General E-mail Alert

Stock to buy right now!

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This note is being sent to all clients.

Key Points

1. The Feds have cut interest rates and changed the rules
2. Sectors which will perform well over the next 18 months
3. Stocks which are good buying at the current price.

The Feds have cut interest rates and changed the rules.

As you would be well aware we have been forecasting a drop in the market now for the past 3 months. On the 16th of August this year we saw an inter-day fall in the ASX 200 to below 5500 which provided some great buying opportunities. Only problem was that it was very short, this left us with the impression that we would see the market retest the lows. To date this has not happened.

We also saw the Feds on the 18th of September cut interest rates by 0.5%; this sent a very strong signal to the US markets and the bulls came out to play, since then every market across the globe has jumped you around 3%. Our market is a mere 4% below its all time highs.

This could mean that the correction we were looking for may never come, a few negatives from the Feds cutting interest rates is that this will cause a fall in the US dollar which has happened and should also increase inflation in the US. These two factors may have the effect of a future correction in the US, which will flow through to the Australian market. For these reasons I am still very cautious and am only looking to buy a limited range of stocks as detailed below.

Although the Australian market is just below its all time high this has been on the back of very few stocks, mainly the resources stocks. This would indicate that as long as there is demand for our resources the Australian market will remain strong. It also means if we're looking for growth over the next 12 months we should be looking for stocks in the resources sector.

I have attached in appendix A, a recent email from Brian Larkins, one of our technical advisers, in his email you will clearly see that a number of stock have had a negative trading pattern over the past month while the Australia market continued to climb. This is further evidence that the strength in the Australian market is coming from the resources sector.

Sectors which will perform well over the next 18 months.

The main sectors which I will be looking to invest in right now can be split into three, Resources, Precise Metals and Infrastructure. I believe this is where the growth will be coming from; my reasons are as follows;

Resources – As the US dollar falls the cost of resources world wide will become cheaper and demand will increase. As expected we will continue to see the demand out of China and India. I also expect to see the price of a number of commodities increase including Coal and Zinc which will have a positive result on those stocks.

Precious metals – As the US dollar falls I expect to see more investors take their funds out of the market and start to invest heavily in gold. The best way to play this is to invest in gold producers. The main issue with investing in Gold is that the price is low when you compare it to the growth in the equities markets over the past 5 years. This situation will correct over the coming year as people move their money in safe havens such as gold.

Infrastructure – The Australian government has already come out and advised that they will be spending more money on infrastructure over the next 5 years. The major spends will be on roads, communication and water. To gain the benefits of this spend you will need to be in the sector. The good news is that these stocks also pay lovely big dividends which will also encourage those investors chasing a safe haven for their funds to invest.

Stocks which are good buying at the current prices.

In this section I will only briefly touch on each stock highlighting the key reasons for the Stock; for more information please contact myself.

In the resources sector the key picks continue to be BHP and RIO but I would like to see these stocks come back a little as they are currently very close to our target price. I would look to buy these on weakness. Other stocks which I feel are good buying now are:

Glouster Coal (GCL) - The current coal pricing environment appears positive. According to the latest Platts Coal report, there have been sales of hard cooking coal into India at US$150/t (current contract is US$115/t) and Japanese power utilities are now looking at thermal coal prices of US$65/t (current contract of US$52.50/t). We'll be revising our coal price forecasts in September for our quarterly commodity/currency update. Without pre-empting the outcome, we believe the momentum in the coal market is positive and should benefit GCL. We're expecting a 5% increase in the share price from current levels along with a 3% dividend. However, if coal prices keep heading up I would expect to see our price target be revalued up.

Paladin Resources (PDN) – This is my favourite pick in uranium. Although the company has had a few problems with production recently it is very well placed to take advantage of future demand on uranium. We have a price target 23% above the current price, do not expect much of a dividend on this one.

Zinifex (ZFX) – This is a good play on the Zinc price, our target price for this stock is 9% above the current price and although the expected dividend has fallen it's still at a respected level of 5% for the coming year. We have seen high stock piles of Zinc over the past 6 months but these are starting to reduce and demand is firming up again.

Gold – This is a harder play in the Australian market as the companies are more speculative and do not pay any income. For the more speculative play on the gold price you have Emperor Mines and Perseverance. These are for the higher risk investor. Other gold plays are Oceana Gold Corp and Lion Select. My pick is Lion Select, since dropping its pooled development fund status it has lost some of its appeal but still works much like a listed investment company, as it spreads its risk through a number of different companies both on and off the market. At present it's trading at $1.57 with NTA of $1.91, no dividend has been declared by the new company yet but previously it had a good history of paying dividends. I would look to buy this as a long term play on the gold market.

