

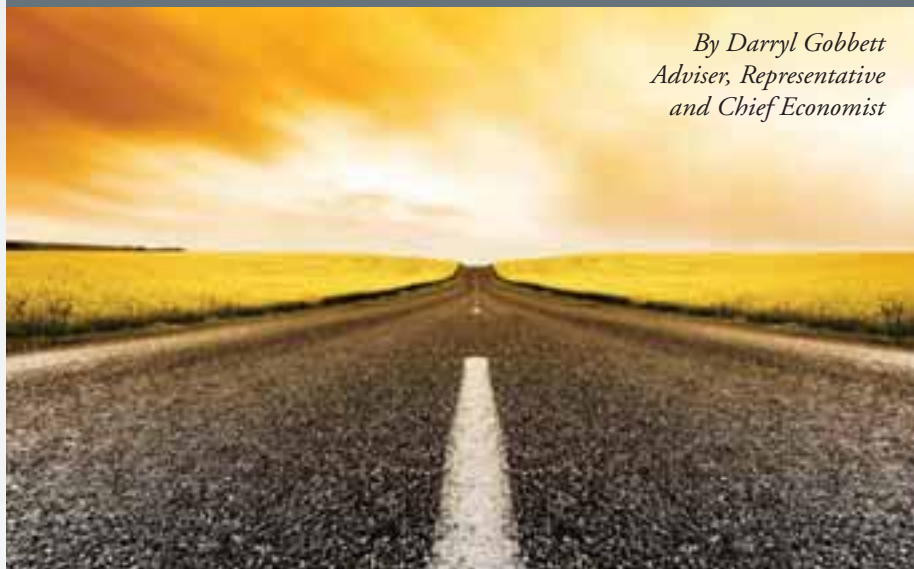


Prescott Securities

Investor's Digest

The road ahead

*By Darryl Gobbett
Adviser, Representative
and Chief Economist*



Barring some catastrophic event, Darryl Gobbett can see share markets as having now reached close to their low points.

By the end of 2008, we were all looking for some relief from the worst credit, property and share market conditions for the last sixty years. 2009 has started little better as concerns increase about the US and European banking systems and how deep, long and widely spread the global recession will be. All this is making investors very wary and causing share markets to remain at low levels.

As part of the 10 Best Investment Ideas presentations, we attempted to address the main questions our clients have been asking.

In summary, these have been:

1. Is this the same as the Great Depression?
2. Is all the bad news factored in?
3. When will this end?
4. Can/will China take up the slack?
5. Why were the US Banks bailed out?
6. What does the bailout mean for Australian Banks?
7. Why is the Australian Dollar (\$) down so much against the United States Dollar (\$) and other currencies?

While the USA and many economies are heading for the worst falls in spending, output and employment in the last sixty years, we do not see a repeat of the Great Depression of the 1930s when unemployment in the USA, UK and Australia reached well over 20%.

There is little doubt 2009 will be a difficult year as the USA, Japan and much of Europe deal with very low business and consumer confidence, the costs and effort of restructuring and recapitalising their banks, falling home prices and getting the credit systems working again.

What gives hope that this will not be a repeat of the 1930s, is that governments are already taking action and preparing policies that reflect many of the lessons learnt from the 1930s.

The orthodox reactions in the early 1930s were to raise interest rates to protect the currencies, balance the government budgets and let banks fail.

But this time, interest rates have been cut sharply, banks supported, depositors protected and government budget deficits allowed to grow. In particular, governments have handed consumers money and announced major planned infrastructure spending to help sustain retail and investment consumption in

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the face of falling employment and lower business investment.

In some countries, including Australia, governments are providing funds to lenders, such as car and non-bank financiers, whose usual funding sources have dried up.

The table at the foot of the page shows which levers various governments are operating.

Many of these actions may not start to impact until late 2009, so bad news for the major economies is likely to continue for several months yet. More action may also be required. But having these policies in place at the start of the downturn gives hope we will be through the worst by mid 2009.

Markets are forward looking so the worst in credit and share markets is likely to be seen before the major economies start to show concrete signs of recovery.

