JANA Investment Advisers Pty Ltd
Market Commentary – September Quarter 2008

Share markets in grizzly bear mode

The last month of the September quarter saw a savage sell-off in share prices around the world. The sell-off was not related to falls in earnings as much as they were reflecting a wave of fear by investors stemming from the credit crisis that has been worsening in recent weeks. This crisis has resulted in forced selling of a huge range of fixed income assets, and the resultant potential write-down on bank profits, especially in banks that are thought to be highly leveraged. The entire investment bank industry in the US has now disappeared with Bear Stearns, Lehman Bros, Merrill Lynch all either being taken over or liquidated, while Morgan Stanley and Goldman Sachs are converting themselves into traditional deposit taking institutions.

In this environment, many investors and indeed financial institutions have not known where to turn, with the result that some debt markets, the core of the financial system have almost entirely frozen. Central banks and governments have worked hard to stimulate these markets with inflows of substantial amounts of liquidity.

The flight to safety has seen a rush to the security of the US dollar, the Japanese Yen and to government bonds. By contrast the higher yielding currencies such as the Australian ($A) and New Zealand dollars have experienced the sharpest sell-off in history, with the $A now down over 30% from the highs of just a few weeks ago.

Share markets have performed equally poorly with the global share market down by between 11% on a hedged basis but the decline in the value of the $A has meant that unhedged shares are actually 4% higher. Global shares have now declined by between 30% and 50% from their peaks. In Australia the ASX 300 index is down 11% for the quarter (and 40% from the highs seen in November 2007). A feature of the market in recent weeks has been the sell-off in resource shares (down 29% for the quarter), with the largest companies Rio Tinto and BHP now down 55% and 45% respectively from their highs, while industrial shares are less than 1% lower. Financial shares such as the banks and insurers have not been immune from the sell-off but much of their weakness has already been seen in recent months. Smaller companies have underperformed the broader market with a fall of 18% over the quarter

Listed property has been extremely volatile, however unlisted property has been the best performer with returns close to zero or a small positive. These assets have been a great stabiliser for performance.

In summary, the current market sentiment in all asset classes except for government bonds is poor, however we are reaching the stage where current valuations in non-government bonds and shares are discounting the worst. Although there is potentially good value in markets, the level of uncertainty is at a record high and despite the cheapness of pricing the threat of recession is high, and there remains doubt as to how well profits will hold up. Caution is warranted until we see signs that the madness in financial markets is abating, and at that stage exceptional opportunities will present themselves.

September 2008	Performance (income and capital gain or loss) %	
	Quarter	Year
Australian Shares (S&P/ASX300 Accumulation)	-10.7	-27.1
International Shares (MSCI World ex-Aust) unhedged	3.7	-16.2
International Shares (MSCI World ex-Aust) hedged	-11.1	-22.9
Unlisted Property	0.0	10.3
Listed Property Trusts	-1.3	-40.4
Australian Bonds (UBSA Composite Index)	5.3	8.4
Cash (UBSA Bank Bill)	1.9	7.7
Appreciation of $A against $US	-17.8	-10.9