

# Pitcher Investment News

**Economics** - The pace of the global slowdown is easing. Most of the news on production, consumption, employment, lending, house prices etc, continues to be negative, but less negative than it has been. Confidence is emerging about the rebound in China and the potential for growth in emerging markets. Signs of turning points are also evident in the US, though European conditions continue to be weak, particularly in the east. In Australia we are also punching above our weight. We seem to be the only developed nation not to have experienced a contraction in the March quarter, delivering positive growth of 0.4% and, instead of rising, our unemployment remains stable at 5.7%.

Area	IMF		OECD	
	2009	2010	2009	2010
World	-1.3%	2.4%	-4.1%^	0.7%^
US	-2.8%	0%	-2.8%	0.9%
Europe	-4.2%	-0.4%	-4.8%	0%
Japan	-6.25%	0.5%	-6.8%	0.7%
China	6.5%	7.5%	7.7%	9.3%
Australia	-0.5%	1.5%	-0.4%	1.2%

\* Figures for calendar year. ^Forecasts are for OECD countries only.

**Regulation** - The US has announced plans for major changes to the way it will regulate financial markets in the future. In Australia we have also embarked on numerous reviews of the financial services and superannuation sectors with a view to enhancing efficiency and security. These measures are all designed to prevent a repeat of the financial crisis of 2008/2009 and to rebuild the confidence of investors.

**Commodity Rally** - The last two months have also seen a material commodity price rally with oil, aluminium, lead, nickel and tin all up in excess of 10% as inventories, which were run down during the December and March quarters, have been replenished. This has been accompanied by an equivalent rise in the relative value of the Aussie dollar to the US dollar which, though helpful for the overseas traveller, will constrain our national export potential.

**Share Markets** - Although it looked like equity markets could fall in value by up to 1/3 in the 08/09 financial year, the fall in market value has ended closer to 1/4. Results for the S&P500 in the US in April surprised on the upside with 2/3 of companies reporting positive surprises. Markets hit a peak in early June and, despite a slight weakening from that point, volatility in markets is much more subdued than in the 'crisis' of late 2008/early 2009. Analysts' estimates for 2010 are now being revised to more realistic numbers and numerous listed companies are enjoying successful equity capital raisings on the combined strength of attractive discounts and improved sentiment.

**Sectors** - In Australia, sector performance was a reversal of the earlier part of the year when utilities, consumer staples and healthcare did well. In the period since 1 May, 2009, materials, financials, industrials, energy and property have outperformed the market overall.

**Superannuation** - The Federal Budget has reduced the amount of concessional contributions that can be made to superannuation from \$100,000 to \$50,000 for those aged 50 or over during the transition period to 30 June, 2012. The standard concessional contribution has been reduced from \$50,000 to \$25,000 and salary sacrifice arrangements need to be carefully reviewed in light of new rules. The Government also announced an extension to the 50% reduction in the required minimum pension amount for the 2009/2010 financial year.

## Financial Markets - 30 JUNE 2009

Share markets	Current Level	2 Month Return	12 Month Return
AUS ASX 200	3954.9	4.6%	-24.2%
AUS ASX 200 (Acc)	27053.6	5.4%	-20.1%
US Dow Jones	8447.0	3.4%	-25.6%
US S&P 500	919.3	5.3%	-28.2%
US Nasdaq	1835.0	6.9%	-20.0%
JPN Nikkei	9958.4	12.8%	-26.1%
UK FTSE 100	4249.2	0.1%	-24.5%
German DAX	4808.6	0.8%	-25.1%
French CAC	3140.4	-0.6%	-29.2%
HK Hang Seng	18378.7	18.4%	-16.8%
Shanghai Comp	2959.4	19.4%	8.2%
India Sensex	14493.8	27.1%	7.7%
Sth Korea Kospi	1390.1	1.5%	-17.0%
NZ All Index	698.2	1.3%	-16.9%
MSCI AC World ex-AUS (LC)	968.2	7.7%	-31.1%
<b>Property</b>			
ASX 200 Prop (Acc)	15683.2	8.6%	-42.3%
S&P Glob Prop Ind	172.1	6.2%	-41.0%

Commodities			
Gold (oz)	926.0	4.3%	0.1%
Oil (barrel)	69.8	38.7%	-50.1%
Aluminium	1642	14.8%	-46.6%
Copper	5020	11.2%	-42.8%
Lead	1700	25.5%	-2.0%
Nickel	15200	32.1%	-29.9%
Tin	15000	19.4%	-35.6%
Zinc	1561.0	10.9%	-16.7%
Reuters / Jefferies CRB Index	250.0	12.4%	-46.0%

