GIBSON KILLER PTY LTD
MONTHLY MARKET UPDATE

February 2013

2013 Flood

The recent flood to hit the Bundaberg Region has been a brutal follow up to the 2010/11 flood. Whilst the scenes of devastation make for very good pictures and videos that the newspapers and media groups will run for years, the financial impact to individuals, business and the region is substantial. The impact on the many clients I have already spoken with is also huge. Yes most of them have flood insurance which will cover the bulk of the costs, but there are many businesses and households that could not insure against the floods or the extent of the damage to land, infrastructure or crops.

The office here remained high and dry and Michelle did a great job attending to client queries whilst Sandra and I were stranded over the wrong side of the river enjoying a "camping holiday" in our house with no power, internet, open roads or media to keep us aware of what was happening in the world for the best part of a week. My local community at Sharon worked well together to assist those in need and it was great to see and hear of the wider Bundaberg Region community also making a fantastic effort to assist those in need, both during and after the flood. I would encourage anyone that is able to assist in any way to do so now and in the future as the road ahead for many people is uncertain.
If you require flood recovery assistance please contact the various State and Federal government Departments as there are numerous grants and assistance packages available. These range from personal grants to business grants and loan packages.

Economic News

January is not normally a big month for Economic Data as most of the December quarter figures are in fact released during February. There were however a number of items worth mentioning. They are ;

- The International Monetary Fund (IMF) once again updated its global economic growth forecasts and once again they were a downgrade for both 2013 and 2014. They are now expecting 2013 global growth to be 3.5%% (was 3.6%) and 2014 global growth to be 4.1% (was 4.2%).

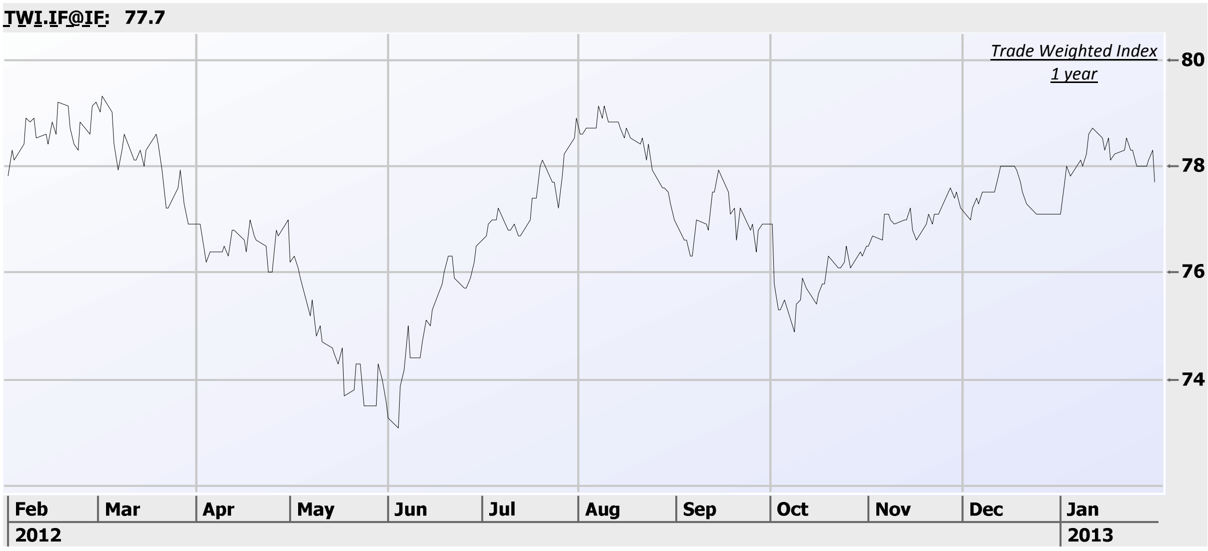
They are forecasting 2% growth for the USA, 8.2% for China, 1.2% for Japan, 5.9% for India and a -0.2% fall for the Euro Zone. The last update on Australia was in October 2012 and that suggested 3% growth for us in 2013. The key for us here is that both India and China continue to move along quite nicely.

- The Bank of Japan was active in January announcing a range of measures to try and lift Japan out of its 2 decade long economic slumber. In what can only be seen as Japan's version of the US/Europe "do anything strategy" they have suggested (not announced) open ended asset purchases, lifting inflation and providing stimulus to the economy. This has had an immediate impact on the Japanese Yen falling substantially in January and the Stock Exchange going up 7% after also putting on 10% in December.

