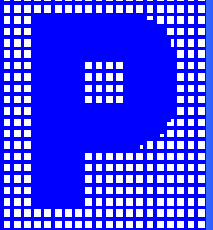


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- Upcoming seminars in October 2008

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The banner features a globe and a line graph with an upward-pointing arrow on the left side.



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19 September 2008

Macro Outlook

Equities review

Equities are once again in the red and it experienced its largest decline this month since 911. Stocks were sent lower as a series of heart wrenching events hit and shaken investors' confidence – Lehman filed for Chapter 11, Merrill Lynch bought over by Bank of America and Federal Reserve has to lend \$85 billion to AIG, the largest insurer.

From the beginning of the month till the 18th, we saw the Dow Jones Industrial Average shed as much as 7.8 percent (907 points) during the month before recovering to fall by only 4.5 percent (523 points). The S&P 500 Index declined by 5.9 percent (76points). Regional bourses largely followed suit. STI fell 11.3 percent (310 points) while Hang Seng dipped 17.1 percent (3629 points). On the other hand, the Nikkei 225 dropped 12.1 percent (1583 points). (Kindly refer to table 1 for performance of other indexes). Many of the indexes have either broken their psychological support level or are currently testing it.

Compared to its high, the Dow has already declined by 25 percent and S&P by 26 percent. Meanwhile, Asian bourses such as STI have come off 37 percent and Hang Seng by 44 percent. (Please refer to table 2 for other indexes).

If historical data is of any guide, it has been observed that indexes largely fall by 50 percent from its peak during economic crisis before recovering. Despite so, one should not be in despair as bear markets tends to be shorter than the bull ones and the bull market usually comes back stronger.

Commodities review

Commodities are historically more resilient to economic downturns than equities. As shown in figure 1 (MSCI World and CRB Index), commodities do not go through the same kind of momentum swings that we see in equities. However, we see that this asset class is moving in tandem with equities recently.

Table 1: Performance of major indexes for the month

Index	% change	Closing
Dow Jones	(4.5)	11019.69
S&P 500	(5.9)	1206.51
FTSE 100	(13.4)	4880.00
FTSE Euro First 300	(11.0)	1063.62
Nikkei 225	(12.1)	11489.30
Hang Seng	(17.1)	17632.46
STI	(11.3)	2429.58
Sensex	(8.6)	13315.6
Shanghai Composite	(20.9)	1895.837

Correct as of 18th Sep 2008
 Source: Bloomberg, Phillip Securities Pte Ltd

Table 2: Percentage Decline from the peak

Index	% change	Change
Dow Jones	(22.2)	(3144.84)
S&P 500	(22.9)	(358.64)
Hang Seng	(44.3)	(14005.8)
STI	(36.6)	(1401.61)
Sensex	(36.2)	(7557.73)
Shanghai Composite	(68.9)	(4196.22)

Correct as of 18th Sep 2008
 Source: Bloomberg, Phillip Securities Pte Ltd

Commodities have had a strong run earlier this year and after reaching a peak sometime in early July, it has since been declining. Till date, the CRB index has dropped by approximately 35 percent from the high. As of 18th Sep, the index is at 351.02 points.

From a high of US\$1000, gold has fallen by 13 percent (US\$137). The decline was initially more significant. However, with the investment banks Lehman Brothers and Merrill running into problems, we saw investors flocking from equities to safe haven assets like gold and this helped pushed gold prices higher.

Another highly tracked commodity oil, has also fallen from its high. It has dipped by 33 percent (or US\$48). Although supply remains tight, with many countries running the risk of entering into recession, we expect demand to come off by a greater amount and this should help crude prices to ease further.

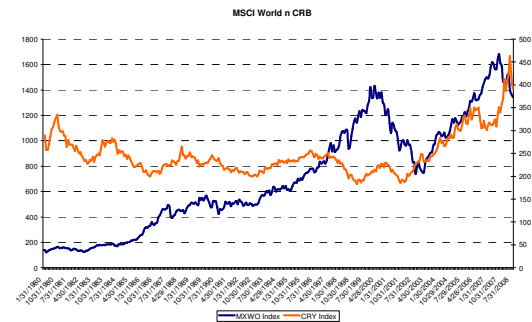
On the other hand, other popular commodities like corn, soybean and wheat are still on the decline. Details are shown in table 3.

