

For Financial Advisors Only

Uncle Sam....and the “new normal”



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It is important to remember when discussing investments that all forecasts are estimates only. Actual investment growth will depend on the performance of the underlying investments and may be more or less than shown.

Warning : Past performance is not a reliable guide to future performance. The value of your investment may go down as well as up. Some funds may be affected by changes in currency exchange rates.

Investor Questions

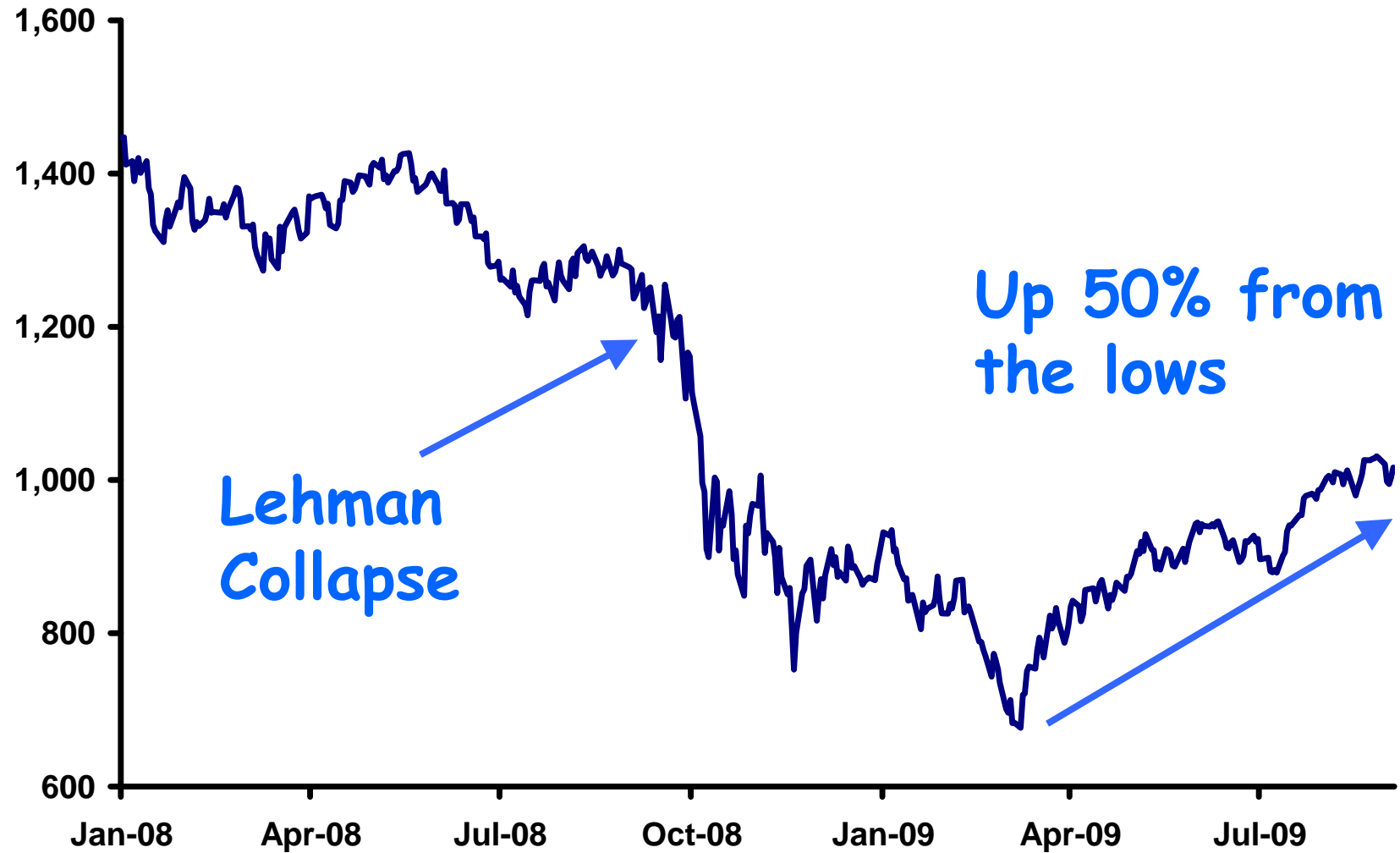
- Is the economic crisis over?
- Will there be global economic growth next year?
- Will the equity market rally continue?