- Inflation data here in Australia was released and the "underlying inflation" indicator came in at 0.55% for the quarter and 2.3% for the year. This is at the lower end of the Reserve Bank 2-3% target range, but is quite acceptable.

- Finally, we have an election date, 14th September 2013 for anyone that is remotely interested!

The Aussie dollar is shown below in the form of the Trade Weighted Index. As I mentioned last month, 2012 was a very flat year for currency market volatility, but 2013 could be quite different as many countries (think Japan, Europe, USA) act to lower the value of their currencies. The RBA here have been frustrated by our high dollar and unfortunately I think this may continue to be the case in 2013. This will be a key graph in 2013.



<u>Show us the money</u>

In my January update I mentioned that we would watch the money trail in 2013. I was referring to the monthly data figures released by the Reserve Bank of Australia showing the amount of money held in Bank accounts and Term Deposits here in Australia. The amount of money in these accounts has grown enormously over the past 5 years, but has started to plateau in recent months. With interest rates reaching new lows, if the investing public decide to shift this money into property and shares it will have an impact on values.

So, how much are we talking about?

In December 2007 (pre GFC)	$ 541.0 billion
In December 2008	$ 711.8 billion
In December 2009	$ 774.2 billion
In December 2010	$ 878.5 billion
In December 2011	$ 974.9 billion
In December 2012	$1,074.9 billion

The RBA figures go back to 1984 and it took 23 years to get the first $500 billion, but only 5 years to get the next $500 billion. The RBA wants it invested in the real economy and the property and share markets await its arrival. **<u>All that is needed is what I have mentioned many times before, “confidence to invest”.</u>**

<u>Interest Rates</u>

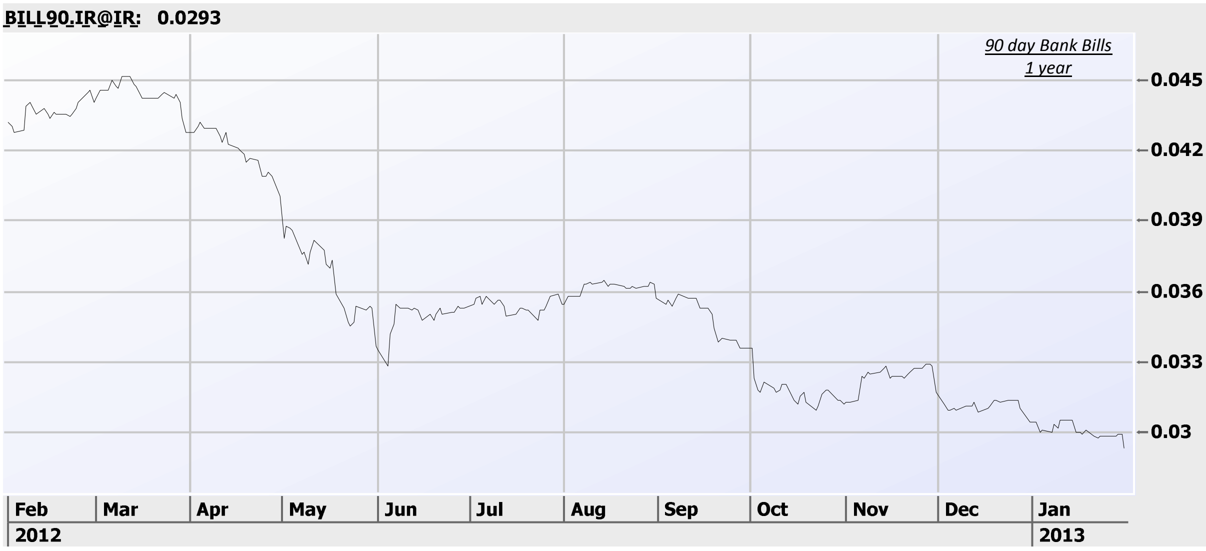
With no RBA meeting in January the movement in interest rates here in Australia remained stable until late in the month when analysts starting pondering whether or not we would see a cut in February. As we now know, they did not change official rates in February.

