

NAB a solid buy in the long term



SOUND: NAB chief executive Cameron Clyne's focus is to maintain a sound capital position.

BUY: NATIONAL AUSTRALIA BANK

WHILE the near-term outlook remains challenging, we consider NAB shares remain undervalued given the improving domestic competitive landscape, which will enable the bank to move forward over the medium term.

In its strategy update this month, NAB CEO Cameron Clyne said the main business priorities were to focus on the Australian customer franchise, maintain a sound capital position, continue cost management and invest in staff, culture and reputation.

The announcement that it will reduce its first-half dividend by about 25 per cent was largely anticipated, although the magnitude of the fall was disappointing.

However, this has reduced much of the uncertainty and provides management with increased flexibility and should further strengthen its capital position.

The Australian banking operations have benefited from both market share gains and net interest margin expansion. The



group remains on track for a sound underlying performance.

HOLD: TELSTRA CORP TELSTRA'S first half results revealed revenues broadly in line with expectations.

It held its market share and showed impressive growth in the mobile market, up by more than 12 per cent over the year.

The impending departure of chief executive Sol Trujillo is likely to generate concern and speculation in the market and may also have implications for

TELSTRA CORP.



the rollout of the National Broadband Network.

Telstra's media interests in Australia and China are performing well, with strong growth predicted. This may help sustain revenues as the domestic market slows and its market share is gradually eroded over time.

SELL: PACIFIC BRANDS THE company manufactures, imports, markets and wholesales clothing and footwear under icon brands including Bonds, Holeproof, Jockey and Dunlop.

However, it is possible it will not be able to roll over its debt.

Asset sales will be necessary to reduce debt. The company is also attempting to cut costs by about \$150 million a year by 2010-11.

To add to the problems, sales are softening due to the downturn in discretionary consumer spending and the major retailers are putting pressure on its margins in an attempt to protect their own business.

Considering all these problems and uncertainties, we recommend selling.

Brian Dunn is the state manager of Tolhurst.

Pension deeming rates fall

SOME pensioners will receive an increase in their payments after new deeming rates took effect on Friday.

Income from financial investments is "deemed" to earn a certain rate of income, no matter what income was actually

earned. The rate was last changed on January 26, 2009, when a single pensioner with investments worth \$41,000 was deemed to earn income at 3 per cent a year and at 4 per cent for amounts over that.

On Friday the upper

deeming rate fell from 4 per cent to 3 per cent and the lower threshold from 3 per cent to 2 per cent.

In part it reflects recent falls in interest rates. It means some people will receive more pension, while others may qualify for the first time.

Mortgage market 'bleeds'

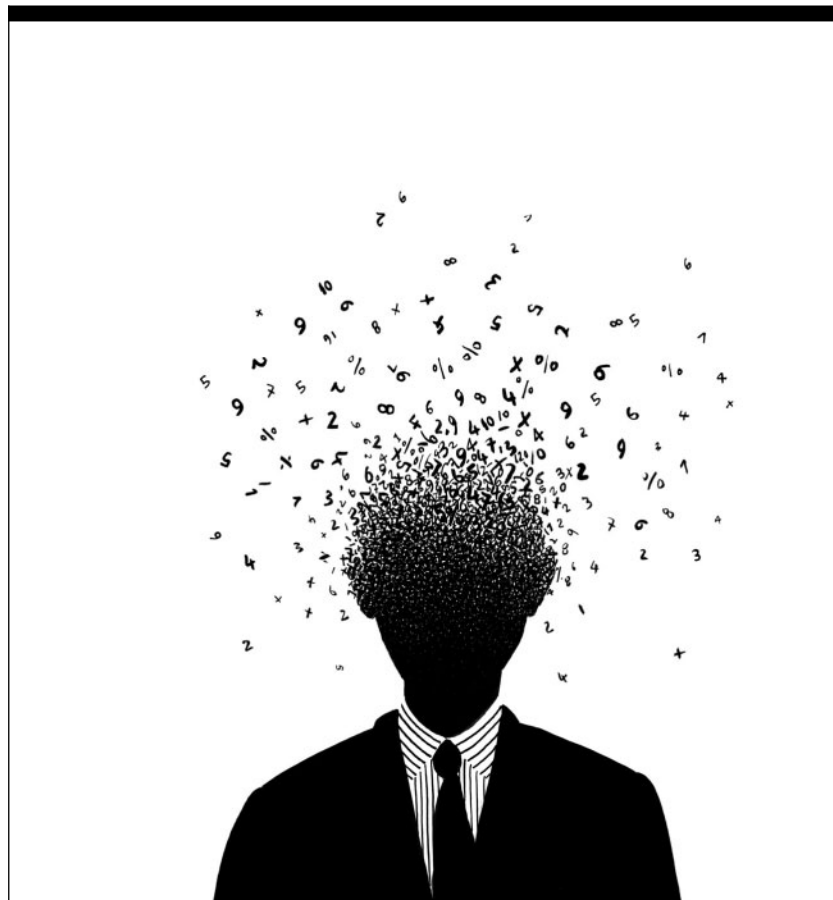
THE Reserve Bank's decision to keep interest rates on hold this month has "sucked the lifeblood" out of the mortgage market, online comparison firm HelpMeChoose.com.au states.

Its survey of real estate agents and mortgage brokers found the lack of action halted the momentum the Reserve had created.

"The feedback we have received, in

the strongest possible terms, is that the Reserve Bank governor Glenn Stevens got it wrong - his conservative approach wasn't warranted," said the firm's chief executive, Adir Shiffman.

"Interest has waned dramatically and inquiry levels have fallen away. While the governor suggested Australia was faring better than much of the world that is not the way the punters see it."



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Economy 'to pick up' later this year

ANTHONY KEANE

SHARE investors have been warned not to expect lasting gains on the stock market until at least the second half of this year.

ABN AMRO Morgans chief economist Michael Knox, in Adelaide last week to speak with the broker's clients, said he expected Australia's share market to hit its bottom "some time between July and September".

Like most economists, Mr Knox was surprised by the depth of the falls in global share markets during 2008, and he believes the U.S. economy is "absolutely rotten".

But he does think the pace of the U.S. economic decline will start to slow in the next few months.

"I expect the U.S. economy to hit the pavement by the end of Septem-

ber," he said. Mr Knox said Australia's recession this year would not be as deep as the recession in 1974-75, which coincided with the share market's worst fall in history - 59 per cent.

"Even though commodity prices have fallen, they are still as high as they were in the middle of this decade. We think commodities will probably stop at 2006 levels, which is still very good," he said.

"In a recession the share market takes time to solve its problems, but it has always solved those problems in the past and we believe it will again this time.

"The rallies won't be quite as high as the falls, but by the time we get to July the rallies should start to be as large as the falls, and after September the rallies will be higher than the falls."