

Key Indices

Index	1-Jun-08	30-Jun-08	Change	Change	Commodities	1-Jun-08	30-Jun-08	Change
S&P ASX200	5,654.70	5,215.30	-439.40	-7.77%	Oil - WTI	127.35	139.96	9.90%
All Ordinaries	5,773.90	5,332.90	-441.00	-7.64%	NY Gold	885.90	924.85	4.40%
SFE Futures 200	5,721.00	5,203.00	-518.00	-9.05%	Cash Rate	7.25%	7.25%	0.00
S&P ASX Property	1,612.80	1,410.60	-202.20	-12.54%	90 Day Bank Bill	7.79%	7.84%	0.05
Dow Jones	12,638.32	11,350.01	-1,288.31	-10.19%	10 Yr Bonds	6.53%	6.47%	-0.06
Nasdaq	2,032.57	1,837.09	-195.48	-9.62%	Best Movers	3 Months	Price	Change
S&P 500	1,400.38	1,280.00	-120.38	-8.60%	FMG	Fortescue Metals	\$11.90	76.04%
FTSE 100	6,053.50	5,625.90	-427.60	-7.06%	ORG	Origin Energy	\$16.12	70.04%
Hang Seng	24,533.12	22,102.01	-2,431.11	-9.91%	QGC	Queensland Gas	\$5.37	49.58%
Nikkei 225	14,338.54	13,481.38	-857.16	-5.98%	STO	Santos Ltd	\$21.45	43.38%
					Worst Movers	3 Months		
Currencies					CNP	Centro Properties	\$0.25	-46.74%
AUD/USD	0.9559	0.9626	0.0067	0.70%	BNB	Babcock & Brown	\$7.50	-43.57%
AUD/SGD	1.3041	1.3106	0.0065	0.50%	TOL	Toll Holdings Ltd	\$6.02	-36.50%
AUD/EUR	0.6160	0.6096	-0.0064	-1.04%	MAP	Macquarie Airports	\$2.06	-32.46%

Market Commentary

For the past 6 years records in the equity market have continually been broken. This financial year, however, the difference is that the records are not for the best performing stock, sector or market any more. The last financial year has been a complete turnaround with the All Ordinaries recording its worst performance since 1982, a year that will go down as even worse than 1987, when we experienced our most recent total stock market crash. If, however, the end of the financial year came just 6 weeks earlier the result would have been substantially different. The Australian sharemarket would have been down only 7% for the year rather than the 16% decrease to 30 June 2008. An interesting fact is that most investors have forgotten is that the percentage loss experienced is very close to that which the market gained the year before, so the last 12 months really needs to be put into perspective. However, we are technically in a bear market.

The following four major factors have impacted heavily on the performance of the global investment markets over the past six weeks.

1. The doubling of oil prices in the past year;
2. The deepening US housing market recession;
3. The global credit crunch feeding through to the real economy; and
4. Central banks worldwide becoming very concerned about a significant increase in inflation and inflation expectations.

These considerations continue to underpin everyone's concerns about equity markets. The credit crisis was centre stage in the March quarter with oil unquestionably taking over in the fourth quarter. It is not only centre stage in financial markets; it is also the number one issue for households in the Western World. As a result politicians are now getting into the act. Over the past month, the resources market continues to be favoured as a safe haven. However, we are a little unsure on this logic as resources are an intrinsically cyclical investment. The resources markets have always been cyclical and will be forever linked to the state of the global economy (with or without China). Therefore if the global economy goes into a recession commodities prices will begin to fall and investors will rotate funds back into the bargain basement industrial stocks. An example of this is that the Small Resource Index currently trades on a price earnings ratio in excess of 20 times whilst the Small Industrial Index is trading at around 6 times earnings. Based on this information you must ask yourself a question: Which sector appears to be fully priced for an expected economic slowdown?