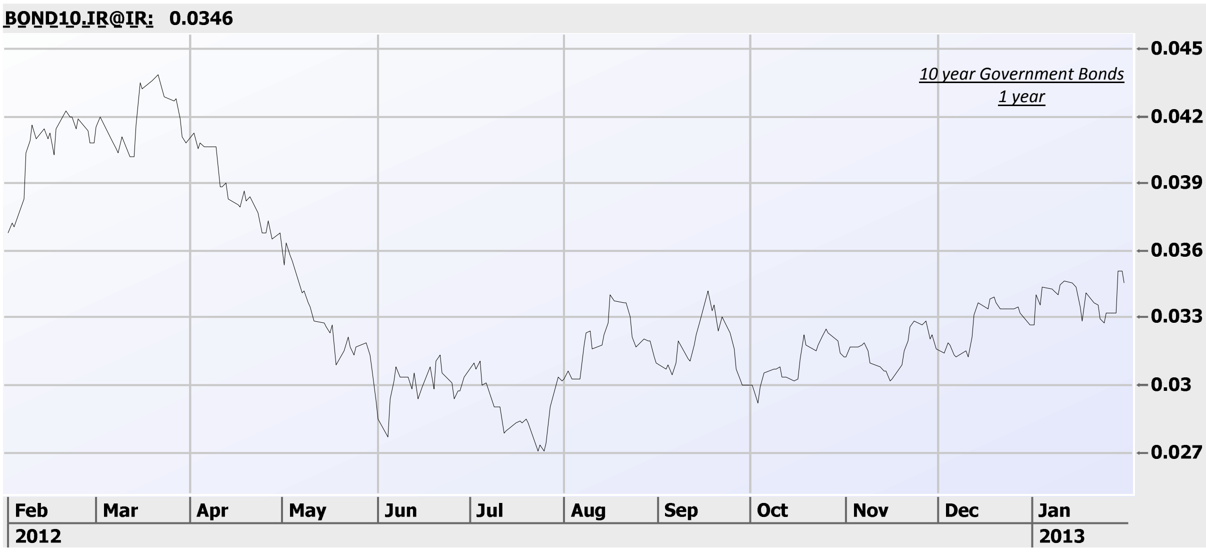
Market observers suggest it was a 50/50 call but I continue to think the RBA feel they did the dirty work in late 2012 and that they will give it a break in early 2013. With conditions settling down overseas and investment markets moving forward, they do not have too many reasons to act. They will no doubt be watching the housing and credit data in coming months to see whether the 2012 cuts have provided any stimulus. The February meeting notes suggest they think it is starting to have an effect. If this is the case we could remain stuck on 3% for many more months to come.

Term Deposit rates continue to ease which is making it tough on those that require investment income to live. Unfortunately I cannot assist greatly in finding you "better" rates, however I do want to remind clients that most people are in cash deposits for the security of these deposits. Now is not a time to start looking at some of the rates being offered by non-banking institutions, as the risk to your capital is substantial. Please do not be tempted!

Interest rates ended January 31st 2013 on ;

90 day Bank Bills	2.93%
180 day Bank Bills	2.93%
3 year Government Bonds	2.79%
5 year Government Bonds	2.99%
10 year Government Bonds	3.45%



