing activity and the like. Most telling is the lift in business and consumer confidence readings in recent weeks. In the current US S&P 500 reporting season, more than two thirds of companies that have reported to date, have actually beaten analyst forecasts ! On balance, however there are still at least as many warning signs as there are green shoots so we continue to be somewhat cautious.

Risks – Our caution largely stems from the view that there can be no sustained markets recovery until the banking system can operate without guarantees and constant intervention and underpinning. Share price increases help by providing bond holders with an increased buffer, however the fundamentals are *not there yet*. We are particularly worried about the health of the European banking sector at this time.

Investment Strategy – Our investment strategy is modified this quarter. Having held extreme levels of cash in portfolios for up to 12 months, we now see selected opportunities to invest some of that cash.

- **Cash** – At guaranteed rates of 4%+ we still recommend locking in deposits for 3-12 months. And we still recommend retaining most of the overweight position to cash pending how the next few months pan out. Cash may no longer be king on rates alone but for the next six months at least, it will remain king for capital protection reasons.
- **Bonds** – We are actively sourcing corporate bond investments for our clients on both the secondary and primary markets. We are particularly interested in short dated domestic (1-2 year) investment grade corporate fixed interest opportunities. In addition, for more risk seeking investors, there are opportunities in the international corporate credit market.
- **Equities** – We recommend a moderate increase in global equities with an emphasis on Asia and US active and passive managers. Australia is lagging the world in this recessionary cycle and we don't recommend increasing overall domestic equity exposure at this time. We do recommend a rotation away from largely defensive Australian direct holdings and towards those stocks that will benefit from the global recovery. The emphasis however, must remain on stocks with great cash flow, strong balance sheets, ability to manage costs/ margins and some pricing power.

May Budget / Superannuation – Changes to taxes and superannuation in the Budget are being widely rumoured. The Transition to Retirement Pension is a major subject of rumour and anyone wishing to take advantage of the current provisions is advised to do so before the Budget. Also, where clients have the cash to make their super contributions for the year before Budget night, it may be prudent to do so. The reprieve for account based pensions to pay out only 50% of the 08/09 minimum pension to fund members also offers an opportunity to maintain more funds in the superannuation environment.

May 6 Client Seminar – Our lunch seminar on 6 May is filling fast. Speakers are Giselle Roux from Goldman Sachs JB Were, Richard Quin from Credit Suisse and Denis Eagar from Magellan. Our theme is The Road to Recovery ? Please call 03 8610 5194 if you still wish to attend.



Sue Dahn
Executive Director
Ph 03 8610 5124
sue.dahn@pitcher.com.au
Independent advice you can trust

Key Forthcoming Events

- May 09
- Australian Banks Results
 - Report on Stress Testing of US Banks
 - Australian Federal Budget
 - Proposed lifting of short-selling ban on financials
- Jun 09
- Aust March quarter 2009 GDP announcement
 - Progress of Geithner Toxic Assets Plan
 - End of financial year
- Jul 09
- G8 Meeting - LAquila, Italy
 - Directors, valuers and auditors determine financial statements
- Aug 09
- 08/09 Financial results and outlook statements to market

The market does not turn when it sees light at the end of the tunnel.

It turns when all looks black, but just a subtle shade less black than the day before.

Jeremy Grantham, GMO, March 2009