



Market Moves Reviewed

- ❖ The **Greek parliament approved an austerity package** including tax increases, spending cuts and privatisation defying days of rioting by anti-austerity protesters in Athens. The package opens the door for the next injection of emergency bail-out funds from the EU and the IMF. This boosted markets globally, with European and US shares posting solid gains.
- ❖ **Australian dollar** hit a 26 year high against the UK pound.
- ❖ French Finance Minister **Christine Lagarde** was appointed as the first female **Managing Director of the IMF**, replacing Dominique Strauss-Kahn. She indicated she would advance efforts to give more voting power to emerging markets such as China and Brazil.
- ❖ **China's Purchasing Manager's Index** dipped further in June, to 50.9 due to weaker global demand and tight monetary policy in China.
- ❖ **US manufacturing activity**, however, had an unexpected pickup (possibly due to their weak currency) leading their share market to its strongest week in 2 years.
- ❖ **US home prices** decreased 0.1% from March to April, to be 4% lower than a year ago.
- ❖ **Australian house prices** continued their downward trend in May, with Brisbane down 5.9%, Melbourne down 2.9% over the past 12 months, and Perth down 7.5%. Sydney was the only state to see an increase, with house prices up 1%.
- ❖ In a further sign of our subdued economy, **job vacancy figures showed a decline of 1.7%** between February and May this year, largely due to a decline in the private sector.
- ❖ **Australia's index of activity in the manufacturing sector** showed a favourable increase to 52.9, which indicates expansion in that sector.

Weekly Markets

Index	Week to date
S&P ASX200	1.8%
All Ordinaries	1.8%
NZX50 (NZ)	0.6%
Dow Jones (US)	5.4%
S&P500 (US)	5.6%
NASDAQ (US)	4.5%
Stoxx Europe 50	3.1%
FTSE100 (UK)	5.1%
DAX (Germany)	4.2%
CAC40 (France)	5.9%
Nikkei (Japan)	2.0%
Shanghai Composite	0.5%
CBN China 600	0.8%
Hang Seng	1.0%
Crude Oil	4.6%
Gold	0.0%
AUD/USD	2.2%

Capital movements 24 June – 1 July 2011

OUR PARTNERS

Chris Ball / Peter Camenzuli / Jason Evans / Warwick Face / Nigel Fischer / Katrina Haiduk / Brett Headrick
Teresa Hooper / Ian Jones / Kylie Lamprecht / Mark Nicholson / Ken Ogden / Norman Thurecht / Ross Walker

OUR CONTACT DETAILS

Level 30, Central Plaza One 345 Queen Street Brisbane Qld 4000
GPO Box 3337 Brisbane Qld 4001 / Phone (07) 3222 8444 / Fax (07) 3221 7779 / www.jr.com.au

Liability limited by a scheme approved under Professional Standards Legislation.

2011 FINANCIAL YEAR PERFORMANCE

Given the dominance of the Greek sovereign debt issues in the financial press in recent months, it is certainly no wonder that ***the Athens Stock Exchange was the worst performing market in the world for the 2010/11 Financial Year.*** The leading index of the ASE fell **11.8%** for the year to 30 June.




One would then conclude that among the worst performing markets would be the other PIIGS (Portugal, Italy, Ireland and Spain). Perhaps the French and German markets, as their banks and insurance companies are the most exposed to the Greek bonds, may be in the list of the worst performers. Logically, given the level of concern about US government debt and the uncertain economic outlook there, the US markets could appear in the list of under performers.

Surely Australia, with our booming resource sector, exposure to the growth of China and India, stable economic and political system and globally competitive businesses, would be one of the top performers . . . surely?

In spite of any logic to the contrary, the Australian Securities Exchange, as measured by the S&P/ASX200, was the ***one of the worst performing share markets in the world for 2010/11.*** The S&P/ASX200 ended up 7.1% for the year, thanks largely to a strong finish in the final few days of the year.

The best performing leading index was the Russell 2000 in the US, which is a broad-based index covering 2000 listed US companies. This index therefore includes a large number of mid-cap and small-cap stocks. The Russell 2000 index rose 35.7% over the year to June 30, which indicates that the

recovery in corporate America may well be more broad-based than the press and analysts might have us believe. The other recognised US indices also performed strongly, in spite of the recent market weakness:

-  **Dow Jones +25.5%**
-  **S&P 500 +26.9%**
-  **NASDAQ +29.9%.**

Indonesia recorded exceptionally strong growth, with the JSX Composite **up 33.5%** for the year.

