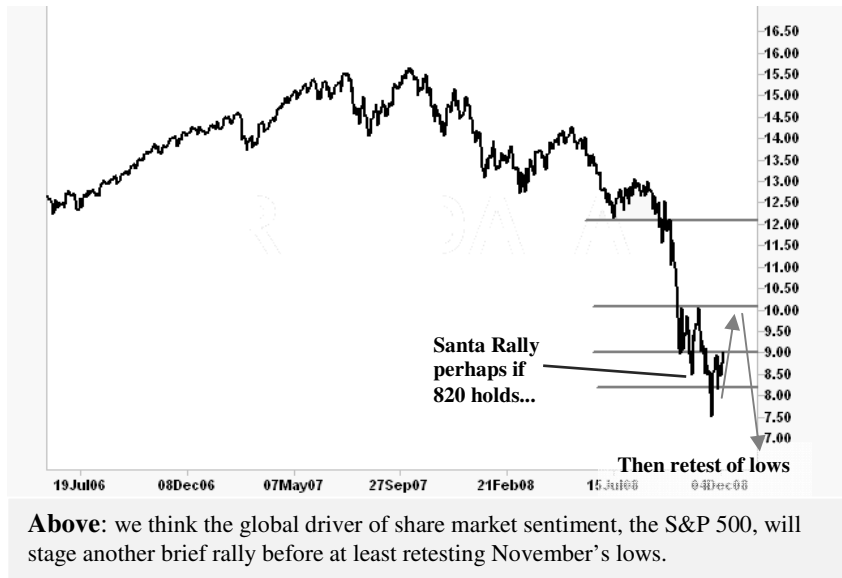


Financial Advisors

Market Update
9 December 08

Are we there yet.... are we there yet?

Like an unending bus trip to Darwin with a hundred teenage passengers, we can't yet give any assurance that a bottom in equity markets is in sight. Equity markets, even after they have adjusted to potential earnings downgrades that recessionary conditions or overvaluations bring on, then overshoot on the downside as trader fear and forced investor redemptions take over. We think this is the phase we are in (the overshoot), but markets can overshoot a long way!



Above: we think the global driver of share market sentiment, the S&P 500, will stage another brief rally before at least retesting November's lows.

However we would make the following points:

- We are now of the view that equity markets are fundamentally oversold, and that the continued downward movement is forced liquidations;
- For some time we have been of the view that term deposits are a better way to access fixed interest markets than bond or mortgage funds.
- October's freeze up of mortgage funds in Australia confirms our view.

What will happen next?

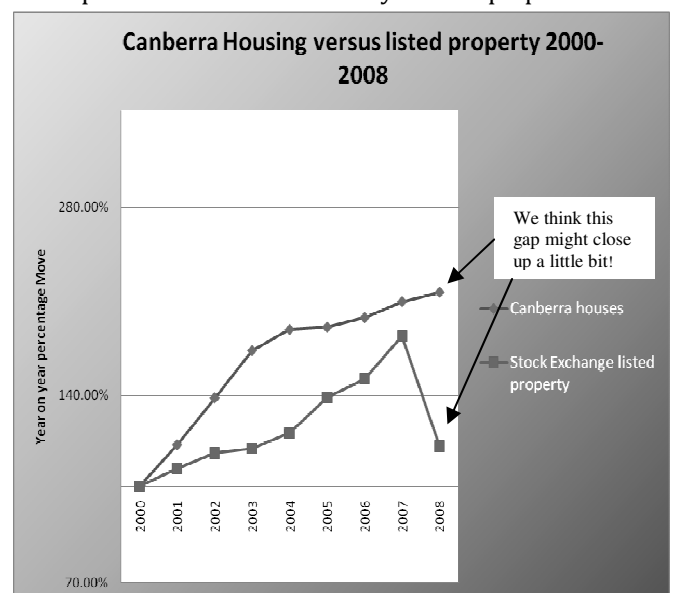
We think lockup of mortgage funds in Australia has two obvious consequences:

1. In the short term: liquidations of equities well below reasonable values to provide cash to investors that can't access more "conservatively" held instruments;
2. More subtly, and in the longer term: retail investors and super funds will be less likely to stump up cash for mortgage funds in the future, meaning there will be less funds available in Australian dollars for domestic property market lending.

The resulting risk is an eventual decline in real property prices.

We think the stock market has already built this effect into stock prices and property trust prices. It is partially reflected in unlisted property trusts, but it has hardly shown up at all in directly held property prices. If we are wrong, listed property trusts are in for huge gains in the coming years. In case we are right, those investors with large portfolios of direct property should consider diversifying their investments during this period when both equity markets and interest rates are low.

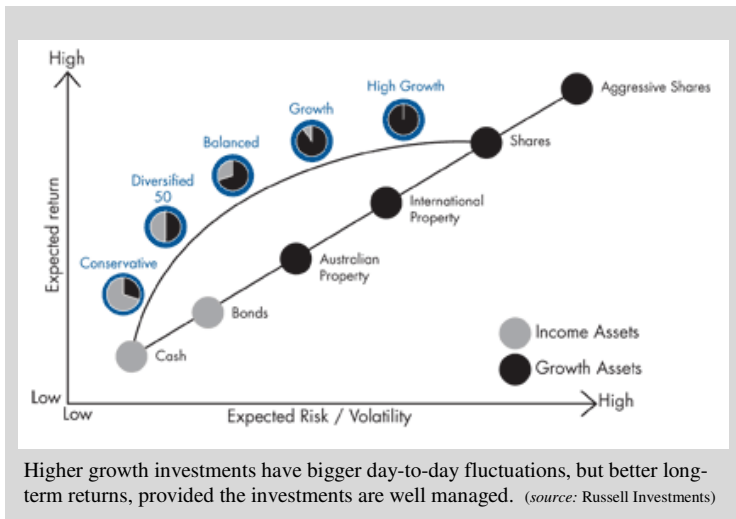
For those in **a position to continue making capital contributions** to their investments (*ie: wage and salary earners*), we are of the view that now is the time to start buying in regular installments, with this buying period to stretch upwards of a year in total. This is despite that fact that we are of the view that markets still have further to fall. If you are considering a lump sum contribution, we would suggest you wait, or you consult us about investment strategies that cover you for foreseeable and perhaps some unforeseeable market conditions.



