

## Key Indices

Index	1-Sep-08	30-Sep-08	Change	Change	Commodities	1-Sep-08	30-Sep-08	Change
S&P ASX200	5,135.60	4,600.50	-535.10	-10.42%	Oil - WTI	115.55	100.70	-12.85%
All Ordinaries	5,215.50	4,631.30	-584.20	-11.20%	NY Gold	829.80	868.15	4.62%
SFE Futures 200	5,165.00	4,815.00	-350.00	-6.78%	Cash Rate	7.25%	7.00%	-0.25
S&P ASX Property	1,459.20	1,369.20	-90.00	-6.17%	90 Day Bank Bill	7.27%	7.32%	0.05
Dow Jones	11,543.55	10,850.66	-692.89	-6.00%	10 Yr Bonds	5.75%	5.55%	-0.20
Nasdaq	1,872.54	1,594.63	-277.91	-14.84%	<b>Best Movers</b>	<b>3 Months</b>	<b>Price</b>	<b>Change</b>
S&P 500	1,282.83	1,164.74	-118.09	-9.21%	COH	Cochlear Ltd	\$59.30	31.40%
FTSE 100	5,636.60	4,902.50	-734.10	-13.02%	TOL	Toll Holdings Ltd	\$6.94	21.31%
Hang Seng	21,261.89	18,016.21	-3,245.68	-15.27%	QBE	QBE Insurance	\$26.50	20.84%
Nikkei 225	13,072.87	11,259.86	-1,813.01	-13.87%	SGP	Stockland	\$5.40	18.42%
					<b>Worst Movers</b>	<b>3 Months</b>		
<b>Currencies</b>					BNB	Babcock & Brown	\$1.95	-72.80%
AUD/USD	0.8639	0.7996	-0.0643	-7.44%	FMG	Fortescue Metals	\$4.66	-52.93%
AUD/SGD	1.2233	1.1438	-0.0795	-6.50%	BLY	Boart Longyear	\$1.12	-45.63%
AUD/EUR	0.5857	0.5565	-0.0292	-4.99%	IPL	Incitec Pivot	\$5.07	-41.39%

## Market Commentary

September was a particularly drawn out and eventful month in financial markets, characterised by high volatility and extremely bearish sentiment, as investors embraced the 'worst case scenario' with regard to global recession fears.

While it has been widely reported it is worth recapping on events that unfolded in the US because of their quite historic dimensions and their impact on global sharemarkets. It was a month of extraordinary US federal intervention in free enterprise, beginning with bailouts for mortgage financiers Fannie Mae and Freddie Mac, who account for mortgages valued around US\$5 trillion and were simply too big to fail. These rescues were promptly followed by another bailout of insurance giant AIG for US\$85 billion, while investment bank Lehman Brothers declared bankruptcy and Merrill Lynch sold itself to Bank of America to avoid a similar fate. In a bid to maintain confidence, the remaining investment banks, Goldman Sachs and JP Morgan declared their intention to become bank holding companies that will subject them to far greater levels of regulation, while Washington Mutual became the largest bank failure in American history. With the high likelihood that a prolonged recession could develop in the US, the Bush administration proposed a rescue package to buy distressed assets up to US\$700 billion which was initially and unexpectedly voted down by a defiant lower house. These developments in the financial sector and the stunning loss of the vote in defiance of congressional leaders and George Bush, ensured the sharemarket had a rollercoaster ride during September. US markets recorded violent daily swings of up to 7% and the volatility was evident across the major global markets which all tested new bear market lows.

The bailout package has since been sweetened and passed, however the uncertainty and turmoil continues as investors remain concerned that the US\$700 billion rescue package may not be sufficient to steady the financial sector. Further, the contagion has now spread to the UK whose government has acted to nationalise a second bank (Bradford and Bingley) whilst brokering the sale of HBOS to Lloyds. Europe's problems are just becoming apparent and there will be further developments on this front with governments needing consensus on bailout packages and making moves to guarantee savings.

Confidence has been decimated. By this we mean consumer, business and investor confidence. In light of this, the Reserve Bank acted very decisively yesterday by reducing official cash rates by 100 basis points to 6.0%. This is the largest reduction since 1994 and is an aggressive move to head off an anticipated economic downturn as a result of markedly softer domestic consumption and slowing growth in Australia's Asian trading partners.

There is however a ray of light through the gloom. Notably yesterday also, the All Ordinaries Index dropped into Zone 5 on Investstone's long term trend line for the first time in this bear market. This is buying territory and we have not been in Zone 5 since the end of 2002. This is not necessarily a turning point, however it is an indication of substantial emerging value. In a measured way, investors who have spare cash reserves and a long term investment view, should be looking for opportunities to top-up their holdings in quality large cap blue chip companies. We are not expecting a fast turn around in sharemarket fortunes, however valuations are compelling.

