

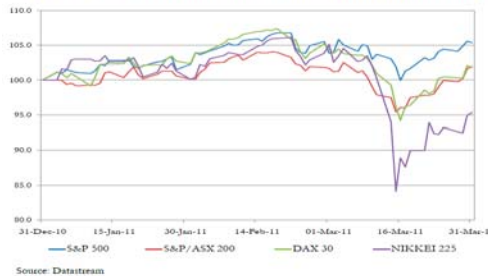


# Pitcher Investment News

## Japan and the impact of natural disasters

When the last newsletter went to print at the end of February, we thought the planet had already dealt us a bad hand with a bout of floods, cyclones and earthquakes. That was before the horrendous earthquake and tsunami hit Japan in mid March causing such tragic loss of life. Fears are persisting to this day about radiation caused by damage to the Fukushima nuclear power plant. In terms of financial markets, the Japanese stock market (Nikkei 225) fell sharply before recovering about half the losses, the Japanese yen has strengthened in response to the need for funds back in Japan and interestingly expected growth of the Japanese economy has been revised up by the International Monetary Fund (IMF). If the 1995 Kobe earthquake is any guide, recovery and reconstruction will indeed strengthen growth and not impact adversely on Japan's trading partners in the medium term. As we go to press this time, the American south has also been hit by a massive tornado causing significant loss of life and damage. We are living in a period in financial markets where severe losses are occurring 5 times more often than history would suggest they should occur. I am no expert in science, but it seems as if the same is happening in the natural world.

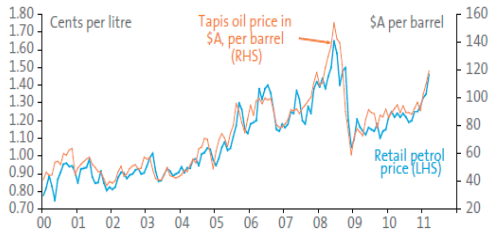
Key Equity Market Performances During the March 2011 Quarter



Source: Datastream

## Financial Markets as at 29 April 2011

	Current Level	2 Month Return	12 Month Return
<b>Equities</b>			
AUS ASX 200	4823.2	-0.2%	0.3%
AUS ASX 200 (Acc)	35527.9	0.4%	4.6%
US Dow Jones	12810.5	4.8%	16.4%
US S&P 500	1363.6	2.7%	14.9%
US Nasdaq	2873.5	3.3%	16.8%
JPN Nikkei	9849.7	-7.3%	-10.9%
UK FTSE 100	6069.9	1.3%	9.3%
German DAX	7514.5	3.3%	22.5%
French CAC	4106.9	-0.1%	7.6%
HK Hang Seng	23720.8	1.6%	12.4%
Shanghai Comp	2912.1	0.2%	1.4%
India Sensex	19136.0	7.4%	9.0%
Sth Korea Kospi	2192.4	13.0%	25.9%
NZ All Index	795.2	3.6%	3.3%
MSCI AC World ex-AUS (LC)	1383.3	2.2%	14.4%
<b>Property</b>			
ASX 200 Prop (Acc)	20131.4	-1.6%	1.4%
S&P Global Prop Index	330.4	5.2%	25.6%
<b>Commodities</b>			
Gold (oz)	1562.8	10.8%	32.6%
Oil (barrel)	113.8	17.6%	32.1%
Aluminium	2772	9.5%	26.9%
Copper	9371	-4.9%	27.2%
Lead	2531	-0.2%	16.3%
Nickel	26610	-7.7%	3.1%
Tin	32275	0.0%	78.4%
Zinc	2221.5	-10.3%	-1.5%
Reuters/Jefferies CRB Index	370.6	5.1%	33.4%
<b>Currency</b>			
AUD/USD	1.10	7.7%	18.7%
AUD/EUR	0.74	0.4%	6.6%
AUD/GBP	0.66	4.8%	8.4%
AUD/JPY	89.07	6.9%	2.6%
<b>Other</b>			
VIX Index	14.8	-19.62%	-33.11%
Baltic Dry Index	1269	1.44%	-62.16%
TED spread	0.23%		
<b>Official Cash Rates</b>			
New Zealand	2.50%		
Australia	4.75%		
China	6.31%		
United States	0.25%		
United Kingdom	0.50%		
Euro-Zone	1.25%		
Japan	0.10%		
<b>Aust Interest Rates</b>			
PPIS ANZ	4.25%*Official rate less 50bp		
SGB AT CALL	4.90%		
CBA 30 Day TD	5.16%		
CBA 90 Day TD	5.25%		
CBA 12 Month TD	5.46%		
10 Yr Govt Bond	5.43%		

