



SMITH COFFEY

VANTAGE Points

Quarterly Financial
Commentary
Autumn 2009

This Issue:

- ◆ Message in a Bottle
from 1974..... Pages 1 & 3
- ◆ Market Commentary.....Page 2
- ◆ Bonus Tax Deduction Page 3
- ◆ Minimum Pensions Reduced .Page 4
- ◆ PIAF Winners Page 4

MESSAGE IN A BOTTLE FROM 1974

Perspective on the market's upheaval, offered by Jim Fullerton, former chairman of the Capital Group – on 7 November 1974.

One significant reason why there is such an extreme degree of bearishness, pessimism, bewildering confusion, and sheer terror in the minds of brokers and investors alike right now, is that most people today have nothing in their own experience that they can relate to, which is similar to this market decline.

My message to you, therefore, is: "Courage! We have been here before. Bear markets have lasted this long before. Well-managed mutual funds have gone down this much before. And shareholders in those funds and we the industry survived and prospered."

I don't know if we have seen the absolute bottom of this prolonged bear market (although I think we've seen the lows for a lot of individual stocks).

Each economic, market and financial crisis is different from previous ones.

But in their very difference, there is commonality. Namely, each crisis is characterized by its own new set of nonrecurring factors, its own set of apparently insoluble problems, and its own set of apparently logical reasons for wellfounded pessimism about the future.

Today there are thoughtful, experienced, respected economists, bankers, investors and businessmen who can give you well-reasoned, logical, documented arguments why this bear market is different; why this time the economic problems are different; why this time things are going to get worse — and hence, why this is not a good time to invest in common stocks, even though they may appear low.

Today people are saying: "There are so many bewildering uncertainties, and so many enormous problems still facing us — both long and short term — that there is no hope for more than an occasional rally until some of these uncertainties are cleared up. This is a whole new ball game."

In 1942 everybody knew it was a whole new ball game. And it sure as hell was.

Uncertainties? We were all in a war that we were losing. The Germans had overrun France. The British had been thrown out of Dunkirk. The Pacific Fleet had been disastrously crippled at Pearl Harbor. We had surrendered Bataan, and the British had surrendered Singapore. The U.S. was so ill-prepared for a war that the cavalry school at Fort Riley was still teaching equitation, and I would guess that probably 75% of our field artillery was equipped with horse-drawn, French 75mm guns, Model 1897 (including the battalion in which I was then serving).

In April 1942, inflation was rampant. A Federal Reserve bulletin stated: "General price increases have become a grave threat to the efficient production of war materials and to the stability of the national economy."

Today there is concern about the slump in housing construction. On April 8, 1942, the lead article in the Journal was: "Home construction. Total far behind last year's; new curbs this week to cut further ... Private builders hard hit."

Today almost every financial journal or investment letter carries a list of reasons why investors are standing on the sidelines. They usually include (1) continued inflation;

(2) illiquidity in the banking system; (3) shortage of energy; (4) possibility of further outbreak of hostilities in the Middle East; and (5) high interest rates. These are serious problems.

But on Saturday, April 11, 1942 (remember when the exchanges were open on Saturday?), the Wall Street Journal stated: "Brokers are certain that among the factors that are depressing potential investors are, (1) widening defeats of the United Nations; (2) a new German drive on Libya; (3) doubts concerning Russia's ability to hold when the Germans get ready for a full-dress attack; (4) the ocean-transport situation with the United Nations, which has become more critical; and (5) Washington is again considering either more drastic rationing with price-fixing or still higher taxes as a means of filling the 'inflationary gap' between increased public buying power and the diminishing supply of consumer goods." (Virtually all of these concerns were realized and got worse.)



MARKET COMMENTARY

Global and Australian Market Analysis

Since the last Vantage Points markets have continued their declines, commencing 2009 with falling prices. However, concerns about the entire financial system have been contained. Government guarantees for banks and other approved deposit taking institutions have ensured that there have not been any runs on these institutions, although they have caused problems for other sectors of the finance and business community.

Whilst volatility of market prices remains at high levels, it has retreated from the extremes of the December quarter. Similarly, whilst credit markets are still not functioning normally, some activity has resumed and a number of indicators of banking system stress have moved back in the direction of normalcy. With the availability of debt still significantly reduced, more and more companies have reluctantly resorted to refinancing by raising share capital from investors, despite having to accept low prices.



Large scale Government fiscal and monetary stimulus is being provided globally in reaction to the growing realisation that we are currently in a global recession. Most of the effects of this stimulus will only begin to be felt this year.

