

Market Update

September 2010

- **Concern easing over possible European sovereign defaults**
- **Attention turns to US economy after poor run of economic data**
- **China reports further growth slowdown**

What's inside?

p2 Equity markets

p3 Australian dollar

The pulse

- ↑ **Australia GDP –**
1.2% in June quarter
- ↑ **Germany GDP –**
2.2% in June quarter
- ↓ **Greece GDP –**
1.5% in June quarter
- **Australian Cash rate –**
steady at 4.5%

August market performance

Equity Markets – Price Indices	Index	At Close 31/8/10	% Change 1 Month	% Change 12 Months
Australia	All Ordinaries	4438.83	-1.52%	-1.01%
Japan	Nikkei	8824.06	-7.48%	-15.90%
Hong Kong	Hang Seng	20536.49	-2.35%	4.12%
UK	FTSE 100	5225.22	-0.62%	6.44%
Germany	DAX	5925.22	-3.62%	8.43%
US	Dow Jones	10014.72	-4.31%	5.46%
EMU ¹	Euro 100	2159.21	-1.29%	4.11%
World ²	MSCI - Ex Aus (Gross)	778.09	-3.61%	0.37%

Property – Price Index	Index	At Close 31/8/10	% Change 1 Month	% Change 12 Months
Listed Trusts	ASX A-REITS	873.64	2.56%	-0.19%

Interest Rates	At Close 31/8/10	At Close 31/7/10	At Close 31/8/09
Aust 90 day Bank Bills	4.75%	4.78%	3.49%
Australian 10 year Bonds	4.77%	5.21%	5.47%
US 90 day T Bill	0.14%	0.14%	0.13%
US 10 year Bonds	2.47%	2.91%	3.40%

Currency		At Close 31/8/10	% Change 1 Month	% Change 12 Months
US dollar	A\$/US\$	0.89	-1.59%	5.50%
British pound	A\$/STG	0.58	0.80%	12.02%
Euro	A\$/euro	0.70	1.34%	19.31%
Japanese yen	A\$/yen	75.02	-4.20%	-4.60%
Trade-weighted Index		69.00	-0.58%	3.92%

¹ Top 100 European stocks trading on the FTSE

² Price Index – Source: www.msci.com

Source: Iress Market Technology

Past performance is not a reliable indicator of future performance.

Global economies

In the US, a combination of ongoing weakness in the housing sector and labour markets continues to hamper economic growth. This was reflected in the Federal Reserve (Fed) downgrading its assessment of the nation's economic situation at the August Federal Open Markets Committee (FOMC) Meeting.

The FOMC said “the pace of recovery in output and employment has slowed in recent months” and in the near term the pace of growth looks to be weaker than they had earlier anticipated.

In China, as was highlighted last month, recently released data confirmed growth was slowing from the heated pace earlier this year. This was highlighted by the weakening of both industrial production and retail spending throughout July compared to June. Industrial production fell from 13.7% to 13.4% while retail spending fell more notably from 18.3% to 13.7%.

Bucking this trend was investment in fixed assets such as infrastructure, which still remains strong at 24.9%pa so far this year.

The slowing in China's economic activity reflects a natural evolution of the economic cycle and somewhat successful attempts by authorities to control expansion. While this combination of events seems to be having the desired impact, NAB economists still expect Gross Domestic Product (GDP) growth to average over 10% in 2010.

Despite the earlier indications that China's economic activity is slowing, at the time of writing, August industrial production data released on 11 September was surprisingly strong, catching many economists off guard. Time will tell whether this latest data represents a trend reversal or a one-off piece of improving news.

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Concerns over European countries with sovereign debt issues eased in August. This was helped by the strong June quarter GDP figures; Germany's in particular.

This welcome news meant pretty much all economies in the Eurozone, except Greece, experienced growth in the June quarter with an increase of 1% across the board.

On the domestic front, all eyes were on the prolonged federal election which took 17 days to generate a result. This political drama, on top of ongoing resilience in economic data, proved the highlight of the month.

Economic figures for the month saw another strong increase in employment, with 23,500 new jobs created. The good news continued with the announcement of a \$3.4 billion June trade surplus, a 5% increase in consumer confidence, and business conditions and confidence still in positive territory.

Retail sales posted a surprise 0.7% gain in July but the icing on the cake was a strong GDP result; rising 1.2% in the quarter and 3.3% over the past year.

Contributors to the strong GDP result were:

- an increase in retail spending
- an increase in household consumption
- strong residential property investment, and
- strong net exports.

Equity markets

Equity markets lost ground in August as fears of a double-dip recession dominated market sentiment.