Infrastructure – There is going to be a lot of money spent in this sector over the next 5 years the best plays in this sector at present are as follows;

Cardno (CDD) – Cardno have over the past number of years positioned themselves as a major player in the provision of engineering services both within Australia and outside. They're also well positioned to provide services and advise on water infrastructure which will be a major focus for our government moving forward. Cardno is currently trading 7% below our price target with an expected dividend of 3.4%.

Macquarie Infrastructure Group – Mainly focused on toll road, this is a company which is also set to benefit from the increase spend on these types of assets. It is currently trading at a discount of 40% to our target price and is paying a lovely 6.4% yield. This is another good long term investment.

Babcock & Brown Power (BBP) – Invests in a portfolio of power stations consisting Of base load, intermediate and peaking power stations. BBP intends to develop a diversified portfolio of power station assets, both in Australia and internationally. BBP is managed by Babcock & Brown Power Limited and Babcock & Brown Power Services Limited. This company is situated to take advantage of the rising cost of electricity in Australia. We have a price target 20% above the current price with a dividend of 9.66%. This is a high yielding play in this market.

The Transurban Group (TCL) - Is involved in the development and management of electronic toll roads. The group is structured as a triple stapled security comprised of Transurban Holdings Limited, Transurban Holding Trust and Transurban Infrastructure Developments Limited. TCL's main assets are the Melbourne CityLink and Sydney Westlink M7 and Hills M2. In May 2007 TCL entered compulsory acquisition of the Sydney Roads Group. We have a price target which is 5% above the current price but it also pays a great dividend of 8%.

APA Group (APA) - Owns, or has an interest in, over 10,000km of gas transmission pipelines in Australia. APA has a significant presence in all mainland states & territories. APA transports close to 40% of Australia's natural gas consumption through a network of pipelines which comprise a mix of mature, established pipelines and more recent greenfields pipelines. APA also owns a Coal Seam Gas processing plant, a gas storage

facility and a high voltage direct current interconnection system, including two connector stations and a 180km underground transmission cable.

The price of this stock has fallen back to back on concerns of carbon trading and the pricing of recent acquisitions. We feel this has been over done and are looking for growth of 20% and income of 8%. I would look to buy this stock with the view of long term growth.

If you are interested in taking advantage of this opportunity please contact your advisor on 07 4771 4577.

This email is intended as private communication to my clients. It does not constitute advice to any person. The views expressed here are those of the author and do not necessarily reflect those of ABN AMRO Morgan's Limited. Advisors in this office may own shares in the companies named here.

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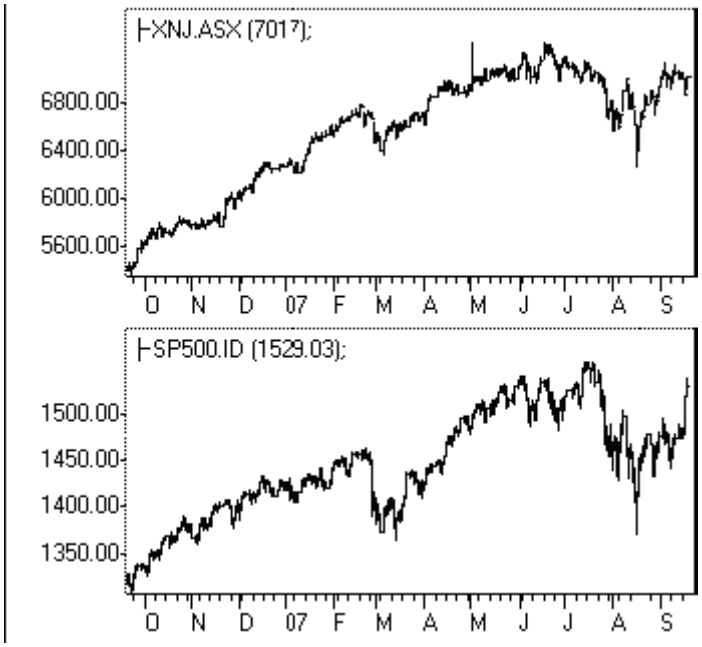
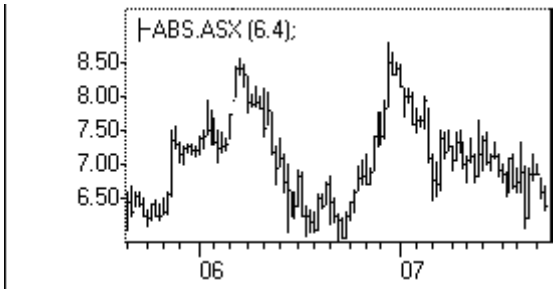
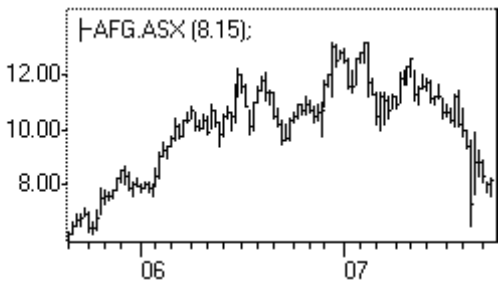
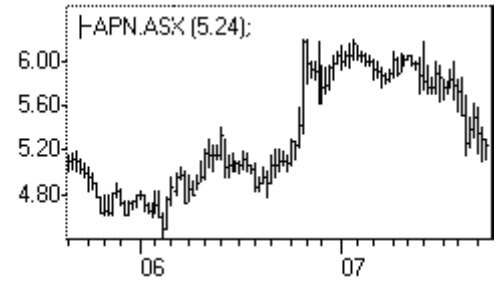
Appendix A

