



ZPI QUARTERLY

SUMMER 2011- 2012

As our Southern Hemisphere clients look forward to Christmas and summer holidays, our Northern Hemisphere clients are certainly feeling the chills of winter. Hopefully, the northern Christmas will bring joy to what may well be a very bleak winter.

From an Australian investment viewpoint, we really now have three investment “hemispheres” – Europe, Asia and America.

The Euro crisis has been well documented. It has so dominated the news that there has been no recent focus of the very real issues in the U.S. Both Crises are debt fuelled. Debts which have taken decades to accumulate will not unravel quickly, nor without extreme pain. Japan is yet to emerge from its binge which collapsed in 1989 (22 years ago). Even if Europe and the US re-emerge in half that time, the adjustment period will still be more than a decade.

As the stresses in Europe continue, there must now be a very real concern that the Euro may well break up. If it does so, it would seem unlikely that it would survive beyond eighteen months. The ramifications across the globe will be enormous, and unpredictable.

Whilst the US has debt problems of its own, its main advantage is the fact that it is a fully functioning federation where both fiscal and monetary policies are set at the same level, and there is less resentment of cross subsidisation within the union.

Asia continues to grow, and has attained a level of growth where an underpinning of internal growth is assured, regardless of falls in exports to developed nations.

Australia continues to be the beneficiary of Asian growth, and whilst much of this is resource related and distorts the national benefits to the west and north, a resurgent agricultural sector is assisting to spread many of the benefits to the south eastern States.

We maintain our view that Australia remains well positioned to benefit from the Asian century, for much of the century. It is undeniable that world growth will continue to come from Asia and that Australia and Australians are uniquely placed to benefit from this growth, due to our phenomenal resource base (in absolute terms but, significantly, relative to our population), globally focused agriculture, geographic proximity, stable political and corporate governance, and educational standards.

Our view is that there is much opportunity and real reasons to be optimistic. Far too much attention is given by the media to the day to day gyrations of share prices, interest rates and exchange rates. Cash buffers are certainly required for daily and monthly cash flows. However, longer term positioning requires taking a view of global demand, and from which regions it will come, and positioning an Australian portfolio to benefit from that demand.

As always, we encourage and welcome our clients to contact us with any queries or concerns. By addressing the specifics of your portfolio we are able to put into context for you much of the noise which is generated by the mainstream media.

This is general information only. Specific personal advice should be sought prior to action being taken.

