

**Dalton Nicol Reid**

**Investment Review to 31 March 2009**



# Market Wrap

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## EQUITY MARKETS

- Strong bounce. Incrementus maintained good performance

## FIXED INTEREST

- 25BP cut
- Rate cuts slowing
- The fixed interest portfolio performed better – more interest in hybrids

## PROPERTY

- Index flat – the portfolio significantly outperformed the index

AS AT 31 MARCH 2009	1 MONTH	3 MONTHS	6 MONTHS	1 YEAR	3 YEARS	5 YEARS
<b>INTERNATIONAL EQUITIES</b>						
Dow Jones Industrial	7.73%	-13.30%	-29.88%	-37.95%	-11.85%	-5.98%
MSCI World Index	7.24%	-12.50%	-31.90%	-43.98%	-15.51%	-5.33%
<b>AUSTRALIAN EQUITIES</b>						
S&P/ASX 200	7.11%	-3.77%	-22.14%	-33.12%	-11.28%	0.96%
<b>FIXED INTEREST</b>						
UBS Comp Bnd (0+yr)	0.12%	0.28%	6.63%	12.77%	6.84%	6.41%
UBS Corp Bd (0+yr)	-0.97%	-0.12%	5.28%	9.59%	5.44%	5.68%
<b>PROPERTY</b>						
S&P/ASX 200 A-REIT	-0.50%	-26.24%	-51.54%	-61.05%	-30.02%	-15.76%

## Can the Bounce Continue?

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- We will know with hindsight!!
- We will look at the drivers of the bounce to date
- Market valuations
- Signposts from previous bear market bottoms

## Key Drivers - Cash

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- Rotation out of cash –
  - past six months US\$226b out of equity mutual funds and US\$282b into money market funds
  - Past two weeks US\$33b out of money markets and US\$1b into equities
  - Incentive remains – large cash allocations and low cash rate

## Key Drivers – Obama Plan

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- Obama Plan to remove toxic assets – market anticipating an improvement in credit markets
- Significant level of global stimulus – likely to see programs having some impact over the next six months
- Some worries for solutions creating further problems eg first home owners grant creates a first home owners bubble