The best performing commodity contract between till 18th Sep is Soybean. It gained 5.91 percent. On the other hand, the worst performing contract for the same period is orange juice. It fell by 19.48 percent.

Fixed Income review

US Bond Yields have fallen in the past month on weak performance from the equity and commodity market. The flight to quality theme was apparent when the US 2 Year and US 10 Year Yield posted a net drop in yields for the past month. This happened even though the Fed kept interest rates at 2.00%, as the market probably anticipated further rate cuts from the Fed in future given the stress in the credit markets from the failure of financial institutions. Indeed, the Fed fund futures have indicated a rate cut for the next FOMC meeting in October. In Germany, the average 9 to 10 year bond yields have also fallen on anticipation that the European Central Bank would reduce interest rates soon.

Figure 1: MSCI World and CRB Index



Source: Bloomberg, Phillip Securities Pte Ltd

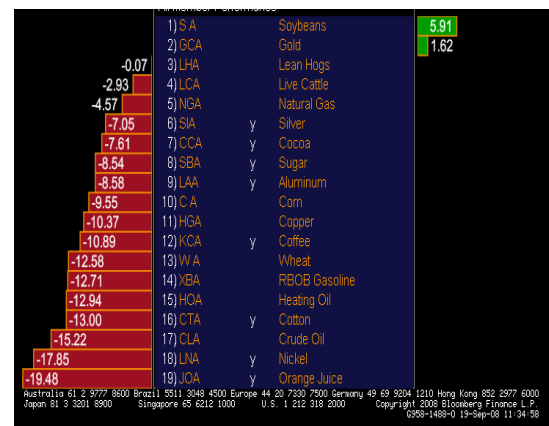
Table 3: Percentage Decline from the peak

Index	% change	Change US\$
Gold	(13.7)	(137.46)
Crude	(33.37)	(48.48)
Soybean	(30.70)	(500.75)
Corn	(30.04)	(236.75)
Wheat	(42.35)	(532.50)

Correct as of 18th Sep 2008

Source: Bloomberg, Phillip Securities Pte Ltd

Figure 2: Best and Worst Performing Commodity Contracts



Source: Bloomberg. Correct as of 18th Sep 2008.

Macro Outlook

Our Macro view largely stems from the United States as we assume that the US models the world economy. As such, let's review what has happened to the States in the month of September.

A series of heart wrenching events pervaded the financial industry. Firstly, Lehman Brothers, with 158-years of history, announced on 15th Sep that it is filing for Chapter 11 bankruptcy after failed attempts to seek for buyers. Refusal by the Federal Reserve to provide sweeteners to ease the takeover deal caused many potential buyers to walk away. The latest development is that Barclay PLC, the third largest British bank has agreed to pay US\$1.75 billion for some of the bank's prime US assets. **Secondly**, Merrill Lynch was sold to the Bank of America for \$50 billion in an all-stock deal. **Thirdly**, Federal Reserve gave a two-year, \$85 billion loan to AIG in exchange for a nearly 80 percent stake in the company, which lost billions in the risky business of insuring against bond defaults. Authorities and major central banks came together to provide liquidity to each other. However, relief only arrived when there was news that the federal government might create an entity to absorb banks' bad debt. Treasury Secretary Henry Paulson is considering the formation of a vehicle like the Resolution Trust Corp. that was set up during the savings and loan crisis of the late 1980s and early 1990s. Although such polices will help to prevent a complete financial meltdown, it will inevitably prolong the problem.

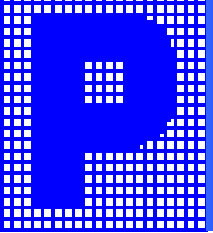
The **Fed** kept rates on hold at 2 percent. The Fed, acknowledging strains upon the financial markets, reminded investors that it has taken steps to inject more cash into the banking system. They have mentioned that those moves and earlier rate cuts should foster moderate economic growth over time.

