



SIRA VIEWS

Next Year's (2008) Outlook

In the long run, returns from investing in shares have been very good. If you had invested \$100 in January 1950, and reinvested all dividends, you would now have about \$150,000. This **includes** big 'bear markets' such as 1987, when the All Ords index fell by more than 40%. Over the 57 years, the average total compound return equals 13.9% per annum. Because of these numbers, we usually tell people it's "better to be in it than out of it".

Sira Group doesn't normally try to trade the small corrections in the market. A correction is defined as a fall of around 10% but less than 20%. Corrections are normally short-lived, and the market soon moves back to previous highs. Bear markets are a different matter. They last longer, the market falls by more, and it takes longer to get back to previous highs. Unlike corrections, which are normally just 'technical' in the sense that they are reactions to previous over-exuberance, bear markets are caused by imbalances in the economy – high inflation, financial crises, overinvestment, and so on. If we can avoid bear markets, we could significantly increase the long-term returns from share investing.



The key imbalance now is in the US, where banks and non-bank lenders have extended too much credit to mortgage borrowers who are now unable to repay their loans. This imbalance risks sending the US into recession, as consumer spending has held up because of credit drawings by consumers out of the increase in price of their own homes. House prices are now falling, and new house construction has collapsed. Default rates are rising fast and are at record levels, even though unemployment is relatively low. Banks and other lenders are writing off billions of dollars in loan losses. This is a credit crunch. Credit is the oil in the wheels of the economy. Without it, modern economies can't grow and be prosperous. Credit crunches are not good for economies or share markets.

Over the last 20 years, every time it has looked as if the US economy is heading towards recession because of a credit crisis, the 'Fed' (The Federal Reserve Bank) has cut interest rates sharply to get the economy moving again. We have a new head of the 'Fed' – Bernanke, who replaced Alan Greenspan, who may not be as skilful as Greenspan was in moving quickly to offset crises. And inflation is drifting higher, so the Fed might delay cutting rates. The combination of a credit crunch and a lagging 'Fed' is risky for share markets.

We believe that there is a high risk of a US recession. However, the picture so far is more optimistic for the world as a whole. It looks as if the world outside the US, especially the new Asian tigers, will be relatively immune to the US crisis. Recession in the US will not translate into recession in the world as a whole. But we don't know for sure. This uncertainty is bad for markets.

In This Issue

2008 Outlook

Special points of interest:

- Share market average total compound return over 57 years equals 13.9% per annum
- Key imbalance: US banks and non-bank lenders have extended too much credit
- It seems the as if the world outside the US will be relatively immune to the US crisis



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For the time being we have a cautious view of world growth and world stock markets. We continue to monitor economic data for the United States and the world, and continue to watch trends in the markets. We will continue to maintain strongly overweight positions in BHP and Rio. And selected small cap stocks are still ignoring trends in the broader markets, and helping drive our performance at high levels. Finally, because our funds under management are small relative to the big boys, when we decide to sell big cap stocks when can do it with a single phone call. If we believe that risks outweigh potential returns, we will not hesitate to do this. We believe your investments are in safe hands, especially in current volatile conditions.

Nigel

“YOUR REFERRAL IS
OUR GREATEST
COMPLIMENT”

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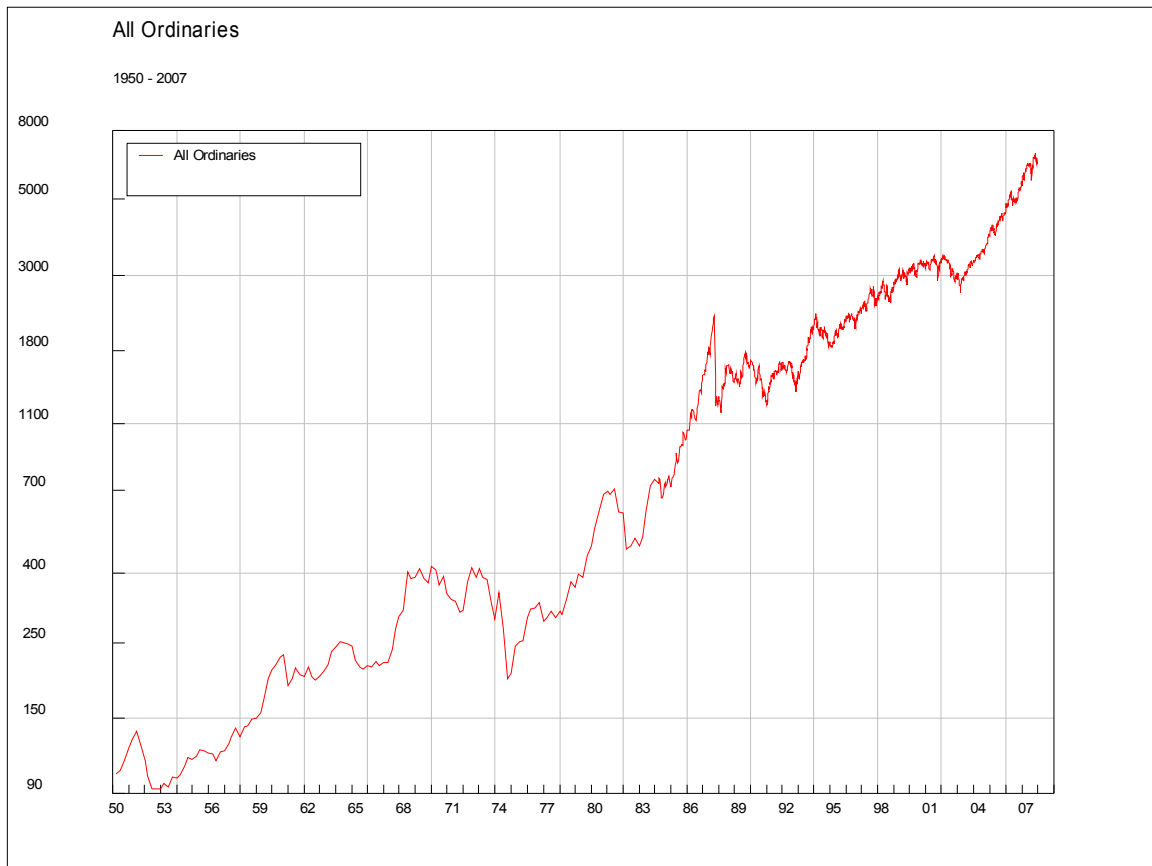
*Market Outlook:
Nigel Purchase*

This is a summary of the presentation made to clients at SIRA Groups Christmas cocktail party on Tuesday 18th of December. If you are interested in seeing the full presentation, please contact us.

As always, if you have any questions or concerns, please do not hesitate to contact us.

SIRA Group wishes all our clients and associates a merry Christmas and a prosperous new year.

David



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