

## We've been here before

Investors have endured a year when almost everything that could go wrong did go wrong – and the credit crisis has been at the centre of it all.

As we receive disappointing annual statements from banks, fund managers and superannuation funds, looking over our shoulders to the languishing property markets of Western Europe and North America, it is easy to imagine that things will only get worse from here.

I'm more optimistic and the experience of earlier credit market swings tells us what we might expect over the first few years after a credit crisis...

## More cautious on the home front

Households and businesses who had enthusiastically participated in the credit surge will, no doubt, become more cautious and risk-averse. As a result, growth in private debt is likely to remain subdued, pointing to less spending in certain areas, especially items that are mainly debt-financed such as home renovations and consumer durables.

Corporate revenues should also slow due to the higher costs of borrowing over coming years (even after interest rates are cut). Businesses that have, in the past, been heavy borrowers are likely to cut back on their use of debt.

## Share price recovery

Share prices tend to rebound quickly after the immediate crisis in credit markets has passed. However, for several years following these relief rallies, investors in shares (and other assets) will be more focused on profitability and less on 'the future growth story'. Profitability and debt levels will be important considerations when assessing investment opportunities as not all companies will benefit from the coming relief rally.

## Housing subdued

Typically, immediately following a credit crunch, house prices tend to flatten out, or even decline a little as borrowers become more cautious about the level of debt they are prepared to take on. Bank lending also becomes more risk averse. However, it is conceivable that house prices could soften even more (and for longer) than in earlier cycles.

## Memories fade

Over coming years, banks will repair their balance sheets by raising additional share capital and disposing of underperforming assets.

Of course, over time, memories of the credit crises of 2007 and 2008 will fade and, eventually, another surge in credit growth will build as bank lending policies deteriorate yet again. Surely we've learnt the lesson this time around you might ask? The problem is called 'Disaster Myopia' by some....most people driving a car slow down after witnessing an accident – but revert to old driving habits as memories of the accident fade.

**Rick Maggi**

## A pause in the commodity super cycle

Commodity prices have fallen significantly from recent highs just a month or two ago. Oil, gold and copper prices have fallen by about 20% while wheat and corn prices are down around 30%.

So is this the end of the commodity bull market or just a correction?

In a typical global economic downturn, commodity prices fall in response to slowing economic activity which takes pressure off costs and inflation. As a result, interest rates usually fall setting the scene for a rebound.

**Continued >**

However this time has been a little different. Until recently, commodity prices remained very robust, propelled by strong growth in the emerging world and speculative investors. The problem was that the surge in commodity prices were simultaneously cutting into profit margins and consumer spending power adding to global inflation (and keeping central banks overly hawkish).

So, while the credit crunch meant interest rates should have been falling, in most countries they were actually being left on hold or increased. The result has been more global economic pain than usual.

The past month or so has started to see commodity prices return to something like their normal relationship with the global growth cycle. Sharp falls are now becoming evident due to the realisation that world economic growth (including China and India) is now slowing.

However, it is important to remember that while China may be shifting down a gear, it is not about to collapse and the long term demand potential in emerging countries is huge. Rising income levels and the increased use of agricultural products for fuel will also see ongoing upwards pressure on demand.

As we have seen in the last six years, supply will struggle to keep up with demand over the long term and so the long term trend in commodity prices is therefore likely to remain up.

In this context, the recent pull back in commodity prices should be seen as a pause or a temporary correction which may have a bit further to run. While this may be bad news for resources shares (and our dollar) in the shorter term, softer commodity prices will help to reduce inflation and clear the way for central banks to lower interest rates, to combat the credit crunch.

## Super: Is an SMSF right for you?

According to ASIC, there are four key questions when considering whether an SMSF is right for you:

1. Is the fund strictly for retirement benefits only (otherwise known as the sole purpose test)?
2. Do you have the time and skills to manage your own superannuation, establish an investment strategy, select investments and fulfil the responsibilities of a trustee?
3. Will the benefits be worth the costs?
4. How will switching to an SMSF affect your current superannuation, including insurances within super?

Once you've satisfied yourself that an SMSF is appropriate for you, it is important to then put together the right combination of people to ensure that your fund remains compliant and not a drain on your time and energy. An Accountant can usually help with set-up, admin and audit functions, while a Financial Adviser (Westmount) can assist with investment strategy and transactions.

