Martin Bros Monitor

www.martinbros.com.au

March Quarter 2009 Edition

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

Wedding

Many of you may be interested to know that Leonie married her high school sweetheart, Adam, on Saturday 7th February.

The happy couple were married in Essendon with their reception in town. Following this they honeymooned in Thailand for a few weeks before returning to married life at the start of March.

Congratulations Leonie.

Stock Review (WH) Soul Pattinson

In our September MBM edition we featured Soul Pattinson (SOL). Here is some of what we wrote:

"SOL also has a 61.07% interest in New Hope Coal (NHC). NHC was originally wholly owned by SOL but was demerged and separately listed from the group in 2003, primarily to unlock value.

NHC has recently sold one of its prospective coal mine sites in Queensland for $2.45 billion in cash to a BHP Billiton / Mitsubishi Alliance. NHC will be left with its current operating coal mines and other exploration rights."

NHC has locked in this cash in a term deposit yielding approx. 7.75% until November this year. NHC have announced that they will pay a 70 cent fully franked special dividend to shareholders at the end of this year. As SOL owns 61.07% of NHC, they will also receive this special dividend.

We believe SOL is particularly cheap at the moment. They have no debt and their 61.07% interest in NHC is worth $2.07b based on current prices. SOL's market capitalisation is currently $2B.

This means that SOL is trading at $70m less than its interest in NHC alone. SOL also own 49.4% of Brickworks Ltd. Based on current prices, this interest equates to $613m. In addition, SOL own other assets worth approx. $100m.

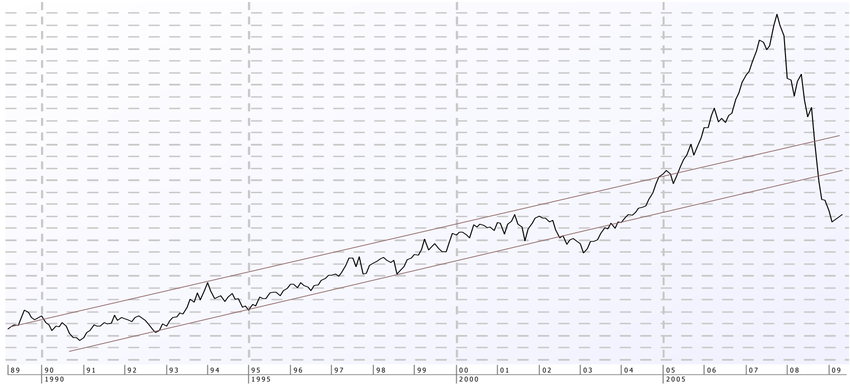
Therefore, SOL is currently trading at approx. $783m (or $3.28 per share) below its Net Tangible Asset (NTA) backing (at least).

This is not to say the share price will move $3.28 higher any time soon or that this gap will close. However, if you own something that is currently trading at $8.40 but its NTA is closer to $11.68,

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, Xmas 2004, June 2005, March 2007 and June 2007 editions. We have used this chart to highlight two things:

1. Over time the market direction is (always) 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.



In our March 2007 edition we highlighted the risk of the market continuing to push much higher. The risk, we concluded, was that if it did, then we would potentially be setting ourselves up for a substantial fall of up to 20%. A fall of this magnitude now seems like merely a blip.

At that time, corporate earnings were strong and there was no obvious (or even remote) sign that these earnings could come under substantial pressure.

It is fair to say that until October 2008, the fall in corporate earnings and the retraction of equity markets was not severe. Then, all hell broke loose (so to speak) and raw cold fear set in at a rapid pace. It is at this point when most people (let's be honest—everyone) were caught out at the pace of the ensuing decline.

Looking at the above chart now, it may seem plainly obvious that the market was going to fall. We can't argue with that. But the extent of what that fall would be is something that no one can predict. We were of the view that a large part of the "bubble" was resource related. This was also true, as many once large resource companies have fallen as far or further than a lot of industrial shares. The difference is, many of these resource companies won't recover as fast as their industrial peers, if they ever do.

As highlighted in our first ever 'special edition' of the Martin Bros Monitor in October last year, we are very confident that the point of ultimate fear has passed and we no longer face the possibility of a system wide (financial) failure. Therefore, equity markets are now trading on the outlook for the general economy. The bad news on the economy, such as job losses, bankruptcies etc will continue for several quarters after the market has reached a bottom for this cycle. On average, markets have bottomed one third of the way through economic recessions. By the time proof has emerged that the worst of the economic cycle is behind us, equity markets will be substantially higher than where they are today.

