hn&c. HoltNorman&Co.

Market Review

June

2009

"The Chinese use two brush strokes to write the word 'crisis'. One brush stroke stands for danger; the other for opportunity. In a crisis, be aware of the danger-but recognise the opportunity...."

- John F. Kennedy

End of Financial Year Special Edition

Holt Norman & Co.
Market Review – Jun 2009

Indices

All Ords	3,948
ASX 200	3,955
S&P 500	919
Dow Jones	8,447

Specific Stocks

ANZ	$16.49	↑ 3.7%
CBA	$39.00	↑ 11%
NAB	$22.44	↑ 2%
WBC	$20.25	↑ 7%
MQG	$39.10	↑ 24%
RIO	$52.20	↓ 19%
BHP	$34.72	↑ 0.17%

Currencies

AUD/USD	0.8064
AUD/EUR	0.5747
AUD/GBP	0.4900
AUD/YEN	77.635

Commodities

Comex Gold	$928.90/oz
Oil (NYMEX Crude)	$69.99

Financial Year Recap

We bid adieu to a financial year that on many levels we would rather forget. This passing year we have all witnessed some of the largest corporate collapses in history - companies with roots dating back a century, pummeled and battered to the ground. We have also witnessed the collapse of some of the world's largest banking institutions and multi billion dollar ponzi schemes. It truly was an eventful year.

However, no matter how dim and dire things may have seemed, there were also moments of hope; the election of America's first African-American president, the grandiose opening of the 2008 Beijing Olympics and Australia having made it into the World Cup! Without stating that we are out of the woods just yet, we believe the quote on the front cover of this month's edition may have as much relevance now as it did in 1959.

Source: www.news.com.au

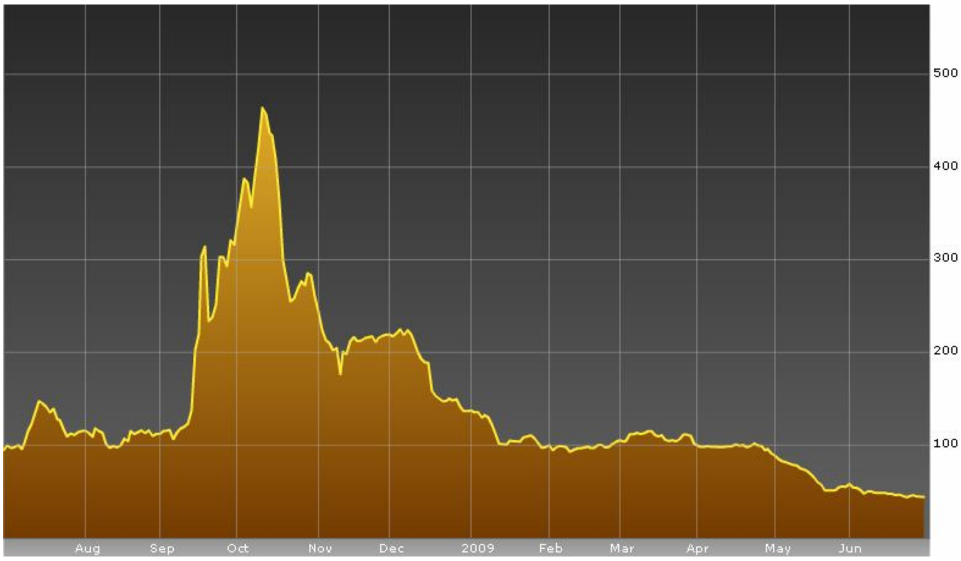
The ASX All Ordinaries finished the financial year strongly closing at 3947.8 points. The market has enjoyed four consecutive months of gains and is up 6.3% from the start of January 2009. Despite the recent recovery, the end of June closes a dismal financial year which has seen a drop of around 24% since the start of July 2008. For all the glass-is-only-half-full investors out there, the market has recovered over 22% from its bottom on 6th March 2009. Moreover this still does not over shadow the fact the market has posted its biggest fiscal year loss since 1982.

Market Volatility and Credit Freeze

Considering that one of the main fears following the collapse of Lehman Brothers was the freeze up in world credit markets and increasing market volatility, we thought it would be a good idea to have a quick look at these two factors over the last 12 months.

We can measure the health of the credit markets by the TED Spread. The TED Spread is the difference ('spread') between the interest rate on inter-bank loans and short-term US government debt. This spread is an indicator of the level of perceived risk in the economy. The bigger the spread, the higher the perceived risk of default is on inter-bank loans. Historically the TED spread has averaged between 30-50 basis points (0.3-0.5%). In 2007 at the start of the recent financial crisis the TED spread blew out to around 200 basis points.

