



# Pitcher Investment News

**Financial Advice Industry Reform** - The Government has announced its intention to ban commissions to advisors on the sale of financial products. This is intended to be effective from mid 2012. We welcome this announcement having been a forerunner in the campaign against commissions. The small number of commission payments still retained within our practice were completely abolished in 2003/04.

**Superannuation Industry Reform** - We could expect a greater number of lower cost default super funds coming through the retail and industry super funds sector if the Cooper Review's MySuper recommendations are accepted by Government and imposed upon the superannuation fund industry. This is unlikely to impact most self managed super fund members who are typically motivated by both cost and investment control.

**Economic Growth** - After turning in 12% pa growth for Q1 2010, the International Monetary Fund has strengthened its full year growth forecasts for China. Recent economic data from both developed and developing economies has generally been better than expected, with the global recovery in growth in 2010 and 2011 forecast to continue.

**Chinese Property Markets** - With their new found wealth the Chinese have flocked to the property, rather than the equity market, as most companies are still owned by the government. Chinese property prices were also up 12% last year and the Government is attempting to manage what is viewed as an asset bubble. First homes in China require a deposit of 40%, second homes now require 50% deposit and an interest rate premium, and third homes will not be loan financed at all.

**Residential Property and Foreign Ownership** - Despite the abolition of the first home owner's boost and rising interest rates, the Australian residential property has continued to post record prices. There has been much anecdotal discussion about the extent to which foreign buyers have been behind the strength in prices. Government has now announced restrictions on foreign owned residential property purchases and ownership. It will be interesting to observe the impact that these restrictions have on prices in coming months.

**Interest Rates** - Official interest rates have now increased six times since hitting a low of 3% and as at 4 May 2010, have reached 4.5%. Recent commentary from the Reserve Bank suggests further increases remain possible, particularly if home prices remain high and strong recovery continues. Commentators are forecasting official rates of 5% by end 2010 and 6% by end 2011.

**Commodity Prices** - Continued strong growth in China has helped the world's largest miners negotiate more short term contract rates which will bring contract prices closer in line with spot prices. As a result we have seen large increases in contracted iron ore and coal prices as well as increases in traded commodities prices such as nickel, aluminum, tin, zinc, etc.

**Aussie Dollar** - The combination of rising interest rates and rising commodity prices have boosted the price of the Australian dollar which continues to gain against the US dollar as well as other currencies. Should the Chinese revalue their currency modestly in the middle of this year as is widely speculated, this would also be positive for the Australian dollar.

**US Stock Markets** - The Dow Jones recently closed higher for 8 weeks in a row until last week - the longest run of rising weeks since January 2004. In the US, companies are reporting their first quarter results and to date 69% of sales revenues have been better than expected and 83% of profits have been better than expected. Outstanding results have been delivered by Intel, Chevron, JP Morgan and American Express.

## Financial Markets - 30 April 2010

	Current Level	2 Month Return	12 Month Return
<b>Share markets</b>			
AUS ASX 200	4807.4	3.7%	27.2%
AUS ASX 200 (Acc)	33973.1	4.3%	32.4%
US Dow Jones	11008.6	6.6%	34.8%
US S&P 500	1186.7	7.4%	36.0%
US Nasdaq	2461.2	10.0%	43.3%
JPN Nikkei	11057.4	9.2%	25.3%
UK FTSE 100	5553.3	3.7%	30.9%
German DAX	6135.7	9.6%	28.6%
French CAC	3817.0	2.9%	20.8%
HK Hang Seng	21108.6	2.4%	36.0%
Shanghai Comp	2870.6	-5.9%	15.9%
India Sensex	17558.7	6.9%	54.0%
Sth Korea Kospi	1741.6	9.2%	27.2%
NZ All Index	769.8	2.2%	11.7%
MSCI AC World ex-AUS (LC)	1208.7	6.6%	34.5%
<b>Property</b>			
ASX 200 Prop (Acc)	19852.2	3.7%	37.4%
S&P Global Prop Index	263.0	11.8%	62.4%
<b>Commodities</b>			
Gold (oz)	1178.9	5.5%	32.8%
Oil (barrel)	86.2	8.3%	71.1%
Aluminium	2184	6.5%	52.7%
Copper	7365	4.1%	63.1%
Lead	2176	1.8%	60.6%
Nickel	25810	25.9%	124.3%
Tin	18095	8.5%	44.1%
Zinc	2256.0	4.6%	60.2%
Reuters/Jefferies CRB Index	277.7	1.1%	24.9%
<b>Currency</b>			
AUD/USD	0.92	3.2%	27.2%
AUD/EUR	0.69	5.7%	26.6%
AUD/GBP	0.61	3.0%	23.3%
AUD/JPY	86.78	8.9%	21.1%
<b>Other</b>			
VIX Index	22.1	13.08%	-39.59%
Baltic Dry Index	3354	22.50%	87.79%
TED spread	0.18%		
<b>Official Cash Rates</b>			
New Zealand	2.50%		
Australia	4.25%		
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	3.75%*Cash rate less 50bp		
SGB AT CALL	4.23%		
CBA 30 Day TD	5.07%		
CBA 90 Day TD	5.27%		
CBA 12 Month TD	5.82%		
10 Yr Govt Bond	5.71%		