Whether we are at that point is a very difficult call. We could well see further falls in consumer and business confidence in the USA, Europe and Japan which more than offsets the actual positive impacts of the policies noted above. In particular, the risks to free trade in this environment are growing.

On balance, however, and barring some catastrophic event, we see share markets as having now factored in more than enough bad news and therefore being at or near their low points.

Current share price indices imply earnings falling by half from 2008 levels to those of a decade ago and staying there for an extended period. That seems unlikely if history, the expected continued growth in the emerging economies and the likely outcomes of the governments' policy changes are any guide.

China's role in this recovery is very important for demand for goods and services, the availability of new funds to help finance the rest of the world's budget deficits and financial system rescue packages and just plain confidence.

China may not be able, or indeed willing, to fully offset what is happening in the other major economies. We see its responses to date, however, as playing a major role. Its stimulus package and other social and industry policy changes announced or reportedly being considered are designed to keep growth at 8% plus. There have already been positive responses in steel and iron ore prices and freight demand.

The United States' bailouts of the banks were a necessary response to ensure their banking and financial systems did not implode. Whatever one may think of the failures of bank management, the consequences for depositors, borrowers and households, business and investment communities of major banks collapsing would be horrendous.

While some of the largest banks may not have needed this support in isolation, it may well have been needed if the other banks had been let fail because of the ongoing impact of a potentially deeper USA recession. Given the potential size of the failures it is unlikely that the surviving banks could have just picked up the pieces and carried on.

By keeping the global credit system from being in an even worse state, the impact of the bailouts, i.e. the absence of an implosion, has probably been positive for Australian banks.

Australian bank shares have, in our view, been marked down too hard.

Their capital, liquid assets, bad debt and earnings position is very good compared to their overseas counterparts which are generally making large losses and having to raise capital from their governments in order to stay afloat.

The share price performance seems to reflect an "Old World" centric view that antipodean bank management and regulators could have done no better than theirs and - so the theory goes - Australian banks are actually in a much poorer shape than seems apparent. We do not agree with that view. Australian banks represent good value for both current dividend yields and the future earnings growth.

Finally, the \$A has lost over 25% of its value since late 2007 because globally it is valued in line with what is happening to \$US commodity prices. Its fall has nothing to do with budget deficits or the cash rate, with Australia's being respectively lower and higher than in the USA and most of Europe.

With commodity prices collapsing through 2008 and expected by many to stay weak until confidence returns, the \$A has dropped accordingly. It follows that as commodity prices start to lift, so will the \$A.

The investment environment is likely to remain challenging through 2009. Many of the investments available at today's prices will be very strong long term value creators. Others could well fail for reasons quite unrelated to their business model or balance sheet structures. Maintaining enough diversity and liquidity to ride out the down periods and take the opportunities as they come are probably the biggest lessons of these difficult times.

GLOBAL ECONOMIC SUPPORT PACKAGES

	Australia	Canada	China	France	Germany	India	Japan	UK	USA
Fiscal Stimulus*	5.8**	2	15	1.5	3.1	1.3	2	1.1	5.8
Likely Stimulus*	5.8**	2	6	0.4	2.4	1.3	2	0.2	5.8
Nature of Stimulus									
Infrastructure	●	●	●	●	●	●	●	●	●
Tax Cuts	●	●	●	●	●	●	●	●	●
Non-Bank Bailouts		●	●	●	●	●	●	●	●
Financial Support									
Liquidity Provisions	●	●	●	●	●	●	●	●	●
Loan Guarantees	●	●		●	●		●	●	●
Capital Injection			●	●	●		●	●	●
Asset Purchase	●	●		●	●		●	●	●
Nationalisations				●	●		●	●	●

* % of Gross Domestic Product ** Includes Council of Australian Governments (COAG) Package

Source: The Economist, International Monetary Fund, PSL

Living off an account based pension? Here's a bit of good news

By Pam Lipert
Adviser and Representative



In a difficult market, the government has made some changes that help preserve super capital for retirees.