1 Year Ago

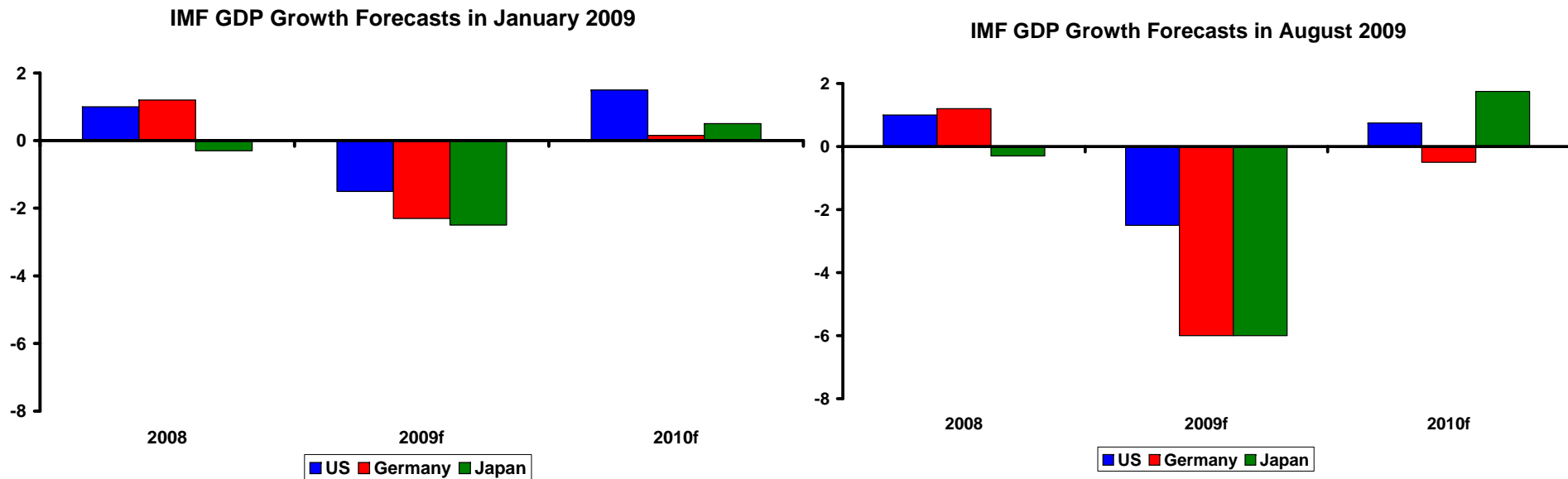
- 15th Sept 2008 - Lehman bankruptcy
- 19th Sept 2008 - US \$700bn bank bail out plan
- 29th Sept 2008 - Bradford & Bingley nationalised
- 12th Oct 2008 - UK bails out RBS and Lloyds

However, the risk to the global financial system has reduced over the last six months

S&P 500 Rollercoaster



Return to Global Growth in 2010



Spend! Spend! Spend!

Australia
\$26bn

France
\$33bn

Germany
\$63bn

China
\$587bn

Italy
\$102bn

US **\$787bn**

Japan
\$260bn

The New Normal

- Greater regulation
- Greater Government influences in the market
- Significantly less leverage
- US consumer cannot “consume” like the last 15 years

US trend growth set to be lower than the last 15 years

- Global economic leadership moving to Asia
- Could have significant implications for the US dollar

Why have markets rallied?

- Q2 earnings season better than expected (-27% v expected -33%)
- US housing market showing signs of stabilisation
- Credit markets improving
- G20 Co-ordinated efforts
- Investor sentiment too negative

Reasons to be concerned

- What happens when the stimuli plans run out?
- Global deleveraging
- Negative equity in US housing market
- Consumer weakness due to job concerns
- Double dip recession
- Chinese stock market volatility
- Government budget deficits

Reasons to be bullish

- Earnings rebound in 2010
- Typical rebound from lows of c70% (currently S&P up 50%)
- ISM new order index above 50
- Credit markets continue to ease
- Central banks talk of “accommodative” interest rates
- Investor sentiment has turned slightly negative again (contrarian indicator)
- Takeovers re-appearing (Cadburys)