On the record keeping side, a well administered 'wrap platform' can also be an extremely valuable time saver as they can act as an investment 'hub' which monitors and reports on all of your investments within your SMSF. The following is a list of questions/attributes to consider before settling on wrap facility:

- Will you have easy access to your account information so you can view your balances, make contributions and buy and sell investments?
- Can you download details of distributions and dividends?
- What are the transaction fees?
- Is third party access available (for your accountant, financial adviser, broker etc)?
- Does the platform offer a wide range of investments including shares and term deposit options?
- What level of reporting is available and how often you receive them?

Clearly, SMSFs can be expensive and complex and they are certainly not for everyone, but knowing what questions to ask can help to demystify things. If you are wondering whether an SMSF might be right for you, please call us.

## Company Profile: China Mobile

The Chinese economy has been one of the greatest beneficiaries of globalisation throughout the developing world. Consistently strong GDP growth has come from not only the exporting of goods to western societies, but largely from expansion within its own domestic economy. The continued urbanisation of the Chinese population, along with their rising wealth, has transformed the appetites of Chinese consumers. Nowhere is this shift in consumer behaviour more obvious than through the massive uptake of mobile telephones.

Since listing on both the New York Stock Exchange and the Stock Exchange of Hong Kong in 1997, China Mobile has become the world's largest mobile telephone company when calculated by its subscription base of over 400 million customers. It has a turnover that is second only to Vodafone in the global telecoms sector, and is the largest telecom carrier in Asia based on market capitalisation. China Mobile also ranks by market capitalisation as the second largest company of any type on the Hong Kong Stock Exchange. These figures are a reflection of the deftly executed strategy of geographical expansion and customer capture that has been delivered by China Mobile's management.

### Background...

China Mobile operated in the province of Shenzhen under the umbrella of the government controlled China Telecom. Upon listing as a separate entity in 1997, whereby 25% of the issued capital was floated, China Mobile acquired control of two extra provinces, Guangdong and Zhejiang. Since then it has expanded rapidly to operate in all of China's 31 provinces and has

developed network coverage of 99% in those areas serviced. It has gained a 68% share of the Chinese mobile market with significant domination in the populous and affluent coastal regions. This growth has delivered a sound financial record.

Since 1997, China Mobile's net income has compounded at an impressive 33% whilst cashflow has compounded at 36%. For the year ending December 2007, sales grew 21% and net income 32%. The balance sheet remains strong with no debt and a 45% cashflow margin. The generous dividend policy of a payout ratio over 50% allows the minority shareholders to share in the rapid operational growth.

The future growth potential for China Mobile remains solid. With a comparatively low penetration rate of 46% of the population owning mobile handsets, the potential for growth extends well into the future. Enticing existing customers to make greater use of their telephones via value added services such as mobile internet access, text and picture messaging, as well as the ability to access roaming services in over 230 countries and regions, also offers significant organic growth options. Further to this, China Mobile recently demonstrated its intent to expand on the global marketplace through its acquisitions of Paktel in Pakistan and China Tietong, the third largest ISP in China.

### How to buy China Mobile...

The **Walter Scott Global Equity Fund** believes that China Mobile represents a unique opportunity to invest in the Chinese mobile communications sector. China Mobile will likely continue as a core investment for the fund well into the future, reflective of the 'buy and hold' approach of Walter Scott.

The Walter Scott Global Equity Fund is available via the Macquarie Wrap platform or contact Westmount.

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## September Economic Calendar – Upcoming Events & Dividends