The Federal Government has given Australia's self-funded retirees temporary relief from crystallising investment losses in superannuation. Treasurer Wayne Swan and Superannuation Minister Nick Sherry confirmed that they will halve the minimum drawdown requirement on superannuation pensions between July 2008 and June 2009.

The amount paid from account based pensions is based on the portfolio

valuation on 1st July each year. Under the age of 65, 4% of this value must be taken as a pension, to age 75 it's 5% and it increases again after 75. With the market having dropped considerably from July 2008, the government has recognised that some people may need to sell assets to meet their pension payments. The announcement states that the minimum pension will be halved for this financial year only, but moots a longer term solution to managing the nation's retirement savings in volatile conditions.

For an account based pension which would be required to pay \$20,000 for the financial year, only \$10,000 needs to be drawn under the revised rules.

This may mean that if you are taking a monthly pension from your superannuation you will already have

taken enough from your pension to satisfy the new minimum and are in a position to stop all pension payments for the remainder of the financial year. This will be especially useful for those who have low cash reserves in their super fund and would need to sell down growth assets to meet their pension payments. However, it would also require an income stream or other cash reserve external to superannuation to ensure there is enough income to cover living expenses. Please note that so far it is only an announcement and at the time of going to press, is yet to be legislated.

If you would like to take advantage of this change, we suggest you discuss it with your Adviser before altering your pension payments. However, if you stop your pension payments from super, they can easily be recommenced at any time.

Stocks to watch

By Travis Adams
Direct Equity Analyst

Travis Adams looks at two 'top shelf' Australian companies with strong operations and a relatively greater prospect of being able to weather economic uncertainty.

After an eventful twelve months in equity markets, we have looked ahead to the themes we see as attractive in writing the Prescott Securities' 10 Best Investment Ideas for 2009. One key theme we consider likely to occur, with share markets falling broadly, will be a focus on the 'top shelf' companies; those with strong operations and able to weather economic uncertainty.

Share markets globally have been extremely volatile, mostly to the downside. The broad sell-off provides investors with an opportunity to look at companies that were perceived to be expensive. In this light it is worth considering the difference between price and value. Mainstream information published in the media usually focuses on sensational and timely issues; in the current market there is a focus on low share prices, high volatility, large reported losses and the like. The longer-term focus should, however, be on the fundamentals of a company (earnings, financing, cash flow, dividends, etc.) to generate a valuation measure. This type of measure is more stable and not affected

by market pricing vagaries, especially in larger companies.

Currently, we see company valuations remaining stable and in fact many continue to grow despite the bearish market conditions and slowing economy. Here we focus on two companies - Woodside Petroleum (WPL) and Toll Holdings (TOL) - which we see successfully navigating the current uncertainty and with share prices that we do not believe reflect the true value of the underlying businesses.

Woodside Petroleum is Australia's largest oil and natural gas producer with operations in Australia, USA, Africa and the Middle East. The North West Shelf Joint Venture is operated by Woodside for their partners including BP, BHP, Shell and Chevron among others.

Ordinarily, resource stocks are not preferred; these companies have limited pricing control over their output, experience volatile earnings in line with fluctuating commodity prices and generally large initial costs to get projects to a production and, therefore, income generating stage. However, there are exceptions to this. Energy and oil combined are the most basic resources that are required for economic activity. Although economic activity is currently slowing, this trend will turn around in the future and companies producing these resources will generate attractive returns for investors.

There is no avoiding the fact that Woodside is exposed to the volatility of the oil price but we feel that the oil price

has fallen to an unsustainably low level. It is difficult to forecast commodity prices, including oil. However, with growth in China and India continuing, demand for energy is likely to remain high. Should prices remain at low levels for a long period of time OPEC, the organisation that ensures stability in oil output and prices, would intervene until there is a price response.

Woodside's production continues to increase as seen in its 2008 Annual Report, showing an increase of 15%. In addition, reserves increased by more than production for the period. Woodside is replacing reserves faster than production is occurring. Increases in production leading to greater reserves are pivotal to Woodside's earnings and shareholder returns in future. Their expansion pipeline sees investments in Liquefied Natural Gas projects such as Pluto (Karratha, WA), Neptune (Gulf of Mexico) and the North West Shelf, with further projects to be developed in the near future.