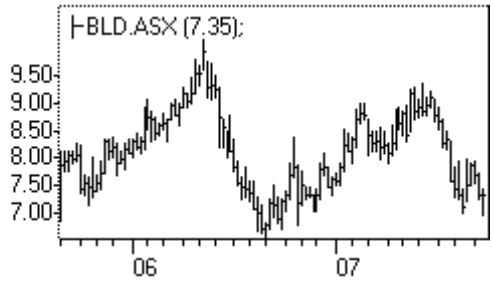
The ASX Industrials Index is just 3% shy of its all time high (first chart). In recent notes we have pointed out the lack of breadth in the Australian market. Today's chart set shows a selection of industrial stocks that are not enjoying the bounce in the market. These stocks are in 3 month trading downtrend and in many cases, major downtrend. No recommendation is implied for any individual stock. The chart set is not meant to be predictive of anything though many are very oversold. The purpose here is merely to illustrate that the current market rally is not an across the board event. Some of the stocks have good underlying technical supports and combined with being oversold, may lead to a trend reversal in coming weeks. Trend followers *follow* trends, they do not *predict* trends. That implies waiting for a stock to shift from the current downtrend to at least neutral with a bullish bias. As an aside, the SNP500 (second chart) is short term overbought and hitting likely resistance at the July highs.








APN.ASX (5.24);
6.00
5.60
5.20
4.80
06
07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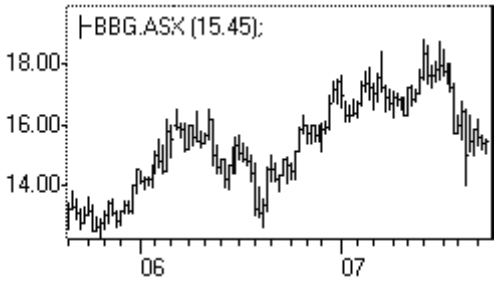
9.50
9.00
8.50
8.00
7.50
7.00
06
07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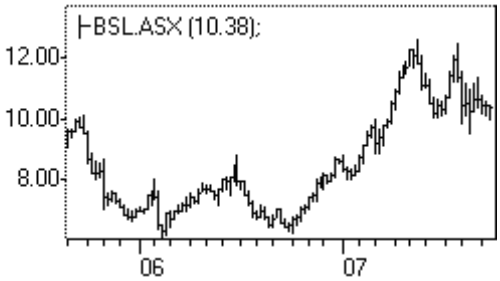
18.00
16.00
14.00
06
07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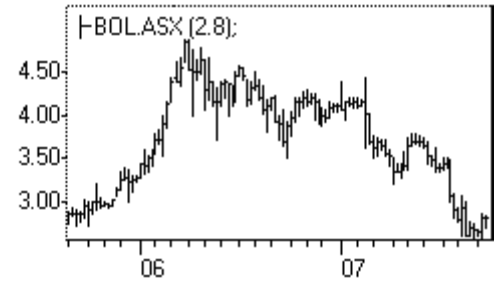
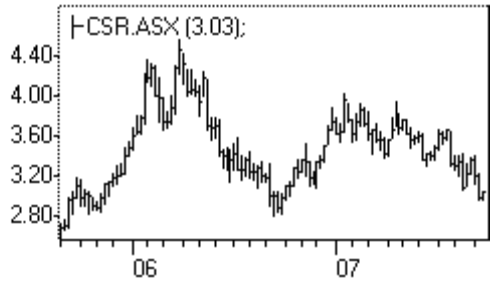
12.00
10.00
8.00
06
07