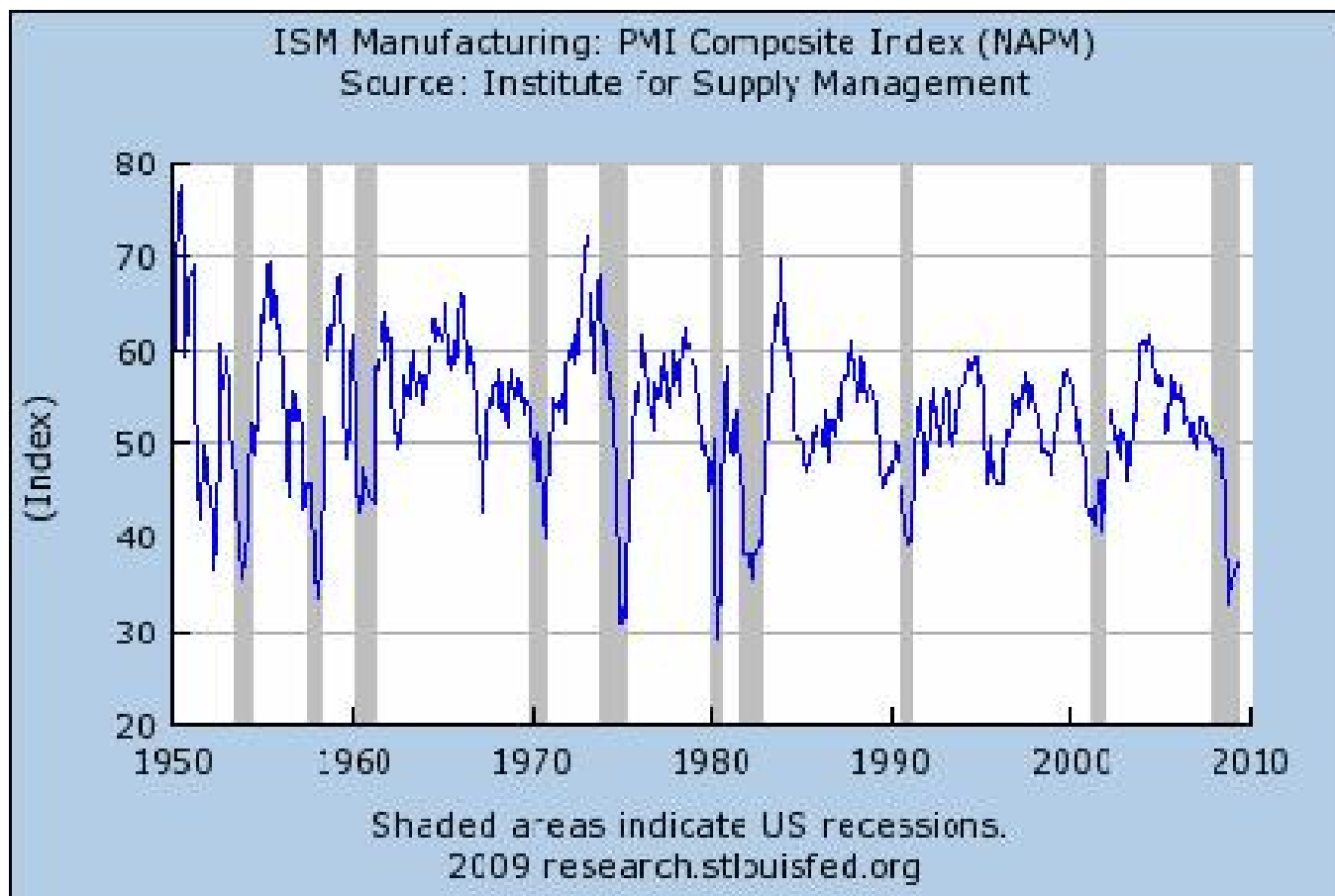
## Key Drivers - Economics

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- Slightly less negative economic news
- China's manufacturing expanded for the first time in six months
- Mortgage rates in the U.S. fell to a record low following quantitative easing efforts by the Fed Reserve
- New US housing starts are running at 550,000 better than the market was anticipating (485,000). Although we note this is still a very low level of new starts with a normal year at more like 1.4m

## Key Drivers - Economics

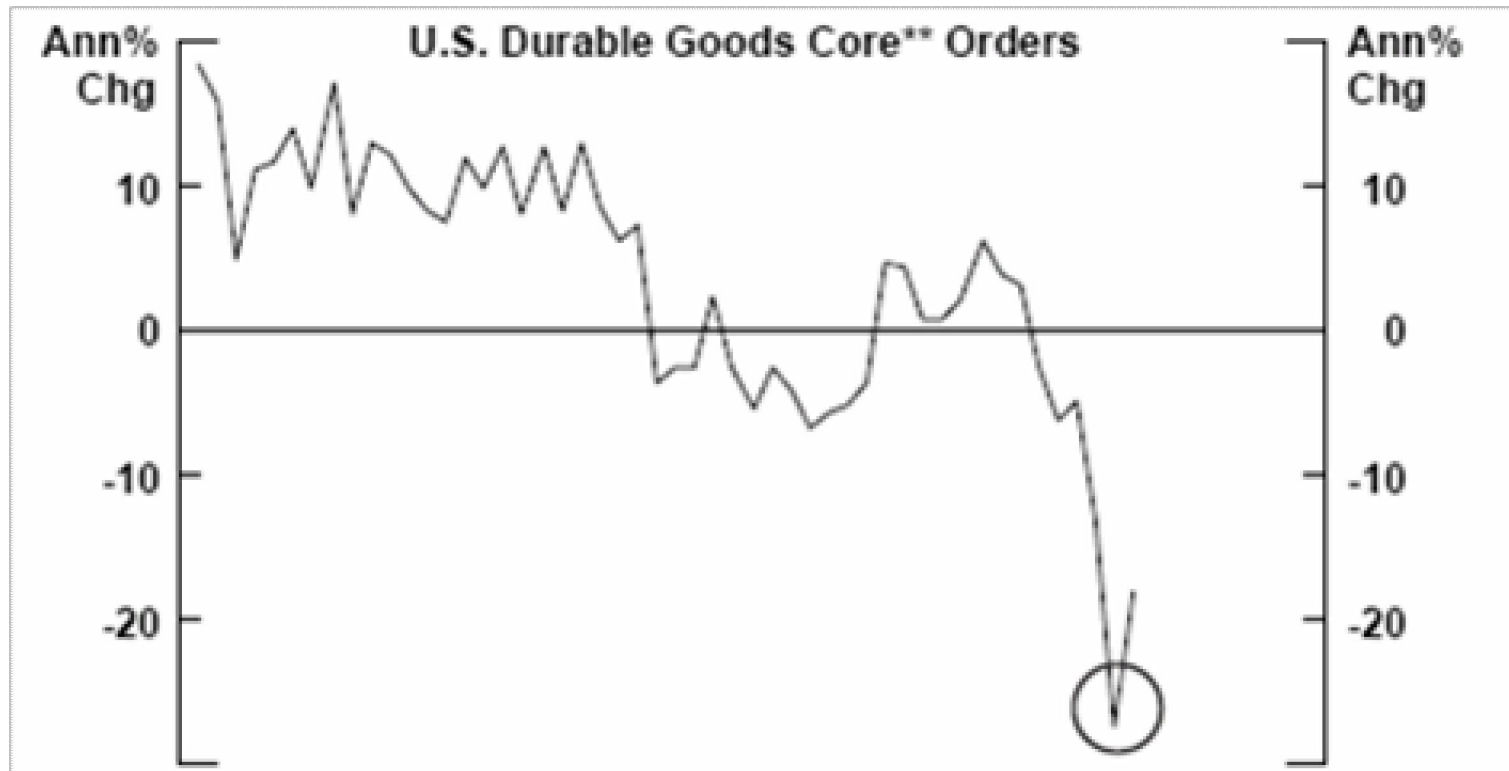
- ISM manufacturing data bottoming?