Equity Market Valuations

	2009 EPS Forecast	2010 EPS Forecast	S&P 500 Level	2010F P/E Ratio
Start June	54.80	69.47	942	13.6
Start July	54.39	70.21	923	13.1
Start August	54.82	72.88	1,003	13.8
Start Sept	54.78	74.10	1,020	13.8

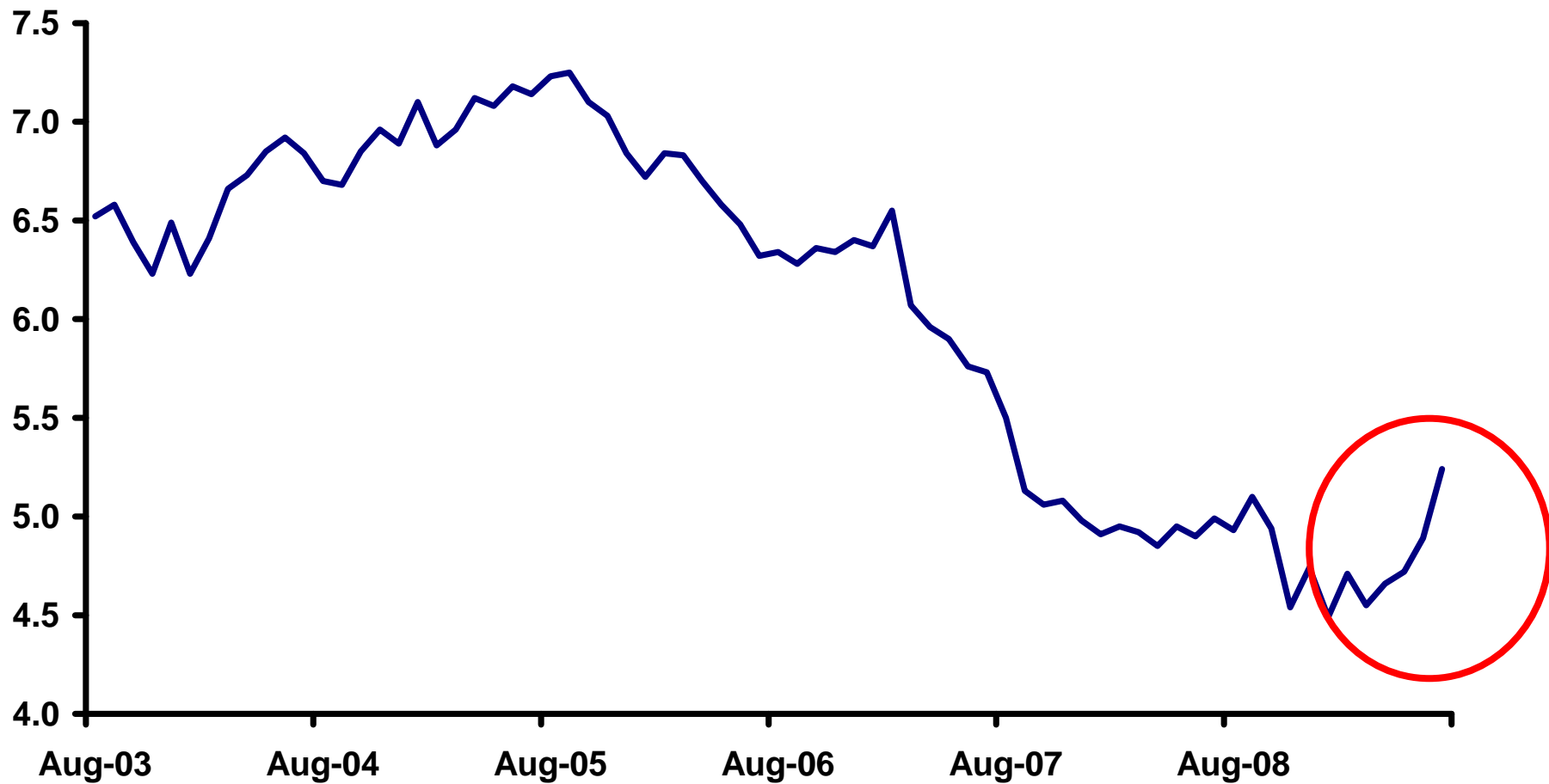
Since June..2010 forecasts increased by 9% in the energy sector, 14% in the financial sector and 12% in the technology sector

