

Light at the end of the tunnel

The last three weeks of March has seen a significant turnaround in global sharemarkets and an improvement in investor sentiment. Our All Ordinaries Index was up 7.14% for March (and including the first few days of April, up 18.4% from its low) while the US Dow Jones finished up 7.73% (currently up 23% from its low). Below is a breakdown of the various indices and sectors for March:

INDICES	MARCH	PRICE	FIN YTD
All Ords Index	+7.14%	3532	-33.8%
ASX 200	+7.11%	3582	-31.3%
Dow Jones	+7.73%	7609	-33.0%
S&P 500	+8.54%	798	-37.7%
NASDAQ	+10.94%	1529	-33.3%
SECTORS			
Industrials	+6.31%	4789	-27.1%
Resources	+9.27%	4075	-39.1%
Property Trusts	-0.50%	663	-53.0%
Banks Index	+15.00%	4552	-14.4%
COMMODITIES			
Australian Dollar	+8.24%	0.6914	-27.9%
Gold	-2.11%	922.6	-0.6%
Oil	+12.50%	49.67	-64.5%
Copper	+14.20%	3872	-55.9%
Nickel	-2.30%	9455	-56.4%
Zinc	+19.10%	1280.5	-31.7%
Aluminium	+5.60%	1362.5	-55.7%

Whether March 9th was the bottom is anyone's guess, but we do see light at the end of the tunnel. Investment markets present unusual value as high quality assets have been sold at prices well below their fundamental value. Indeed, the huge price falls we've experienced during 2008/09 paved the way for the March rally, supported by the unprecedented action by governments and central banks to support global economic growth.

To put the recent bear market into perspective it is important to consider the following chronology of bear and bull markets since the '1987 Crash'... Since the top of the market on 21st September 1987, the All Ords **fell 50.3%** in 36 trading days, then went **up 55%** in 469 days, **down 33%** in 361 days, **up 179%** in 2890 days, **down 23%** in 280 days, **up 158%** in 1210 days and then, assuming March 9th 2009 was the bottom of the current bear market, we **fell 55%** in 352 trading days.

The net result is that in the last four bear markets we have dropped 161% in 1030 days and in the last three bull markets gone up 391% in 4569 days. On that basis two things become apparent.

1. Since 1987 the market rises 82% of the time and falls 18% of the time.
2. In a bear market we fall twice as fast as we rise.

"You can get fearful in five minutes but you can't get confident in five minutes" Warren Buffett

Optimism aside, it would be reasonable to expect that the 'disconnect' between current economic conditions and the always forward looking sharemarket will continue. This is what occurred during 2008, when markets fell in anticipation of the recession we're actually living through today.

For this reason, investors need to be careful about 'doubling-up' on the gloom. In other words, avoid adding the 2008 market meltdown (an anticipatory event) to the sober economic outlook of today (rising unemployment, falling orders etc). These were not two mutually exclusive events nor do they combine to form a spiralling downward pattern - they are both part of the same

economic cycle and the incoming recession is fully expected and already factored into share prices.

As you might expect, the anticipatory nature of markets can also work in your favour as they usually rise 6-18 months ahead of an expected economic recovery. Just as last year's market meltdown took place at a time of general economic prosperity, markets often rally in the middle of recessionary economic conditions in anticipation of better times ahead.

Don't miss out on the rebound...

Our view is that extraordinary value exists in markets. Severe market dislocation has created compelling buying opportunities, and there are significant signs that value exists in most asset classes, particularly shares.

Even after the rise in March, share valuations are well below their long-term average. This is understandable when the momentum of profits is downward, but as mentioned earlier, current pricing does appear to have taken this negative trend into account.

In short, investors can expect to receive a considerable premium for holding shares once the market normalises and volatility subsides.

Allow enough time...

It's what happens over a longer period of time that matters - overall the good times far outweigh the bad. The cruel irony is that, just as economic conditions couldn't seem bleaker, many investors are, understandably, tempted to move to the relative safety of cash, missing out on rallies like the one we've just had. So it is important to allow enough time for recovery to take hold, as bad timing can have a devastating impact on portfolios over the long-run.

So going forward from here, we believe investors have essentially three options...

