

M&CO Newsletter

LONG AWAITED EQUITIES MARKET CORRECTION FINALLY HERE!!!

Australian stocks slid for a fourth week last week after a decline in global shares on concerns about the US Sub-prime mortgage market ended on a three day rally on Friday.

Sub-prime mortgage lenders cater to poorer borrowers with patchy credit records. When interest rates in the US climbed and house prices stopped rising, sub-prime delinquencies jumped. Investors and analysts are concerned that failures in the housing market will hurt banks and finance companies and curb the availability of credit on which the US economy feeds.

Investors are turning to the relative safety of gold-plated government bonds and fleeing riskier assets such as shares in recent weeks.

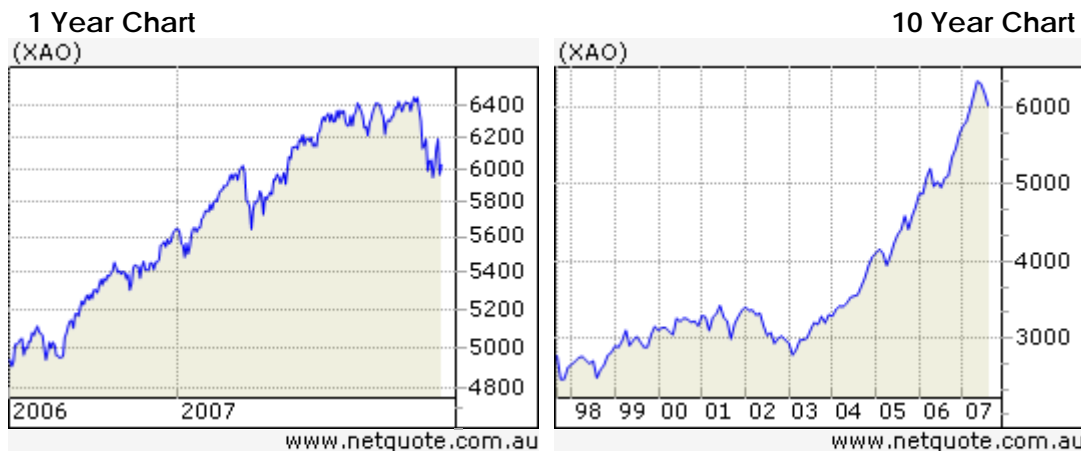
"Markets are likely to remain volatile with event risk from individual financial institutions setting the tone each day" said Trevor Greetham, Director of Asset Allocation at Fidelity International Ltd. The falls on markets could become more permanent if there is evidence tighter credit conditions are hurting the economy. Strong economic data, signs of life in debt issuance or buying by sovereign investment funds could reignite the optimism that has boosted the Australian and global markets to record highs in July.

Fidelity International believes there are no signs the Australian economy will end its 16 year of uninterrupted growth anytime soon. In fact, the Reserve Bank of Australia is concerned that economic growth is brisk enough to stoke inflation. Accordingly, it boosted the cash rate to a 10 year high of 6.5% on Wednesday, to slow the growth to a pace that is no-inflationary.

On global terms, van Eyk Research anticipates a slight easing of world GDP from 5.4% to a still robust rate of 4.8% this year. This reflects the impact of slower US growth, largely offset by growth in the rest of the world (particularly in China and Europe). A similar positive outlook appears likely in 2008 given the slow pace of monetary policy tightening but lending standards could impact.

The table below shows the All Ordinaries Index in the last year:

	Date	All Ordinaries
Today	15 August 2007	5712.2
1 Week	6 August 2007	5949.5
1 Month	15 July 2007	6425.4
1 Year	15 August 2006	4928.9



Thinking now is a better time to invest spare liquidities? Please consider:

Share name	Code	Today's Price	1 month ago 16/08/2007	6 months ago 16/02/2007	1 year 16/08/2006
Aristocrat Leisure	ALL	12.99	13.80	17.00	12.06
Energy Resources Australia	ERA	15.37	21.40	25.36	12.90
BHP Billiton	BHP	32.87	39.16	29.11	27.39
Rio Tinto	RIO	82.57	98.90	78.30	73.20
Woolworths	WOW	26.72	28.49	25.67	19.54
Lend Lease Corp	LLC	16.91	18.53	18.74	14.34
Macquarie Bank	MBL	64.72	90.67	83.00	60.50
Orica	ORI	24.80	30.15	25.90	22.10
Collection House	CLH	0.72	0.80	0.88	1.11
Reverse Charges	REF	4.15	5.70	4.08	2.75
Credit Suisse – World Water Trust	CSW	0.96	1.015	1.01 (1 June 2007)	
CO2	COZ	0.27	0.36	0.39	0.22