BOL.ASX (2.8);
4.50
4.00
3.50
3.00
06
07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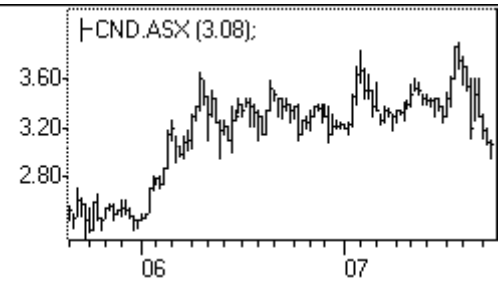
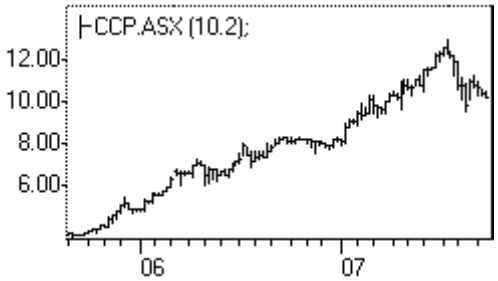
3.60
3.20
2.80
06
07


CND.ASX (3.08);
3.60
3.20
2.80
06
07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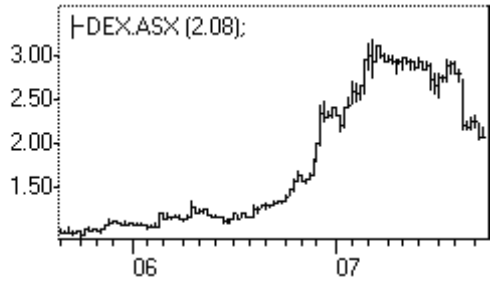
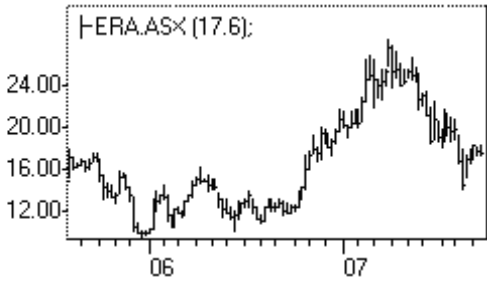
10.00
8.00
6.00
06
07


