

What the experts are saying . . .

Ausbil Australian Active Equity Fund

“Currently we feel that the Australian Share Market has been over sold, following its approx 13% fall from its 2007 high. Concerns regarding a possible US recession, the sub-prime mortgage crisis and inflationary fears have created a raft of negative sentiment. Ausbil however do have the view that the US economy will avoid a recession lead by further monetary policy stimulus in the way of ongoing rates cuts and a relatively robust employment market.

Domestically the Australian economy remains positive, despite moderating growth. As a consequence our expectations are for high single digit to low double digit return for the ASX 300 over the next 12months. Continuing to lead the market should be further earnings growth from key resource stocks, dividend support and our leverage to strongly performing economies of China & India.”

Fidelity Australia

The sub-prime crisis in the US has torpedoed two Australian stocks, RAMS Home Loans Group and Centro Properties Group. But Australia’s economy is expected to help many companies post healthy earnings growth in coming years, even if interest rates rise and the US economy falters. Demand for commodity prices has remained buoyant because China’s economy is still growing at 10% a year, India’s economy is expanding at an annual rate of 9% and the rest of the world is performing. Europe is growing, while the Middle East is booming.

Paul Taylor, the Portfolio Manager of the Fidelity Australian Equities Fund, sees that the outlook is for solid earnings growth with good dividend yields. However, Paul says investors in coming years need to set their expectations closer to the Australian share market’s long-term average nominal return of about 12%* rather than the 20%-plus returns delivered recent years.

“I expect the macro-economic environment to remain strong, even if interest rates continue to rise. Unemployment is low. We have tax cuts coming through. Spending on infrastructure is rising. High commodity prices are likely to support mining stocks,” Paul says.

Robson Consulting Group Pty. Limited

Suite 14, Level 1
207 Albany Street (North)
Gosford NSW 2250

Phone: 02 4324 5466
Fax: 02 4324 4009
E-mail: mail@robson.com.au



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“Stock-specific factors are likely to be of more importance this year because much will depend on the ability of companies to manage the cost pressures that are building,” he says. “Companies that have pricing power will be able to maintain their margins as will those that can make cost savings elsewhere.”

“Valuations look reasonable, the dividend yield is still good and earnings growth is still around the high-single, low double-digit percentage rates. These factors point to favourable long-term returns,” Paul says.

Aberdeen Global Equities Fund

With the effects of the subprime debacle weighing heavily on global economic growth, the extent of CDO-related losses still unknown, and M&A activity waning, global equities are likely to continue to be volatile as we enter 2008, albeit easing monetary policy should help. Around the world, opportunities to invest in quality companies with healthy balance sheets and good management continue. For our part, we'll use any price dips to add to our existing holdings, or indeed to introduce new companies to our portfolios. Furthermore, we remain just as disciplined on the sell side and have recently exited stocks whose valuations were unjustifiably high within a global context (Hong Kong-listed Petrochina and China Mobile are two examples). We expect 2008 to be tougher for earnings, but our portfolios contain diversified ranges of quality stocks, and we're relatively optimistic that these companies can produce decent returns in 2008.

TAAM New Asia Fund

Looking forward, our long held belief that Asia can outperform the rest of the world remains intact and we believe 2008 can be another year of positive returns (although we are realistic enough to not expect the outsized gains seen over the previous five years).

However we do accept there are some local and global headwinds that need to be monitored closely.

Political risk in Asia is rising. Pakistan's coming election has been thrown into disarray by the death of Benazir Bhutto. The political future in Thailand also remains unclear as the People's Power Party, allies of Thaksin Shinawatra, emerged as the largest party after recent elections, but fell short of a majority. Crucial elections are due in Taiwan early 2008 and in India in 2009.

Investors will have to digest another record year of China stock listings, with Chinese companies in search of capital to fund expansion plans and looking to raise another US\$100bn in 2008. The US looks increasingly likely to be heading into recession. There will be no complete “decoupling” of Asia from the rest of the world economy as much of the regions success is built on foreign trade and investment. However, Asian economies are now sufficiently robust to better sustain themselves through a slowdown in global demand. This reinforces our long held preference for domestic related stocks over traditional Asian export stocks.

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