

Investor confidence slowly recovering

The events of the last twelve months have, understandably, shaken confidence in Wall Street, banks, business leaders, governments and even our own resource rich bullet-proof economy. After fifteen years of uninterrupted growth, the 'good times' officially came to a painful and abrupt end during 2008 forcing us all to revise our expectations going forward.

So, as the global 'recession' continues to deepen, it would take a brave analyst to 'call the bottom' against such a miserable backdrop. By now, most would agree that markets have now fully priced-in most of the bad economic news that is likely to come out in the short-term. However, a growing number of observers have gone one step further to suggest that, while market volatility is likely to continue for some time, the worst may be behind us.

Too optimistic? Not necessarily. Over the last two months we've seen several capital raisings, which often act as a drag on markets, plus some pretty sobering economic news and yet the share market has been quite resilient during this period. It is also worth noting that a recent HSBC survey of fund managers uncovered that about 50% of the industry are currently in the process of increasing their exposure to 'overweight in equities' status.

In the US, while public expectations of the incoming President are typically sky high during the honeymoon phase, Barack Obama's inauguration should inject a circuit-breaking sense of hope, optimism and direction across the political spectrum, at least for a while. This positive change in the mood of the world's largest economy should not be underestimated.

It is also expected that President Obama will introduce a massive stimulus package within days of taking office. If received well by the financial markets, this could conceivably spur renewed market optimism.

Of course, the downside risk going forward from here is, as always, the unexpected (ie a much sharper slowdown, a corporate/political scandal, war, natural disasters etc). But as we already know, unwanted surprises are simply a part of investing and are pretty much unavoidable, even in more favourable conditions.


But for now, thanks to lower interest rates, lower oil prices and the promise of a variety of government sponsored stimulus programs designed to breathe life back into troubled economies, there are tentative signs that investor confidence may be slowly improving, despite deteriorating economic conditions in the shorter-term.

While a sustainable upward shift in shares and property will only occur when people can actually see for themselves that a recovery in the economy is on the way this may now be the appropriate time to begin laying the groundwork for our eventual recovery.

Wishing you all a happy, healthy **and calmer** 2009.

Rick Maggi

How bear markets have ended since 1960...

	% fall	% gain in first 12 months after low
Sep 60 – Nov 60	-23.2	+12
Feb 64 - Jun 65	-20.4	+9
Jan 70 – Nov 71	-39.0	+52
Jan 73 – Sep 74	-59.3	+51
Nov 80 – Jul 82	-40.6	+39
Sep 87 – Nov 87	-50.1	+35
Aug 89 – Jan 91	-32.4	+39
Feb 94 – Feb 95	-21.7	+25
Mar 02 – Mar 03	-22.3	+27
Average	-34.0	+32
Nov 07 - ?	-50.8?	?



	% fall	% gain in first 12 months after low
Aug 59 – Oct 60	-13.9	+12
Dec 61 - Jun 62	-28.0	+9
Feb 66 – Oct 66	-22.2	+52
Nov 68 – May 70	-36.1	+51
Jan 73 – Oct 74	-48.2	+39
Nov 80 – Aug 82	-27.1	+35
Aug 87 – Dec 87	-33.5	+39
Mar 00 – Oct 02	-49.1	+25
Average	-32.0	+32
Oct 07 - ?	-48.5??	?

China still moving forward

The global financial crisis may have dealt a severe blow to most Western economies, but an expert on China predicts the communist country’s investment opportunities remain robust despite the international slowdown.

Xisu Wang, principal consultant of ThinkGlobal Consulting and a commentator on China’s economy, acknowledged that the country’s export business is suffering due to the massive slowdown in foreign consumer demand.

However, don’t be too quick to dismiss China as an investment hub, said Wang. At the moment infrastructure seems to be the flavour of the month, with new bridges, toll roads, airports and other projects mushrooming across the country. But what’s next for the upcoming global player?

“Power consumption, energy, environmental protection, food safety – all these will (provide) very good income because the government will give policies and preferential treatment to investors who support these industries,” said Wang.

The trick to tagging the next big investment opportunity lies in a combination of research and monitoring of China’s government policy.

“The Chinese economy is very much dominated by the government...and the government highlights what’s next in

their national development policies. If you follow that clue, then you know where to invest,” said Wang.

