



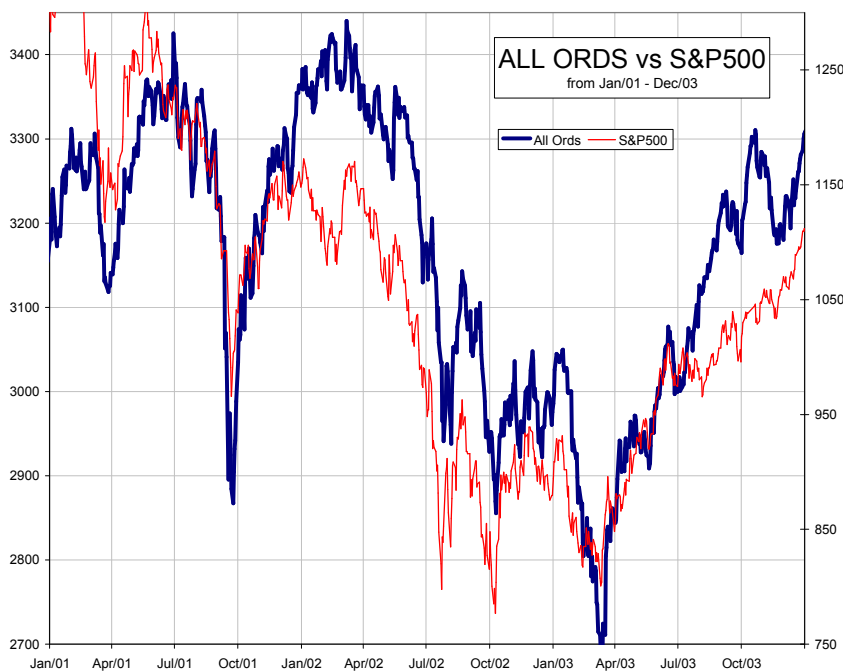
SIRA VIEWS

The Bear Market

In my presentation at Sira Group's Christmas cocktail party, I discussed the high probability that the US would shortly be entering a recession (though I said that the world as a whole might escape because of the strength of the Chinese and Indian economies). A fortnight ago, we sold out of our resource stocks, increasing our cash holdings substantially. This has helped minimize losses on our clients' portfolios.

The urgent question now is when to re-enter the market, and what to buy when we do.

The data from the US, Europe and Japan have deteriorated further since that presentation. It now seems certain that these regions will enter recession in 2008, and that even though the Chinese and Indian economies will continue to advance, their growth rates will fall substantially. This suggests that the downdraft on share prices will continue. Having said that, however, the falls over the last few days have been substantial, and there is a high probability that there will be a 'bounce' in the short term. What we don't know is whether the bounce will be sustained or substantial.



In the March 2002 to September 2003 bear market, the All Ords index fell 23%, but it did so in two separate phases, with fairly large rallies on the way down (see chart above). As an aside, note just how closely correlated our market was with the US index (the S&P500).

In This Issue

The Bear Market

Special points of interest:

- *US seems to be entering recession*
- *2002/03 bear market: All Ords down 23%*
- *Current market down 16% from high*
- *Probability of a rally in the near term is high*



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So far in this bear market, the fall has been just 16% from the peak. As can be seen in the second chart (below), we are now close to the point where the last two corrections bounced. So the probability of a rally near term is high. Valuation metrics are also at 10 year lows. However, this rally may be short-lived, and it is possible that the market will fall again in a few months. We are therefore preparing to buy, but only defensive stocks, or stocks where the intrinsic story is strong enough to withstand the weakness elsewhere.

We will be advising you shortly by email of our chosen stocks. We will be watching the markets closely each day to get our timing as close to the bottom as possible, and also to time any future exit/restructure should we think this necessary.

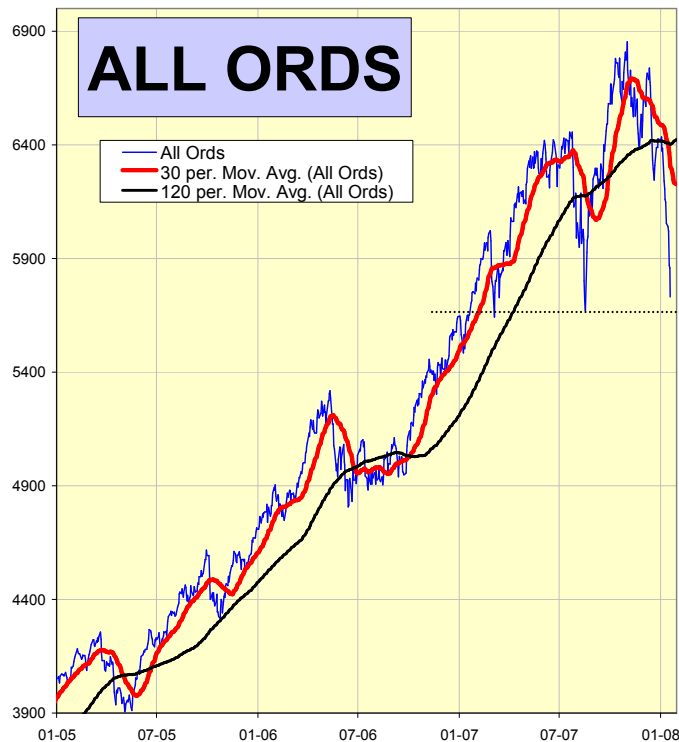
“YOUR REFERRAL IS
OUR GREATEST
COMPLIMENT”

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

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*Market Outlook:
Nigel Purchase*

Nigel



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