TED Spread Index (Jun 08 – Jun 09)

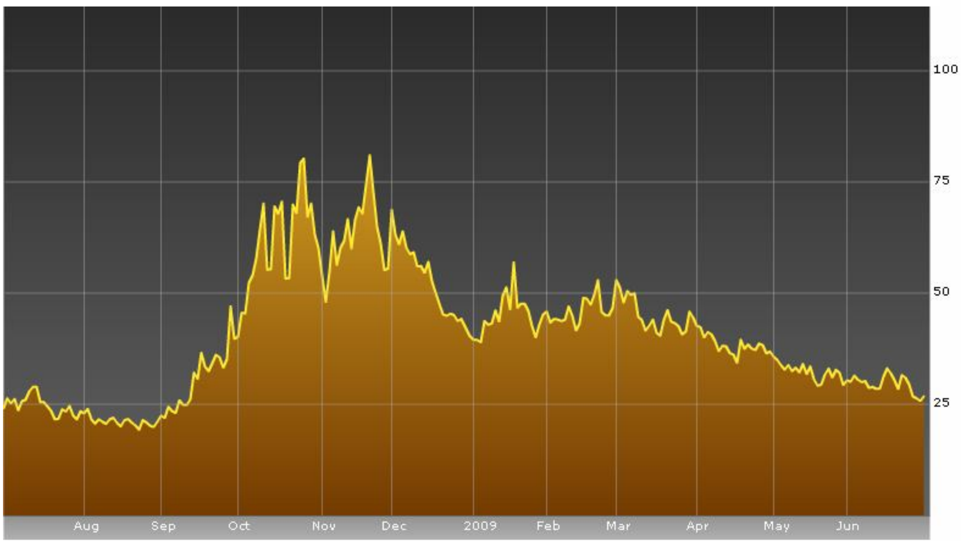


Source: Bloomberg

The spread continued increasing and crossed 300 basis points in September 2008; at this point the spread was higher than the previous record set in October 1987. The TED spread then hit its peak of 465 basis points at the height of panic on October 10th 2008. The week including October 10th saw the S&P 500 and the DJIA close down 20% and 18% respectively. This period has come to be known as the 'Crash of 2008'. Looking back now we can see that the spread has returned to a more normal level, albeit at the higher limit of 'normal', and that some level of confidence has returned to the banking sector.

The Chicago Board of Options Exchange Volatility Index (VIX), often referred to as the '*Fear Index*', is a measure of the implied volatility of S&P 500 index options. It represents one measure of the market's expectation of volatility over the next 30 day period. The index works by weighting the put and call options by their time to expiration and the degree to which they are 'in the money' or 'out of the money'.

CBOE Volatility Index (Jun 08 – Jun 09)



Source: Bloomberg

These weightings are then used to create a hypothetical option that can be used to measure the level of volatility implied by the options market. A simple explanation is that when the stock market falls there is greater demand for put options as investors seek downside protection. This greater demand drives up the price of the put options and as such increases the figure given via the VIX.

Between 1990 and October 2008 the VIX averaged 19.04. Alike the TED Spread, the VIX spiked between October and December 2008 at 89.53 reflecting the burgeoning fear of investors. The index has since eased, along with the recovery in world stock markets, to now sit below 30.

The Month of June 2009

The saga continued in the resource sector with Rio Tinto pulling out of its proposed $19.5 billion investment by Chinalco. The company will instead raise capital via a rights issue of around $15.2 billion. Chinalco, as the single largest shareholder of Rio Tinto, has subsequently decided to participate in the issue so as to minimise a dilution on their 9.3% stake. As a result of the heavily discounted share placement, RIO's share price was down 19%.

Rio Tinto & BHP Billiton also announced a proposed iron ore joint venture in Western Australia valued by analysts at around $120 billion. Given that Rio Tinto & BHP already provide a large chunk of the world's iron ore, the joint venture proposal must pass anti-trust challenges from regulators in both Australia and Europe. Suffice to say there is also fierce opposition coming out of China & Japan. BHP finished June at $34.72, rising 6 cents for the month.

AGL Energy finished the month down nearly 4% to $13.45. The company recently announced that it had taken over wind farm assets from Transfield Services for $9 million. The wind farm assets are located in Queensland and South Australia and are not yet developed to full capacity.

ANZ finished the month up 3.7% following the announcement of a $2.5 billion capital raising via a share sale. ANZ is still rumored to be looking at acquiring some of the Asian assets of the Royal Bank of Scotland (RBS). The RBS is selling assets following their record breaking loss last year. This move would continue ANZ's recent focus on Asian growth amid deepening concerns for rising domestic bad debts, especially in the small to medium business areas. ANZ have stated that they expect bad debts to rise slowly and to peak in late 2010.