## Key Drivers - Economics

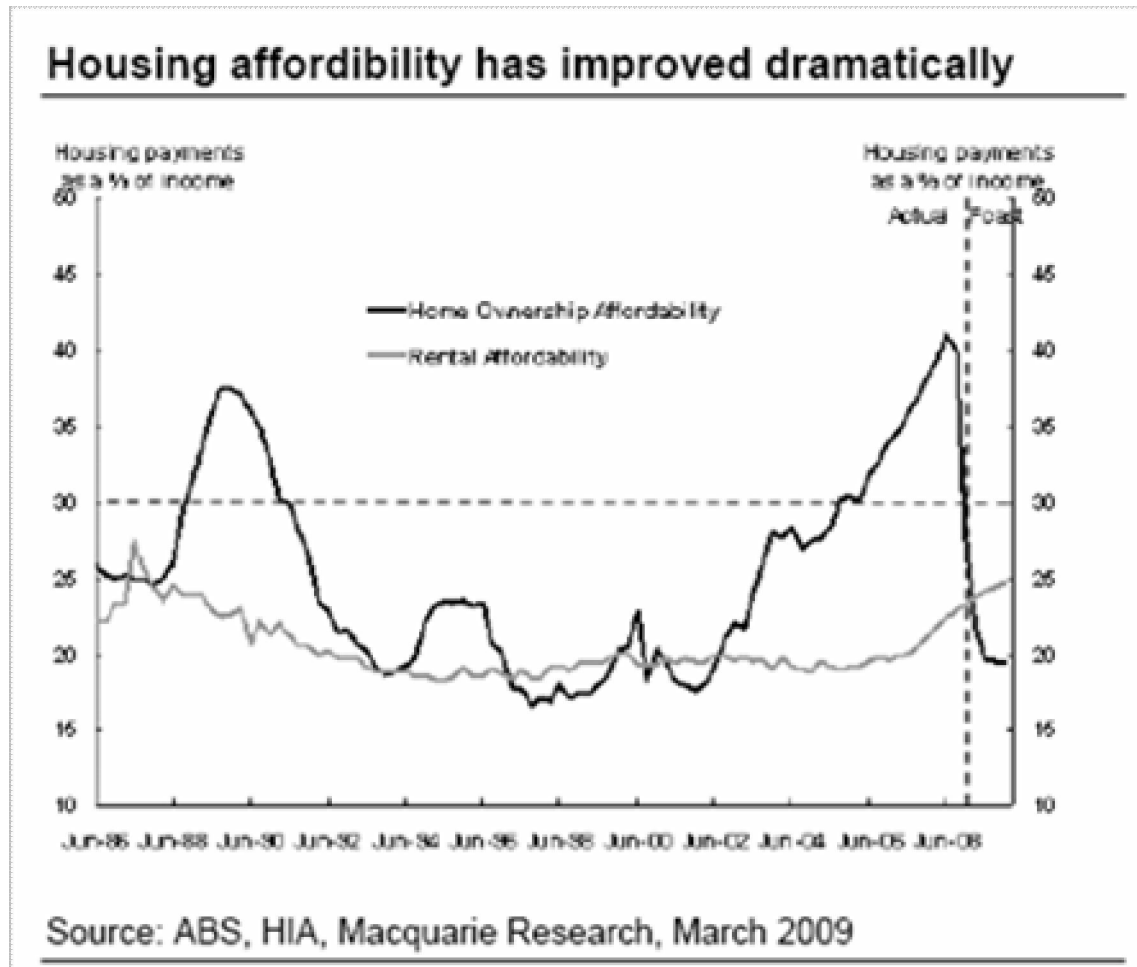
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- Durable goods orders bottoming?