Conclusion

- Authorities are pushing all the buttons and pushing all the levers
- After the recent rally – markets could pause for breath
- Market valuations are in “neutral” territory
- Medium term concerns remain – growth, consumer, regulation
- Short term (6 months) – Don’t fight Uncle Sam – equity markets being driven by sentiment and liquidity – likely to squeeze higher through into 2010
- Likely to see increased volatility – drip feeding money into global equities the sensible strategy

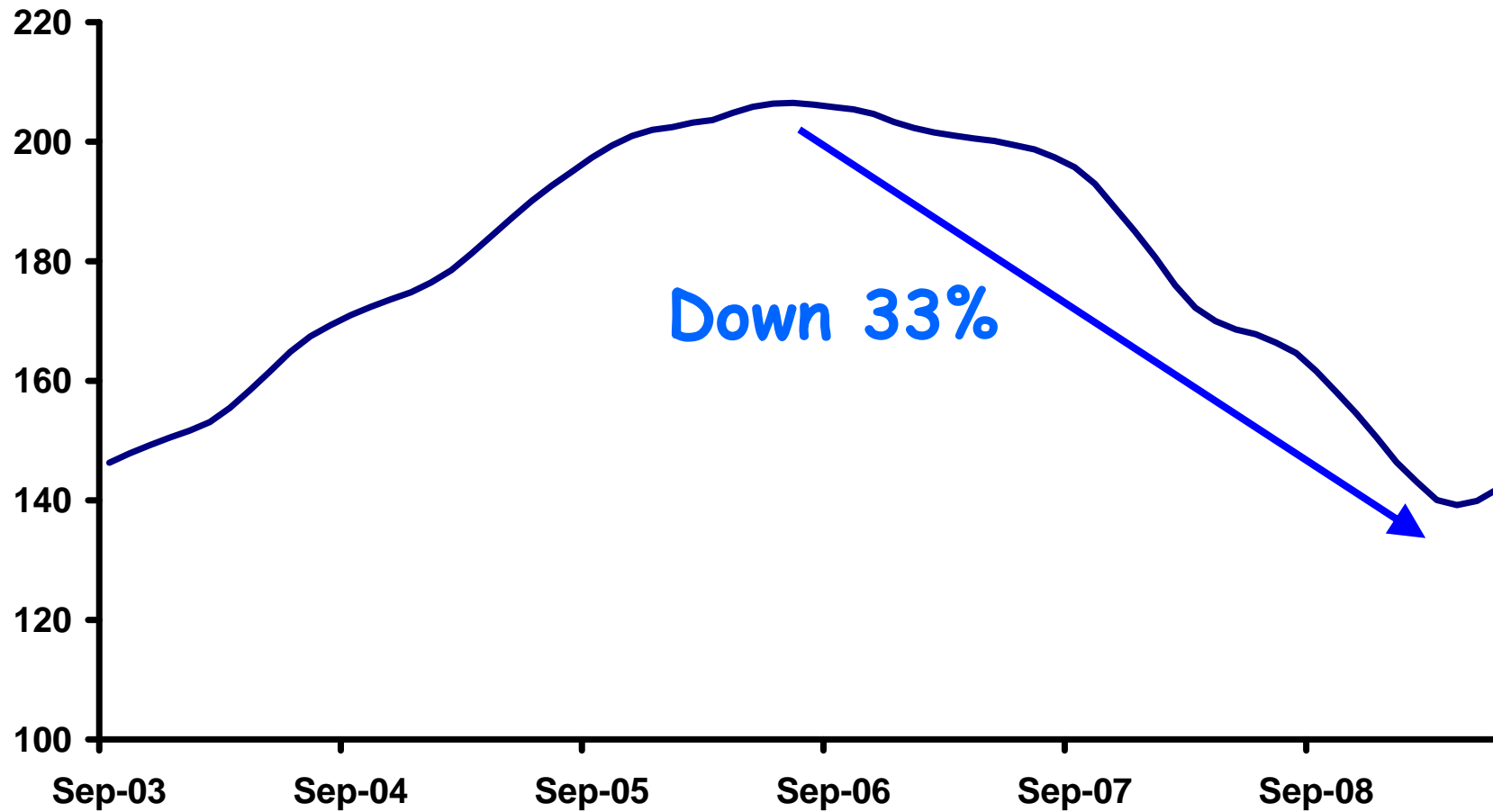
Appendix A

Existing Home Sales (millions)