Our other neighbours, New Zealand, managed an increase of 16%, even after contending with the Christchurch earthquakes.

Why has the Australian market under performed? Since September last year, the Australian market has decoupled from the US, significantly under performing. Our market has sold off severely each time there has been an overnight shock, or negative move, in the US market, yet has not followed the positive moves to the same extent.

The strength of the Australian dollar – up 27.8% against the US Dollar over the Financial Year – has played a large part in our underperformance. Australian companies in the manufacturing, tourism and education sectors have been adversely impacted. International investors, making gains due to the currency, have taken profits on their Australian holdings.

Our subdued consumer and investor confidence is also weighing on the markets, perhaps due in-part to the current uneasy political environment.

An Independent Investment Advisory Practice

Johnston Rorke is an affiliate of Pitcher Partners, an association of independent firms and independent members of Baker Tilly International.

Liability limited by a scheme approved under Professional Standards Legislation. This material is intended for the use of the clients of Johnston Rorke and JR Wealth Management only. It is current at the date of preparation, but may be subject to change. This document does not constitute financial product advice. It is of a general nature and has been prepared without taking into account any person's objectives, financial situation or needs. Before acting on the information you should consider the appropriateness of it having regard to your objectives, financial situation or needs and seek independent advice. You should obtain and consider a Product Disclosure Statement in relation to any financial product before making any decision about acquiring the product. To the maximum extent permitted by law, JR Wealth Management Pty Ltd and its representatives will not be liable for any loss or damage incurred by any person directly or indirectly from any use or reliance on this document.

An Independent Investment Advisory Practice

www.jr.com.au

Johnston Rorke is an affiliate of Pitcher Partners, an association of independent firms and independent members of Baker Tilly International.

Investment advice is provided by JR Wealth Management Pty Ltd.

ABN 96 142 456 559 AFS Licence No 357636

Liability limited by a scheme approved under Professional Standards Legislation.

JR
JOHNSTON RORKE
WEALTH MANAGEMENT
AFS Licence No. 357636 ABN 96 142 456 559

2011 FINANCIAL YEAR PERFORMANCE MAJOR MARKET INDICES

GLOBAL INDICES		
Dow Jones Global	Global	28.2%
DJ Developed Markets	Global	29.0%
DJ Emerging Markets	Global	21.4%
AUSTRALASIA		
All Ordinaries	Australia	7.7%
S&P/ASX 200	Australia	7.1%
NZX 50	New Zealand	16.0%
UNITED STATES		
Dow Jones Industrial Average	USA	25.5%
S&P 500	USA	26.9%
NASDAQ	USA	29.9%
EUROPE		
FTSE 100	UK	19.1%
DAX	Germany	22.3%
CAC40	France	14.0%
Euro Stoxx 50	Eurozone	8.9%
Athex Composite	Greece	-11.8%
BEL-20	Belgium	7.8%
Swiss Market Index	Switzerland	1.0%
BRICs		
IBOVESPA	Brazil	2.4%
DJ Russia Titans 10	Russia	30.7%
BSE SENSEX	India	5.6%
Shanghai Composite	China	15.3%
DJ CBN China 600	China	18.1%
ASIA		
Nikkei	Japan	4.6%
Hang Seng	Hong Kong	11.2%
JSX Composite	Indonesia	33.5%
Straits Times	Singapore	9.1%
KOSPI	Korea	23.7%
KLSE	Malaysia	20.5%
TAIEX	Taiwan	18.1%
Thailand SET	Thailand	30.6%



S&P/ASX200 Index FY2011. Source: Core Equity Services

COMMODITIES		
DJ UBS Commodity	26.7%	
Energy		
WTI Oil	26.3%	
Brent Crude Oil	46.4%	
Natural Gas	-18.1%	
Precious Metals		
Gold	25.8%	
Silver	26.5%	
Platinum	12.3%	
Palladium	71.2%	
Base Metals		
Copper	43.6%	
Aluminium	30.4%	
Zinc	33.8%	
Lead	55.2%	
Nickel	19.0%	
Tin	48.2%	
Uranium	14.1%	
Agricultural Commodities		
Corn	53.2%	
Wheat	6.5%	
CURRENCIES		
AUD v USD	Australia	27.8%
NZD v USD	New Zealand	20.3%
USD Index	USA	-13.6%
Euro v USD	Euro	18.5%
Japanese Yen v USD	Japan	-8.7%
GBP v USD	UK	7.2%

An Independent Investment Advisory Practice

Johnston Rorke is an affiliate of Pitcher Partners, an association of independent firms and independent members of Baker Tilly International.