Australian equities

	Index/Benchmark	1 Yr	3 Yrs	5 Yrs	7 Yrs
Australian	S&P/ASX 300 Acc.	2.07%	-7.07%	4.22%	9.25%
	S&P/ASX 50 Acc.	2.31%	-5.98%	4.83%	9.32%
	S&P/ASX Small Ordinaries Acc.	2.69%	-10.74%	2.51%	8.48%

Locally, the Australian sharemarket lost ground in August, with the All Ordinaries Price Index (All Ords) falling 1.52% during the month.

Reflecting the high market volatility, the All Ords, after reaching a monthly high of 4616 by 9 August, fell to 4357 by the 25th, before finishing the month at 4439.

While domestic earnings remained sound for the month, market direction continued to be driven by the influence of offshore developments.

Despite falls in the broader Australian market, the S&P/ASX Small Ordinaries Accumulation Index managed to return 1.8% over August. This is a good result when compared to the S&P/ASX 300 and S&P/ASX 50 Accumulation Indices which declined 1.08% and 1.53% respectively.

While the latest results take the one year returns of small caps above those of their large cap counterparts, large caps have been the outperformer at various other times throughout the year.

Investment Index/Benchmark returns

Sector	1 Mth	3 Mths	1 Yr
Energy	1.2%	2.2%	-9.0%
Materials	-2.1%	1.6%	8.8%
Industrials	2.3%	1.9%	-2.2%
Consumer Discretionary	-1.3%	-2.6%	2.5%
Consumer Staples	6.3%	8.9%	15.0%
Health Care	0.4%	1.1%	-0.2%
Financials	-3.5%	-2.8%	-1.7%
Info Tech	-3.9%	-8.8%	-5.2%
Telcos	-9.0%	-1.2%	-8.7%
Utilities	1.4%	6.5%	9.2%
Property	3.5%	3.6%	6.0%

Big movers this month

- ↑ Consumer Staples +6.1%
- ↓ Telcos -9.4%

Global equities

	Index/Benchmark	1 Yr	3 Yrs	5 Yrs	7 Yrs
Global	MSCI World Ex Aus Acc. (\$A)	-4.03%	-12.44%	-3.54%	-0.33%
	MSCI World Index Hedged (\$A)	2.69%	-11.24%	-1.75%	3.00%
	MSCI World Small Cap (\$A)	2.07%	-9.71%	-2.37%	2.68%
Emerging	MSCI Emerging Mkts Free	11.78%	-4.41%	8.63%	12.07%
	MSCI AC Far East Free (ex Japan)	10.09%	-5.53%	7.31%	8.44%

In the US, equity markets lost significant ground in the final three weeks of August. The Dow Jones Industrials Index lost 450 points over that period, ending the month 4.3% lower at 10,015. The S&P 500 fared even worse, down 4.7% in the month.

Over in Europe, markets there followed the downward lead from the US despite the improved outlook for the Eurozone economy. This was reflected in the equity indices, which didn't fall as much as the US indices.

Global equity markets were largely negative over August with the exception of far-east Asia which not only outperformed developed markets but the broader emerging markets as well.

The MSCI Far-East Free (ex-Japan) Accumulation Index was up 0.58% while the MSCI Emerging Markets Accumulation Index was down 0.27% in August.

Overall, the broader global sharemarket, represented by the MSCI World (ex-Australia) Accumulation Index, fell 2.2% over August with the hedged equivalent faring slightly worse, down 3.22%.

Property

	Index/Benchmark	1Yr	3 Yrs	5 Yrs	7 Yrs
Australian	S&P/ASX 300 A-REIT Acc	5.97%	-23.85%	-8.22%	-0.67%
Global	UBS Global Real Estate Inv Acc	20.48%	-10.19%	-0.64%	7.06%

Australian and Global Real Estate Investment Trusts (A-REITs and G-REITs) made some ground on equities over August, finishing the month strongly.

The S&P/ASX 300 A-REIT Accumulation Index and the UBS Global Real Estate Investors Index finished up 2.5% and 0.1% respectively in August.

Fixed interest

	Index/Benchmark	1 Yr	3 Yrs	5 Yrs	7 Yrs
Australian	UBS Composite 0 + Years	9.10%	7.90%	6.25%	6.23%
	Australian 90 Day Bank Bill	4.31%	5.44%	5.76%	5.72%
Global	BarCap Global Aggregate Index	0.26%	4.16%	2.33%	1.76%
	BarCap Global Ag. Index Hedged	11.97%	10.08%	7.71%	8.09%

The traditional safe havens of cash and fixed interest provided some protection for investors against equity market falls in August with all major indices up.

The BarCap Global Aggregate Index Hedged \$A gained 2.08%, while the equivalent unhedged index gained 3.12% in August.

Australian dollar (AUD)

The rise in risk aversion saw the US Dollar (USD) gain strength, while the AUD ended the month down at 89.09 US cents. August proved another volatile month for the AUD, ranging between 87.72 and 92.22 US cents.

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