DEX.ASX (2.08);
3.00
2.50
2.00
1.50
06
07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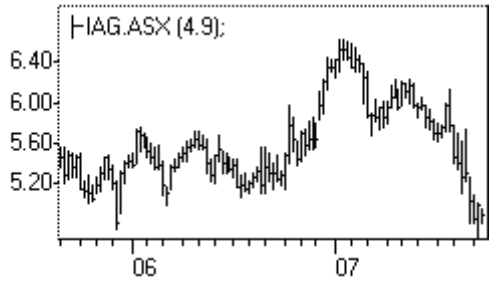
20.00
16.00
12.00
06
07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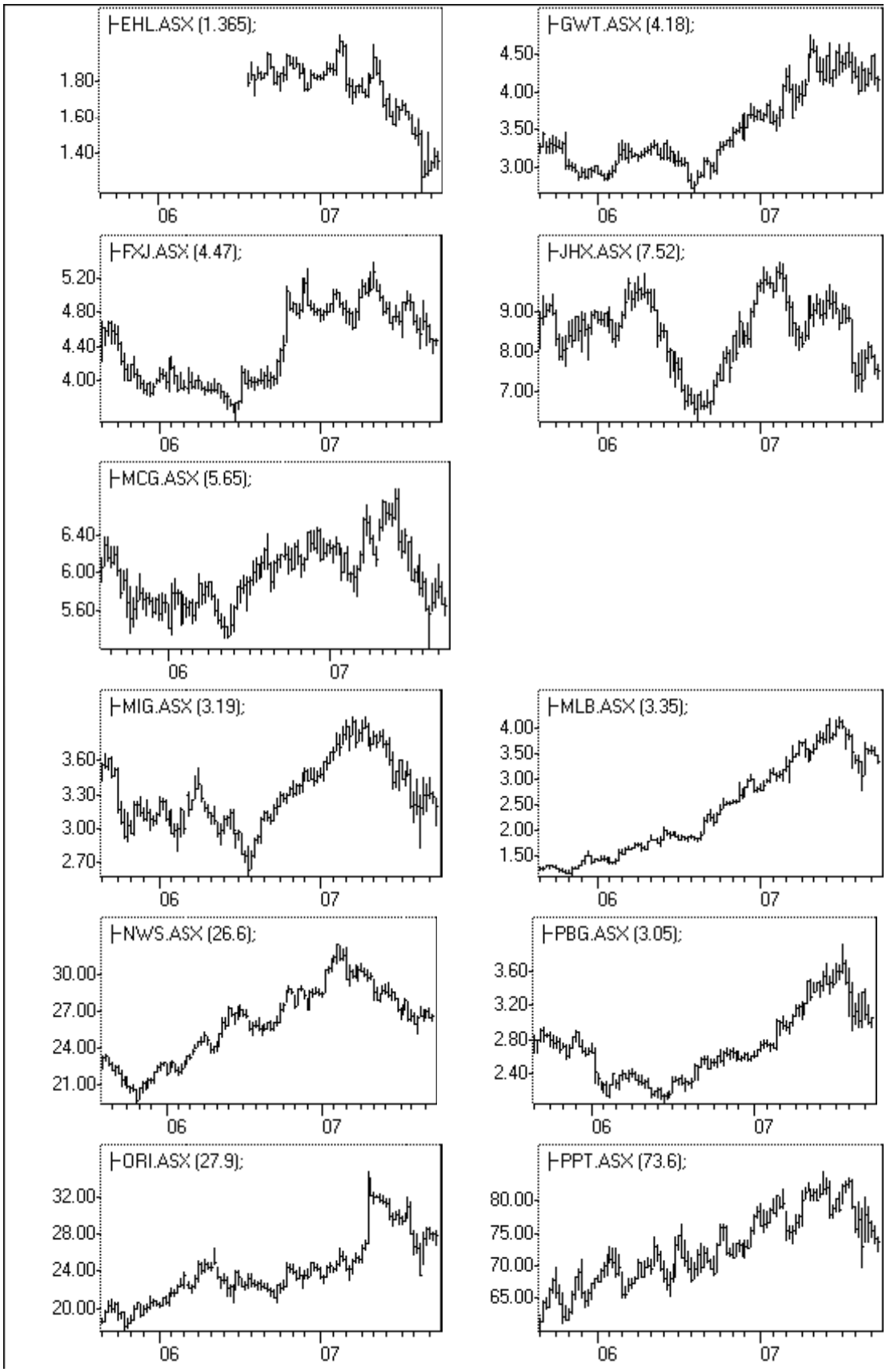
6.00
5.60
5.20
06
07