Actively trade on momentum. During volatile periods it is possible to generate higher returns through short-term trading within sectors (eg buying in when markets rally and quickly exiting as sentiment cools). This is the most difficult, but potentially most rewarding option in a bear market, but you must be prepared to monitor your portfolio on a frequent basis, maintain tight stop losses and accept the time, cost and energy required to achieve positive results.

Stay the course. The long-term 'buy and hold' approach is possibly the less time consuming and less emotionally taxing option. The basic idea is to buy (either personally or through a fund manager) good quality assets with the potential to achieve superior returns/income over the medium to long term. The downside is that during challenging periods, staying the course and maintaining the necessary discipline can be difficult as investments fall in value.

We generally favour this option for most clients as higher quality assets usually recover and eventually deliver worthwhile results.

Invest in cash and wait until its 'safe'.

If you could predict 2008 with perfect foresight, then it made some sense to be in cash as it was one of the few asset classes to generate a positive return (+7.6%). But does moving to cash make sense for investors now?

Our view is that cash has already had its time in the sun. Official interest rates across the globe have been cut in response to the financial crisis. Returns on cash are at a generational low. In fact, the last time the cash rate in Australia was this low (3.25%) was 1964. In the US and UK, rates are barely above zero. Interest rates are likely to remain low for some time.

Just the same, in the face of mounting losses, we understand the need for greater certainty, particularly for retirees, so if preserving capital is the key objective, cash

can be an appealing option. However, waiting six months until its 'safe' probably won't alleviate concerns or reduce risk - the markets (both shares and property) have never been safe and have always involved risk, even during the 'good times'. We've also found that many investors who decide to make the move to cash, after enjoying a brief period of relief, soon become anxious about missing out on returns when markets rally, sometimes leading to rash investment decisions, further losses (and more stress).

Bullet-proof your investments

Very few could afford to re-live another 2008, however, for reasons already discussed, it's important that investments are quickly put back to work. The question is, of course, how do you position your portfolio to achieve above average returns without risking your capital again?

At long last, an investment product now exists that finally addresses this issue head-on.

In the aftermath of last year, the **Axa Group** (ex National Mutual) have responded to the public's overwhelming desire for greater certainty and predictability by introducing a unique 'capital protected' investment product (called '**North**') to the Australian market. It is available for superannuation, pensions and investments.

Available in the US since 1996, 'North' seeks to bridge the gap for investors who want to grow their portfolio but remain uncomfortable about the associated risks. In the past, not satisfied with these two paths, many cautious investors would opt for a lower risk, lower return option (and pay significant fees for the 'privilege'), possibly stunting the portfolio's potential. North offers a different way.

Rather than 'settling' for a watered-down investment portfolio, North offers three typical strategies to choose from - essentially Balanced, Growth and High Growth options. Within these broad guidelines you then select investments from North's menu of 45 managed funds that

will make up your specific portfolio (just like other platforms such as ING, Navigator, Colonial First State etc). The difference between North and other platforms is the capital protection feature.

Depending on your own requirements you can choose from two different types of capital protection (for an annual fee) or no protection at all. You can also turn the protection on or off when you like.

Tactical or Automatic?

The two capital protection options on offer are called the '**Protected Growth**' guarantee' and the '**Protected Investment**' guarantee. Obviously there are some subtle differences, but put simply, either option can provide the guarantee that your **contributions plus any growth** (less any withdrawals and adviser fees) will be returned to you in full at the end of a particular term.

The essential differences between the two revolve around the **term** (5 and 7 year terms vs 10, 15 and 20 year terms) and **control** (tactical vs automatic locking-in of your capital protection).

For example, using the 'Protected Investment' guarantee option, assuming your initial \$400,000 investment fell to \$350,000 in year 3 of a 7 year term, you could choose to either withdraw your money immediately (accepting the capital loss) or remain in the fund knowing that you would receive at least \$400,000 (plus any growth) if you go the distance to year 7.

The opposite is true. Using the Protected Investment option again, if your contributions grow in value (eg \$400,000 to \$450,000), you can either lock-in your growth (as you go along) or if you prefer, dispense with the guarantee altogether and reduce fees. Again, this would be your choice.

The 'Protected Growth' option **automatically** locks-in any growth you may have on your annual anniversary date. It also offers 10, 15 or 20 year terms (instead of 5 and 7) and the added '**available balance**' feature (details available by contacting Westmount).

