



Prescott Securities

Investor's Digest

Emissions Trading Scheme... the pressure is building

*By Mark Mackintosh
Adviser and
Representative*



The pollies have suffered sleepless nights over the controversial ETS. What about the rest of us?

It is always easy to get carried away with the hype and expectation which builds up in the press as politicians bicker away in Canberra. All the posturing and back-biting takes centre stage as the theatrics at the dispatch box and on the steps of Parliament dominate events.

But what are they all getting so excited about?

The Emissions Trading Scheme (ETS), the trigger for the demise of another Liberal leader, has become the pivotal issue for the current administration and the future growth and prosperity of our economy.

So, without debating the rights or wrongs of the scheme, or comparing it to the

alternative of a direct carbon tax scheme, what might be its impact and what could it mean to your hip pocket or your investment portfolio?

The ETS is a mechanism designed to place a limit on the right to emit greenhouse gases (GHG's) through the issue of permits. Ideally the number of permits will be related to Australia's proportional share of a global limit, agreed between all, or as many as possible, of the world's nations. Copenhagen is unlikely to come to a firm resolution.

Permits may either be issued directly to certain industries or sectors of the community (free permits) or sold through an auction. These permits can be traded, and the value will fluctuate, and over time the number of new permits being issued each year should reduce as global emissions targets are tightened.

Those countries or industries which are able to reduce their emissions more quickly or cost-effectively will have excess permits

continued on page 2



2
Is the recovery sustainable?

The recovery of the Australian economy has surprised many. Darryl Gobbett discusses how sustainable this upturn may be.



3
Preparing for take off in 2010

As the economy show signs of taking off again, now is the time to run through your personal checklist to ensure your position is optimised.

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**'The Ten Best Investment
Ideas for 2010'**

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Details on back page



to sell, generating additional revenue, perhaps offsetting costs they may have incurred in their abatement program.

Industries such as the power generation sector will incur higher costs, partly as a result of the cost of permits but also as they spend money on developing ways to limit their GHG emissions. These costs will be passed through to consumers as higher electricity and fuel prices. Electricity, for example, may rise by 12% by 2012 and gas by 7%.

How much power and fuel you use will determine how much your living costs are affected. Of course the plan is that we all do what we can to reduce our power and fuel usage, reducing the impact of the ETS on our budget.

Although agriculture has been excluded from the scheme, farmers' costs will be impacted by the rising price of energy and transport and this will flow through as higher food prices.

Compensation for lower income families will offset the expected increase in costs over the next 10 years and the stated outcome is for a limited impact on the cost of living. Government estimates show that the average extra cost to households would be about \$624 per annum by 2012.

From a business perspective commodity prices could rise by about 1%, so apart from the rise in energy and transport costs the overall impact should not be too drastic.

At this stage most companies are seeking some certainty about the final form of the scheme so they can plan for the future and adjust their projections to take account of costs or expected benefits, if any, flowing from the ETS.

From an investor perspective, continue to focus on well established businesses with good cash flow. Companies are likely to pass on most of the extra costs they incur in the form of higher prices so their underlying business may change very little.

If the Australian ETS is ever implemented, is it likely that it will have any positive impact on world carbon emissions?

Is the Recovery Sustainable?

By Darryl Gobbett
Adviser, Representative
and Chief Economist

Stronger, quicker - but sustainable? The recovery of the Australian economy has surprised many. Darryl Gobbett discusses how sustainable this upturn may turn out to be.

The lift in confidence in the Australian economy by consumers, business and investors has been stronger and quicker than expected. Retail spending, car sales and housing starts are all growing. Share prices are back to mid 2008 levels and interest rates and the Australian dollar are on the rise. Will this continue?

Across the world's major economies, estimates of growth for 2009 and forecasts for 2010 are being revised up. Most grew in the September quarter.

For Australia, the concern revolves around whether the Government stimulus packages, interest rates, rising population growth and strengthening demand from Asia could cause inflation problems in coming years.

The Reserve Bank and Federal Treasury are each now forecasting the Australian economy to grow around 2% in 2009/10 and 3% by 2010/11. This growth outlook is behind the Reserve Bank increasing interest rates to 3.75% on the way to more "normal" interest rate settings, which we read as 5.5% to 6% by early 2011.

For investors, the question to be asked is whether the global growth outlook is sustainable? The short answers are no and yes.

Growth in the major economies and higher share prices cannot be sustained just by the current drivers of massive Government deficits and very low interest rates. Public debt levels are rising sharply and this will, in time, result in some combination of higher interest rates, increased taxes and a resurgence of inflation. There is also a limit to how much the building of public works can be increased each year just to sustain economic growth.

Globally, private sector investment and consumer spending recovery is expected through 2010 and beyond. The flow on effects to profits, employment and household incomes will allow Governments to then pull back on their stimulus packages.

However, recovery in the USA, Europe and Japan is expected to remain slow well into 2011.

In Australia, our recovery relies on domestic demand and increasing growth in China specifically and Asia generally. In turn, that requires China and other parts of Asia to be able to continue to grow without relying on increased exports to the USA and Europe. At this stage, China and Asia look well on track to sustain growth.

