GARVAN
FINANCIAL PLANNING

INVESTMENT REVIEW &

Outlook

February 2007

Australian economy

The RBA left the cash rate on hold at 6.25% again this month on the back of softer than expected inflation figures. Although the headline CPI fell for the first time since March 1999, strengthening rental returns, a tight labour market, and the upcoming federal election will all keep pressure on inflation during 2007.

There are indications that last year's interest rate hikes are beginning to take effect, with housing approvals down again in December and retail growth softening, however business confidence is up and jobs growth is strong.

Australian shares

The Australian share market had another strong month with the All Ords returning 2.0% over January on the back of continuing Merger and Acquisition (M&A) activity. The M&A activity that was a hallmark of 2006 appears likely to continue into 2007.

Global economy

IMF forecasts have global economic growth figures slowing down in 2007 to 4.5%, chiefly because of a housing-led slowdown in the US economy. Nevertheless, global growth remains strong compared to historical averages and is more widespread than in the past with the large economies of Japan, Germany and China all participating. The BRIC economies (Brazil, Russia, India and China) are also coming under the spotlight, and shows that the world economy is now less susceptible to the influences of the US economy.

International shares

The global equity bull-run lost some steam in the month of January, however most major markets managed to reach a record high in the last week of January.

Economists have a favourable view on global economic growth, industrial production and inflation in 2007. The year looks favourable with Japan and Europe appearing to be gaining economic momentum, underpinned by growth in China. Yet many believe that it will be difficult to repeat the market performance of 2006 in the current uncertain environment.

Other major asset classes

The yield on ten-year Commonwealth bonds rose steadily from 8 January, to increase by 6bps over January to end at 5.94%. The rise was mainly influenced by international factors with US bond yields trending higher over January. US ten-year bond yields lifted by 10bps over January as US economic data over late December and January were above expectations.

The Australian dollar (AUD) lost ground against most of the major currencies in January. The greatest losses were against the Euro and the US dollar, with losses of 1.8% and 1.5% respectively. The January high was reached on the 3rd at US$0.7981, which was also the highest level of the AUD since 10 March 2005.

January market performance

Equity Markets – Price Indices	Index	At Close 31/01/2007	% Change 1 Month	% Change 12 Months
Australia	All Ordinaries	5757.69	2.0%	18.0%
Japan	Nikkei	17383.42	0.9%	4.4%
Hong Kong	Hang Seng	20106.42	0.7%	27.6%
UK	FTSE 100	6203.10	-0.3%	7.7%
Germany	DAX	6789.11	2.9%	19.6%
US	Dow Jones	12621.69	1.3%	16.2%
EMU*	Euro 100	3146.87	1.7%	11.1%
World**	MSCI – Ex Aus	1122.51	1.7%	11.9%
Property – Price Index	Index	At Close 31/01/2007	% Change 1 Month	% Change 12 Months
Listed Trusts	ASX LPT	2488.70	2.4%	30.4%
Interest Rates		At Close 31/01/2007	Point Change 1 Month	Point Change 12 Months
Aust 90 day Bank Bills		6.39	-0.05	0.76
Australian 10 year Bonds		5.94	0.07	0.59
US 90 day T Bill		5.11	0.09	0.64
US 10 year Bonds		4.81	0.11	0.29
Currency		At Close 31/01/2007	1 Month % Change	12 Months % Change
US dollar	A$/US$	0.7769	-1.5%	2.5%
British pound	A$/STG	0.3953	-1.7%	-7.2%
Euro***	A$/euro	0.5961	-0.2%	-4.4%
Japanese yen	A$/yen	93.74	-0.1%	5.5%
Trade-weighted Index		63.80	-1.7%	0.6%

Source: Iress Market Technology

Past performance is not a reliable indicator of future performance.

* Top 100 European stocks trading on the FTSE

** Source: www.msci.com

*** The euro was launched by European Monetary Union members on 1/1/99