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**Aussie Stock Markets** - The ASX200 broke through the 5000 barrier before retracing back to 4807 at the end of April. The percentage increase in the 60 days to 30 April was 4.3%. Many commentators believe that now that the barrier has been broken, it will be regained and we could be on our way to 5500 in 2011 with an EPS forecast of \$370 certainly supporting a level of this order. While we are positive on Australian corporates, we do not see the market at bargain prices anymore. On a prospective PE of 15.6, the market is fairly valued and has priced in expectations of 7% earnings growth for 2010 and 25% earnings growth for 2011.

**Global Risks** - The next steps in the bailout of the Greek government are taking place though the risks of knock on effects to countries such as Portugal, Spain and Italy remain. We have now seen the debt of Greece, Portugal and Spain downgraded by ratings agencies. In addition, the possible impact of re-regulation and civil and criminal actions on large financial players creates risks of near term volatility and weakness in markets.

**Global Exposure** - Notwithstanding the risks, as a general principle of diversification we seek to help you construct portfolios with equities and debt that have a material global exposure to both recovering developed markets and growing emerging markets. Fortunately, we have access to numerous globally exposed companies and funds in the Australian market.

**Confession Season** - We are now entering one of the two traditional confession months (May and November) for Australian corporates, a period in which expectations are managed down by those corporates experiencing any difficulties. Sales, costs, the impact of currency, the impact of competition are all possible areas which companies may disclose as part of the continuous disclosure obligations to the market.

**Henry Review of Taxation** - The Henry Review of Taxation and the Government's response to it was released on 2 May 2010. This has raised a number of uncertainties, key of which is the impact of a proposed Resources Super Profits Tax (RSPT). In addition, it is proposed to extend the Super Guarantee from 9% to 12%; to extend the concessional contribution for people over 50 to \$50,000 if balances are less than \$500,000; to reduce corporate taxes and to provide additional tax relief to small businesses. The Federal Budget will be brought down on 11 May 2010 - though it may not contain too many new taxation or superannuation surprises.

**Superannuation Contributions** - Subject to the Budget of course, we remind clients of the importance of maximising both deductible and non-deductible superannuation contributions where cashflows allow. Contribution limits not taken advantage of in any one year are wealth building opportunities that may never be repeated.

**Portfolio Rebalancing** - During our next meetings with clients we will discuss the extent of realised gains and losses from portfolios for the year to date and discuss any portfolio rebalancing that may be required.

**Asset Allocation** - Our overall view on markets is to stay neutral with most asset allocations retaining some overweight to cash. Increasingly active exposures to equity markets should replace index exposures. Preference for investment grade credit rather than sovereign debt is our recommendation in fixed interest markets.

**Minimum Pensions** - Finally, a note for clients receiving pension payments from their superannuation fund. We will be advising you this quarter of the minimum pensions which are required to be taken before 30 June 2010.

**US Debt** - I have just returned from 2 weeks in the United States and snapped this photo in the street in which I was staying. The number is going up by US\$4 billion a day, by US\$166 million an hour and by US\$2.7 million every minute. It was placed high up on a building where very few people seemed to notice it. I couldn't take my eyes off it!