## Price Charts – past 90 days

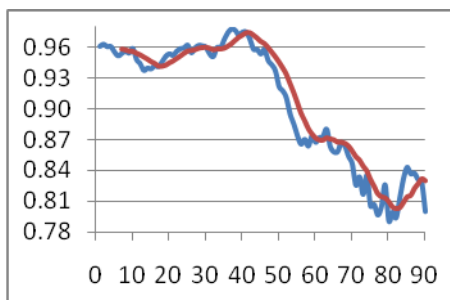


Figure 1- AUD/USD

Red lines are 7 day moving average

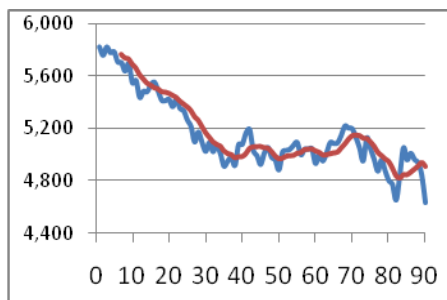


Figure 2- All Ords

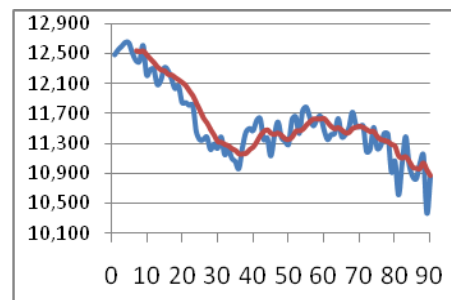


Figure 3- Dow Jones

## Long Term Share Table

Code	1-Sep-08	30-Sep-08	Change	Change	Code	1-Sep-08	30-Sep-08	Change	Change
AGK	15.35	13.70	-1.65	-10.75%	MTS	3.94	3.97	0.03	0.76%
AMP	6.96	6.98	0.02	0.29%	NAB	24.50	24.26	-0.24	-0.98%
ANZ	16.61	18.75	2.14	12.88%	NWS	16.65	15.30	-1.35	-8.11%
AIO	4.90	3.16	-1.74	-35.51%	ORI	24.92	20.95	-3.97	-15.93%
ASX	35.36	30.15	-5.21	-14.73%	OZL	1.75	1.61	-0.14	-8.00%
BHP	41.40	31.00	-10.40	-25.12%	QBE	23.95	26.50	2.55	10.65%
BXB	7.70	7.70	0.00	0.00%	RIO	127.50	84.50	-43.00	-33.73%
CBA	42.40	42.62	0.22	0.52%	SGP	5.27	5.40	0.13	2.47%
CNP	0.18	0.09	-0.09	-48.57%	SHL	14.48	13.10	-1.38	-9.53%
CPU	9.05	9.30	0.25	2.76%	TAH	8.56	8.08	-0.48	-5.61%
CWN	9.15	8.50	-0.65	-7.10%	TLS	4.35	4.18	-0.17	-3.91%
CSL	41.05	37.30	-3.75	-9.14%	TOL	6.96	6.94	-0.02	-0.29%
GPT	1.74	1.75	0.01	0.57%	TCL	5.43	5.58	0.15	2.76%
IVC	5.27	4.85	-0.42	-7.97%	WES	30.80	28.48	-2.32	-7.53%
LEI	46.51	37.55	-8.96	-19.26%	WBC	23.55	21.48	-2.07	-8.79%
MAP	3.20	2.70	-0.50	-15.63%	WDC	17.29	16.64	-0.65	-3.76%
MQG	44.04	37.00	-7.04	-15.99%	WOW	28.36	27.20	-1.16	-4.09%

## Managed Funds

Fund	1-Sep-08	30-Sep-08	Change	Change %
Aberdeen International Equity Fund	0.8767	0.8390	-0.0377	-4.30%
Ausbil - Emerging Leaders Fund	2.4400	2.1819	-0.2581	-10.58%
BlackRock Direct Property Fund	1.1097	1.0828	-0.0269	-2.42%
BlackRock Global Small Cap	0.8341	0.7920	-0.0421	-5.05%
CFS Wholesale - Geared Share Fund	3.8613	3.1688	-0.6925	-17.93%
Challenger Wholesale Micro Cap	0.8921	0.8299	-0.0622	-6.97%
Hunter Hall - Global Ethical Trust	1.2279	1.1155	-0.1124	-9.15%
Pengana Emerging Companies Fund	1.6894	1.5592	-0.1302	-7.71%
Platinum Asia Fund	2.1030	1.9765	-0.1265	-6.02%
Platinum International Brands Fund	1.7568	1.7218	-0.0350	-1.99%

## Corporate Actions of Interest

Company	Code	Issue	Date
Westpac/St. George	WBC/SGB	Revised merger proposal proceeding. Merger documents released.	Board Approved

## What you should know this month

### The Zone System

For readers of the Investing Times seeing the Zone Charts for the Australian share market is something that you would be familiar with. What would be unfamiliar is seeing the All Ordinaries head into Zone 5. The last time that this occurred was in early 2003. In between we have seen the All Ords spend time in all the zones, reaching a prolonged peak in Zone 1 in 2007 before the various corrections of the past 12 months have seen it return all the way to Zone 4 and now into Zone 5.

You may be asking yourself what does this mean to me as investor. The Zone System provides an objective view of where the current position of the market is compared to the long term trend in the market. Entering into Zone 5 provides the most potential for growth given it is furthest from the long term trend. To enter into Zone 5, the All Ords must be at least 17.01% (as at 8 October 2008) below the long term trend line of the All Ordinaries index which at the end of October 2008 will be 5357 points. While it remains to be seen whether or not we continue further into Zone 5 or return into Zone 4 it does give some indication that for many companies their valuations are historically attractive.

Typically for a market to enter Zone 5 there is a single or as we have seen over the past 12 months, multiple shocks that have impacted not only the performance of the market but also significantly reduced investor confidence. After the market last entered Zone 5 we saw the market increase at a rate of 20% per annum for the next five years. Obviously there is no guarantee that this will happen again, but the Zone System does give the long term investor a valuable tool when deciding when to invest and when to begin taking profits. Over the longer term using the Zone System as part of your review process should help to deliver improved performance to your portfolio.

**Figure 4: The Zone System**