In summary, investors and their advisers face a number of questions about the sustainability of economic growth and share prices. These surround the strong growth in Asia and Australia while the USA and Europe struggle out of recession. There is also uncertainty about how the engines of growth shift from the public sector and low interest rates to a recovery in private investment and household spending.

Time will tell but we believe these transitions will occur, if unevenly, and so the signs are good for Australian share prices to move higher through 2010.

Preparing for take off in 2010

By Pam Lipert
Adviser and Representative



As the economy shows signs of taking off again, now is the time to run through your personal checklist to ensure your position is optimised.

Although volatility in the markets will probably continue for a little while yet, the worst is definitely behind us and it is time to re-group. Some sectors of the market (namely Australian equities) have recovered somewhat, while others (property and infrastructure) are still well out of favour. It is time to check asset allocations and ensure your portfolio is well set up for the coming year.

If you are living off the income from your portfolio it will be wise to keep cash and fixed interest topped up so that you have plenty of available spending money. Since interest rates are on the rise, term deposits should be kept to relatively short terms of 3 or 6 months. At some stage in the future it will be wise to lock in longer terms.

Despite the halving of superannuation contribution caps, salary sacrificing to super is still a tax effective investment strategy. If you have been making large contributions in previous years, check that you will not exceed your contribution cap this financial year. The penalties are heavy if you exceed it. If you have turned 55, it will be worthwhile investigating a transition to retirement income stream and salary sacrificing to super. This will have the double economy of tax saved on your salary and no tax to pay when your super is turned into a pension.

While you are relaxing on your summer holidays, consider what needs to be addressed from this checklist:

- Is my total super contribution for this financial year going to be over my contribution limit?
- Am I able to start a tax effective Transition to Retirement Pension and sacrifice other employment income to superannuation?

- Can I make a non-concessional (after tax) contribution to super prior to my retirement?
- Can I take profit from investments that have grown and buy some that are undervalued?
- Is my asset allocation outside the recommended range?
- Do I need to top up cash and fixed interest because it has been depleted?
- Am I nearing retirement and need a clear documented plan to get me there?
- Do I need to review my Estate Planning documents?
- I am not sure about these matters in general.

If you have answered "yes" to any of these questions or are unsure of your answer, you need to make a time with an Adviser at Prescott Securities.



10 BEST INVESTMENT IDEAS FOR 2010 REGIONAL SEMINARS

ALICE SPRINGS

17th February 2010

6.00pm - 7.30pm

Crowne Plaza, Barrett Drive

Alice Springs

RSVP (08) 8274 9210 or

fchoudry@prescottsecurities.com.au

VICTOR HARBOR

16th February 2010

6.00pm - 7.30pm

Victor Harbor Convention Centre

RSVP (08) 8274 9210 or

fchoudry@prescottsecurities.com.au

MURRAY BRIDGE

22nd February 2010

6.00pm - 7.30pm

Murray Bridge Golf Club,

Ritter Street, Murray Bridge

RSVP (08) 8274 9210 or

fchoudry@prescottsecurities.com.au

MAJOR RETIREMENT SEMINAR

14th April 2010

2.00pm - 3.30pm & 7.30pm - 9.00pm

Hilton Adelaide

BUDGET SEMINAR

19th May 2010

2.00pm - 3.30pm & 7.30pm - 9.00pm

Adelaide Convention Centre

North Terrace, Adelaide

Mark Mackintosh leaves for a new career



It is with sadness that we bid farewell to one of our much loved advisers, Mark Mackintosh. After 15 years as a Financial Adviser Mark has chosen to return to university to study Environmental Policy and Management, a field of endeavour close to his heart, as you will note from his final article on the front cover.

Mark started in the finance sector with Accumulus Financial Planners in 1994. He had previously spent 10 years with Barclays Bank in London, and overseas, before migrating to Australia with his wife. However his background as a law graduate from Cambridge University enabled him to quickly adapt to a new industry. He worked closely with Rosemary Osman and John Wotherspoon to build the business into a highly respected boutique financial advisory firm.

Accumulus merged with Prescott Securities in 2002 and for the past few years Mark has been one of the Principals at Prescott Securities.

Mark's clients have found his attention to detail, care and concern a hallmark of his service and they too will be very sad to see him move on. We all wish Mark the very best for the future and we hope he finds great satisfaction in his new career.

FREE INVESTMENT SEMINARS

Prescott's 10 Best for 2010

The investment seminar for the year ahead

The Prescott Securities "10 Best Investment Ideas" seminar is THE seminar for those interested in serious insights into the investment climate for the year ahead. Book your seat today.

ADELAIDE

10th February 2010

2.00pm - 3.30pm & 7.30pm - 9.00pm

InterContinental Adelaide

North Terrace, Adelaide

RSVP (08) 8372 1300 or

seminar@prescottsecurities.com.au

MELBOURNE

11th February 2010 7.00pm - 8.30pm

Stamford Plaza Melbourne

111 Little Collins Street

Melbourne

RSVP (08) 8274 9280 or

mzerella@prescottsecurities.com.au

GOLD COAST

9th March 2010 5.30pm - 7.00pm

RACV Royal Pines Resort

Ross Street, Ashmore

RSVP (07) 5503 5600 or

jellingham@prescottsecurities.com.au

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