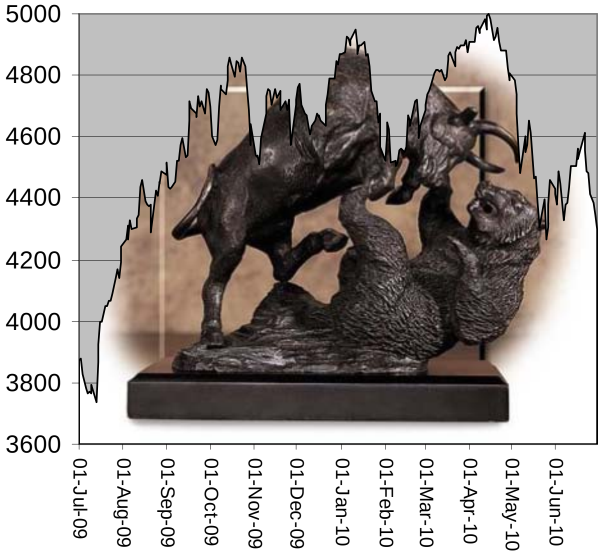
Investment Managers ~ Stockbrokers ~ Financial Advisors

Investment Managers Weekly Review

2 JULY 2010

PERFORMANCE AT A GLANCE

WEEKLY MARKET WRAP		
Aust Market	4237.5	-5.4%
US Market	9732.53	-4.1%
Japan Market	9191.6	-7.4%
UK Market	4805.75	-5.8%
GOLD	1206.7	-3.1%
OIL	72.95	-4.7%
AUS	0.8437	-2.7%



THE AUSTRALIAN SHARE MARKET – 2009-2010

Market Wrap

Australian Market Performance (S&P/ASX 200): 4,237.5, -5.4%

The S&P/ASX 200 Index fell by 242points this week. The Australian share market continued its relentless slide, with continuing concerns about overseas economies; confirmation that China's economic growth was decelerating at a faster rate than expected and fear that some European banks could collapse under the weight of the sovereign debt crisis.

At the close of the 2010 financial year ….This week, we saw the Australian share market close out Financial Year 2010 on its seventh straight day of decline, bringing the S&P/ASX 200 Index up 346.6 points or 8.76 per cent higher for the financial year. This was the best performance since the 25 per cent return posted in the 2006-2007 financial year. The top stock performers within the ASX 20 include ANZ Bank (31.1%), Rio Tinto (27.7%) and Wesfarmers (26.5%).

Global markets endured mixed fortunes over the last 12 months. The Dow Jones rose nearly 17 per cent, Hong Kong's Hang Seng gained about 9 per cent, Japans Nikkei lost 5.8 per cent and the Shanghai tumbled 18 per cent.

So you ask, where to from here? Over the shorter term, we expect market volatility to continue. However, the continued recovery in some key economies as well as Australia should help see markets stabilise over the medium term.

A number of issues which have caused weakness and volatility are being addressed and equity markets should thereafter begin to stabilise.

We have summarised the main issues below:

- The aftermath of the Global Financial Crisis (GFC: late 2007 – mid 2009). The debt funded expansion, resulting in the collapse of many Northern hemisphere banks. We continue to see these banks being rescued by their respective parent country or countries.

- 'Sovereign debt' issues: Portugal, Ireland, Italy, Greece and Spain, known as PIIGS.

- The Resources Super Profits Tax (RSPT), announced by the treasurer in his budget 2nd May. There has been much public debate surrounding the proposed tax, ultimately costing Mr Rudd his leadership.

- China - many continue to question the new industrial revolution happening in China.

We expect the coming half year will continue to be volatile as investors contend with various nations debt levels. With sovereign debt issues causing volatility in credit spreads, we believe that Australian Banks are well placed to enjoy better funding opportunities as lenders seek higher quality investments. Our banking system remains in great shape.

We see strong near term earnings growth prospects for our major banks, underpinned by further improvements in bad debts, moderate lending growth and stable margins. Earnings are supported by diversified sources of revenue and expanding distribution networks. The forward pre-tax dividend yields on our major banks are around 6% or higher, making them attractive investments.

Domestically, a federal election is imminent, which at the moment could go either way, according to the opinion polls. A resolution to the planned RSPT has been welcomed by the major miners – BHP Billiton, Rio Tinto and Xstrata, and will go a long way to ease investor fears about the impact on the sector. The Gillard government has limited the tax to iron ore and coal mines, cut the rate to 30% from 40%, raised the threshold at which the tax kicks in and made generous concessions on depreciation of assets.

The Reserve Bank of Australia will hold its next board meeting on Tuesday 6th July. The expectation is to leave rates unchanged at 4.5 per cent, with a possible move after the June quarter Consumer Price Index figures are published late July.

The fast growing Asian region offers substantial long term opportunities for Australia. We are in the fortuitous position of being geographically located close to two of the fastest growing large economies of the world, namely China and India. They require large volumes of Australia's resources, which we have in reasonable abundance with a capacity to extract and export to these resource consuming nations.

Despite the various issues known to us, affecting our markets, our fundamental analysis gives us the confidence to expect the ASX 200 to be trading around 5,000 over the next 12 months.

Australia - Retail Sales and Building Approvals

Retail sales rose a modest 0.2 per cent in May, a touch softer than the 0.3 per cent expected by the market. The impact of the Reserve Bank's policy tightening (steady increase in interest rates since late 2009) and withdrawal of fiscal stimulus will continue to dampen both retail sales and building approvals in coming months. The ABS reported total building approvals down 6.6 per cent in May, following falls in finance approvals earlier this year which are likely to persist as the full extent of the wind-down in first home buyer demand and interest rate rises from earlier in the year continue to take effect.

The domestic economy appears to be growing steadily, although interest-rate sensitive sectors are now feeling the pinch. Business investment, rather than household spending, has always been expected to be the main driver of economic growth over 2010-11.