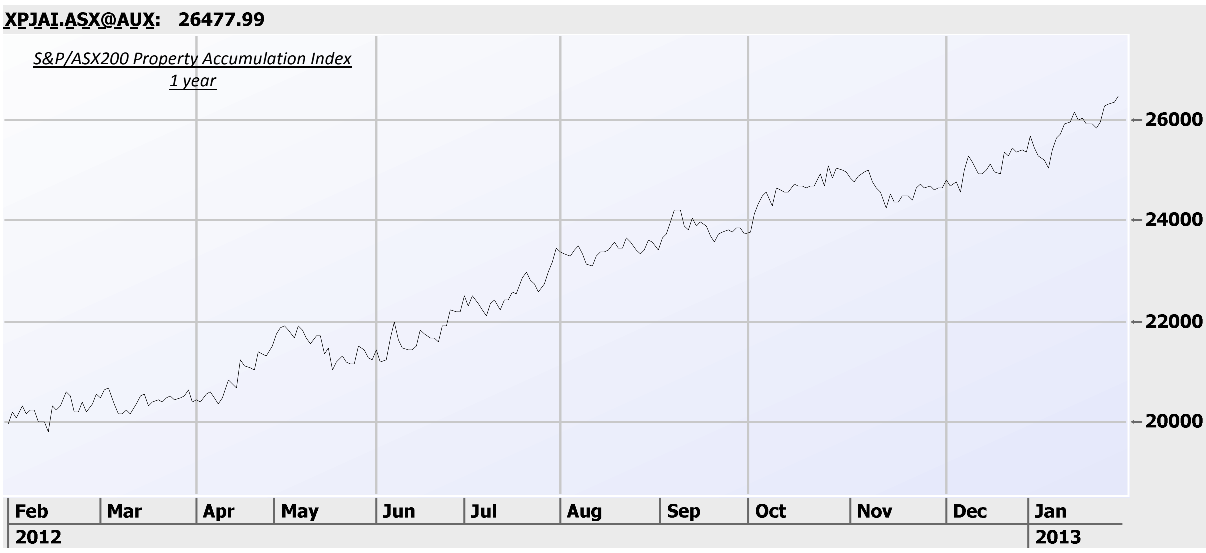


Listed Property Trusts

The listed property trust sector had another good month in January, with the S&P/ASX200 Property Accumulation Index up a further 4.42%. As I mentioned last month, this sector is being supported by low interest rates after 2012 saw a period of prices catching up with valuations. I continue to expect a solid year from the sector, but any major price increases will need to be driven by either dividend growth or corporate actions, such as takeovers and mergers.
The standout trusts for January were the Commonwealth Property Office Fund which rose 8.8% and the newly listed Woolworths offshoot, Shopping Centres Property Group which was up 8.7%.

I warned last month about the danger that still existed in the residential sector of the market. Stockland Group dropped in January due to ongoing concerns within their residential property portfolio. I do remain of the view that this sector will pick up by the end of the 2013 year.

Sector heavyweight, Westfield Group rose 5.87%, however there are some thoughts that earnings growth may be hard to achieve due to lower than expected retail sales in the all important Christmas period. This is leading to some interesting discussions about rental increase demands with tenants.



Local Housing Market

I have been asked by a number of people on my thoughts about the local property market as a result of the floods. I think there are a few obvious outcome that will eventuate ;

- Rental prices will increase due to a complete lack of housing supply to meet demands. This will be good news to property investors, but bad news to tenants.

- Property prices in the flood prone areas, which were already depressed by 2010/11, will be further depressed in 2013. Why would you buy there?

From what I can gather, house construction prices are far in excess of the current 2nd hand market of houses, so given the reduction in supply and increased demand for houses I would expect to see house prices rise in those “high and dry” areas of Bundaberg. This may not be a large lift, but the gap between buying or building will need to be closed and we will see the start of this in 2013.

Dodgy tradies : unfortunately I would also expect to see and hear of the many dodgy tradies that will no doubt also flood into Bundaberg and surrounding areas to try and take advantage of people. Please make sure you deal with well known and respected tradespeople.

Sharemarkets

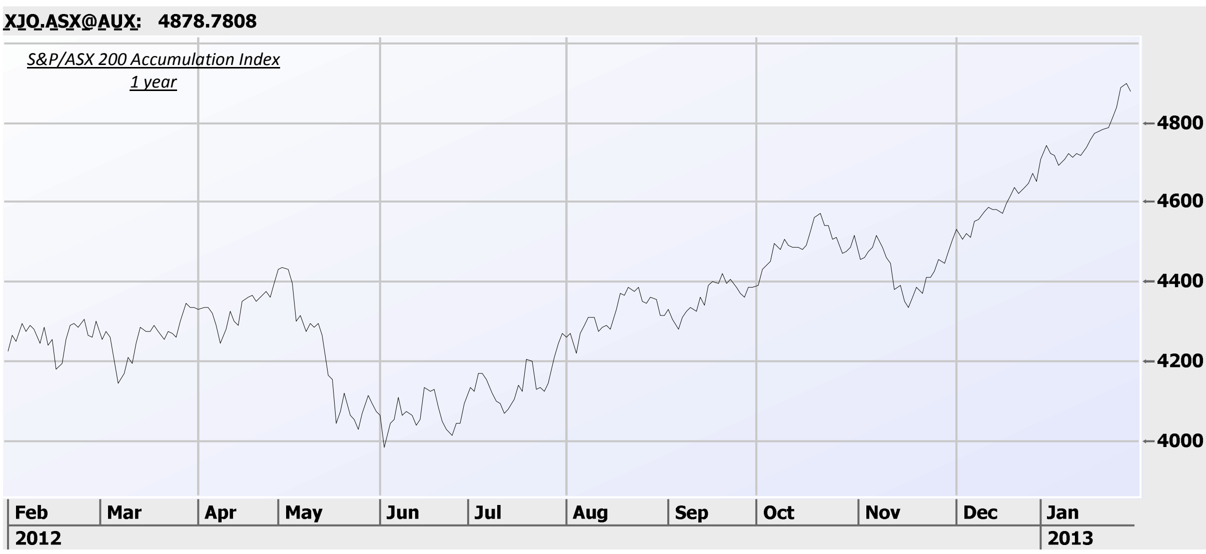
The recovery in the sharemarket continued throughout January with an impressive 4.95% rise in the S&P/ASX 200 Accumulation Index. I say impressive because it was a particularly strong and consistent rise throughout January with most sectors contributing to the rise. As an example the Top 20 stocks rose 5%, the Top 100 stocks rose 5%, the Top200 as mentioned above rose 4.95% and the Top 300 rose 5%.....now that is consistent !!