A risk for Woodside is the source of funding for these expansion plans, a concern raised by the share market recently. A capital raising may be the end result considering debt funding is difficult to source in the current environment. Although not preferred, an equity raising would provide Woodside with the capacity to develop when competitors are looking for refinancing alternatives or selling assets to reduce debt. It is also likely that an equity raising in this instance would be accretive to existing investors.



We expect profits to fall over the next year due to the lower oil price. Nevertheless, Woodside continues to increase production solidly, demonstrating sound management and a long-term production strategy ultimately for the benefit of investors.

Toll Holdings is Asia's leading provider of logistics solutions, providing a totally integrated service. In the past Toll has grown through acquisition, purchasing many small logistics and freight companies. In 2006, Toll purchased the Patrick stevedoring business after a long battle with Chris Corrigan, Patrick's Chief Executive. In June 2007 Toll split their operations moving the port assets acquired from Patrick along with other rail assets to create Asciano. At the same time, Toll was able to move the majority of their debt into the Asciano entity. Virgin Blue was another business Toll was able to gain control of and subsequently divest. As a result of the Asciano spin-off and Virgin Blue sell down, Toll now has a conservative balance sheet and funding structure, a very attractive attribute in today's market.

Toll's most aggressive growth plan has been expansion into the Asian markets. There are risks here as Toll tries to gain market share from competitors in somewhat unknown markets. The common belief is that the group's experience, systems and processes successfully developed in Australia will be able to be utilised in the Asian expansion. Their acquisitions in the region, including SembCorp and Sembawang Kimtrans in Singapore should assist in the expansion.

A benefit of the Toll business model is that customers increasingly want to improve supply chains by outsourcing. Toll provides a fully integrated service with a one point contact backed up by a highly developed IT infrastructure. Organic growth remains in Australia as more companies continue to outsource their logistics.

Toll remains extremely profitable and, despite world economic growth slowing, Toll has a low level of debt and should be able to expand its presence through Asia, establishing a stronger foothold in key markets.

We expect Toll to be able to continue to deliver positive results for shareholders beyond the current global economic slowdown. This is likely to be sustained in the form of growth through acquisition with their flexible funding position plus synergies from businesses acquired and migrated into Toll's core logistics operations.

Navigating the super minefield

By Mark Mackintosh
Adviser and Representative



Navigating safely through the minefield of super rules requires a deep and current knowledge of the territory. Mark Mackintosh gives us a timely look at some items that may need attention before June 30.

While many of the rules surrounding superannuation have been simplified recently, there are still things that need to be reviewed by the end of the financial year to ensure you have maximised any benefits available.

Concessional Deductible Contributions (CDC): usually employer and salary sacrifice contributions or personal deductible contributions for individuals who are self employed or those not working and still under age 65. Making full use of the \$50,000 annual limit (or \$100,000 if over age 50) can be very tax effective but rules must be followed to avoid penalty tax rates on excess contributions.

Non-Concessional Contributions (NCC): are personal contributions for which no tax deduction is claimed. An effective way to boost superannuation benefits for tax free retirement income. Contributions are subject to an annual cap.

Government Co-contribution: If your income is below \$60,342 then a personal

NCC of up to \$1,000 can attract a Government co-contribution. This can be up to \$1,500 if your income is below \$30,342.

Spouse super contributions: a rebate of up to \$540 is available where a super contribution is made on behalf of a spouse whose income is below \$13,800.

Other issues to review this year.

Salary sacrifice contributions will in future be included in assessable income for the purposes of qualifying for the Government co-contribution, and the Commonwealth Seniors Health Card (CSHC).

Tax exempt super pension payments will also be assessed for the purposes of the CSHC, excluding many people from this benefit. This is in stark contrast to the treatment by Centrelink.

Salary sacrifice contributions will be counted towards "employment income" when assessing individuals under the 10% rule as self employed or substantially self employed. Strategies in this area have to be revisited to ensure future contributions, especially into SMSF's, continue to meet all requirements.