Economic data is still pointing towards a weak economy. Firstly, **unemployment rate** in the States reached a new high. The unemployment rate for Aug was 6.1%. With the fallout of major financial institutions, unemployment rate will inevitably trend higher. Secondly, **retail sales** continue to decline. On a month-on-month (m-o-m) basis, it dipped by 0.49 percent in July. This is the first decline since Feb this year and it suggests that the boost from the tax stimulus injected by the government earlier this year has faded. The latest data showed that Aug retail sales fell by 0.27 percent from July. Although it is an improvement from the previous month, it shows that consumption power is still weak.

Table 4: Retail Sales

Month	Retail Sales	m-o-m
Jan	380.019	(0.56)
Feb	378.106	(0.50)
Mar	380.02	0.51
Apr	380.788	0.20
May	383.769	0.78
June	384.069	0.08
July	382.19	(0.49)
Aug	381.169	(0.27)

Source: Bloomberg, Phillip Securities Pte Ltd



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We largely believe that economic conditions and outlook in the States remain weak. Downside risks remain. As such, we feel that it is still too early to sound the all clear for equities.

Existing Model Portfolio

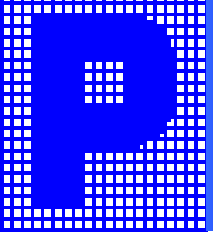
The funds in the model portfolio are DWS India Equity fund, the Lion Global Healthcare Fund, DWS Currency Fund, DBS Enhanced Income Fund and the Legg Mason Global Bond Trust.

	Performance in % (as of 18 Spetember)*					
	Agg Cash	Agg CPF	Bal Cash	Bal CPF	Con Cash	Con CPF
1 week	-3.45	-6.72	-2.44	-4.49	-1.28	-2.04
1 month	-7.05	-10.52	-4.86	-7.05	-2.25	-3.14
3 month	-13.97	-17.08	-9.16	-11.22	-3.19	-4.17
YTD (From 31 Dec 07)	-20.49	-26.08	-14.13	-20.28	-6.42	-9.02

*Agg is abbreviation for Aggressive, Bal for Balanced and Con for Conservative

The model portfolio has been in the red on turmoil in the financial markets. The performance has been disappointing as volatility in the equity markets make the direction of equities hard to predict.

Even conservative funds like the DBS Enhanced Income Fund have suffered a great deal in performance. The Fund apparently holds a portion of Lehman Brother’s debt and as a result of the default by Lehman, caused a drop in its bond prices. We are looking to liquidate the fund from the model portfolio in the near future. The Legg Mason Global Bond Trust was the only fund that did not end the month in the red.



India Update

The month of September was basically a month of positive news for India. Firstly, declining commodity prices have helped ease inflation in India and across Asia. Indeed, India's wholesale price index has slowed for the third consecutive month to 12.1 percent for the week ending 30 Aug. Although prices have come off their high, it remains at 16-year high and it's currently still above the central bank's comfort zone. They have targeted wholesale prices to rise at a 5 percent pace in June. However, the current level is more than twice the targeted rate. Hence, this suggests that there remains a possibility of further rate hikes in future. In the event that interest rate is increased further, growth of the country will inevitably be affected.

Secondly, exports have accelerated to the fastest pace in three months. It rose to 31.2 percent from a year ago, after gaining 23.5 percent in June. The rise was largely attributed to the fact that companies are exporting to new destinations so as to react to slowing demand from big markets such the United States. Indeed, shipments to Asian countries increased to 42.3 percent, relative to 39.5 percent. On the other hand, total exports to the states declined to 13 percent from 15 percent.

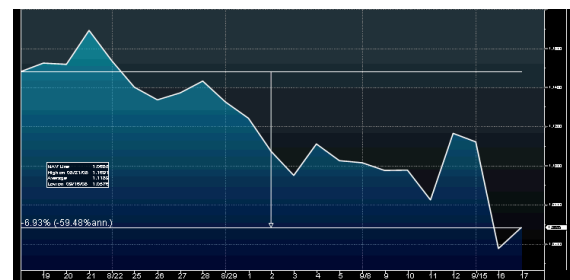
Thirdly, industrial output continues to perform better-than-expected for the month of July. Factory output grew 7.1 percent in July. Manufacturing gained 7.5 percent from 6.1 percent in June. Production in capital goods and electricity doubled previous month's growth to 21.9 percent and 4.5 percent respectively. Despite so, one should not be overly excited as higher interest rates and slowing demand could eventually cause production to trend lower.

