Stock Market & Economic Update

The Australian stockmarket has fallen sharply since the start of August. These falls have been echoed in financial markets around the globe. The catalysts for the fall are many including:

Concerns that the Chinese economy may be growing slower than forecast:

- The likelihood of interest rate rises in the USA (albeit due to a recovery in their domestic economy)
- Weaker than expected earnings reports in Australia.
- Substantial capital raisings by Commonwealth Bank and ANZ Bank to meet the additional capital requirements recently announced by the Australian Prudential Regulation Authority (APRA)
- Falls in commodities prices and a heavily depressed resources market.

Our view is that there isn't any one specific cause as such but rather a collective drag on sentiment from the general combination of all these factors. From time to time, stock markets tend to focus on either positive or negative themes, which then drives their direction. At this point in time, negativity and fear are at the forefront and overriding rational investment decision-making.

On balance, we continue to maintain the view that value does exist within our share market with the raft of current negative sentiment events simply serving to compress this value. During times such as this, sentiment can (and often does) overrule rational fundamental valuations and share prices can take time to return to a more 'normalised' level.

Although the general economic conditions in Australia have softened, we do also see a number of positives which include:

- Australian blue chip shares are generally well capitalised and generate large, sustainable profits
- A large majority of our blue chip companies are paying strong dividends, with current yields rising to levels of 5%+ (our major banking shares are now offering dividend yields of between 5.7% and 6.6% fully franked)
- The Australian economy, whilst softening, continues to remain solid and orderly. A weaker Australian dollar will serve to support our resources sector as well as foreign spending and investment in our country
- The RBA has scope to substantially lower interest rates and further stimulate the economy. This is likely to increase the appeal of higher yielding shares
- Stocks over the preceding years have generally traded at a premium to their fundamental valuation levels supported by the higher dividend yields. What we are witnessing is likely a reversion back to more conservative fundamental valuation levels (which tends to occur during times of heightened fear).

So to summarise, we are not sure if the markets have further to fall and how long the current volatility will last. However we believe that fundamental stock valuations and dividend yields are becoming increasingly supportive for our stock market.

DISCLAIMER

Sentinel Financial Group Pty Ltd (ABN 26 104 456 288) is an Australian Financial Services Licensee holder (AFSL No. 230542) and a Participating Organisation of the Australian Securities Exchange. Sentinel Financial Group's directors, officers, representatives, authorised representatives, members and agents believe the information contained in this document is correct and that any estimates, opinions or recommendations in this document are reasonably held at the time of compilation, but may change without notice. No guarantee or warranty is given, or representation made, as to accuracy or completeness. Past investment or trading performance is not a reliable indicator of future performance. To the extent permitted by law, Sentinel Financial Group disclaims all liability and responsibility for any direct or indirect loss or damage which may be suffered by any recipient through relying on anything in or omitted from this document. Advice included in this document is general advice, based solely on consideration of the investment or trading merits of the securities alone without taking into account the investment objectives, financial situation and particular needs (i.e. financial circumstances) of any particular person. You should not act on any recommendation issued by Sentinel Financial Group without first consulting your investment advisor in order to ascertain whether the recommendation (if any) is appropriate having regard to your investment objectives, financial situation and particular needs.

DISCLOSURE

Sentinel Financial Group Pty Ltd (ABN 26 104 456 288), its directors, officers, representatives, authorised representatives, members and agents declares that they deal in financial products as part of their business and consequently they may have a relevant interest in the financial products recommended. Sentinel Financial Group receives brokerage or other benefits from dealing in financial products and its authorised representatives, or introducers of business, may directly share in the brokerage or benefits. Sentinel Financial Group, its authorised representatives and their respective associates may have positions in the financial products mentioned, which may change.

SENTINEL STOCKBROKING

PERTH OFFICE
Ground Floor, 45 St Georges Terrace, Perth WA 6000
Tel: +61 8 9225 0000 Fax: +61 8 9225 0001

MANDURAH OFFICE
Suite 1/14 Peelwood Parade, Halls Head WA 6210
Tel: +61 8 9583 5556

www.sentinelgroup.com.au