Currency			
AUD/USD	0.81	11.0%	-15.9%
AUD/EUR	0.57	4.7%	-5.6%
AUD/GBP	0.49	-0.2%	1.8%
AUD/JPY	77.69	8.4%	-23.7%

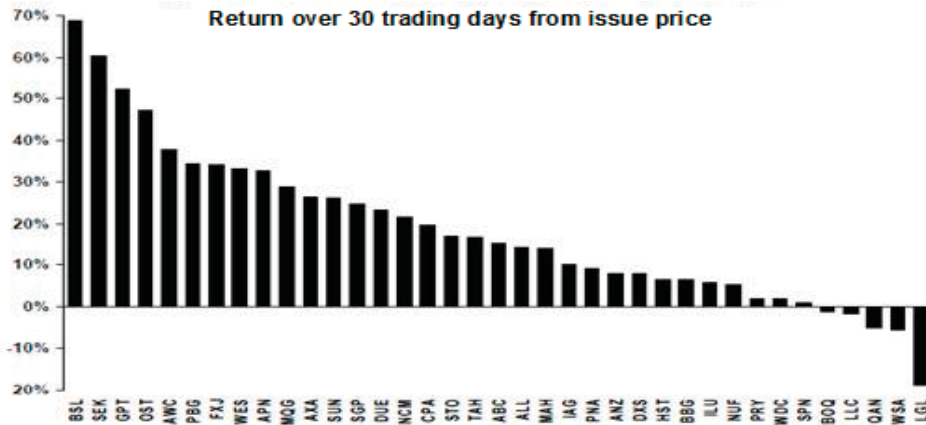
Other			
VIX Index	26.4	-27.8%	10.0%
Baltic Dry Index	3757	110.4%	-60.8%
TED Spread	0.41%		

Official Cash Rates		
New Zealand	2.50%	
Australia	3.00%	
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	2.50%	* Cash rate less 50bp
SGB AT CALL	2.98%	
CBA 30 Day TD	3.68%	
CBA 60 Day TD	3.71%	
CBA 90 Day TD	3.72%	



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**Capital Raisings** - Australian listed companies have raised over \$40B in the last 6 months and enjoyed good results on market. With few exceptions, these have been recommended to clients and proven to be attractive applications of investment funds.



Source: IRESS, Company data, Macquarie 11/06/2009

**Fixed Interest** - Markets are predicting cash rates to stay stable during the remainder of 2009 and then rise in the June quarter of 2010. We continue to recommend securing attractive rates of up to 4.5% for up to 12 months. Beyond that period, floating rate securities will be more attractive for portfolios, with a material recovery over the last two months in bank hybrids alone of about 10% in the hybrid securities segment of fixed interest assets. In addition, portfolios have enjoyed strong performance in corporate bonds both domestically and globally and we continue to see opportunity in fixed interest during forthcoming quarters.

**Reporting Season** - August will see the bulk of the ASX 200 full year reports disclosed to the market with the widespread expectation that profits will have fallen 20% in the 2008/09 year. As companies make their determinations about balance sheet asset values in July, some companies may announce preliminary earnings downgrades. Particular scrutiny will be given to real estate investment trusts (REITs) as they disclose the valuation of the property assets on their balance sheets. In turn this will have an impact on the lenders who have advanced them funds subject to valuations of assets not falling below agreed values. Analysts are factoring in further drops in profits ranging from 6% to 22% in the 2009/10 financial year. We could expect to see buying opportunities emerge during this period as price earnings ratios fall to below medium term levels.

**Investment Strategy** - In addition to taking advantage of equity raisings, we recommend continuing the process of reducing cash holdings by accumulating both equities and corporate bonds during the next quarter. Depending upon the full year reports and the carrying value of the property assets, it may also be an opportunity to accumulate listed property assets after a heavy fall of some 50% of their market value.

**Investment Industry** - In the last few months, the Financial Planning Association (FPA) announced a proposal to phase out of commissions to planners by 2012 and the Investment and Financial Services Association (IFSA) announced a plan to ensure that super fund members have clarity and control of the fees they pay for advice by 2010. All these 'innovations' - clarity and control of fees, no commissions, no third party payments together with regular reviews, risk discussions and portfolio rebalancing - have been central to the Pitcher Partners Investment Services model since 2003!



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*Independent advice you can trust*

*Finding the best person or the best organisation to invest your money is one of the most important financial decisions you will ever make.*

Bill Gross, Founder & Chief Investment Officer, PIMCO