Despite the string of upbeat economic data, we remain cautious for the short run as poor economic conditions around the world will continue to have a toll on the India economy.

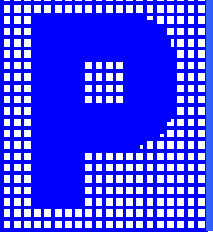
Currency Update

The DWS currency fund has lost about 6.93% for the past month. This is because the fund continues to be short on the US Dollar and is the biggest position on the fund as of August 08 - the US dollar posted a net gain in the past month, causing the fund to suffer in performance. The biggest long position on the fund continues to be the Singapore dollar.

Figure 3: DWS Currency Fund Performance



Source: Bloomberg, Phillip Securities Pte Ltd



Healthcare Update

Similar to equities, the healthcare sector too was beaten down for the first half of the month. However, the consolation is that the decline in the MSCI world healthcare index was not as large as the dip in the MSCI world index. The former dropped by 2 percent while the latter fell by almost 4 percent for the first two weeks of the month. This shows that investing into a defensive sector can help mitigate losses within one's portfolio. At a time where the economic environment is still very much clouded by negative news, a defensive asset allocation is much warranted.

Special Focus

As mentioned earlier in the report, we feel that it's still early to call for an all clear for equities as the downside risk remains. However, we would like to suggest switching/investing into defensive sectors at a time where equities are still volatile.

Defensive sectors are sectors with stable performance in downturns and upturns. Examples are the consumer staples as well as the utilities sector. The consumer staples sector consists of firms that manufacture and sell food/beverages, prescription drugs and household products. On the other hand, the utilities sector contains companies that produce electric, gas and water. These firms produce basic necessities which are needed even when times are bad. Hence, although they do not climb as fast as cyclical stocks in a rising market, they provide balance in a portfolio and protection in a falling market.

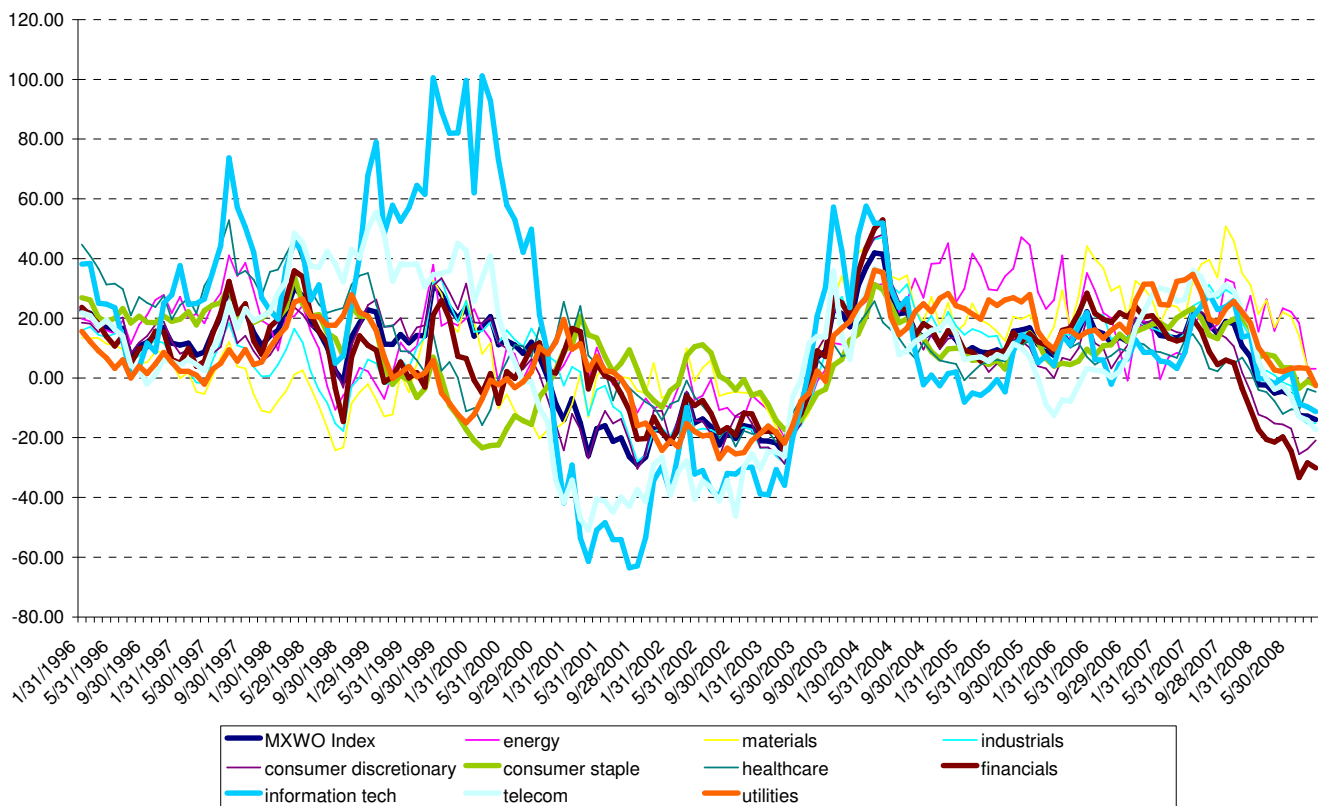
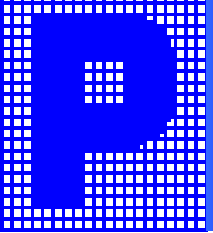


