



By Managing Director, Indy Singh

In the previous commentary written in February 2009, we stated that unprecedented measures had been taken to resuscitate global economic activity from its financial crisis. Trillions of dollars were injected by policy makers across the world to prop up their banks and stimulate economic activity. We mentioned that once fears of a meltdown receded, share markets would respond positively and decisively.

It appears February itself was the turning point for global share markets. Investors across the world felt enough had been done to bring the world back from the abyss, that Armageddon was not going to occur and that share markets had been seriously oversold. The table below describes the annualised returns earned from various share markets for five years before the decline started, the declines we experienced to end February from various share markets and also, the market recovery from 1 March to 30 June.

Table 1

### Global Share Market Returns

Share Market Index	Annualised Returns for 5 years to June 2007	Share Market Declines due to financial crisis up to February 2009	Share Market Recovery from 1 March to 30 June 2009
France	+8.9%	-55.7%	+16.2%
Germany	+11.1%	-52.4%	+25.1%
UK	+7.3%	-43.0%	+10.9%
Hong Kong	+15.5%	-59.1%	+43.5%
Korea	+16.4%	-48.5%	+30.8%
Emerging Markets	n/a	-53.2%	+36.0%
Japan	+10.4%	-58.3%	+31.6%
India	+35.2%	-56.2%	+63.0%
US	+8.4%	-52.6%	+25.1%
Australia	+19.3%	-51.4%	+19.7%
Australia (Listed Property Trusts)	+11.6%	-73.6%	+12.3%

As can be seen, the bulk of the recovery has come in the space of just three months. The Australian market recovered by 19.7%. Substantial financial stimuli has served to overcome widespread fear and as confidence returns investors are becoming prepared to take some risks as the above Table 1 shows.