This information is of a general nature only and has been provided without taking account of your objectives, financial situation or needs. Because of this, we recommend you consider, with or without the assistance of a financial adviser, whether the information is appropriate in light of your particular needs and circumstances.

Is it time to buy?

One of the characteristics Australian's have sometimes been noted for is an ability to weigh up and take on a **worthwhile risk**. In investment, there is a high correlation between risk and reward, with higher risk giving higher returns over longer time frames PROVIDED THE RISK ISN'T TAKEN ON RECKLESSLY. Investors taking on higher risk subject their wealth to bigger day-to-day fluctuations to get better rewards in the longer term. If the risk is reckless, they can lose all of their money before it has a chance to start earning money for them, no matter what the timeframe.



We think the recent share market action makes investment in shares worthwhile, even though we have a short term view that the market will at least retest its lows, and perhaps make a new low in the first half of next year.

The key to taking this risk is not in the timing of the entry, but rather:

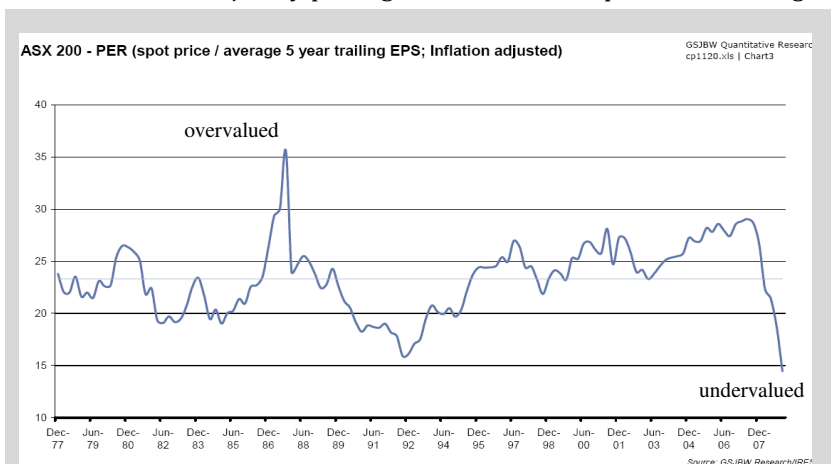
- the nature of the investments;
- who is managing the investments;
- the strategies used to avoid unacceptable market timing risk; and most importantly;
- the circumstances of the individual investor.

Our job at Gorrell Long Robertson Financial is to particularly ensure that the fourth point is taken care of.

At some point in the future we are going to find the world's market economy hasn't come to an end. Looking back it will have seemed like the bargain of the century for share investing, with stocks trading at their lowest level by any earnings measure we can find since 1974. Dividend yields on bank shares are now at 9%, so even if you assume earnings aren't going to grow, with cash deposit rates falling to 3.75% it is hard to justify putting cash into bank deposits as a savings device. As we pointed out in previous newsletter, we just don't think this crisis matches up in fundamental terms to the damage done by the Opec oil embargoes of the 1970s.

In any event, equity markets can respond to changing economic conditions much more readily than other asset classes. The real value of equity markets is that the underlying businesses they represent can respond to the times they face, and grow income streams even in fairly tough conditions. Investors taking positions in equities now need to do so with an eye to the sustainability of their business streams and the cash dividends they can produce.

We would stress that buying in falling markets is a tricky business and not for the feint-hearted. At Gorrell Long Robertson, we use skilled, highly rated, actively managed funds as the primary day to day manager of our client's money. We also use a range of risk management strategies that are suitable to individual client needs, and ones that take account of a client's investment time horizon. In particular, if the last twelve months has shown us anything, it's that **nothing** is too big to fail. **Diversification of investment managers as well as asset classes is critical to protecting overall wealth.**



This shows the average price of shares relative to their historical earnings. It is at its lowest level since 1974. (source: GSJBWere).

...Insurance Alert!

We recently spied an insurance policy that gave the client "24 hour accident protection around the world". The policy provided a benefit if you lost both arms and legs in a plane crash in Russia, provided you hadn't been drinking during the flight and you managed to survive for eight weeks after the crash. However, the policy provided absolutely nothing if you had a debilitating heart attack in Australia, whether you lived or died. This policy was sold over the phone to a 50 year old blue collar worker who had no intention of travelling overseas.

In the new-year we will be launching an insurance program using nearly every available life underwriter in the country. **Have our team review your insurance policies to check that they are covering you for life's real risks!** Usually we can save you money and provide better, more tax effective coverage by properly assessing your needs and finding the policies that meet them.

Gorrell Long Robertson
Wealth Management Research

securitor

Corporate Authorised Representative of
Securitor Financial Group Ltd
ABN 48 009 189 495 AFSL 240687
Level 12, 400 George Street, Sydney NSW 2000