## Key Drivers - Economics

- Housing affordability improving



## Equities Better than Bonds

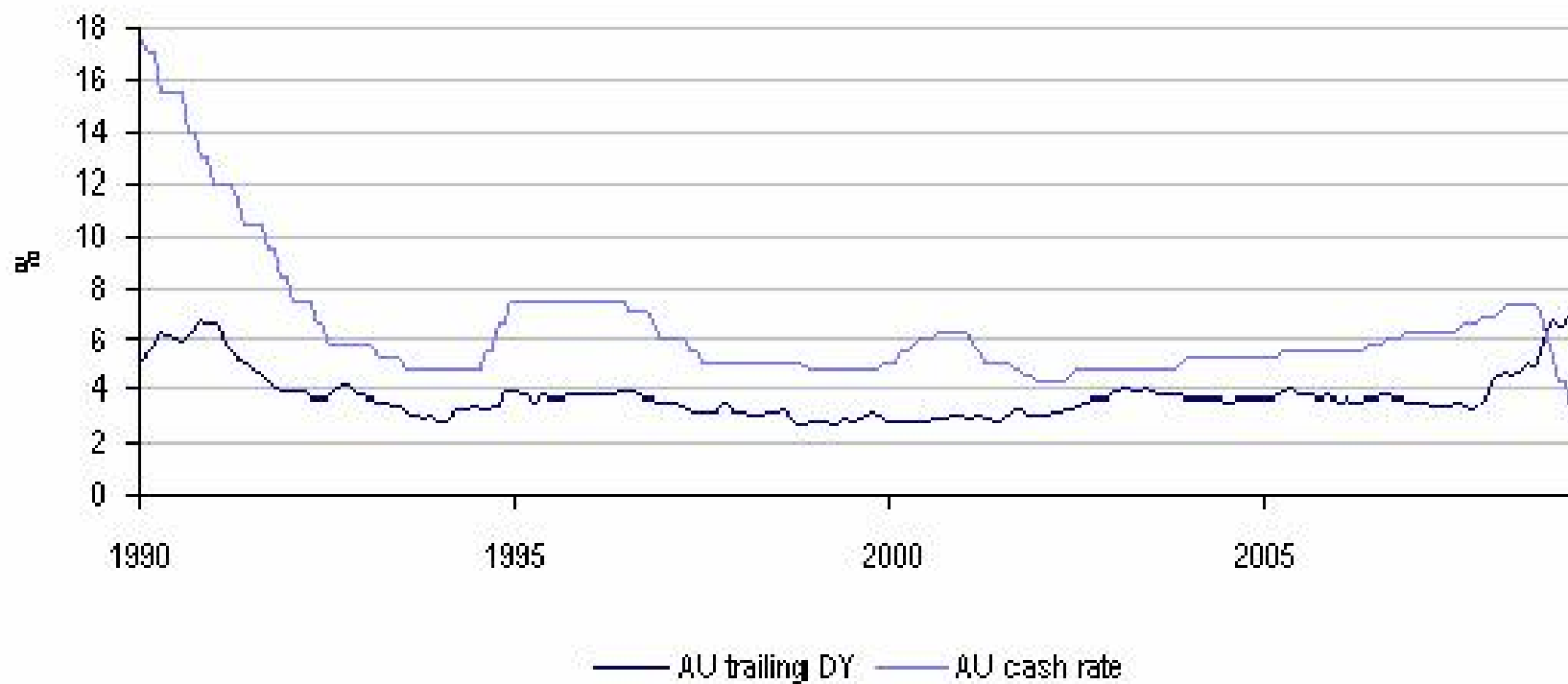
- Over the last 25 years, the total return for U.S. equities have actually been lower than those of U.S. 10-year government bonds
- U.S. stocks have delivered -47% in real returns, but bonds have produced a 71% gain in real terms
- If this were to continue no one would ever invest in risky ventures and economic civilization as we know it would have to stop and even reverse course!