The Commonwealth Bank had a very strong month, finishing up roughly 11%. During the month, CBA was criticised for raising their standard variable rate mortgage by 0.1% independent of the RBA cash rate. The bank stated this was due to increases in their wholesale funding costs. However, opponents to the move pointed to an RBA report that stated that the bank's net interest margin has actually risen.

The National Australia Bank has acquired the Australian wealth management unit of UK based Aviva for $825 million. The NAB will merge these assets with their existing MLC funds management and insurance businesses. The move highlights CEO Cameron Clyne's desire to focus growth prospects on the funds management area rather than the traditional banking area. The deal is still subject to approval by the ACCC and if successful will see NAB control around 16% of the Australian life insurance market. NAB stock closed up 1.9% to $22.44.

Westpac Bank had a strong month finishing up 7.3% to $20.25. The month was relatively light on news for Westpac; however, the resignation of the head of institutional banking, Mr. Phil Chronican, came as a shock to many. He is replaced by Mr. Rob Whitfield.

In the healthcare sector, CSL bounced back from a disappointing trade in May to finish the month of June up 10% to $32.15. Due to regulatory barriers in the US, CSL recently abandoned their $3.9 billion take over bid for Talecris Biotherapeutics opting instead to pay a break fee of $75 million. Subsequent to the failed takeover, the company announced a share buy back scheme as a way to deal with excess cash levels. Due to the nature of CSL's earnings this option was seen as an effective way of returning value to shareholders.

Holt Norman & Co.
Market Review – Jun 2009

Sonic Healthcare closed the month up 4%. The company is attractive to investors given the defensive nature of its business.

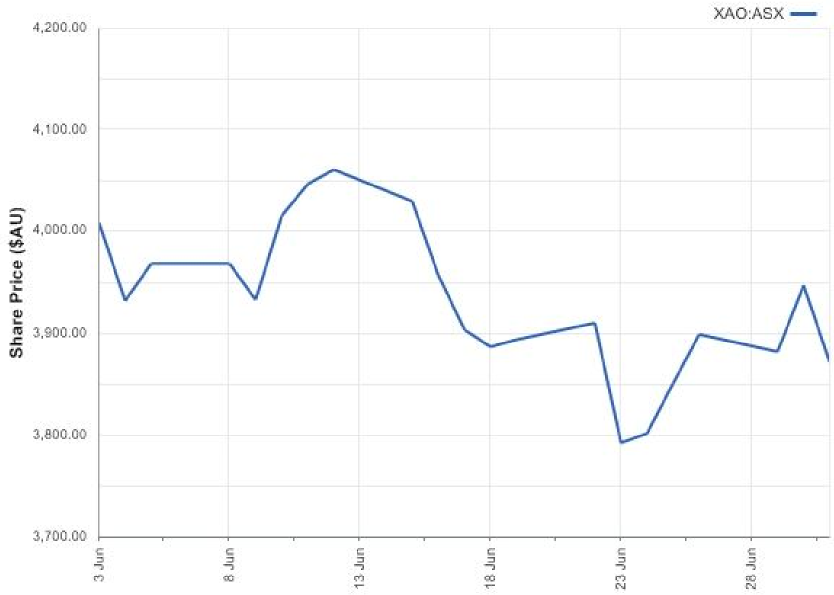
Toll Holdings had a disappointing month with the share losing 11%. In May the company won a $180 million supply management and logistics contract with Chevron Australia & is currently up around 42% from its 52 week low price of $4.38.

Wesfarmers added 6% for the month to close at $22.65. Coles Group, wholly owned by Wesfarmers, sold 45 Coles stores and 8 Liquorland stores for $35 million. Coles does not expect the transaction to have any major effect on market share as the stores were typically of small size.

Woodside Petroleum was largely flat for the month. The company experienced an increase in share price largely on the back of an increasing oil price and has gained roughly 60% since its year low of $26.81 on the 21st of November 2008. The company is 34% owned by Shell Australia.

The Reserve Bank of Australia held off changes in monetary policy leaving the official cash rate unchanged from April at 3%.

All Ordinaries (Jun 2009)



Source: www.news.com.au

Rate / Index	Apr-09	Jun-09	Points	% Change
Official cash rate	3%	3%	-	0.00%
Unemployment rate	5.40%	5.70%	↑	0.30%

Robert Clarke
Authorised Representative (No.327691)
B.Com
+61-3-9859-7090
rclarke@hnc.net.au

Jason Yin
Authorised Representative (No. 335397)
B.Com
+61-3-9859-7090
jason@hnc.net.au

Prepared by Holt Norman & Co.