China may seem like an investment haven with its predicted GDP growth and the \$94 billion recently pumped by the government to stimulate the economy. But there are drawbacks – Chinese companies are opaque compared to their Western counterparts and Aussie investors will need to bank on proper research to select where they’d like to invest.

I've found that when the market's going down and you buy funds wisely, at some point in the future you will be happy. You won't get there by reading 'Now is the time to buy.'

Peter Lynch

Market myths and truths

Myth 1: Falling markets are the best time to buy

While declining markets usually recover, it can take time. Some investors see a drop as an opportunity to buy securities at a discount, while others see it as the start of a deeper downturn.

It is important to keep in mind there is no guarantee that share prices will recover to their previous value. Sometimes, there is a good reason why individual share prices fall, reflecting underlying corporate health.

Predicting the bottom of the market is extremely difficult. That’s why many seasoned investors use a dollar cost averaging strategy instead. Rather than investing all their money at one, they drip feed it into the market so they can average out share prices over time. This has the effect of averaging out market fluctuations.

Myth 2: Market timing beats buy and hold

Intuition tells us that the best time to buy is when prices are down, and the best time to sell is when prices are up. Timing the markets for the best time to invest is easier said than done. Even professional fund managers find it difficult to continuously time the markets for the right time to invest.

Sharemarkets are unpredictable and if you try to time the market, you have to get two important decisions right: when to get out and when to get back in. You may miss the recovery completely and have to pay a higher price to get back into the market. You also risk missing out on market growth.

Myth 3: Sell when the market drops

Investors with a short-term view of the sharemarket are most likely to sell when the markets start to fall. The fight or flight response is a natural human reaction to panic. Unfortunately, fleeing the sharemarket when things turn sour crystallises your losses. It can be costly in terms of performance, transaction costs and capital gains tax – something investors often overlook. It also means you may be out of the market when it recovers and miss out on future market growth.

Truth 1: It's time in the market, not timing the market.

Long-term investing isn't about chasing the hottest performing stocks. It's about taking a long-term view and staying the course. It won't protect you from market downturns, but it ensures you are 'in the market' during times of growth.

With hindsight, many investors who play the game of market timing realise just how much better off they would have been simply riding things out.

Truth 2: Sharemarkets can be volatile

Volatility is the major risk of investing in shares. However, it's one many investors overlook during periods of positive returns.

Time greatly reduces but does not eliminate the volatility in returns from shares. Over time, the ups and downs of investment markets tend to even out and the gap between the highest and lowest returns closes. This is why it is important to consider your investment timeframe when choosing your investments.

Truth 3: Bear markets are part of investing

A bear market is generally defined as a decline in the sharemarket of more than 20% over two consecutive

months or longer. A bear market is not unique to shares and can also occur in other investment sectors. Over the last 50 years, the Australian sharemarket has experienced a bear market, on average, once every five years. In October 1987, the All Ordinaries Index dropped by 42% in a single month, the largest monthly downturn in the last 50 years.

Vanguard Investments

Life is full of uncertainties. Future investment earnings and interest and inflation rates are not known to anybody. However, I can guarantee you one thing... those who put an investment program in place will have a lot more money when they come to retire than those who never get around to it.

Noel Whittaker

Baby boomers hold retirement plans

A new consumer survey revealed one third of baby boomers are rethinking their retirement plans in response to falling markets and superannuation balances.

The Millman consumer superannuation survey, which was run between the extremely unstable months of September and October, found almost three fifths of respondents are concerned about outliving their retirement savings.

Inflation has also become a major concern with 70% of respondents stating they were worried about its effect on their super balances.

Yet only 38% of people changed the investment mix of their fund and 35% of those people altered their setup in the past year.

The survey also found that almost 80% of respondents want products that protect retirement income or guarantee an income for the member's lifetime.

Our final paper based update

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Income Protection through super

A sobering fact is that one in three working Australians will be disabled and unable to work for more than three months before age 65. That's why Income Protection is an essential ingredient in most financial plans, whether they are Gen Ys paying off car loans, couples saving for their first home, primary breadwinners of young families or empty nesters preparing for retirement.

Unfortunately, the people who most need Income Protection insurance are quite often those with the least disposable income, for whom affordability is an issue. The good news for clients in this situation is that recent Australian Tax Office changes have removed the last remaining barrier to holding all your Income Protection insurance through super.