EHL.ASX (1.365);
1.80
1.60
1.40
06
07
GWT.ASX (4.18);
4.50
4.00
3.50
3.00
06
07
FXJ.ASX (4.47);
5.20
4.80
4.40
4.00
06
07
JHX.ASX (7.52);
9.00
8.00
7.00
06
07
MCG.ASX (5.65);
6.40
6.00
5.60
06
07
MIG.ASX (3.19);
3.60
3.30
3.00
2.70
06
07
MLB.ASX (3.35);
4.00
3.50
3.00
2.50
2.00
1.50
06
07
NWS.ASX (26.6);
30.00
27.00
24.00
21.00
06
07
PBG.ASX (3.05);
3.60
3.20
2.80
2.40
06
07
ORI.ASX (27.9);
32.00
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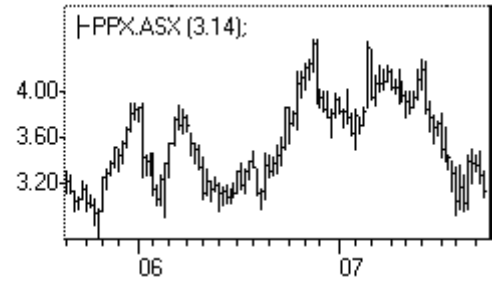
PPT.ASX (73.6);
80.00
75.00
70.00
65.00
06
07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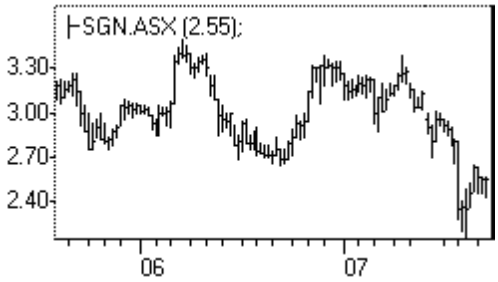
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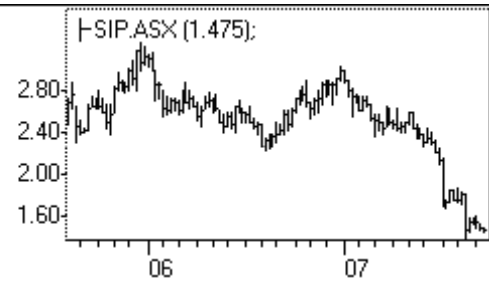
3.00
2.70
2.40
06
07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06
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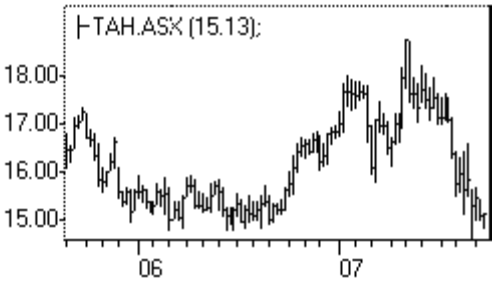
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06
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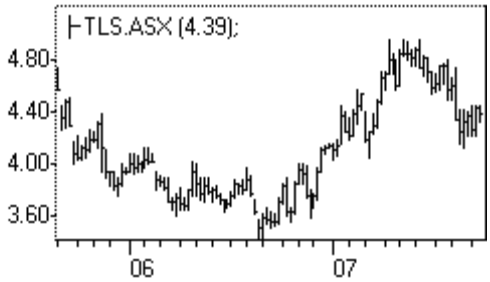
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06
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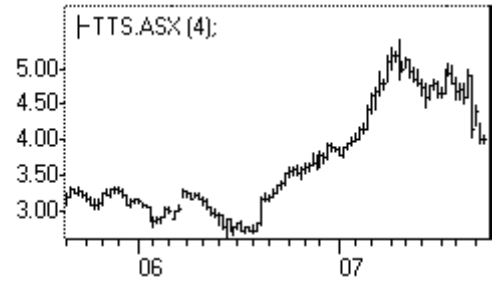
TTS.ASX (4);
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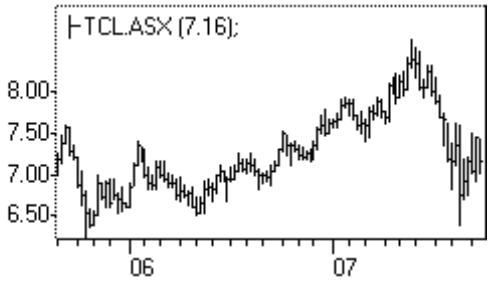
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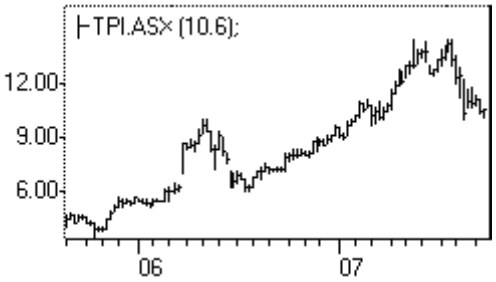
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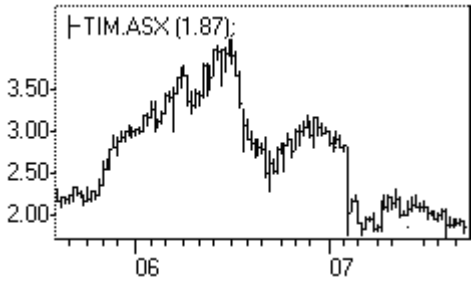
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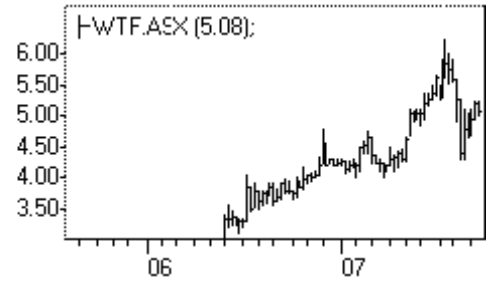
WTF.ASX (5.08);
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4.00
3.50
06
07

Disclosure: ccp

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