Appendix B

Case Shiller US House Price Index



Appendix C

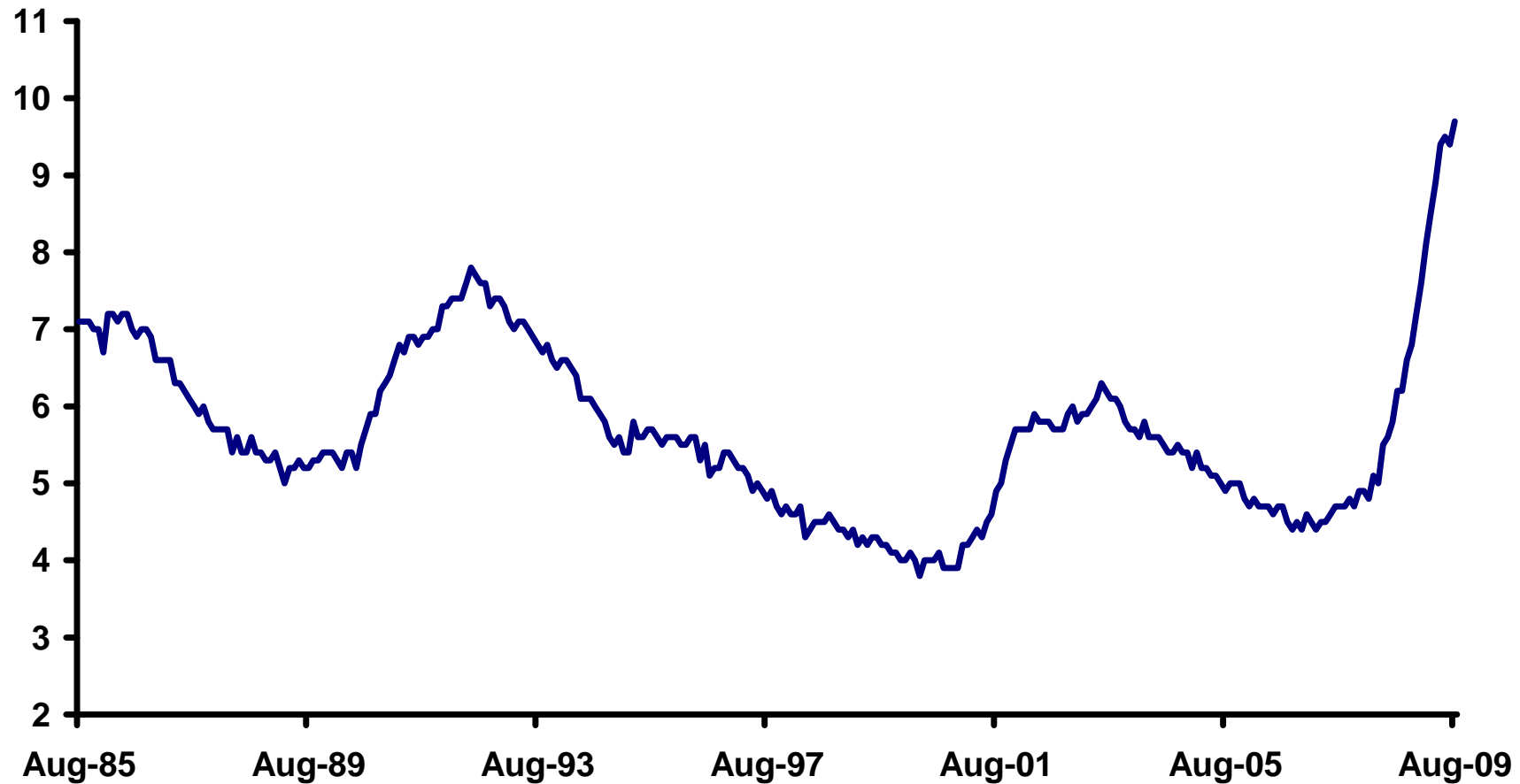
US Home Foreclosures (million)