Liability limited by a scheme approved under Professional Standards Legislation. This material is intended for the use of the clients of Johnston Rorke and JR Wealth Management only. It is current at the date of preparation, but may be subject to change. This document does not constitute financial product advice. It is of a general nature and has been prepared without taking into account any person's objectives, financial situation or needs. Before acting on the information you should consider the appropriateness of it having regard to your objectives, financial situation or needs and seek independent advice. You should obtain and consider a Product Disclosure Statement in relation to any financial product before making any decision about acquiring the product. To the maximum extent permitted by law, JR Wealth Management Pty Ltd and its representatives will not be liable for any loss or damage incurred by any person directly or indirectly from any use or reliance on this document.

An Independent Investment Advisory Practice

www.jr.com.au

Johnston Rorke is an affiliate of Pitcher Partners, an association of independent firms and independent members of Baker Tilly International.

Investment advice is provided by JR Wealth Management Pty Ltd.

ABN 96 142 456 559 AFS Licence No 357636

Liability limited by a scheme approved under Professional Standards Legislation.

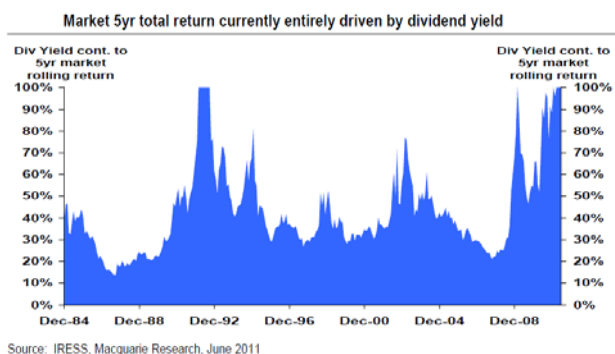
JR
JOHNSTON RORKE
WEALTH MANAGEMENT
AFS Licence No. 357636 ABN 96 142 456 559

12 KEY INVESTMENT THEMES FOR FY12

1. DIVIDEND YIELDS

Although the capital performance of the Australian market over FY11 was disappointing, when **dividends are included the overall return was a respectable 11.73%**. The additional benefits of imputation credits also assist many investors.

In fact, for the **5 years to June 2011, dividends accounted for all of the returns on the Australian market**, according to recent research by Macquarie.



Source: *Macquarie Equities*

With capital volatility likely to continue, investing for income – ensuring the companies selected have the ability to pay sustainable dividends – remains a prudent strategy.

2. EARNINGS

Earnings certainty is paramount to investors, and markets have shown recently that companies that fail to deliver on earnings guidance can (and will) be treated severely and swiftly.

With recent concerns about the outlook for global growth, many stocks have already been marked back in anticipation of potential earnings downgrades. The next crucial time will be the **reporting season in late July / early August**.

3. COMMODITY PRICES

Expectations from most resource analysts are that **commodity prices should keep rising**. Strong demand from China, India and other Asian countries is forecast to continue to outstrip supply.

China will be the key here – **any sign of further slow-down or weakness in the Chinese economy could trigger significant falls in commodity prices**. Although long term supply and demand fundamentals drive commodities, short term sentiment can account for pronounced movements in commodities prices.



Source: *Bloomberg*

4. BASEL III

The introduction of the global Basel III banking regulations will potentially have an **impact on both bank investors and term deposits**. When implemented, Basel III will place tighter restrictions on the capital position of banks. Although the impact on Australia's major is likely to be minimal, many of the global banks will be required to improve their funding profile.

Basel III will put a greater premium on longer term funds, hence **may be a catalyst for a decline in short term term deposit rates** in favour of longer term money.

An Independent Investment Advisory Practice

Johnston Rorke is an affiliate of Pitcher Partners, an association of independent firms and independent members of Baker Tilly International.