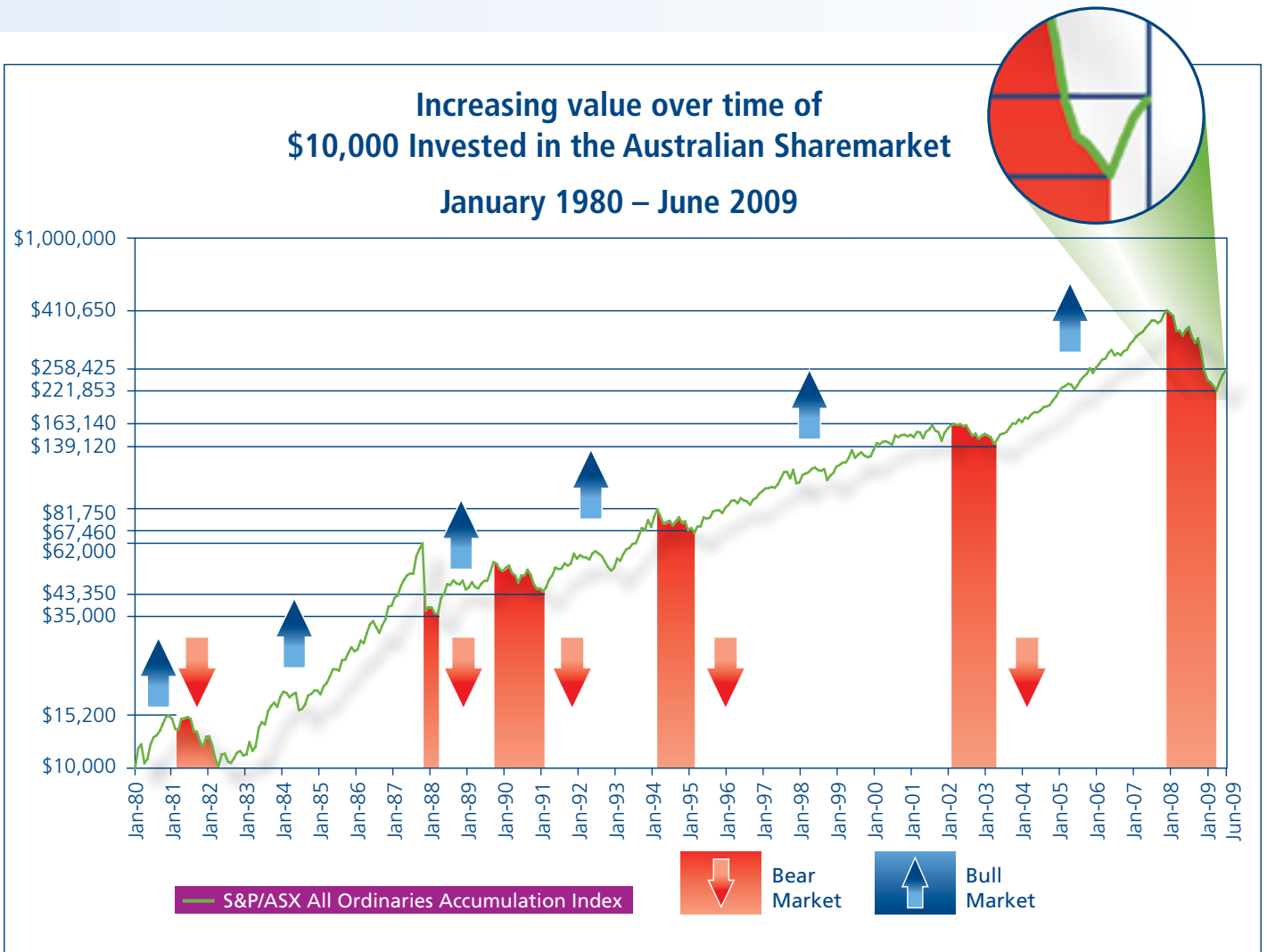
## THE ECONOMY

In our view, the Australian and global economies have started to stabilise, but have not yet returned to normal growth levels. Companies usually retrench employees when they receive data that evidences falling revenues and sales. So even if an economy started to show indications of a rebound, historic corporate profit data could be weak and result in employee retrenchments. Credit markets and lending have not yet responded to stimulate an economic expansion. One reason is that bank lending lags the economy and usually starts after an economy shows signs of growth. Meanwhile, there is massive excess capacity in goods and labour markets and, for now, deflation seems more of a risk than inflation. Therefore, interest rates are likely to remain stimulative and be kept on hold or even reduced through 2010. In other words we could see a fluctuating economic and financial environment for the next few years as the world tracks to eventual recovery.

## THE AUSTRALIAN SHARE MARKET

Our share market now appears to be taking a breather and sitting back to assess what future corporate profits may look like. Leading economic indicators have stopped declining and are turning upwards towards positive territory, which is a good sign. Interest rates are at historically low levels and lending support. Valuation indicators show share markets are still trading at undervalued levels and, as well, there is substantial cash sitting on the sidelines barely earning 2% a year and waiting to re-enter the market. This indicates that we may have a stronger share market going forward and even if the ride is going to be a rocky one, shares should outperform cash and bonds.

In February we presented a graph which we have updated to 30 June and reproduced below.



In spite of its simplicity, the graph allows us to draw some powerful conclusions:

After excluding tax on earnings and reinvesting all distributions, an investment of \$10,000 in January 1980 had grown to \$410,000 by end January 2008. This happened in spite of five bear markets (declining share markets) during the period. From its high point in 2007, this hypothetical investment had fallen to \$221,000 by February 2009. However, by 30 June this year, this investment had recovered to a value of \$258,000. Even an index exposure at this 30 June value would have delivered a dividend income of around \$12,000 a year to an investor, which is well above the entire original investment of \$10,000 made in 1980.

It can also be observed that whilst periods of poor share market returns have occurred (and can be expected to continue to occur), these have always been shorter lived than periods when share markets have grown in value. We have been through a traumatic period which has been one of the worst in living memory. The share market has again turned upwards. In the absence of serious policy mistakes, we do not expect a re-test of the March 2009 lows.



## INTERNATIONAL SHARE MARKETS

We are of the view that international shares will most likely behave in a similar manner to Australian shares coming out of the recent global financial crisis.

However, there could be a further strengthening of the Australian Dollar against the US Dollar and this should detract from international share fund returns for Australian investors. An exception could be the share markets of emerging economies, in particular India and China which have both shown positive economic growth through the crisis when most global economies have gone into recession. Table 1 is indicative of the strong recovery shown by Indian and Chinese (Hong Kong) share markets. We believe this trend is likely to continue.

## PROPERTY TRUSTS

Property trusts are still being weighed down by fears that they may not be able to roll over their loans and that they may be forced into fire sales of their assets to repay their debts. We do not fully subscribe to this view. While some poorly managed property trusts, mainly unlisted ones, may suffer this fate, we are of the view the larger listed property trusts will more than likely weather the storm and/or raise additional capital. We remain cautious, but we do not see reason to fear the well managed listed property trust sector, as very good value now appears to be emerging.



## PLEASE KEEP IN TOUCH WITH YOUR FINANCIAL ADVISER

Your Financial Adviser is well equipped and trained to work with you and construct a tailored financial plan that agrees with your risk tolerance and investment time horizons. With your agreement and understanding, such a plan aims to target your desired financial goals through diversified investments. Maintaining contact with your Adviser over the last year would have provided you with the opportunity to clarify any doubts you may have had about your investments. Please maintain contact with your Financial Adviser, who can ensure your portfolio is reviewed as required.

Thank you for your support through the difficult period we have been through together. I look forward to better markets and healthier portfolios in the future.

Indy Singh  
Managing Director  
Fiducian Portfolio Services Limited



Fiducian Portfolio Services Limited ABN 13 073 845 931 AFS Licence No. 231101

The information in this document has been compiled from sources considered reliable, but is not guaranteed. Historical financial information is not necessarily indicative of future performance. Fiducian Portfolio Services Limited (Fiducian) ABN 13 073 845 931 AFS Licence No: 231101 recommends that you seek advice before making any investments. Fiducian accepts no liability for any loss suffered by anyone who has acted on any information in this document. [www.fiducian.com.au](http://www.fiducian.com.au)