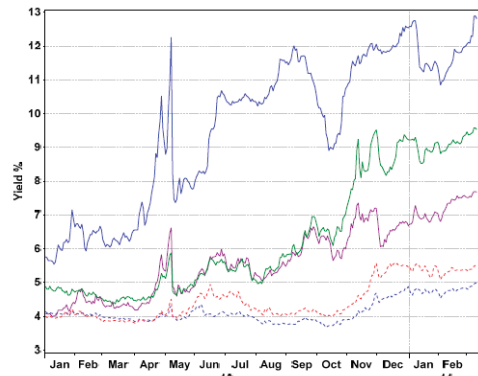


Source: Thomson Financial, AMP Capital Investors

**Oil prices and the negative effect on demand and profits** - The Arab uprisings, particularly in Libya and Yemen, are far from settled and continue to exert pressure on the oil price which is approaching A\$120 per barrel. This translates to domestic petrol prices at around A\$1.45 per litre. In the US gas prices have risen from US\$2.90 to US\$3.90 per gallon in a year. Oil price increases directly impact both consumer demand and producer costs, and the estimate is that for every \$10 higher in the gross price of oil per barrel, world growth is cut by 0.4%.

## Europe and the likelihood of default by Greece

The sovereign debt crisis in Europe claimed another 'victim' during the last two months as Portugal joined Greece and Ireland in requiring a bailout from the European Financial Stability Facility. Worries remain in relation to Spain which has the EU's highest rate of unemployment and whose banking system is adjusting painfully to the collapse in the property industry. The European Central Bank also commenced the raising of official rates last month which will not help highly indebted nations. Despite the earlier bail out on Greek debt, recent yields have surged to around 15% which reflects the view that Greece will default on its debt or, in the words they are likely to use, will restructure the debt. In other words, lenders will be asked to accept less and to accept it later.



Sources: Reuters Ecowin

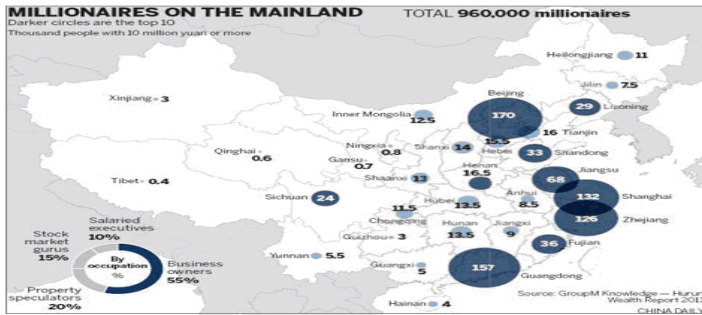
## Future of Financial Advice

We endorse all the proposed changes that have been announced but sometimes we wonder what all the fuss is about. Specifically - commissions and other payments from product providers are to be banned from 2013 (we have not accepted these since 2003), renewal agreements are to be made with clients every two years to ensure that services continue to be provided (our client agreements allow clients to opt-out at any time), advisers to be formally required to act in the best interests of their clients (as professionals this has been our core duty since Pitcher Partners was established in 1991).



# Pitcher Investment News

**USA solution - inflation and the falling \$US ?** - In late April the ratings agency Standard & Poors (S&P) downgraded the outlook for US government debt from "stable" to "negative" for the first time in history. One of the core reasons is the inability of the US Congress to agree on a national debt ceiling - one of the others may be that it is all part of the painful 'cure'. The enormous amount of monetary injection from the Federal Reserve has done very little to the sluggish housing market and persistently high unemployment and Ben Bernanke confirmed last week that it will end in June. But it has helped generate inflation (running at 6% annualised in the last few months) which is good for a debtor nation and Bernanke's indication that rates are to remain low, together with the S&P downgrade, did trigger another sharp fall in the \$US.