Navigating your way safely through the super minefield is beset with pitfalls and, like Indiana Jones in the Temple of Doom, they keep changing. Please contact your adviser to review your super strategy before 30th June and avoid unnecessary taxes or penalties.

Five great tips for the young investor

By Alex Butler
Adviser and Representative



Most older investors wish they'd started young! So the message is, there's no time like the present. Alex Butler sets out the basics.

These days, if you pick up a paper, turn on the telly, read a blog or log on to Facebook, you will find it hard to get away from this financial crisis. Whatever your information source, it is splattered with news of bailouts, stimulus packages and world economic woes. For Generation X & Y this is a very new environment.

Although we know that things will get better and investment markets will recover, we also tend to shy away from investment decisions and keep our money in the bank in times like this. However, for some young people or grandparents wanting to help young family members, the current environment can provide a lifetime opportunity.

To help you make a start, here are five important tips for young investors.

Tip 1 - Start finding the money

From your first pay packet you have the ability to generate savings. Try starting with 10% of your income and then if you want to, adjust it to your own comfort level and direct this away

from the clutches of your day-to-day spending habits into a special bank account. Starting is the hardest part, but once you get on the savings bandwagon it becomes routine. As your savings build up, you can then choose and buy good growth assets.

Tip 2 - Keep up the plan by living within your means

If you have slipped into bad habits, look to pay off bad debts such as credit cards and personal loans as soon as possible. The recent interest rates cuts mean this can be as simple as keeping your loan repayments at the levels they were prior to the interest rates reductions. If you have a home loan, redirect the recent interest rates savings to your credit cards or personal loans.

Tip 3 - Look to buy high quality investments

Managed funds that invest in Australian shares or listed investment companies such as Argo, can be a good way to access a broad range of quality companies. This is easier than making individual selections and is a good way to start for people who are unsure what to choose.

Some of Australia's best known listed companies (Woolworths, Westpac Bank, Lend Lease) are looking very attractively priced. Now is the time to start building a portfolio of quality assets at appealing price levels.

It's out with the new and in with the old. Stick to the fundamentals, buy

'old school' businesses that have a solid business model, a good product or service, low debt and a strong earnings profile.

Tip 4 - Get to know your super

Every year, 9% of your salary is invested in superannuation. Make sure that you know where this is going, who is managing it and where it is invested. Many younger investors tend to forget about their super. Whilst we know we can't touch it until retirement, that's no reason to ignore it. Ask yourself the question, 'Is your superannuation working hard enough for you?' Directing your superannuation now to growth investments could pay off handsomely in the future.

Tip 5 - Work out who you are going to listen to

Sift through the noise. It can feel like information overload out there. The unfortunate thing about newspaper articles and TV reports is that you don't get to ask any questions. For that reason you should seek advice. Speak to a qualified adviser and understand the current climate, the options and risks.

As a young investor, time is on your side. The share market hasn't looked this cheap in a long time and you may not see bargains like this again. We often lament missed opportunities and those who choose not to partake will miss out. Those who invest using sound investment principles and good advice will be rewarded in the long term.

Trauma Insurance



By Megan Henderson
Adviser and Representative

The repercussions of a catastrophic medical event can go far beyond the victim. Megan Henderson discusses an insurance product that addresses just this scenario.

Trauma Insurance is designed to pay a lump sum on the diagnosis of an insured medical event.

The cover evolved in South Africa, where Dr Marius Barnard (the brother of pioneering Heart Surgeon Christian Barnard), highlighted to South African insurance companies the financially devastating effect of a medical catastrophe.

What motivated Dr Barnard was his experience with the financial plight of many of his patients, following the diagnosis and treatment of a critical illness.

Insurance has for decades already acknowledged the need for funds following a catastrophic health event causing death or total disablement.

The financial problem Dr Barnard identified was that due to the modern

miracle of medical progress, patients no longer died, but survived for many years after the treatment for heart attack, stroke and cancer.