Financials which are dominated by the big banks posted the best overall contribution to the rise with a solid 6.5% gain, followed by the moderately sized Consumer Discretionary sector contributing 8.6%. The star attraction was the Information Technology sector that rose nearly 15% for the month. Unfortunately it makes up less than 1% of the total index as we are not known for technology companies.

The mining and energy sectors were once again mixed, with the Energy sector providing a solid 6% rise, whilst the Materials sector which is dominated by heavyweights like BHP Billiton and RIO Tinto only rose 1.5%. I still think this sector needs to be a leader in 2013 in order for our market to post double figure returns. At present, with iron ore prices trading up near record territory again, this is very possible.

The driver for the market continues to be yield, however this is becoming less attractive as the market continues to rise. I remain concerned that we may see a very average reporting season throughout late February and the market may pause to take a breath. Longer term I would like to see some positive signs of economic growth in the economy which will assist in lifting company earnings and ultimately profits and dividends.

As mentioned earlier, we also need to watch the flow of money from cash. If confidence rises and only part of the dollars held in cash finds its way to the Australian sharemarket, prices could move well into the 5000 – 6000 point range in 2013. If the cash stays put in the banks, we could be hanging around 5000 points for quite some time in 2013.

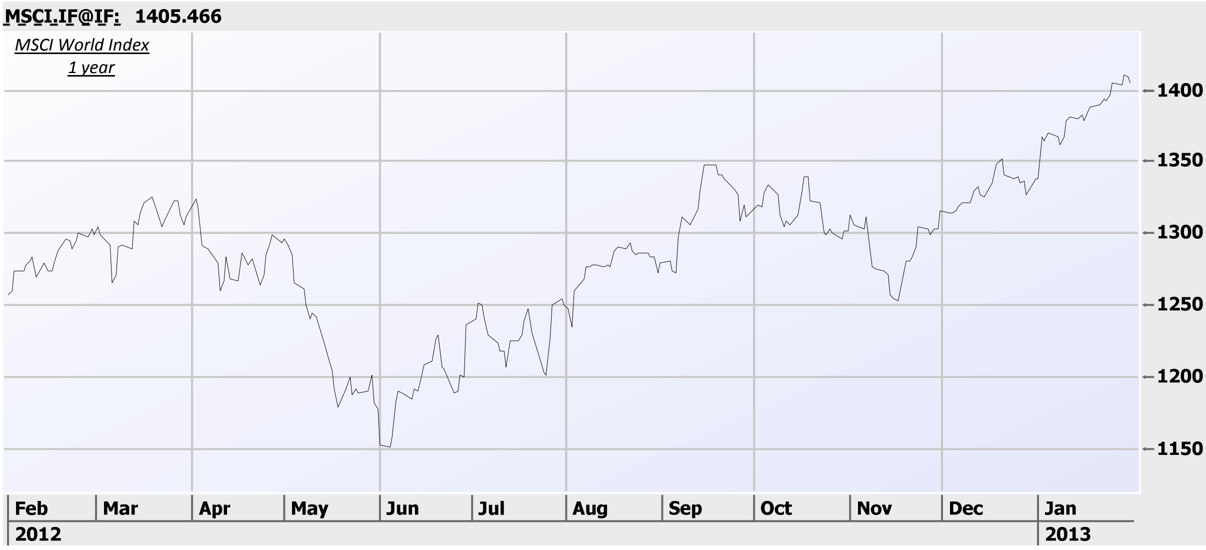


Overseas

The International markets moved in line with the Australian experience in January. The MSCI World Index rose 5% in US dollar terms, but only 4.5% in Aussie dollar terms. Europe and Asia continued to outperform as the recovery gathers pace, whilst the US markets reacted positively to the fact that the politicians came up with at least a band-aid for their financial woes.

The US reporting season has been quite good, which means that if the US politicians can agree on some medium and long term economic solutions for the country, we could see a lift in confidence in this key economy. This political situation however is also the most likely source of frustration to markets in the next 2 – 3 months.

As I have mentioned before, it's the Governments that are the problem, not the actual businesses in Europe and the USA.



Regards,

TONY KILLER

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