

Global Market

The global financial markets continued the upward rally which began in March 2009 with the Dow Jones Industrial Index rising nearly 15% over the quarter. In Europe, both the UK's FTSE and Germany's DAX surged strongly with 20% and 18% respective growth. In Asia, Hong Kong's HSI was up over 14% while Japan's Nikkei increased fairly modestly by 1.76%. Global stock markets gained strength on new signs of a global economic recovery and genuine changes in investors' sentiment towards more risky investment vehicles.

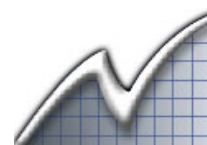
The latest US companies' earnings results were upbeat with number of bellwether companies reporting a better than expected profit either through unexpected revenue growth, or effective cost cutting efforts. These positive results have led the surge of the US stock market in July.

At the same time, the US housing sector also showed signs of improvement. Housing starts and building permits recording stronger than expected numbers with sales of new and existing homes on the increase, beating the consensus. More importantly, the fall in the house inventory levels and home price increases both point to a bottom-out of the long and deep housing crisis.

On the economic front, US consumer confidence strengthened over the quarter, with the CPI and other economic reports showing US inflation in check and easing deflation concerns. 2009 second quarter GDP also improved declining just 1.0% against the expected 1.5%. The RBA kept the interest rate unchanged at the historically low level and is looking to keep the rate at this level for an extended period of time to help the economic recovery. Similar announcements were heard from other parts of the world – European bank and Bank of England also keeping their interest rates at record lows.

Further encouraging news came in mid August when Germany and France posted an unexpected GDP expansion for the 2009 Q2, bringing them out of technical recession. In Asia, Hong Kong followed suit with positive Q2 GDP result. Heavy weight Chinese economy reported +7.9% GDP for Q2, supported by strong industrial production growth which surpassed all expectations.

Although there was plenty of good news, unemployment was still the biggest issue with US unemployment rising to 9.7% and Japan reaching 5.7%, its highest level post World War II.



Local Market

The local stock market also rose strongly over the quarter with ASX200 up nearly 20%, the best quarter in 22 years. The best performing sector was Finance with an astonishing 32.36% increase. Other strong gainers include Industrials and Consumer Discretionary with 28.96% and 24.52% increase respectively. The only sector in the red was Telecommunication Services falling 2.98%. Combined with the previous quarter's gain the ASX200 has now rebounded over 50% from its March 2009 low.

This quarter was also the earnings reporting season for Australian companies with an overall result being encouraging and showing much improvement from the previous quarter. Over 64% of companies recorded a profit and around 42% said they were seeing improvements. Over 70% of companies had either exceeded or matched their expected results.

On the consumer front, consumer sentiment has been improving from month to month reaching the highest level since July 2007. Housing finance and property sales also held up well after strong growth in the previous quarter.

In business, business confidence expanded, surging in August to its highest level in nearly 6 years. Business conditions stabilized in the Q2 with expectation to rise in the coming months. The Manufacturing sector also recorded its first expansion in 15 months.

On to the local interest rate, Australia's RBA kept our interest rate at the historically low level of 3% throughout the quarter, although our economy was definitely much stronger compared to most others'. Following strong Q1 GDP figure Australia achieved another better than expected Q2 GDP growth of 0.6%. With the continued strength in the local economy the RBA anticipate raising our interest rate towards the normal historic level as the threat of the financial crisis subsides.

Funds Update

With signs of improving market sentiments we have taken the steps to gradually increase investment exposure over the quarter to pre-GFC level. In saying that, it should be understood that the Funds would not be able to capture the full gains of the market over the quarter, but we believe that we are now well positioned to capture any of the future growth.

With the market having advanced strongly in the past few months, we expect considerable corrections and range bounces to occur over the coming months, which will benefit our active trading approach. We will continue to utilize our systematic approach to actively trade through the market volatility in aiming to provide our investors with constant income and good capital growth opportunities.

To view our current portfolio, please [click here](#).