Monday	Tuesday	Wednesday	Thursday	Friday
8-Sep	9-Sep	10-Sep	11-Sep	12-Sep
<p><b>Companies</b>  <b>AEP</b> ex div 6.0c ff  <b>ANG</b> ex div 6.5c ff  <b>AQP</b> ex div 0.0c uf  <b>CCP</b> ex div 2.0c ff  <b>CDD</b> ex div 14.0c ff  <b>CYA</b> ex div 5.0c ff  <b>ENE</b> ex div 6.0c uf  <b>HAP</b> ex div 1.5c ff  <b>HFA</b> ex div 3.5c ff  <b>IIN</b> ex div 4.0c ff  <b>LAU</b> ex div 0.5c ff  <b>LLC</b> ex div 34.0c pf  <b>MAH</b> ex div 3.5c ff  <b>ONT</b> ex div 4.5c ff  <b>OST</b> ex div 13.5c ff  <b>PLB</b> ex div 2.4c ff  <b>PRO</b> ex div 2.0c pf  <b>PRY</b> ex div 5.0c ff  <b>PST</b> ex div 1.0c ff  <b>SDG</b> ex div 7.0c ff  <b>SEK</b> ex div 9.9c ff  <b>SHL</b> ex div 32.0c ff  <b>SNL</b> ex div 2.0c ff  <b>SXE</b> ex div 4.0c ff  <b>TRG</b> ex div 30.0c ff  <b>TTS</b> ex div 10.5c ff  <b>WLL</b> ex div 7.0c ff  <b>WOR</b> ex div 47.5c pf  <b>WYL</b> ex div 3.0c ff</p>	<p><b>Companies</b>  <b>DOM</b> ex div 8.0c uf  <b>HIL</b> ex div 14.0c ff  <b>IRE</b> ex div 12.0c ff  <b>PFL</b> ex div 4.5c ff  <b>PME</b> ex div 3.2c ff  <b>RUL</b> ex div 1.5c ff  <b>SGN</b> ex div 4.8c ff</p>	<p><b>Companies</b>  <b>BFG</b> ex div 3.0c ff  <b>BSA</b> ex div 0.7c ff  <b>CCV</b> ex div 1.5c ff  <b>CDA</b> ex div 3.5c ff  <b>CND</b> ex div 7.0c ff  <b>DTL</b> ex div 28.0c ff  <b>MCC</b> ex div 14.0c ff  <b>SFC</b> ex div 25.0c ff  <b>SHR</b> ex div 9.0c ff  <b>WAN</b> ex div 32.0c ff</p>	<p><b>Companies</b>  <b>AAC</b> ex div 7.0c uf  <b>CXP</b> ex div 13.5c ff  <b>FLK</b> ex div 3.5c ff  <b>LWB</b> ex div 2.3c ff  <b>OKN</b> ex div 12.0c ff  <b>PBA</b> ex div 2.5c ff  <b>RPX</b> ex div 4.7c ff</p>	<p><b>Companies</b>  <b>WOW</b> Warehouse NZ FY08 Result  <b>BLY</b> ex div 0.0c uf  <b>FLT</b> ex div 48.5c ff</p>
<p><b>Economy</b>  10:30pm CAD Building Permits m/m  3:00pm JPY Economy Watchers Current Index (exp 29.7)  6:30pm EUR Sentix Investor Confidence (exp -18.4)  6:30pm GBP PPI Input m/m (exp -1.2%)  6:30pm GBP PPI Output m/m (exp 0.1%)  9:00am AUD RBA Governor Stevens Speaks  9:50am JPY M2 Money Stock y/y (exp 2.1%)  All Day ALL OPEC Meeting</p>	<p><b>Economy</b>  10:15pm CAD Housing Starts (exp 194K)  11:30am AUD Home Loans m/m (exp 0.0%)  11:30am AUD NAB Business Confidence  11:30am AUD Retail Sales m/m (exp 0.5%)  4:00pm EUR German Trade Balance (exp 17.5B)  4:00pm JPY Machine Tool Orders y/y  6:30pm GBP Industrial Production m/m (exp -0.1%)  6:30pm GBP Manufacturing Production m/m (exp -0.1%)  9:01am GBP BRC Retail Sales Monitor y/y  9:01am GBP RICS House Price Balance (exp -85.0%)  All Day ALL OPEC Meeting</p>	<p><b>Economy</b>  10:30am AUD MI Consumer Sentiment m/m  10:30pm CAD Labor Productivity q/q  11:00pm CHF Gov Board Member Jordan Speaks  3:00pm JPY Leading Indicators (exp 91.8%)  4:45pm EUR French Industrial Production m/m (exp 0.1%)  4:45pm EUR French Trade Balance (exp -5.1B)  5:00pm EUR ECB President Trichet Speaks  6:30pm GBP Trade Balance (exp -7.5B)  8:45am NZD Overseas Trade Index q/q (exp -1.7%)  9:50am JPY CGPI y/y (exp 7.2%)  9:50am JPY Current Account (exp 1.34T)  All Day ALL OPEC Meeting</p>	<p><b>Economy</b>  10:30pm CAD Trade Balance (exp 5.6B)  11:00am AUD MI Inflation Expectations  11:30am AUD Employment Change (exp 5.5K)  11:30am AUD Unemployment Rate (exp 4.4%)  12:30am GBP CB Leading Index m/m  4:00pm EUR German WPI m/m (exp -0.3%)  6:00pm EUR ECB Bulletin  6:30pm GBP BOE Inflation Attitudes  6:45pm GBP MPC Treasury Committee Hearings  7:00am NZD Monetary Policy Statement  7:00am NZD Official Cash Rate (exp 7.75%)  9:50am JPY Core Machinery Orders m/m (exp -4.1%)</p>	<p><b>Economy</b>  10:30pm CAD Capacity Utilization Rate (exp 79.3)  4:00am EUR ECB President Trichet Speaks  4:45pm EUR French CPI m/m (exp 0.1%)  7:00pm EUR Employment Change q/q  7:00pm EUR Industrial Production m/m  8:30pm GBP MPC Member Tucker Speaks  8:45am NZD Core Retail Sales m/m (exp 0.2%)  8:45am NZD Retail Sales m/m (exp -0.3%)  9:50am JPY Final GDP Price Index y/y (exp -1.6%)  9:50am JPY Final GDP q/q (exp -0.9%)  SAT 1:00am CHF SNB Chairman Roth Speaks</p>