Figure 1: Performance of various sectors (yoy)

Source: Bloomberg, Phillip Securities Pte Ltd

Figure 1 depicts the performance of the world index as well as various sectors in the economy. The green and orange line represents the performance of the consumer staple and utilities sector respectively. As shown, these two sectors are relatively stable as they do not experience large swings in comparison to its peers.

As such, this is an area which investors can look into if they are considering the idea of rebalancing their portfolio.



New funds available on POEMS

- Legg Mason Value Fund SGD Class A Acc
- Legg Mason Value Fund USD Class A Acc
- Henderson Horizon Fund - Global Financials Fund EUR/SGD
- ABN Amro Energy Fund (SGD & EUR)
- Man Essential Ltd AUD (Hedge Fund)

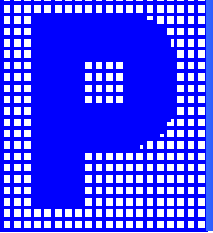
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Invest in LionGlobal AsPac Recovery Fund
Receive a \$10 shopping voucher for every \$10K invested

Terms & Conditions:

- Free shopping voucher promotion is valid for placement of trade from **1 Sept 2008 – 31 Oct 2008 for Cash trade.**
- Only applicable to above selected LionGlobal funds.
- This free voucher promotion does not apply to switch trade or RSP transaction
- Investors must invest a min. of 10K in the above mentioned funds to qualify for the vouchers.
- Qualifiers will receive the vouchers and gift around 6 – 8 weeks from the close of the fund promotion.

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Q4 2008, Market outlook review

We have come to the last quarter of the 2008, it has been a volatile ride for investors for this year. What can we expect to see in the upcoming quarter?

Stays focused on your investment portfolio, and make a date with our unit trust analysts. Hear from our experts whom will share with you market insights and review on the various investment sectors, including China, India, commodities, fixed income and others.

If you are new to unit trust investment, join us in our Introduction to Unit Trust seminars. We will explain what unit trust investment is, and guide you through our online trading platform, POEMS, to show you how you could purchase your funds in a hassle-free way.

Details of the seminars are as follow:

Date	Time	Venue	Topic
10 Oct	1230pm – 130pm	Raffles City Tower	Q4 2008, Market Outlook review, with analysts
22 Oct	1230pm – 130pm	Raffles City Tower	Introduction to Unit Trust Investments
24 Oct	1230pm – 130pm	Raffles City Tower	Q4 2008, Market Outlook review, with analysts

To register, kindly email you particulars to utseminars@phillip.com.sg.

The seats will be automatically confirmed, unless otherwise mentioned

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