If the four factors outlined earlier in this article continue to spook the market we will likely see the market cross into zone 4 and if nothing improves, even down to zone 5. On the bright side however, this will provide excellent opportunities to shop for oversold stocks to add to your long-term portfolio.

The market is currently pricing in a very hard landing in the US and a relatively hard landing in Australia. Opportunities may arise if the market has actually overpriced these events. Typically markets tend to overshoot on both the upside and downside. However, the outlook for 2008/09 remains cautious. Saying that, we as advisers, have been here before and with some degree of certainty we can say that oil prices will come down, the credit crisis will ease and your various investments will find their equilibrium prices. However, it is a process, the length or depth of which is unknown to all. It could happen in the 2nd quarter of this financial year or 2 years from now.

Unemployment in the US has increased and Australia is likely to follow this trend. We see this as a positive as it should reduce wage pressure being experienced by corporate Australia and directly feed into inflation. With inflation under control the Reserve Bank would then be in a position to cut interest rates and provide relief to all those with debt. It is also very important to remember that this cycle is no different to any other we have already experienced.

Price Charts – past 90 days

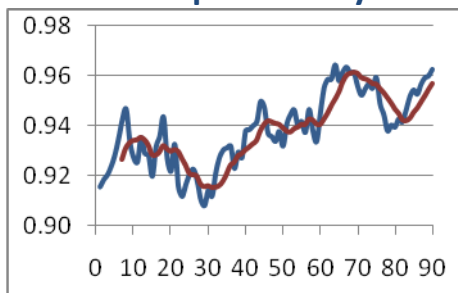


Figure 1- AUD/USD

Red lines are 7 day moving average

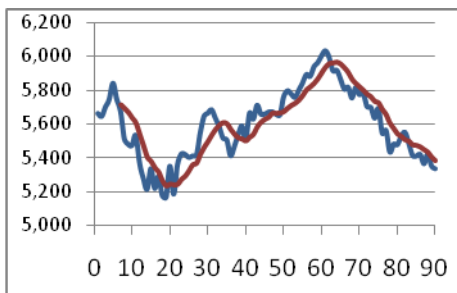


Figure 2- All Ords

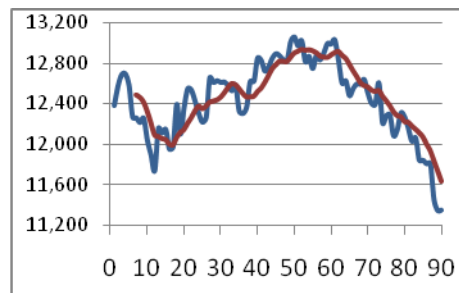


Figure 3- Dow Jones

Long Term Share Table

Code	1-Jun-08	30-Jun-08	Change \$	Change %	Code	1-Jun-08	30-Jun-08	Change \$	Change %
AIO	4.35	3.47	-0.88	-20.23%	MTS	4.11	3.70	-0.41	-9.98%
ASX	34.38	31.40	-2.98	-8.67%	NAB	31.31	26.50	-4.81	-15.36%
AGK	14.41	14.30	-0.11	-0.76%	NWS	19.78	16.45	-3.33	-16.84%
AMP	7.34	6.69	-0.65	-8.86%	QBE	24.44	22.40	-2.04	-8.35%
ANZ	21.68	18.72	-2.96	-13.65%	RIO	138.00	135.50	-2.50	-1.81%
BHP	43.50	43.70	0.20	0.46%	SGP	6.31	5.39	-0.92	-14.58%
BXB	8.20	8.73	0.53	6.46%	SHL	14.40	14.55	0.15	1.04%
CBA	42.32	40.17	-2.15	-5.08%	TCL	5.69	4.23	-1.46	-25.66%
CNP	0.38	0.25	-0.13	-34.21%	TOL	7.54	6.02	-1.52	-20.16%
CSL	39.80	35.70	-4.10	-10.30%	TAH	11.24	9.80	-1.44	-12.81%
CPU	9.54	9.21	-0.33	-3.46%	TLS	4.75	4.24	-0.51	-10.74%
CWN	10.53	9.29	-1.24	-11.78%	WBC	23.25	20.00	-3.25	-13.98%
GPT	2.88	2.22	-0.66	-22.92%	WDC	17.06	16.28	-0.78	-4.57%
IVC	6.70	6.34	-0.36	-5.37%	WPL	65.00	67.50	2.50	3.85%
LEI	53.30	50.85	-2.45	-4.60%	WOW	27.72	24.45	-3.27	-11.80%
MAP	2.90	2.06	-0.84	-28.97%	WES	37.90	37.30	-0.60	-1.58%
MIX	0.44	0.24	-0.20	-44.83%	ZFX	9.50	8.20	-1.30	-13.68%