While there's no net tax benefit difference in paying the premium from within or outside the super environment, the latter has a timing benefit (that is, you don't have to wait until financial year end to claim the tax deduction). In turn, clients experiencing cash flow problems can now use their compulsory employer Superannuation Guarantee contributions to help fund the premium.

Gearing your superannuation fund

In September 2007 the Government passed new laws that, in effect allow superannuation funds to use gearing to purchase investments. A superannuation fund, including a Self Managed Superannuation Fund (SMSF) can now borrow to make investments.

Through the use of a special purpose bare trust, which is broadly referred to as a Debt Instalment Trust (DIT), a superannuation fund can use its own cash plus borrowed funds to purchase investments via the DIT. Any investment can be made through the DIT that the superannuation fund could have purchased in its own right under Superannuation Law, provided the following conditions are met:

- The trustee of the superannuation fund and the DIT are different entities
- Any borrowings the superannuation fund makes must

be used to acquire an asset in the DIT (or a replacement asset). Borrowings cannot be used for any other purpose.

- The superannuation fund can only deposit cash into the DIT. Existing fund assets (eg existing shares and property) cannot be used.
- The superannuation fund must have sole beneficial ownership in the asset(s) of the DIT and the right to acquire the asset(s) outright through the payment of instalments.
- The underlying investments in the DIT must be allowable investments under Superannuation Law - eg you cannot have 'in-house' assets of greater than 5% of the value of the fund, residential property cannot be let to members and/or their relatives and the fund cannot acquire assets from related parties unless they are listed securities, business real property or widely held trusts (managed funds).
- The payment of (and the security over) any liability must be limited to the assets of the DIT and there must be no obligation on the super fund to make any future payments (ie the financier cannot take security over other superannuation fund assets).
- If the fund borrows from a related party then it must be on commercial terms.

The ability of an SMSF to borrow for investment purposes is an exciting development. However, it cannot be emphasised too highly how important it is to get professional advice in this area and ensure that your arrangements are set up correctly and you adhere to all the regulations.

Has oil bottomed?

It wasn't that long ago (July 2008 to be precise) when oil reached unprecedented heights, rising above US\$140 a barrel. At the time, predictions of US\$200 oil dominated the headlines. As it turned out, the severe economic downturn gripping much of the developed world triggered a collapse in the oil price far quicker than its much publicised rise.

With a barrel of oil now around US\$40, it is worth considering whether fresh long-term opportunities in the

energy sector could be opening and timely to look at the long-term fundamentals behind the oil market to gain an understanding of who and what is driving demand.

It is not hard to appreciate where underlying sources of oil demand arise, as a close look at our surroundings demonstrates how addicted society is to oil. Besides obvious examples such as motor vehicles and aircraft, almost every consumer product has used oil in the production process.

Oil, or black gold as it is affectionately known, has paved the way for urban sprawl, which allows society to harvest in one area and live in another. Oil's multiple fuel products, coatings, lubricants, plastics and synthetics have infiltrated all aspects of daily life and have become a critical part of the modern global economy.

Consumption pressures everywhere

The United States is the world's largest oil user, consuming about a quarter of the 84 million barrels produced each day globally. With less than 2 per cent of world oil reserves, the US does not have enough homegrown product to quench its colossal thirst and imports about 60 per cent of its oil requirements. The nation uses three tonnes of oil for each citizen, which according to the US Department of Energy is more than double the average for the rest of the industrialised world.

What of the future and who will add to long-term demand?

The per capita consumption of oil in emerging powerhouses such as China and India is currently a fraction of that in the US and the developed world. However, these nations are the fastest growing and most populous, and oil is the cheap, energy-rich resource fuelling their continued industrialisation. As their economies follow the mould set by their developed counterparts and their citizens begin to embrace modern living standards, there will be further pressure on global supply.

On the other hand, consumption pressures from emerging markets have the potential to be offset by a decline in First World consumption, led by the growing movement

towards alternative energy sources such as wind, solar, geothermal, wave and clean coal. Although the economics of these technologies may be questionable today, their viability will increase should traditional energy sources such as oil become more expensive.

Although modern society's existing consumption patterns seem to imply that oil will never run out, the fact is that the world's oil reserves are finite and will dry up unless action is taken to reduce society's dependence on it. In such an environment of resilient demand but constrained supply, market forces call for rising prices over time. That doesn't mean prices are likely to return to recent records in a hurry. Indeed, we are probably closer to seeing oil prices revisit their average dating back to 1880 – US\$22 a barrel.

