

Global Market

Global financial markets continued spiralling down at the beginning of the New Year as sluggish economic data was released from around the globe. Major stock market indexes reached new lows in early March with Dow Jones falling below 7,000 points and Australia's ASX 200 tumbling to just 3,145 points on 6 March 2009, the lowest close since mid-2003. However, a substantial rally has dominated the markets since; resulting in significant recovery ... hopefully the positive trend keeps up.

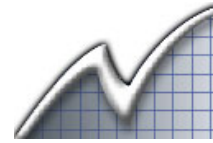
The poor start to 2009 was an indication that the world economy was in serious contraction. Most OECD member countries reported recession or negative growth. UK had a 1.5% decline in 2008 Q4 GDP, the biggest contraction since 1980. USA results were even gloomier with a 6.2% fall in its GDP for the same period. The deteriorating conditions were exposed further when the world's fastest growing economy, China, reported a significant decline in its Q4 GDP growth from 9.0% to 6.8%.

In the USA housing data showed no improvement, with housing starts falling to low levels last seen in 1959. With the jobless claims on the rise and unemployment figures reaching record high, the average personal income and personal spending slumped further. Company news wasn't good either with the major US banks reporting huge losses due to continued credit deterioration and massive write downs on bad investments. At the same time automakers General Motors, Ford and Chrysler just clung-on to keep themselves afloat on the back of plummeting auto sales.

With Barack Obama inaugurated the 44th President of the United States, the House of Democrats pushed through an additional economic stimulus plan. However, the early signs weren't great with the plan lacking critical details and analysts being wary about new government's ability to manage the enormous debt the country had taken on.

The unexpected turning point in early March was triggered by relatively insignificant news released by Citigroup of their achieved profit earnings in the first two months of 2009. This report was then echoed by peer banks JPMorgan and Bank of America. With the stock market being significantly oversold in the preceding months, investors flocked back creating a large surge in the market. The rally was further fuelled by the Federal Reserve's decision to expand its balance sheet by purchasing additional mortgage backed securities and up to \$300 billion of longer-term Treasury securities.

The Dow Jones concluded March 2009 quarter with an overall fall of 13.3% despite a 16% rally of the last couple of weeks.



Local Market

The local market trended similarly to the global markets but with comparatively better performance. ASX200 only fell 3.77% for the quarter, rescued by the late rally from its lows of -13.88%.

The 2008 Q4 figures provided strong evidence of the further contracting Australian economy with falling housing constructions and sales, growing job losses and waning business confidence. Despite the government's release of the November stimulus plan, Australia recorded a sharp contraction of 0.5% in Q4 GDP, largest quarterly drop since 2000 recession.

Responding to the continued economic decline the RBA had further slashed the cash rate by 100 bps in February to 3.25%, lowest level since 1964. At the same time the Australian government unveiled additional stimulus measures worth A\$41.5 billion to be rolled out over the next 4 years in a bid to protect jobs and promote long-term economic growth.

We believe the additional fiscal stimulus should be used to speed up economic recovery, however, the details of the current measures are questionable. We do not believe in the long-term effectiveness of the cash hand-outs, as was proved by the failing results of the government's first stimulus package late last year. The global economic recovery will require substantial time and as such we hold a cautious positive view of the late developments in the stock market.

Funds Update

Our observations of the local stock market indicated a settling down in volatility in the recent months, although still high relative to the previous years. In early February a decision was reached to re-enter the equity market with a cautious initial investment. Our strategy is to continuously monitor the progress of the economic recovery and gradually increase the investment exposure as the market environment improves.

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