Patients' financial resources were not only threatened by the increasing cost of medical treatment, but also by their decreasing ability to earn the money needed to fulfil their monthly financial needs.

This often led to financial sacrifices such as taking children out of private schools or selling their house, but could equally result in the disaster of bankruptcy.

All these financial concerns impacted on their health and their recovery was hindered by financial and personal stresses.

The financial effect on business owners was equally devastating, where key people were absent from the business for an extended period of time due to a traumatic event.

Dr Barnard met with many business owners who had lost everything, even though the owners themselves had not suffered the medical event.

His patients (and business owners) needed a source of additional funds to provide them with financial support when their physical health was no longer adequate. It became obvious to Dr Barnard that insurance was the solution and that a new insurance product was necessary to provide lump sum funds on

the diagnosis of certain illnesses. Hence in 1983, Trauma Insurance was first introduced to the South African market.

Trauma Insurance was subsequently introduced to Australia about two years later and provides payment on diagnosis of a 'traumatic event', with policies normally covering 35 to 40 medical conditions. The most common claims are for heart attack, cancer, stroke and heart by-pass surgery as defined within the policy conditions. The table below identifies a broader overview of the conditions covered.

Death	Total & Permanent Disablement
Heart Attack	Cancer
Stroke	Bypass Surgery
Blindness	Brain Damage
Chronic Kidney Failure	Encephalitis
Intensive Care Provision	Loss of Limbs or Sight
Major Head Trauma	Major Organ Transplant
Meningitis	Paraplegia

The purpose of Trauma Insurance is to protect your family or business, as the benefit is paid as a lump sum and is used to assist with extraordinary costs and/or business expenses when a serious medical trauma strikes.

Some very sobering statistics are that;

- Each year approximately 350,000 new cancer cases are diagnosed.*
- 1 in 3 men and 1 in 4 women are expected to be directly affected by cancer before age 75*.
- 1 in 11 women are likely to develop breast cancer*.
- 1 in 2 men and 1 in 3 women aged 40 are at risk of having a coronary heart disease at some time in their future lives+.

Today, Australians are living longer lives, but without Trauma Insurance many will face a long-term financial disaster.

If you would like to find out more, please contact Megan Henderson on 8372 1300.

*Source: Australian Institute of Health and Welfare, Cancer in Australia 1998.

+Source: Australian Institute of Health and Welfare, Heart, Stroke and Vascular Diseases Australian Facts 2001



Major Retirement Seminar

Hyatt Regency, Adelaide
Wednesday 22 April 2009
2.00pm - 3.30pm or
7.30pm - 9.00pm

2009 Budget Seminar

Hyatt Regency, Adelaide
Wednesday 20 May 2009
2.00pm - 3.30pm or
7.30pm - 9.00pm

If you would like to learn more about any of our seminars or reserve your seat, please call 8372 1300 or email seminar@prescottsecurities.com.au

BUDGET SEMINARS



Tightening the belt.

Analysing a tough budget for tough times.

Has there ever been a more critical budget for Australians? An unprecedented set of global economic challenges demands that Wayne Swan's touch is faultless for an economy going through the toughest of tough times. Belt tightening could be high on his agenda.

Prescott Securities is South Australia's leading financial advisory firm. This seminar brings you a thorough analysis, in clear and concise terms, of a critically important budget. This is always an extremely popular seminar and we recommend you secure your seat early.

FREE SEMINARS
Wednesday May 20th 2009,
2.00pm - 3.30pm or 7.30pm - 9.00pm
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Call 8372 1300
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Essential reading



Buying a home and establishing a mortgage is a big deal for anyone... literally! It is a complex and time consuming process.

Prescott Securities' Finance Broking arm is available to assist you in navigating these waters safely and avoid all the traps.

The options for loans are almost limitless, from more than 20 different lenders. By this means we are able to find a loan package that best suits individual needs.

Call us now for a copy of our free home buyer's guide. It's packed with valuable information to help you make all the right choices.

One more tip... the First Home Owners Grant BOOST expires on the 30th of June 2009, so now is the time to speak to Paul Frisby, in our Adelaide office on (08) 8372 1300.

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