<b>USA</b>	<b>USA</b> 11:00pm USD Fed Chairman Bernanke Speaks 3:00am USD FOMC Member Fisher Speaks 5:00am USD Consumer Credit m/m (exp 8.6B)	<b>USA</b> 12:00am USD IBD/TIPP Economic Optimism (exp 43.9) 12:00am USD Pending Home Sales m/m (exp -1.2%) 12:00am USD Wholesale Inventories m/m (exp 0.7%)	<b>USA</b> 10:30pm USD Import Prices m/m (exp -1.6%) 10:30pm USD Trade Balance (exp -58.0B) 10:30pm USD Unemployment Claims (exp 440K) 12:35am USD Crude Oil Inventories	<b>USA</b> 10:30pm USD Core PPI m/m (exp 0.2%) 10:30pm USD Core Retail Sales m/m (exp -0.2%) 10:30pm USD PPI m/m (exp -0.5%) 10:30pm USD Retail Sales m/m (exp 0.2%) 11:55pm USD Prelim UoM Consumer Sentiment (exp 64) 11:55pm USD Prelim UoM Inflation Expectations 12:35am USD Natural Gas Storage 4:45am USD FOMC Member Kohn Speaks SAT 12:00am USD Business Inventories m/m (exp 0.5%)
<b>15-Sep</b>	<b>16-Sep</b>	<b>17-Sep</b>	<b>18-Sep</b>	<b>19-Sep</b>
<b>AMP</b> ex div 24.0c pf <b>AUI</b> ex div 13.5c ff <b>BXB</b> ex div 17.5c pf <b>DUI</b> ex div 7.0c ff <b>GWT</b> ex div 8.0c ff <b>HWI</b> ex div 2.0c uf <b>IVC</b> ex div 10.5c ff <b>MLB</b> ex div 7.0c ff <b>OMH</b> ex div 3.5c uf <b>PPX</b> ex div 3.5c uf <b>RHD</b> ex div 1.5c pf <b>SPT</b> ex div 10.5c pf <b>WIG</b> ex div 4.0c ff <b>WWA</b> ex div 11.0c ff <b>ZGL</b> ex div 0.0c uf	<b>APE</b> ex div 22.0c ff <b>CSL</b> ex div 23.0c ff <b>ESS</b> ex div 3.2c ff <b>FEA</b> ex div 2.5c ff <b>LMW</b> ex div 3.3c ff <b>MIN</b> ex div 13.3c ff <b>SKE</b> ex div 14.0c ff <b>SUL</b> ex div 7.5c ff	<b>AWC</b> ex div 12.0c ff	<b>CEY</b> ex div 17.0c ff <b>CGF</b> ex div 7.5c pf <b>DVN</b> ex div 4.0c ff <b>IFL</b> ex div 15.0c ff <b>MMS</b> ex div 9.0c ff <b>MRM</b> ex div 2.0c ff <b>MXI</b> ex div 2.7c ff	<b>MMX</b> Fin \$57.0m, 0.0dps <b>ASB</b> ex div 13.0c ff <b>TPI</b> ex div 10.1c ff <b>WEB</b> ex div 3.0c ff
<b>22-Sep</b>	<b>23-Sep</b>	<b>24-Sep</b>	<b>25-Sep</b>	<b>26-Sep</b>
<b>SIP</b> Int \$42.0m, 3.2dps <b>APD</b> ex div 3.0c ff <b>BBG</b> ex div 28.5c ff <b>BET</b> ex div 12.5c ff <b>BSL</b> ex div 27.0c ff <b>BYI</b> ex div 3.0c uf <b>EMB</b> ex div 16.5c ff <b>FAN</b> ex div 6.2c ff <b>FBU</b> ex div 0.0c uf <b>GFF</b> ex div 7.5c pf <b>ISS</b> ex div 1.7c ff <b>LCE</b> ex div 1.0c ff <b>NCM</b> ex div 10.0c uf <b>NHR</b> ex div 2.0c ff <b>OSH</b> ex div 0.0c uf <b>PET</b> ex div 1.5c ff <b>PPG</b> ex div 1.0c ff <b>SCC</b> ex div 1.0c ff <b>SLM</b> ex div 10.5c ff <b>SMX</b> ex div 15.0c ff <b>SSM</b> ex div 4.0c ff <b>TFS</b> ex div 0.2c ff <b>UMS</b> ex div 3.0c ff <b>WBB</b> ex div 33.0c ff	<b>CAB</b> ex div 17.0c ff <b>IPM</b> ex div 3.0c uf <b>PGA</b> ex div 17.0c ff <b>PMV</b> ex div 18.0c ff <b>SNO</b> ex div 2.5c ff <b>TRS</b> ex div 19.0c ff	<b>DJS</b> Fin \$131.5m, 15.0dps <b>AEO</b> ex div 6.0c ff <b>CSV</b> ex div 2.0c ff <b>GCG</b> ex div 0.5c ff <b>GPM</b> ex div 1.5c uf <b>PPC</b> ex div 10.7c ff <b>PRT</b> ex div 9.0c ff	<b>AEC</b> ex div 14.0c ff <b>CPR</b> ex div 1.5c ff <b>LCM</b> ex div 3.5c ff <b>LYL</b> ex div 20.0c ff <b>RHC</b> ex div 17.5c ff <b>SAV</b> ex div 3.0c pf	<b>NUF</b> Fin \$112.0m, 22.0dps <b>FCL</b> ex div 5.5c ff <b>IMF</b> ex div 5.0c ff <b>TGR</b> ex div 3.5c uf

