



Market Moves Reviewed

- ❖ Disappointing economic figures and concerns about subdued growth prospects lead US markets lower again last week, recording the **first 5-week losing streak since July 2004**.
- ❖ The **Dow Jones** has now **lost 5.1% since 29 April**, while the **ASX200** has **lost 4.9%**. However, the ASX200 is down 7.8% from reaching its recent peak on 11 April.
- ❖ **Australian GDP declined 1.2% for the March quarter**, predominantly due to the impact of the Queensland floods and cyclone. **Coal output declined by 30%** for the quarter.
- ❖ **Household income and saving have grown markedly** in the first quarter, with a sharp pick-up in the National Accounts measure of wages.
- ❖ **Business investment was up 2.8%** quarter-on-quarter, an increase of **5.9% year-on-year**. Driving the increase were strong machinery and equipment investment combined with healthy engineering construction.
- ❖ **RP Data-Rismark national dwelling prices** declined in April, and are **down 1.5% over the 12 months**. Capital city prices varied significantly across the country: Darwin +2.4%; Canberra +1.4%; Sydney +0.3%; Melbourne -0.4%; Brisbane -0.9%; Adelaide -1.4%; and Perth -1.9%.
- ❖ **Retail trade increased 1.1%** in April, a jump of **3.3% year-on-year**.
- ❖ **US Case-Schiller house prices** across 20 cities **declined 4.2%** in the first quarter. US house prices are now 33.1% below the peak in July 2006, and are at the equivalent level of 2002.
- ❖ **US Non-farm payrolls** increased by 54,000 jobs – well short of expectations of 165,000. **Unemployment rose from 9.0% to 9.1%**.

Weekly Markets to 6 June

Index	Week to date
S&P ASX200	-2.15%
All Ordinaries	-1.97%
NZX50 (NZ)	-0.37%
Dow Jones (US)	-2.33%
S&P500 (US)	-2.32%
NASDAQ (US)	-2.29%
Stoxx Europe 50	-2.11%
FTSE100 (UK)	-1.41%
DAX (Germany)	-0.76%
CAC40 (France)	-1.53%
Nikkei (Japan)	-0.23%
Shanghai Composite	0.67%
CBN China 600	1.02%
Hang Seng	-0.73%
Crude Oil	-0.32%
Gold	0.30%
AUD/USD	0.06%

Capital movements 30 May 2011 – 6 June 2011

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Negative Sentiment

Investor sentiment has turned decidedly negative in recent weeks, driving a downturn in equity markets. Last week's poor economic data out of the US highlighted the tenuous nature of their economy.

Since 1 May, there has been **more than \$2 trillion wiped off the value of global equities markets** according to Bloomberg. Traders and investors have become concerned about the **outlook for global growth**. Signs that the US economy is faltering have hurt expectations that their economy would experience a sustained recovery over 2011.

Rising food and oil prices have also dampened some of the expectations of growth out of China, India and other emerging nations.

Locally, the **"two-speed economy"** appears to have broadened the gear-box, with clear signs that **different sectors of the Australian economy are moving in different speeds**. Certainly the data, and commentary, is suggesting that the housing market is beginning to move in reverse.

Although we are not as bearish as some commentators have become in recent weeks, we **have been cautious for some time**. Many of the "headwinds" that have become front-page news have been around for some time, hence our inclination to **hold more cash in portfolios**.

Alarm, or Opportunity?

Should the recent decline in equity markets be seen as a cause for alarm, or does this represent an opportunity?

Short term, sentiment is a powerful driver of markets as we have witnessed recently. Sentiment can, however, change quickly. **Attempting to predict the short term movements is a game fraught with danger.**

However, long term investors can utilise short term volatility and price declines to their advantage by **building on positions in companies that represent attractive value**. Although it is easy to be blinded or scared by negative sentiment, it is prudent to look through the "noise" and ask **"What has changed?"**

Over the last 5 weeks, have the following factors changed for core portfolio investments:

- Earnings expectations?
- Sales growth?
- Dividend payments?
- Management?
- Strategy?
- Industry outlook?

Although in some cases the above may have changed – indeed, there have been some profit downgrades – for many other companies all of the above have been constants. **The only variable may have been the share price.**

Long term, the recent decline in share prices may be an opportunity to add to core holdings at attractive prices.

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