Nevertheless, the large market moves to date are likely to have correctly anticipated a sharp decline in the real economy, so we can expect to see poor economic reports including rising unemployment and lower company profits. It is also likely that markets will also be early to recognise improvements, so that at some point market prices are likely to begin climbing despite relentlessly bad economic reports.

For those in a position to accumulate and hold growth assets (excluding residential real estate), the current environment is highly likely to provide very good long term returns. Forced sellers are likely to be less well served by current market prices.

Sector	Commentary	Outlook
Australian Shares	Australian share prices lower.	Australian shares priced below our estimation of fair value even after allowing for a recession.
International Shares	Prices also weaker.	Also below fair value after allowing for recession.
Listed Property	Very low prices and extreme price volatility appear to indicate panic over solvency of most of the sector.	Very good value on offer but accompanied by increased financial risk due to the credit crisis and rapid Australian currency decline.
Fixed Interest Securities	<p>“Safe” assets such as Government bonds have been bid up to high price levels, offering low expected returns.</p> <p>Conversely, non-Government securities are very cheap — effectively lenders/ investors now demanding excessive reward for risk.</p>	<p>Long-term fixed interest rates appear unattractive to us although high quality corporate debt investments appear extremely cheap.</p> <p>Prefer cash and non-Government over Government fixed interest.</p>
Alternatives	Varied performance. Gold has performed well whilst gold stocks have recovered sharply followed a severe decline despite rising gold prices. Some alternative strategies had a very disappointing December quarter although the new year generally more favourable. Others have performed relatively well throughout.	<p>Gold stocks still cheap relative to current gold price.</p> <p>Although opportunities for hedge funds are abundant, we recommend continuing to reduce strategy-based alternative investments to finance increased investments elsewhere.</p>

MESSAGE IN A BOTTLE FROM 1974 (CONTINUED FROM PAGE 1)

On the same day, discussing the slow price erosion of many groups of stocks, leading stock market commentator said: "The market remains in the dark as to just what it has to discount. And as yet, signs are still lacking that the market has reached permanently solid ground for a sustained reversal."

Yet on April 28, 1942, in that gloomy environment, in the midst of a war we were losing, faced with excess-profits taxes and wage and price controls, shortages of gasoline and rubber and other crucial materials, and with the virtual certainty in the minds of everyone that once the war was over we'd face a post-war depression in that environment, the market turned around.

What turned the market around in April of 1942?

Simply a return to reality. Simply a slow but growing recognition that despite all the bad news, despite all the gloomy outlook, the United States was going to survive, that strongly financed, well-managed U.S. corporations were going to survive also. The reality was that those companies were far more valuable than the prices of their stocks indicated. So, on Wednesday, April 29, 1942, for no apparent visible reason, investors again began to recognise reality.

*Have courage!
We have been here before —
and we've survived
and prospered.*

The Dow Jones Industrial Average is not reality. Reality is not price-to-earnings ratios and technical market studies. Symbols on the tape are not the real world. In the real world, companies create wealth.

Stock certificates don't. Stock certificates are simply proxies for reality.

Now I'd like to close with this:

"Some people say they want to wait for a clearer view of the future. But when the future is again clear, the present bargains will have vanished. In fact, does anyone think that today's prices will prevail once full confidence has been restored?"

That comment was made 42 years ago by Dean Witter in May of 1932 — only a few weeks before the end of the worst bear market in history.

Have courage! We have been here before — and we've survived and prospered.

Reproduced with kind permission from Capital International, Inc.
© Copyright 2008 Capital International, Inc. All rights reserved.

BONUS TAX DEDUCTION – NEW CARS & PRACTICE EQUIPMENT



New cars and new practice equipment could be eligible for a recently announced bonus tax deduction available to Australian businesses.

The bonus deduction will be 30% for business assets purchased prior to 30 June 2009 and 10% if purchased between 1 July 2009 and 31 December 2009.

Assets must be new and predominantly for business use and include:

- equipment (computers, medical and dental equipment, etc)
- carpet & floor coverings
- cars

For a \$50,000 asset, this could result in a bonus tax deduction of \$15,000 (equivalent tax saving of up to \$6,975).

Eligibility will be dependent on the type of asset, its value and how you finance the purchase.