29-Sep	30-Sep	1-Oct	2-Oct	3-Oct
<b>ASZ</b> ex div 3.0c ff <b>AUB</b> ex div 11.5c ff <b>CMJ</b> ex div 6.0c pf <b>DWS</b> ex div 5.5c ff <b>EAL</b> ex div 4.5c ff <b>GZL</b> ex div 7.0c ff <b>IDL</b> ex div 1.0c ff <b>NBL</b> ex div 10.0c ff <b>NOD</b> ex div 5.5c ff <b>NPX</b> ex div 0.0c uf <b>PNP</b> ex div 3.0c pf <b>STS</b> ex div 6.5c ff <b>TSM</b> ex div 2.0c pf	<b>AVE</b> ex div 4.5c uf <b>WHG</b> ex div 3.0c ff	<b>CLO</b> ex div 1.0c ff <b>DKS</b> ex div 22.0c ff	<b>AMB</b> ex div 1.5c ff <b>VGH</b> ex div 6.5c ff	<b>ARP</b> ex div 9.0c ff <b>ASL</b> ex div 6.0c ff <b>AVJ</b> ex div 2.0c ff <b>CWN</b> ex div 29.0c pf <b>IDT</b> ex div 6.5c ff <b>KLM</b> ex div 1.0c ff <b>LMC</b> ex div 12.5c ff <b>MSL</b> ex div 0.0c uf <b>NCK</b> ex div 2.5c ff <b>THO</b> ex div 3.0c ff <b>TOL</b> ex div 11.5c ff
6-Oct	7-Oct	8-Oct	9-Oct	10-Oct
			<b>FLX</b> ex div 50.0c pf <b>MTU</b> ex div 3.0c ff	
13-Oct	14-Oct	15-Oct	16-Oct	17-Oct
<b>AIA</b> ex div 0.0c uf <b>COF</b> ex div 9.0c ff <b>CWP</b> ex div 10.0c ff <b>IMD</b> ex div 2.2c ff <b>KSC</b> ex div 8.0c ff <b>RDF</b> ex div 4.5c ff <b>WIL</b> ex div 2.0c ff	<b>TWD</b> ex div 13.0c ff	<b>SEV</b> ex div 17.0c ff		

(ff = Fully Franked, pf = Partially Franked, uf = Unfranked)