Earnings Yield less Bond Yield



## Equities Better than Cash

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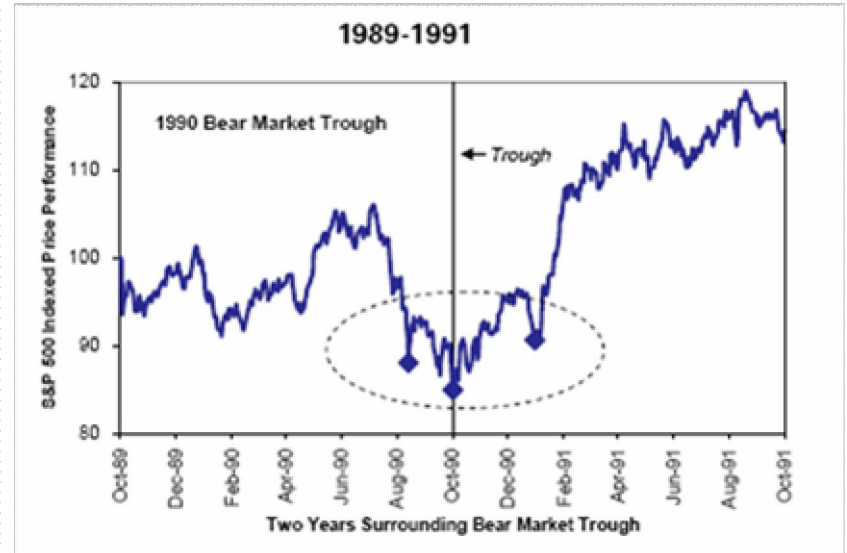


## Sign - Posts

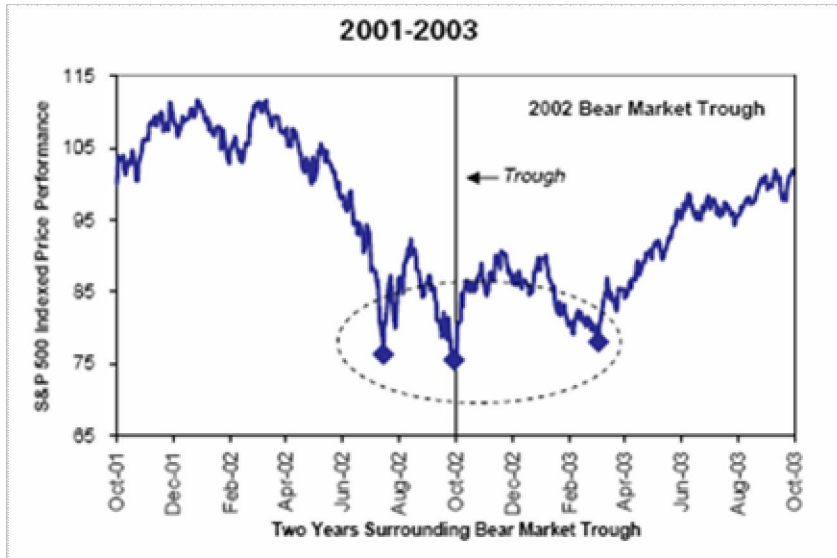
- Following the last five bear market lows, the S&P 500 has registered an average return of 15% during the first month out of the trough (the initial “pop”). In a number of instances the market has retested the cycle low in months 2-5 following the trough



## Sign - Posts



## Sign - Posts



## Portfolio Moves

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- Incrementus
  - Increased BHP and WPL, reduced TTS
- Virtus
  - Increased BHP and WPL
- ProV
  - Increased QBE and reduced banks and DJS
- Fixed Interest
  - SGB Hybrids matured and we accepted the cash
  - We are participating in the Tabcorp bonds

## Portfolio Themes

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- Maintain exposure to companies with strong balance sheets
- We are participating in capital raisings where the capital has a positive use such as an acquisition
- Trends emerging – stay at home, trade down, gamble/ drink, infrastructure spending
- Steady migration away from companies which earn a large proportion of their earnings from maintainable and defensive earnings streams
- China is spending heavily on infrastructure to support their economy
- Major banks are at an interesting junction at present

Overall, the portfolios remain conservatively positioned, in strong companies with good balance sheets

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