Flexible

It is also important to highlight that at no time is your money 'locked-away'. Your chosen 'term' merely refers to the capital guarantee aspect of your fund, in other words, the period of time you would need to be in your fund to benefit from the guarantee.

Cost

North's platform administration fees are similar to others and should be discussed with us on a case-by-case basis. North's 'guarantee fee' will depend on your chosen guarantee option, term and investment strategy and ranges from 0.95% to 2.95%, although we expect that most investors would pay around 1.40% pa to 2.00% pa for this option. But as Axa's menu of investments includes several 'index funds', you may be able to reduce your management fees to help offset this additional cost.

Axa 'North' is a multi-award winning product and includes a few more features than we've discussed. Clearly, North won't appeal to everybody, but in light of recent economic events, we suspect Axa will have no problems attracting new clients and other companies (possibly ING) will hopefully follow. This product is difficult to fault. Full marks to Axa.

Feel free to contact us if you'd like more information.

In the news...

Historic G20 agreement

LONDON - World leaders clinched a \$1.1 trillion deal on Thursday to combat the worst economic crisis since the Great Depression and said financial rules would be tightened to stop it happening again.

U.S. President Barack Obama declared it a "turning point" for the world economy, even though he had won no promises for more government spending to combat a deepening world recession.

"We have agreed on a series of unprecedented steps to restore growth and prevent a crisis like this from happening again," Obama told a news conference. "We've also rejected the protectionism that could deepen this crisis."

French President Nicolas Sarkozy celebrated the waning of the Anglo-Saxon model of lightly regulated capitalism, which many blame for excess that has triggered the crisis.

G20 leaders from the largest developed and emerging economies ticked off a raft of actions on politically sensitive topics - new rules on bonuses, publishing a blacklist of tax havens that could lead to sanctions, imposing oversight on large hedge funds and on credit rating agencies. The tax havens marked a victory for France and Germany.

Stocks rally on G20 optimism

US stocks shot up on Thursday as the market cheered decisions at the G20 crisis summit and revamped US accounting rules that could ease financial pressure on banks.

The Dow Jones Industrial Average rose 216.24 points (2.79 per cent) to settle at 7,977.84 after breaching the psychological 8,000 barrier earlier in the day as the market rallied for the third consecutive day. The tech-heavy Nasdaq composite added 51.03 points (3.29 per cent) to 1,602.63 while the broad-market Standard & Poor's 500 index climbed 23.29 points (2.87 per cent) to a provisional close of 834.37.

Federal probe into BHP mine sackings

The federal government has launched an investigation into BHP Billiton's sudden sacking of 1,800 workers at its \$2.2 billion Ravensthorpe nickel project.

Trade surplus a recession buffer

Australia has shrugged off a 30 per cent dive in regional trade to chalk up an amazing \$2.1 billion trade surplus in February, the second-best result on record.

Miner set for buying spree

Global gold mining giant Newmont is cashed up to pursue acquisitions and says the \$US2.9 billion (\$4.12billion) Boddington gold project in Western Australia is on track to start production in mid-2009.

WA tourism numbers rise in January

Passenger numbers flying to regional areas in the state have fallen dramatically in January while overseas tourists heading to Western Australia have jumped 26 per cent.

Latest figures from the federal government show the number of inbound and outbound passengers flying with WA's regional airlines dropped over 20 per cent each as compared to figures recorded in December last year.

In total, 28,734 people flew with the regional airlines, down 21 per cent from December's 36,521. It was a similar fall compared to January 2008 numbers with 35,603 passengers.

In the international space, there were 145,541 passengers that touched down in WA, up from the previous month's 115,682.

China deal for OZ

Australian miner Oz Minerals has agreed to sell most of its assets to China's Minmetals, just days after the Australian government blocked the deal. The renegotiated deal worth \$1.2bn should satisfy security concerns raised by the original offer. The deal would help rescue the world's second-biggest zinc miner from its debt crisis and secure its future.

China GDP growth 10% by year end

China's economy may grow as much as 10 percent by the final quarter of this year as the government's 4 trillion stimulus package (\$585 billion) takes effect, Nomura Holdings Inc. said.

"An investment boom led by the government's stimulus package and a very low growth rate in the fourth quarter of 2008 may push growth to rebound to around 10 percent by the fourth quarter of 2009", Sun Mingchun, an economist at Nomura in Hong Kong, said yesterday. The economy grew 6.8 percent in the fourth quarter of 2008.

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