Source Realty Trac



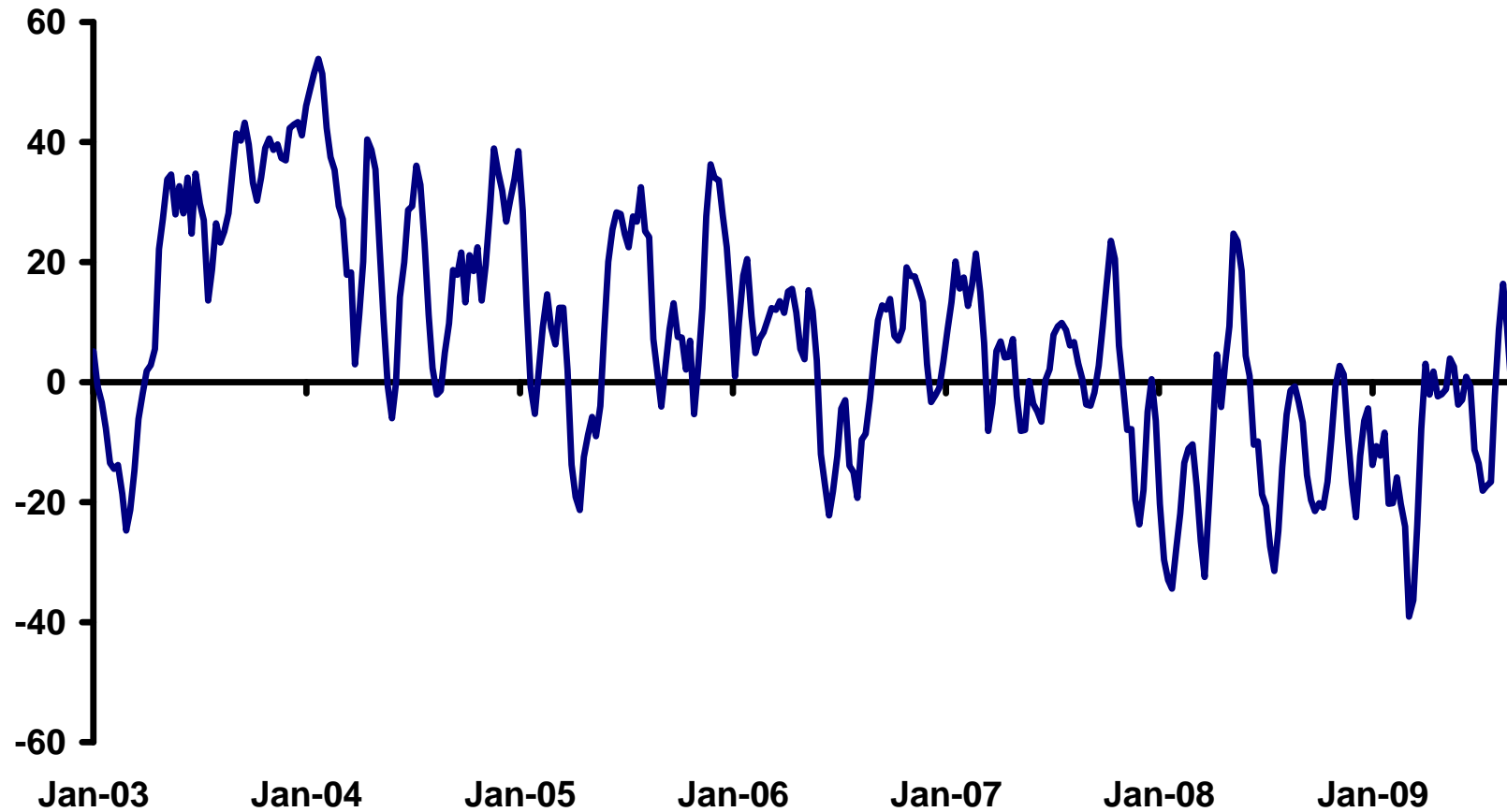
Appendix D

US Unemployment Rate (%)



Appendix E

Net % Bullish Sentiment (3 week average)



Disclosure Statement

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