We still stand by our year end target for the ASX 200 of 4,500 points. But we think it will take two or three rallies to get there. Each time the market falls after a brief rally, the doomsayers will become ever confident. At the point that these doomsayers are so convinced they're right, the next sustainable rally will occur.

As per the above chart, we are well below the bottom long term trading range. This will reverse, eventually, and many companies will be in a better position than they were previously, with solid balance sheets, less competition and a more stable, albeit more regulated, outlook for the economy.

Martin Bros Monitor

www.martinbros.com.au

March Quarter 2009 Edition

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

Some Interesting Insights From the Oracle of Omaha

For those of you not familiar with the "Oracle of Omaha", this is the nickname given to legendary US investor Warren Buffet. On late (very late) night television the other night we watched an interview with this intriguing man. Below are some of his thoughts that we thought would be worth sharing with you.

- The leverage in the US lead to more houses than were needed being built as people/builders speculated
- We are now in a period where construction starts are very low and this is needed to get the supply and demand equilibrium back into neutral over the next few years. The oversupply will be worked through by a) some homes being destroyed/wrecked and b) lower building starts than required long term
- The US is different to Japan and the downturn they suffered for 20 years or more. The US, unlike Japan did, still has population growth. Therefore, more houses will be needed in five years time than are available now and more houses in ten years time than five years time will again be needed. As the supply side of housing is at all time lows, demand will eventually catch up and again exceed supply leading to the next construction cycle. The US is not the next Japan
- The US is in a vicious negative feedback situation. He has never seen this much fear before
- In the US over the last ten years they got a lot right as well as the obvious things they got wrong. It was not all a basket case over the past ten years
- Free markets will always overshoot and from time to time, fear will prevail for a period of time. It takes only five minutes for fear to set in but a lot longer for confidence to return
- Buffet said he guarantees the Dow will be a lot higher in ten years. As always, he never gives predictions as he does not know by how much
- The jobs market recovery will lag that of the equity markets and the general economy
- The speed of the turnaround will depend upon the wisdom of government policies. They have done a lot of good things over the past six months and it now requires bipartisan support
- The US economy will be fine in five years time. He just wishes they could get there sooner (they may)
- Now is a great time to be in banking. There is less competition and better spreads. Many of the well capitalised banks will come out of this current period very well. Earnings are continuing to drive on and as they re-capitalise they will be in a very good position. The long term prospects are excellent
- The 'toxic' assets held by US banks, priced at current mark to market rates, are a very good investment and may end up being the banks best assets over time

He would rather buy the banks toxic assets than their best assets at the moment, if they're priced at current market rates
The stimulus plans will take effect over the long term

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 - does not exist this year so market open on Monday 27th April as normal

As always, we will be contactable on our normal numbers throughout the entire holiday period.

Farewell & Welcome

It is with sadness that we farewell Tim from our team as he and his partner, Victoria, embark on a backpacking adventure across Eastern Europe towards the west. Tim commenced with us in October 2006 and over that time has been a great support for Paul, Jarrod and the rest of the Team. Tim substantially enhanced much of our client written communications over this time including the annual review process and the Martin Bros Monitor. We wish Tim and his partner all the best for their travels.

On the flip side, it is with great excitement that we introduce John Cleary who has joined our Team to take over Tim's role. We found John through ex colleagues of Tim and he brings to the role many of the same quality characteristics that you may have experienced in your dealings with Tim. Although already with us, John will be contactable on Tim's phone number (9947 4175), after Tim's final day on Friday 27th March.

ABN AMRO Morgans Limited and its associates hold or may hold securities in the companies/trusts mentioned herein. Any general advice included in this email has been prepared without taking into account your objectives, financial situation or needs. Before acting on the advice, you should consider its appropriateness or discuss with one of our investment advisors.

Personal information held by ABN AMRO Morgans Ltd may have been used to enable you to receive this publication. If you do not wish your personal information to be used for this purpose in the future please advise us, including your account details to your local ABN AMRO Morgans Ltd office or to Reply Paid 202, GPO Box 202 Brisbane Qld 4001

ABN·AMRO Morgans your wealth of experience

ABN AMRO Morgans Limited | ABN 49 010 669 726 | AFSL 235410 A participant of the ASX Group