

Monthly Market Watch – November Issue 2007

MARKET COMMENTS – OCTOBER

Australian equities performed well in October, led by the major banks. CBA, NAB and Westpac accounted for over 40% of positive performance. Industrials and resources also performed well.

In early November Australian shares suffered broad based losses, falling to their lowest level in six weeks. The first three trading days in November have retraced most of the October gains, falling 2.5%. Growing worries about global credit markets hit financial stocks, while a retreat in oil and base metals prices weighed on resource firms and added further pressure on the market.

The Australian dollar appreciated by 4.50% during the month, hitting new highs of US\$0.93, due to a spike in the Australia – US interest rate differential following Australian CPI data and the US Fed rate cut on October 31. Once again, this impacted on unhedged global investments as well as Australian companies with substantial income generated overseas.

International equities underperformed in \$A terms, returning -1.71%. In local currency terms, global markets performed moderately well, returning 2%. Therefore, the key driver of performance in \$A terms was the appreciation of the \$A from 0.89 to 0.93 (4.5%).

Emerging markets performed very well in both local and \$A currency terms, although the \$A reduced this positive return from 8.95% to 6.15% in October.

Australian Listed Property Trusts (LPT's) performed poorly in October, posting a negative return of -0.45% as bond yields and cash rates increased in anticipation of the RBA meeting in November. GPT was the major detractor for this sector. Domestic LPT's are overvalued on a gross cash flow yield basis.

The RBA cash rate remained steady at 6.50% during October, but rose to 6.75% in early November in anticipation of the decision in early November to lift the overnight cash rate by 0.25% to an 11-year high of 6.75%.

The cash rate is expected to reach 7% given strong underlying domestic inflation pressures, even allowing for the offset from the high A\$.

STOCKS IN THE NEWS

CSL Limited (CSL) - HOLD

3 for 1 Share Split

With effect from 24 October, CSL has subdivided its issued shares on the basis that every one (1) fully paid ordinary share becomes three (3) fully paid ordinary shares. The share split is intended to benefit shareholders by increasing the liquidity and affordability to retail investors of the shares.

After the share split, each shareholder will still hold the same proportion of the Company's total number of Shares as before the share split.

CSL is the world's second largest plasma player, with industry fundamentals now strong after years of oversupply and intense price competition. CSL is expected to become a major global vaccine player over the medium term. Expectations of good returns on reinvested capital underpin the neutral long-term investment view.

CSL has performed extremely well since acquiring the Aventis Behring business in 2004. The plasma environment remains buoyant, but investors should note that a weaker US\$ would cause problems for European-made product sold into the US and for A\$ earnings.

Price as at 8 November 2007 \$32.84

Publishing and Broadcasting Limited (PBL) - BUY

Splitting media & gaming assets

PBL will split its media and gaming assets in late 2007, subject to a vote by shareholders. Shareholders will receive one Crown share, one Consolidated Media Holdings (CMH) share plus \$3/share for each PBL share. There is the option to accept more Crown shares or more cash, subject to overall caps.

Essentially, Crown will become an internationally focused but Australian based gaming stock. CMH will be a shell holding company for residual PBL Media assets and relatively small new media investments. Like many restructures/takeovers in recent times, the mechanics and taxation aspects are complex.

Price as at 8 November 2007 \$19.39

STOCKS TO CONSIDER

Alesco Limited (ALS) - BUY

Alesco sells branded products to diversified customer groups in niche markets. The company has been an effective buyer (and seller) of businesses, which is expected to continue. Alesco has demonstrated an ability to deliver improved operational efficiencies, although the performance of the Garage Doors and Openers division in 2006/07 was disappointing. The recent softness in the share price represents a buying opportunity.

Gains in operational efficiency continue to be somewhat offset by the weakness in residential construction. However, the company's strong overall earnings performance demonstrates the benefit of a diversified portfolio of businesses and the stock continues to trade with an attractive dividend yield. The key risk to forecasts is further deterioration in residential construction.

Price as at 8 November 2007 \$10.89

AXA Asia Pacific Limited (AXA) - BUY

The medium to long-term outlook for AXA is positive, with the company operating in the high-growth wealth management industry in Australia. AXA is well placed in New Zealand and the key growth markets in Asia. AXA has repositioned itself as a leading player in the Australian and New Zealand wealth management industry and has successfully expanded rapidly into the Asian region, particularly in Hong Kong.

AXA continues to improve its earnings quality, growing underlying business volumes and expanding further into Asia. AXA is well positioned to take advantage of the fast-growing Australian retirement savings industry as well as key Asian growth markets. The potential for AXA's majority shareholder, AXA SA, to make another offer for the company is also a positive.

Price as at 8 November 2007 \$7.69

Computershare Limited (CPU) – BUY

Computershare offers exposure to a well-managed, growth-orientated share registry provider to the global securities industry. Long-term growth is underpinned by diversifying from commoditised registry business into the higher margin investor relations area. The company remains leveraged to corporate activity and increasing global interest rates. Computershare should be able to achieve strong earnings growth over the medium to long term.

Computershare has diversified its earnings base, both geographically and by business type, at the same time substantially increasing the proportion of US-sourced revenue. Strong earnings growth is expected over the short to medium term based on recent acquisitions, continued favourable market conditions and improved operational efficiency.

Price as at 8 November 2007 \$8.78

Minara Resources Limited (MRE) – BUY (Speculative)

Minara Resources, formerly Anaconda Resources, is a nickel-cobalt producer, which operates the Murrin Murrin joint venture project located in the North Eastern Goldfields region of Western Australia.

Strong ongoing metals demand, mainly for stainless steel, has led the global nickel industry to be supply constrained. New capacity forecast to come online over the medium term is somewhat negligible when compared to the increase in demand expected from overseas. Longer term nickel prices are expected to plateau in 2008.

Minara resources does not hedge its nickel sale price, enabling it to reap the benefits of the current strength in global nickel prices. Although the company has a large fixed cost component of production, it is a finished metal producer, meaning it does not lose any value by the way of smelting price participation.

Price as at 8 November 2007 \$6.20

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