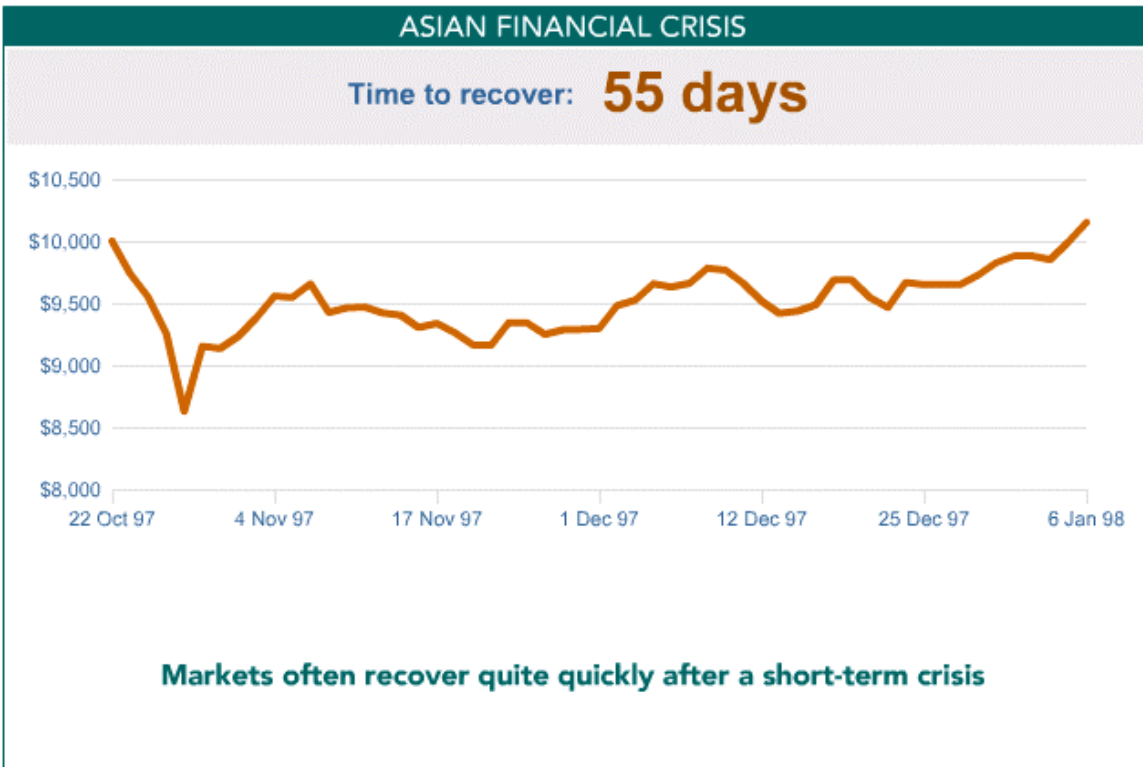
The following graphs show the time to recovery in previous share market crisis:



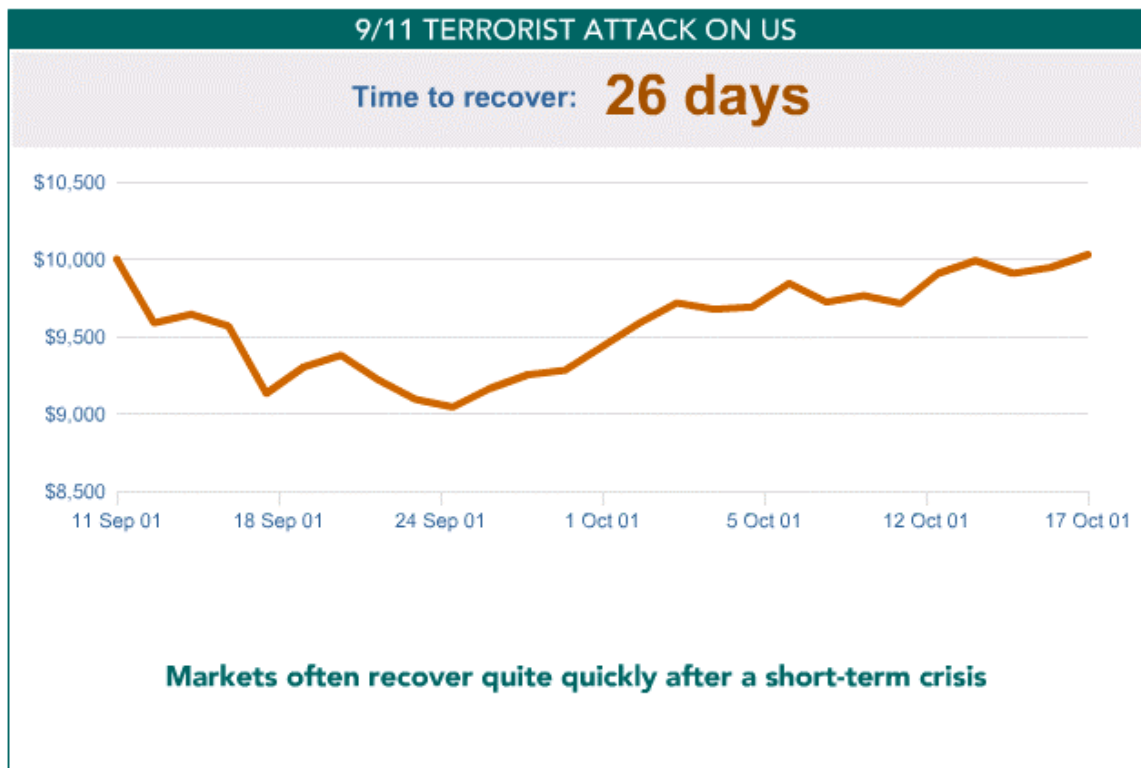
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Conclusion:

- If still in the market, hang on tight!
- If out of the market, watch (carefully) before you leap (see above table).
- Maybe time to diversify overseas into needed commodities such as the Credit Suisse World Water Trust. Australia is not the only country running out of fresh water. So is China, India & even Western Europe!!
- Also think about Global Property such as Deutsch Asset Management's RREEF Global Property Securities Trust (DB is Europe's largest fund manager).
- For the more conservative, gold warrants which track the gold price from the Perth Mint (listed on ASX under stock code - ZAUWBA) or simply, stick to cash till the usual rally at the end of the Year.

For more information on the investments mentioned in this article, please contact me on 07 3831 6088.

Acknowledgement: Fidelity International Ltd, van Eyk Research & netquote.com.au

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