Investment Overview

What is happening in the Australian Economy?

The most recent economic health-check by the Reserve Bank of Australia gives us a good report card – but with some warnings. Household consumption is holding up well. Housing is beginning to show some signs of the market imbalances warned about by an increasing number of forecasters in recent times.

Worsening drought conditions could depress farm production and incomes however, on the wider canvas, the fundamentals are in place to support a pick-up in investment levels, which may off-set part or most of the (drought-related) reduction in farm production.

How is the health of Australian Companies?

A stronger earnings picture is becoming apparent in Australian companies in general and the forecast seems to point to continued improvement into 2003. One of the major problems of the last year or two, depressed earnings, appears to be overcome, supporting the case for equity investments.

The flight into Bonds a year ago (September 11-related) has resulted in unacceptable yields in this market and risk/reward assessments suggest the next move being one back into equities.

And the U.S. Economy?

Still of some concern since recent figures show a further lessening of pace in the U.S. economy which is increasingly being sheeted home to the wholesale unbundling of leveraged equity positions by both corporate and private-sector investors who, for a decade, have been gearing up their positions to take fullest advantage of an expanding economy and cheap and plentiful credit.

Corporations mainly engaged in share buy-backs and private investors negatively gearing their principal residences and other assets to seek out wealth creation opportunities have both had to revise many of their decisions resulting in cuts in corporate activity levels, and the lessening of confidence flowing through the work-force, translating into belt-tightening in consumption of goods and services.

What are the risks?

1. Further moderation in U.S. domestic economic activity and demand.

2. The usual distortion in stock prices should the U.S. move on to a war-footing with Iraq.

3. The probability of some (or many) European countries joining the U.S. against Iraq and underwriting an extended period of distortion in equity markets.

4. In Australia, the reduction of the GNP contribution expected from primary produce as a result of loss of overseas markets (irrespective of our military participation) should the U.S. declare war on Iraq.

5. The now shattered confidence in good corporate governance being damaged further by further corporate scandals here or overseas.

So where to from here?

Careful management of portfolios which may be able to be repositioned without incurring losses, bearing in mind the quite good up-side possibilities in both Australian and off-shore equities in the next 6 to 12 months. While the aggressive tone of U.S. dialogue with Iraq will certainly not allow markets to relax at all until some resolution, peaceful or otherwise is arrived at, it is certainly no time to panic, nor is it a time to take an aggressive stance – until fairer winds prevail.

Sector Outlook

Cash

Continues to be attractive only in the sense that alternative investment avenues are less so at this time. In other words, cash components of investment portfolios are regarded as a default factor and essentially of a short term nature.

Fixed Interest

Domestic Bonds have returned to an expensive level as their price moves inversely with the weakness in equity markets. Recommendations continue to favour being underweight in this sector.

Property

Listed Property Trusts continue to be reasonably valued on a 7.5% p.a. yield and offer a useful alternative to investment in Bonds. However there are real concerns about vacancy levels continuing to rise and the consequent detraction from their potential as a reliable income generating investment

Australian Equities

Australian shares remain one of the more reasonably valued asset classes based on earnings forecasts for 2002/2003.

Medium and small capitalised companies seem to offer a superior valuation/return prospect than "large cap stocks".

International Bonds

As has been the general trend, yields have returned to the levels of last November in response to the "flight to safety" from equity markets. It is unlikely that the current low yields are sustainable and accordingly the recommended allocation is to minimal levels.

International Shares

International Shares are now close to 40% below their peak levels of March 2000 – in Australian Dollar terms. This fall-back in prices together with the expectation of a profits recovery has returned this sector to attractive valuation levels. Despite the possibility of armed conflict between the U.S. and Iraq and further skirmishes continuing between smaller powers around the world, there appears to be move to create an overweight position in this sector.

Balanced against this, it must be remembered that any strengthening in the Australian Dollar will substantially reduce the level of attraction. The possibility of creating a "hedged" position for part of the exposure will lessen this risk – but at the same time lessen the reward.

Contact PlatinumHouse:

PlatinumHouse Pty Limited
Australian Financial Services Licence 236508
ABN 67 095 048 712

Level 6, PlatinumHouse, 62 Pitt Street, Sydney NSW 2000
GPO Box 5275, Sydney NSW 2001
Ph: 02 9251 5888
Fax: 02 9251 6888
Email: advice@platinumhouse.com.au
www.platinumhouse.com.au

You can find the
HouseBulletin on our website:
www.platinumhouse.com.au under
Feature Articles