Liability limited by a scheme approved under Professional Standards Legislation. This material is intended for the use of the clients of Johnston Rorke and JR Wealth Management only. It is current at the date of preparation, but may be subject to change. This document does not constitute financial product advice. It is of a general nature and has been prepared without taking into account any person's objectives, financial situation or needs. Before acting on the information you should consider the appropriateness of it having regard to your objectives, financial situation or needs and seek independent advice. You should obtain and consider a Product Disclosure Statement in relation to any financial product before making any decision about acquiring the product. To the maximum extent permitted by law, JR Wealth Management Pty Ltd and its representatives will not be liable for any loss or damage incurred by any person directly or indirectly from any use or reliance on this document.

An Independent Investment Advisory Practice

www.jr.com.au

Johnston Rorke is an affiliate of Pitcher Partners, an association of independent firms and independent members of Baker Tilly International.

Investment advice is provided by JR Wealth Management Pty Ltd.

ABN 96 142 456 559 AFS Licence No 357636

Liability limited by a scheme approved under Professional Standards Legislation.

JR
JOHNSTON RORKE
WEALTH MANAGEMENT
AFS Licence No. 357636 ABN 96 142 456 559

Although the implementation of Basel III will not begin until **1 January 2013**, regulators and banks will begin working towards the implementation prior to this date.

5. GLOBAL RECOVERY

Although the outlook for global economic recovery has become more muted in recent months, the theme was a dominant one for much of FY2011. The relative performance of the markets of **recovering economies of USA, UK, France and Germany** compared to the Australian market (being a more mature economy) shows the importance of the recovery.

The sheer size of these economies, and the power of a rebound in consumer sentiment, will continue to be enticing to global investors.

To Australian investors, recoveries in the significant offshore economies, combined with potential weakness in the Australian dollar (or strength in the USD) **could provide healthy returns to international portfolios.**

6. AUSTRALIAN DOLLAR

The strength of the Australian dollar – partly due to the rise of commodity prices, partly due to the weakness in the US dollar – has been a benefit to Australians travelling overseas. It has also benefited importers and on-line retailing. Australian exporters, retailers, manufacturers and the tourism sector have been adversely impacted by the strength of our currency.

Most economists are predicting that the **AUD will remain above \$1 US for the remainder of 2011.** Any potential upward move in US interest rates could be a catalyst to a stronger USD and weaker AUD.

7. RETAIL SALES

Retail sales have suffered domestically due to weak consumer sentiment, the strong Australian dollar and the rise of on-line retailing. FY11 saw a number of major retail chains fall into the hands of the receivers, and even the large department stores have felt the impact of the change in consumer behaviour.

Will this trend reverse in FY12, or is on-line retailing changing the game for retailers long term? Certainly, those retailers that are able to harness the power of the web to augment their existing strategies will be best placed to benefit.

8. INFLATION & INTEREST RATES

Inflation is a global issue, with the cost of food and energy having a significant impact on the sentiment of the consumer around the world. Not only has inflation been the source of civil unrest in many nations, but has forced Central Banks in China, India and even Europe to raise rates.

With **inflation of 3.3%**, outside of the stated target of 2-3%, the RBA is still forecast to raise rates by an additional 0.25% this calendar year by many economists. However, recent figures have suggested that the **RBA is moving to a more neutral stance.**

9. EUROPEAN SOVEREIGN DEBT

Although Greece appears to have avoided default with last week's passing of their austerity measures, this has merely **deferred the problem.** The Greek economy still owes the bond holders (predominantly French and German banks and insurance companies), but the payment terms have been altered and deferred.

Peripheral Europe is still laden with debt, and will continue to dominate headlines in FY2012.

An Independent Investment Advisory Practice

Johnston Rorke is an affiliate of Pitcher Partners, an association of independent firms and independent members of Baker Tilly International.

Liability limited by a scheme approved under Professional Standards Legislation. This material is intended for the use of the clients of Johnston Rorke and JR Wealth Management only. It is current at the date of preparation, but may be subject to change. This document does not constitute financial product advice. It is of a general nature and has been prepared without taking into account any person's objectives, financial situation or needs. Before acting on the information you should consider the appropriateness of it having regard to your objectives, financial situation or needs and seek independent advice. You should obtain and consider a Product Disclosure Statement in relation to any financial product before making any decision about acquiring the product. To the maximum extent permitted by law, JR Wealth Management Pty Ltd and its representatives will not be liable for any loss or damage incurred by any person directly or indirectly from any use or reliance on this document.

An Independent Investment Advisory Practice

www.jr.com.au

Johnston Rorke is an affiliate of Pitcher Partners, an association of independent firms and independent members of Baker Tilly International.