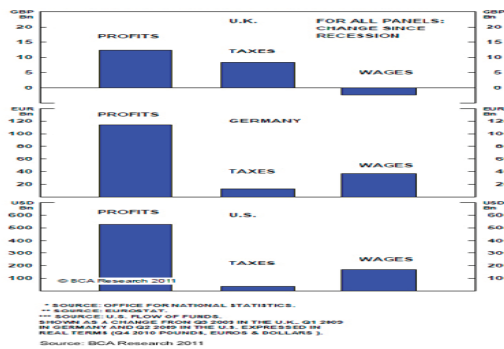


**China - managing the overheating** - China (and India) have the opposite problem; cooling down an overheated economy in which inflation is being caused not only by commodity prices, but by demand and speculation (particularly in the property market). Speculation has also contributed to the creation of 960,000 millionaires on the mainland and a significant eruption of social unrest both in the cities and the provinces. The new Five Year Plan with its broader social and economic goals, a greater degree of engagement with the rest of the world and continuing to manage their unique brand of state controlled capitalism in the face of greater social inequity and deeper structural obstacles, will be a serious challenge to the new leadership team.

**World growth forecast maintained** - In view of these events, the International Monetary Fund (IMF) has cut its growth forecasts for the US in 2011 from 3% to 2.8%, has cut China back to 9.6%, cut India back to 8.2% and, at least in part as a response to the proposed carbon tax as well as to the short term impact of some natural disasters, cut Australia's expected 2011 growth back from 3.5% to 3.0%. However, forecasts for UK and Europe are improving and the overall forecast for world growth in 2011 has been maintained at 4.4%. The IMF has also urged countries to tighten their monetary policies. Together, these messages signal clearly that the economic recovery is both intact and durable.

IMF World Growth Projections (Percentage Change)

	2009	2010	2011 Projected	2012 Projected
World Output	-0.5	5.0	4.4	4.5
Advanced Economies	-3.4	3.0	2.4	2.6
United States	-2.6	2.8	2.8	2.9
Euro Area	-4.1	1.7	1.6	1.8
Germany	-4.7	3.5	2.5	2.1
Italy	-5.2	1.3	1.1	1.3
Spain	-3.7	-0.1	0.8	1.6
Japan	-6.3	3.9	1.4	2.1
United Kingdom	-4.9	1.3	1.7	2.3
China	9.2	10.3	9.6	9.5
India	6.8	10.4	8.2	7.8
Newly Industrialised Asian Economies	-0.8	8.4	4.9	4.5
Emerging and Developed Economies	2.7	7.3	6.5	6.5



**Equity markets** - Economic growth can be a tailwind and a headwind for corporates. Corporates as a whole ultimately cannot grow faster than the economy, and if the economy is not growing, corporate profitability is more challenging to achieve. But a positive legacy of the global financial crisis is the good shape many corporates are now in. Costs have been pared back, debts have been reduced, labour and capital are more productive, focus has been re-engaged and with cash on the balance sheet and access to relatively cheap global credit, we expect more positive corporate activity and solid corporate profits to be maintained. The risks to that view are overarching global geo-political risks, the reaction to the removal of monetary stimulus, that consumers will be constrained by rising costs and that domestic fiscal policy will damage confidence. Global markets (particularly for those with \$A to invest) are priced attractively with value still available. Global investors have made good money from \$A denominated assets in recent times and sell-offs must be expected from time to time.

**Outlook** - Good opportunities are currently available in all asset classes for attractive risk-adjusted returns. Unhedged international equities in both developed and emerging markets are particularly attractive when balanced with high yielding cash and fixed interest investments to manage overall risk. Small companies have adjusted to their valuation premium over recent weeks and, together with selected assets to help protect investors against the impacts of inflation and the high \$A, should also be given serious consideration at this time.

*What has so often excited wonder is the great rapidity with which countries recover from a state of devastation and all traces of the mischiefs done by earthquake, floods, hurricanes and the ravages of war.*

- John Stuart Mill, Economist, 1872

Best wishes,

*Jul*

