



Martin Bros Monitor

www.martinbros.com.au

March Quarter 2010 Edition

Paul & Jarrod Martin are Authorised Representatives (259367 & 259249) of RBS Morgans Ltd.

It's a GIRL !!

Rochelle and Dunstan are pleased to announce the safe arrival of Zarah Alexandra Gordon born on Wednesday 3rd March weighing in at a healthy 7 pounds 14 ounces.

Mum and baby are well and now at home settling into life as a family of four. Josh now has a little baby sister to boss around.

Congratulations Rochelle and Dunstan.

Stock Review Nufarm Preference Shares

Nufarm Limited is an international agrichemical company involved in the registration, manufacture, marketing and sale of branded, off-patent crop protection products. The Company operates in most major global markets.

Nufarm Preference shares (NFNG) are a Step Up security. They were issued by Nufarm in November 2006 as part of their capital management (i.e. another source of funding to compliment bank borrowings or corporate bond issues). The issue size was \$250 million. Nufarm currently has a market capitalisation of circa \$2 billion.

This Step Up Preference share is issued with an initial term of five years (initial reset date of Nov. 2011). During this term, Nufarm guarantees to pay an annual floating rate distribution, paid semi annually, equivalent to 1.90% on top of the prevailing 180 day BBSW (6 month interest rate).

At the end of this initial term, one of three things will occur. One, Nufarm may elect to redeem each security for their face value of \$100. Two, Nufarm may elect to convert these securities into ordinary Nufarm shares at a discount of 2.50%. This means, for each NFNG security, you would receive \$102.50 worth of Nufarm ordinary shares. Thirdly, Nufarm may elect to Step Up these securities, which means they will become perpetual in nature and the annual distribution rate will increase to 4.15% on top of the 180 day BBSW (Bank Bill Swap Rate). If the third option is exercised by Nufarm, although the security becomes perpetual in nature, the company has the right on each distribution date (every six months) to elect to exercise option 1 or 2 at its sole discretion.

NFNG are currently trading at approx. \$80 which puts them on a gross running yield of circa 7.5% p.a. with capital upside to \$100 if they are redeemed or converted on the reset date of November 2011. If they step up, the running yield will increase to circa 10.5% p.a. on current rates with still potential capital upside to \$100.

Market Direction Over Time

Long time readers of the Martin Bros Monitor will remember the below chart. This chart has previously appeared in the March 2003, Christmas 2004, June 2005, March 2007, June 2007 and March 2009 editions. We have used this chart to highlight two things:

1. Over time the market direction is up, with new highs never failing to be made. What varies is the length of time it takes for these to be reached.
2. Markets will rarely trade at exactly fair long term value as the definition of "fair value" is subjective and this causes short term sentiment to prevail.

This is the chart published in our Martin Bros Monitor March 2009 edition:



Here is the same chart updated to today:



We have stated ever since our Special Edition of the Martin Bros Monitor in October 2008 that equity markets are again trading on the outlook for the general economy. We have had a substantial bounce from the lows of last March as in the evident charts above. This bounce was off the worst equity market fall since the Great Depression (in % terms). Yet our economy never technically went into a recession. Most of the recovery rally to date has simply re-gained what we should not have lost in the first place, as the markets factored in a severe economic downturn that never eventuated. This means there should be more upside for the markets to come, providing the general economy continues to improve, which currently all indicators are showing.

Even after the recent rally we are only just on the bottom of the long-term trading range. With the market still some 40%+ from its all time high and a dramatically improving economy, a new high may now come sooner (3-4 years) rather than longer (5-8 years). Negative news flow will always be around. Last quarter it was the Dubai debt problems, this quarter it's the Greece debt crisis and next quarter...who knows? As such, we feel the markets will move within the longer term trading band, with an upward bias for some time. The pending 'GFC2' (more on that next quarter) will be a long-term headwind for global markets but for now, buying on the dips and trimming on the rallies remains the right strategy.



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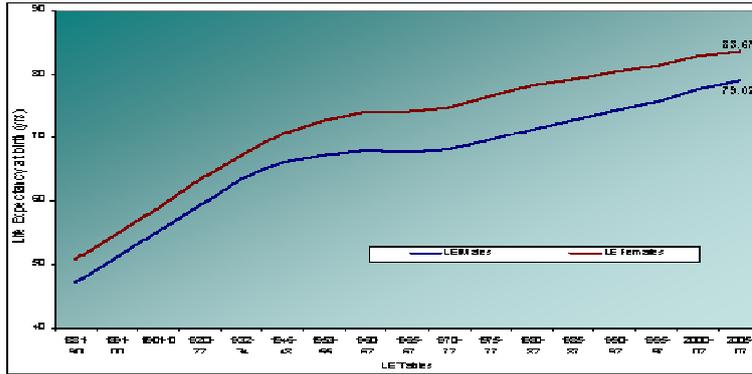
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Protecting Against Inflation - Some Interesting Statistics



We are all living longer these days (refer to the inset life expectancy chart - Source: Australian Life Tables 2005-07; RBS Morgans 2009). Consequently, inflation is an ever increasingly important issue facing prospective and post retirees, as it affects whether their capital can keep pace with the costs of living. High-inflationary periods can erode capital over time if the investor has not allowed for sufficient exposure to growth assets. Having a large allocation to cash can actually be detrimental to an investment portfolio over the longer term.



One way of measuring rising living costs for retirees is via the "Analytical Living Cost Indexes", or ALCIs. The ALCIs are designed to measure the impact of changes in prices on the out-of-pocket living costs experienced by four types of Australian households, one of them being Self Funded Retirees. These indexes are particularly suited for assessing whether the disposable incomes of households have kept pace with price changes. The Australian Consumer Price Index (CPI), on the other hand, is designed to measure price inflation for the household sector as a whole and, as such, is not the conceptually ideal measure for assessing the impact of price changes on the disposable incomes of households.

As an indication, the ALCI showed self-funded retiree households increasing by 1.6% for the year to September quarter 2009 due to increases in electricity, hospital and medical services, insurance, house repairs, and maintenance and water & sewerage. This is actually a slightly higher increase than the CPI, which was 1.3% for the same period. Self-funded retiree households have a relatively higher proportion of expenditure on utilities, health services and insurance all of which recorded large increases for the year to September quarter 2009. (ABS, 23/11/09.)

Since the series began in the June quarter 1998, the living costs of self-funded retirees have experienced an increase of 39%, which is not dissimilar to the CPI increase of 39.4% (the living costs of age pensioner households, in comparison, showed the highest increase of 43%). To keep pace with cost of living rises over time, therefore, it is imperative an investment portfolio has some exposure to growth-type assets (such as Australian shares). Just how much exposure will depend on each individual's aversion to risk.

ASX Trading Hours

The Australian Stock Exchange hours over the upcoming public holidays including the Easter period will be as follows:

- Easter Thursday – Normal trading
- Good Friday – Closed
- Easter Monday – Closed
- Anzac Day holiday - Monday 26th April Market Closed

HAPPY EASTER!



FYI - 2009 Christmas Hamper- Quiz Answers

1. What coloured head band did Pat Cash wear when he won Wimbledon? **Black & White Checkered**
1. Is Melbourne Cup Day a public holiday in Tasmania? **No**
2. Who is the large international company behind Australia's "Gorgon" project? **Chevron**
3. Which is the lowest number that, when spelt out, is in correct alphabetical order? **Forty (Note - Eight was the most common answer. However, I comes after H in the alphabet)**
4. Each US president adds their own sporting infrastructure to the White House. What did Barack Obama add?
A Basketball Court

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