To discuss your personal circumstances, please call your Smith Coffey Consultant.

travel

practice

home & contents

motor

Insurance

quality insurance at competitive rates

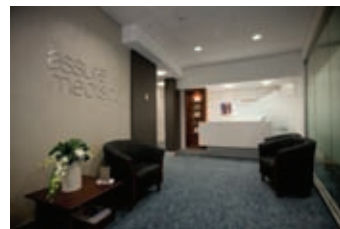
Call for an obligation free insurance consultation or quotation today.

understanding

protection

care

AMA INSURANCE BROKERS
(08) **9273 3077**



A WA-first for beauty lovers

There's good news for anyone interested in improving their appearance, with the recent opening of 'Assure Medispa' — the State's first dedicated beauty and skincare clinic owned and operated by a team of plastic surgeons.

The million-dollar, state-of-the-art facility was established by the five plastic surgeons behind the WA Plastic Surgery Centre and offers a premium range of non-surgical, non-invasive cosmetic procedures.

Unlike a beautician or day spa, Assure's treatments, such as chemical peels, LED, wrinkle relaxers, dermal fillers, IPL and microdermabrasion, are all medical-grade and conducted by highly-trained medical aestheticians and registered nurses, under the supervision of leading local plastic surgeons.

Surgeon and Co-Director, Vij Vijayasekaran AM, said the clinic was created based on what he and his colleagues saw was a growing need for a specialist, purpose-built medispa in Perth.



"We felt that, as public interest in cosmetic therapy had grown, so too had the realisation that certain skincare treatments require high-calibre

medical skill and experience," Dr Vijayasekaran said.

"Typically, our clients are people wanting healthier skin, but who may not want surgery or for whom surgery may not be appropriate. Many want to reduce the signs of premature aging, add vibrancy to their appearance, repair damaged skin or manage hair reduction."

To find out more, or to book a complimentary consultation and skin analysis, phone Assure Medispa on 9380 0380 or visit the website @ www.assuremedispa.com.au

Any opinions expressed in the article are those of the author and not an endorsement by Smith Coffey

MINIMUM PENSIONS REDUCED

You would have recently received a letter from us about the Government's initiative to reduce existing pension minimums by 50%.

This is in recognition of the decline in account balances that many retirees have experienced due to market conditions. The requirement to meet minimum pension drawdowns which may involve the sale of investments at depressed prices increases this negative impact and can now be deferred if the funds are not needed.

The relief will allow the minimum pension payments an individual receives in 2008/2009 to be halved.

Note that if you are drawing a pension and have already taken 50% or more of your current minimum for the 2008/09 year, you will NOT be allowed to contribute the excess back into your pension.

The information made available by the Government indicates that the drawdown relief is available only for 2008/2009.

WINNERS OF THE 2008/09 PIAF COMPETITION



The winners of the double/family passes to the shows and movies for this year's Perth International Arts Festival events are:

Dr TW Cottee, Dr JR Davies, Dr P Janaganathan, Dr JJ Pickering and Dr GE Smith. Congratulations and thanks to all who entered.



SMITH COFFEY

20 Nicholson Road, Subiaco WA 6008
PO Box 268 Subiaco WA 6904

Telephone (08) 9388 2833 Facsimile (08) 9388 1566
Email: smith.coffey@smithcoffey.com.au

For all enquiries call (08) 9388 2833

Smith Coffey Financial
Management Pty Ltd
A.C.N. 008 812 226
As trustee for the
Smith Coffey Trust
A.B.N. 28 754 975 431

Smith Coffey Pty Ltd
as trustee of the Bon Unit
Trust A.C.N. 008 819 458
A.B.N. 72 940 948 949
AFSL No: 237 972
FICS Membership
Number F-3557

Smith Coffey
Securities Pty Ltd
A.C.N. 008 812 208
A.B.N. 19 008 812 208
AFSL No: 237 971
FICS Membership
Number F-1296

Smith Coffey Finance
Solutions Pty Ltd
A.C.N. 090 885 857
Licensed Finance Broker
(Lic. FB 1285)
A.B.N. 9909 088 5957

IMPORTANT NOTICE: The Smith Coffey distributing this document and each of their respective directors, officers and agents ("Smith Coffey"), believe that the information contained in this document is correct and that any estimates, opinions, conclusions or recommendations contained in this document are reasonably held or made at the time of compilation. However, no warranty is made to the accuracy or reliability of any estimates, opinions or conclusions, recommendations (which may change without notice) or other information contained in this document and to the maximum extent permitted by law. Smith Coffey disclaims all liability and responsibility for any direct or indirect loss or damage which may be suffered by any recipient through relying on anything contained in or omitted from this document.