Managed Funds

Fund	1-Jun-08	30-Jun-08	Change	Change %
Ausbil - Emerging Leaders Fund	2.6712	2.5400	-0.1312	-4.91%
BlackRock Direct Property Fund	1.1420	1.1300	-0.0120	-1.05%
BlackRock Global Small Cap	0.8551	0.8200	-0.0351	-4.10%
CFS Wholesale - Geared Share Fund	5.4594	4.6900	-0.7694	-14.09%
Challenger Wholesale Micro Cap	1.0300	0.9300	-0.1000	-9.71%
Hunter Hall - Global Ethical Trust	1.3607	1.2800	-0.0807	-5.93%
Pengana Emerging Companies Fund	1.8030	1.6200	-0.1830	-10.15%
Platinum Asia Fund	2.6230	2.3700	-0.2530	-9.65%
Platinum International Brands Fund	1.8065	1.6500	-0.1565	-8.66%
Vanguard - Index International Shares Fund	0.9789	0.8900	-0.0889	-9.08%

Corporate Actions of Interest

Company	Code	Issue	Date
Westpac	WBCPA	Westpac is raising \$950 capital through a new preference share issue.	22 July 2008
Westpac/St George	WBC/SGB	SGB agrees in principle to a friendly merger with WBC. 1.31 WBC shares for each SGB share.	Ongoing
Origin	ORG	British Gas have now made a hostile \$15.50 cash per share offer for ORG	Ongoing
Zinifex/Oxiana	ZFX/OXR	Scheme of Arrangement to merge and form OZ Minerals.	Complete

What you should know this month

Free Cash Flow – what is it and why is it important?

What is it?

Free cash flow is generally defined as the physical cash left that is available to investors. It is the net amount of cash left over after the payment of all operating expenses and capital expenditure (for future growth).

Why is it important?

The importance of free cash flow is that it is effectively the amount of cash available that equity holders are able to receive as dividends or distributions unless some accounting practices are worked and the company increases the level of distributions through other means such as asset revaluations or bringing forward profits from developments that are yet to be completed, eg rather than paying a special dividend on completion after three years when the money is in the bank the expected profits were being averaged out until completion. The effect being that rather than paying the distributions with cash they had to be financed with debt.

This re-working of the books to increase payouts to equity holders was something that was adopted right across the infrastructure and listed property sectors of the stock market. Right now we are seeing this trend being reversed across both of these sectors which is having a significant impact on the valuations of the companies.

The recent announcements by Transurban and GPT are just two examples of companies reverting to paying distributions out of free cash flow as opposed to including the revaluation of any assets or bringing forward of development profits to artificially increase their yield beyond a level that was sustainable from the free cash flow it had available. While this is inducing some short term pain, long term it should make the valuation of stocks in this sector significantly more transparent and at the same time should hopefully see some appropriate corporate governance and see these companies only pay out a sustainable yield to investors.

Turn a deaf ear to panic merchants

A recent article by Barrie Dunstan in Australian Financial Review on Wednesday 2 July has been attached to this month's email as we believe that it is an article worth reading. The message is clear, that long term investing success comes from not getting caught in 'noise' that is occurring at the moment. We hope that you find this article to be as worthwhile as we do.

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