In the news...

BHP mine call puts public cash at risk

The WA and federal governments' decision to invest about \$40 million on infrastructure to support the development of the \$2.2 billion Ravensthorpe nickel project could be wasted amid mounting fear the troubled South Coast mine could be mothballed by owner BHP Billiton.

PM signals phase-two rescue plan

Prime Minister Kevin Rudd has reconvened the cabinet committee that masterminded last year's \$10.4 billion rescue plan and last night began publicly selling the need for a second stimulus package.

Wesfarmers revises profit guidance

Wesfarmers expects first half 2008/09 net profit to be between \$850 million to \$880 million, after about \$150 million in pre tax provisions and write-downs in the values of some investments.

RBS troubles

Shares in the Royal Bank of Scotland fell 67 percent in London yesterday after saying it may post a full-year loss of as much as 28 billion pounds (\$40 billion). The U.K. government is stepping up an industry bailout, less than a week after Bank of America Corp. received a \$138 billion rescue and Citigroup Inc. announced plans to split in two.

Clough secures Indonesian contract

Shares in Clough have risen as high as 16 per cent today on news that its Indonesian subsidiary has secured a

mining contract valued at \$377 million. Clough sealed the deal through majority owned subsidiary PT Petrosea for the mining of the Santan Bartubara coal concession worth an estimated \$US250 million (\$A377 million).

WA housing market to fall further

Western Australia's housing market has yet to bottom out with the market forecast to fall by up to 7 per cent this year as mortgage commitments in the state decline by nearly 6 per cent in November. According to latest data from research firm Residex, WA's property market is expected to record the largest negative growth as compared to other states and territories. Over the 2008 calendar year, the median house value in Perth fell some 4 per cent to \$481,500. This compared to a 2.15 per cent increase recorded in 2007. However, according to the Real Estate Institute of WA, the median house value fell 11 per cent over 2008 to \$418,000.

Builders flag job cuts

Builders are expecting a sharp fall in activity in 2009 with more than 80 per cent forecasting job cuts, Master Builders Australia says. The December 2008 quarter Australian National Survey of Building and Construction released today has found builder sentiment plummeted in the final months of the year. "There was a worsening and sharp fall in expectations for their own business activity, profits and investment," MBA chief economist Peter Jones said in a statement.

Half of private business optimistic about 2009

Nearly half of Australia's medium to large private businesses are optimistic about 2009 as the fall in the currency and the strong resource sector temper the effects of the financial crisis. According to Grant Thornton's International Business Report, 46% of Australian private businesses that employ between 20 and 299 people said they were optimistic about the domestic economy. Of the 250 surveyed businesses, 80% expect their turnover to increase, or remain the same and two thirds think that profitability will be steady, or gain. "We have a big, stable core of resource and rural sectors

underpinning the economy," Gran Thornton national head of privately held business,"

Short selling ban on financials to be lifted

The short selling ban on financial stocks is expected to come to an end on January 27th (next Tuesday) and it seems ASIC is unlikely to extend the ban as some had hoped. The bans have been lifted in the US and UK. Financial stocks have outperformed the market by 8% since the ban was imposed. The ban on short selling non financial stocks was lifted in November.

Rio Tinto

Announced it was cutting costs this morning – production cuts and job losses “in response to global economic conditions”.

Behind the corporate name...

Adidas The German sporting-goods firm is named after its founder Adolf (Adi) Dassler.

Bridgestone The Japanese tyre maker is named after its founder, Shojiro Ishibashi, whose surname means “stone bridge”.

Daewoo Means “Great Universe” in Korean.

Google The name, taken from the word googol, a vast number represented by 1 followed by 100 noughts, started as a boast about the amount of information the search engine would be able to cover.

Microsoft Bill Gates wanted a name that suggested the microcomputer software that he would manufacture. Micro-soft dropped its original hyphen and went on to rule the world.

Mitsubishi Refers to its three-diamond logo. It is a combination of the words *mitsu*, meaning three, and *hishi*, meaning water chestnut, a word that denotes a diamond shape in Japanese.

Nike The American sports-equipment company is named after the Greek goddess of victory.

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