Investment advice is provided by JR Wealth Management Pty Ltd.

ABN 96 142 456 559 AFS Licence No 357636

Liability limited by a scheme approved under Professional Standards Legislation.

JR
JOHNSTON RORKE
WEALTH MANAGEMENT
AFS Licence No. 357636 ABN 96 142 456 559

10. US GOVERNMENT DEBT

After reaching an 11th hour deal to stave off a government shut-down in April over budget funding, Barack Obama is now attempting to **negotiate an increase of the US\$14.29 Trillion US debt ceiling**. The US administration has until **2 August** to agree to a deal with the Republicans to avoid default.

Although the US debt is not as extreme as the Greek debt situation from a GDP perspective (**US debt is estimated to be 98.6% of GDP**, while Greek debt estimates are 157.7% of GDP), the amount is significant.

Should the debt ceiling be lifted, and spending cuts agreed to, a US debt crisis is likely to be avoided. However, **if the parties are unable to agree, the risk is the US defaults on debt payments** which would have major global ramifications.

The extent of any agreed spending cuts could also have **ramifications on the already uncertain US economy**, particularly on consumer sentiment and the fragile unemployment numbers.

11. AUSTRALIAN POLITICS

The fragile state of Federal politics in Australia is arguably having a **negative impact on consumer and investor sentiment in Australia**. Global institutional investors have cited the uncertain nature of our political landscape as a reason to seek opportunities elsewhere.

Uncertainty over the Mining Resource Rent Tax and the proposed Carbon Tax continue to cloud the investment horizon. With a new look Senate from this week, with the **Greens holding the balance-of-power**, the uncertain political climate is likely to continue to weigh on investment decisions.

12. AUSTRALIAN HOUSE PRICES

Recent data from RP-Data has confirmed that **capital city house prices across Australia are cooling**. Brisbane and Perth have experienced the most severe decline during FY11.

Anecdotally, regional tourism areas such as the Gold Coast and Sunshine Coast have already suffered severe declines, with supply far out-stripping demand. As with many parts of the economy, demand for housing in regional cities in close proximity to the booming mining sector is still strong.

As we move through FY12, the decline in house prices will be closely watched. Will the cooling create a buyers' market, or are we at the beginning of a more severe decline? At the extreme, some commentators – such as Morgan Stanley's Gerard Minack – are suggesting that Australian house prices are 40% overvalued, with a **median house price across the capital cities of \$470,000**. Others cite the mining boom, rising wages and a lack of capital city supply as reasons why the housing market will rebound from the current "soft patch".

ECONOMIC FORECASTS

A recently published Australian Financial Review Quarterly Survey of Economists (27 June 2011) forecast the following:

Indicator	Current	3 Mths Median	6 Mths Median
AUD/USD	1.0733	1.05	1.02
Cash Rate	4.75	5.00	5.13
10 Yr Bond	5.00	5.60	5.73
S&P/ASX200	4610.70	4725	4913
Inflation	3.30	3.40	3.35
GDP Growth	1.2	1.9	4.0

An Independent Investment Advisory Practice

Johnston Rorke is an affiliate of Pitcher Partners, an association of independent firms and independent members of Baker Tilly International.

Liability limited by a scheme approved under Professional Standards Legislation. This material is intended for the use of the clients of Johnston Rorke and JR Wealth Management only. It is current at the date of preparation, but may be subject to change. This document does not constitute financial product advice. It is of a general nature and has been prepared without taking into account any person's objectives, financial situation or needs. Before acting on the information you should consider the appropriateness of it having regard to your objectives, financial situation or needs and seek independent advice. You should obtain and consider a Product Disclosure Statement in relation to any financial product before making any decision about acquiring the product. To the maximum extent permitted by law, JR Wealth Management Pty Ltd and its representatives will not be liable for any loss or damage incurred by any person directly or indirectly from any use or reliance on this document.

An Independent Investment Advisory Practice

www.jr.com.au

Johnston Rorke is an affiliate of Pitcher Partners, an association of independent firms and independent members of Baker Tilly International.

Investment advice is provided by JR Wealth Management Pty Ltd.

ABN 96 142 456 559 AFS Licence No 357636

Liability limited by a scheme approved under Professional Standards Legislation.

JR
JOHNSTON RORKE
WEALTH MANAGEMENT
AFS Licence No. 357636 ABN 96 142 456 559