

# MONITOR



## How is 2011 shaping up?

Last quarter we wrote:

"In the past few months the market has traded in a 10-15% band as we swing from the glass being half full to half empty. This volatility is likely to continue for some time, but we suspect with an upward bias."

Since the last MBM the market has continued to trade within this range, however, the trading band has been narrower, with the market failing to go below the 4550 level.

In fact, over the past three months, technical analysts would say the market has been building a base as it has found strong support at the 4550 level.

We are also entering the historically strongest trading period, between mid December and mid January. The statistics overwhelmingly point to the likelihood of the next four weeks being positive for the markets. But statistics provide probabilities, not certainties (as we learnt during this period across 2008/09).

This year, we side with probability, and expect the market to again move higher during this period.

In the September edition of MBM, we wrote:

"We still stand by our prediction of the markets again breaching the 5,000 point level by Christmas."

As a few of our clients have very recently pointed out (reminded us, thanks), we have not yet breached this level. In fact, we are a couple of hundred points from it. To this we say, we have 16 days left!

If we are inaccurate with our crystal ball prediction, we believe we will only be so by a week or two, based on our view that probability will again hold true (as written about above). We hope you allow us this latitude!

On to 2011. Once again, looking back to our last MBM edition, we wrote:

"There will be plenty of more "noise" along the way, but if the overleaf graph is any indication, we need not fear as we re-trace closer to our GDP."

This still holds true. Australia continues to grow at a solid level. We do not expect this outlook to change in the short to medium term. Providing we do continue this way, our sharemarket will follow suit.

We will have the usual volatility again in 2011. At some stage the Bears will win, most likely on talk of a mid cycle slowdown. Which may be true. But this will not derail the medium term growth outlook for Australia. At some stage next year, our market will breach the 5,500 level. That's over 15% higher than where it currently is.

### Stock Review QBE

QBE Insurance Group Ltd (QBE) is an ASX listed top 20 company. QBE is a leading provider of general insurance and reinsurances in Australia, Asia, Europe and the Americas. Globally QBE is one of the best managed and profitable insurance groups and generates its profits by earning underwriting surpluses in each insurance division.

QBE has faced significant headwinds throughout 2010, continued low global bond yields, a softer insurance pricing cycle and stronger AUD have all impacted on company earnings. The US remains difficult but the Australian and Lloyds markets are showing signs of improvement. We believe the operating environment will continue to remain difficult for QBE in the short term. In the medium to longer term we are positive on QBE as an investment. We see good upside potential for QBE when the US economy begins to recover, interest rates rise and the USD strengthens (two of which have already begun). The company also recently maintained its full year dividend and is currently paying an attractive dividend yield of 7.08%. Although we are not suggesting buying QBE solely for its yield, combined with the above, we believe QBE is currently trading in good valuation territory at \$18.10. RBS Morgans has a twelve month price target of \$19.43, which equates to 7.34% capital upside from current levels. This is on top of a forecast 7.08% yield.

# CHRISTMAS HAMPER COMPETITION

The Christmas Hamper competition returns again for 2010.

For those of you who are new clients, you must 'qualify' to enter the draw for the Christmas Hamper. You must answer each of the questions below and get them all correct to go into the draw and be eligible to win the prize.

Please email Leonie at [leonie.farmer@rbsmorgans.com](mailto:leonie.farmer@rbsmorgans.com) or call her on (03) 9947 4137 with your answers. The competition closing date is Tuesday, 21st December at 4:30pm AEST. The winner will be drawn that afternoon and notified by phone, with delivery of the gift basket on Thursday or Friday of that week.

**Valued at over \$250 – It's called 'Christmas Indulgence'**

Including an assortment of - biscuits, cheese, wine, pudding, coffee, nuts and more.....



## Questions

1. Which Victorian town gets its name from the Aboriginal word meaning "Red Earth"?
2. Which car manufacturer closed its Australian manufacturing operations in 1992?
3. Who was the last Australian cricketer to get a hat-trick in an ashes test series before Peter Siddle achieved the feat recently in Brisbane?
4. Where is Australia's oldest hedge maze located?
5. Which English King had 6 wives?

### ASX Trading Hours

The Australian Stock Exchange hours over the upcoming public holiday period is:

- Christmas Eve - Closes 2pm
- Monday 27th - Closed
- Tuesday 28th - Closed
- New Years Eve - Closes 2pm
- Monday 3rd - Closed

## Thank You

Our Team would again like to thank all of you for your support and good wishes during what has been another roller coaster of a year in our world, albeit much more subdued than previous years.

We wish you and your families a very safe and happy Christmas and New Year period and look forward to catching up with you in 2011.