Media Release

Embargoed until 5 May 2009

After the carnage: Australian company financial health still in a critical, but now stable condition

Lincoln proprietary research urges further caution to investors amid encouraging signs of financial health stability

Expert sharemarket research firm and fund manager Lincoln Indicators today encouraged equity investors to continue exercising caution to balance market risk and when assessing buying opportunities to seek exposure in quality businesses.

Lincoln today released its semi-annual *Health of the Market* (HOTM) Report showing a stabilising of the overall health of the Australian sharemarket in the six months to December 2008. Lincoln has been monitoring the health of Australian listed companies for over 20 years with semi-annual reports published for the last five years.

Against a prevailing backdrop of world recession resulting from the global financial crisis (GFC), the overall health of Australia's listed companies has remained steady with some 62 per cent of companies assessed to have 'Marginal' or 'Distressed' financial health.

"Our proprietary health score assessment for the overall health of the Australian sharemarket has remained stable over the past six month period since November 2008," said Lincoln's Chief Executive Officer Elio D'Amato.

Mr D'Amato said today's figures reveal two sides to the financial crisis coin. "On one side is risk: well over half of ASX-listed companies are experiencing the ongoing effects of the GFC. On the other is opportunity in that we see relatively good news with a halt in the deterioration of the financial health score. This means enormous potential for savvy investors to buy stocks at unprecedented prices."

Lincoln's unique sector-by-sector analysis reveals:

- The pace of decline in the overall 'health of the market' has slowed in the six months leading up to December 2008, but remains at historically high levels.
- The Australian Financials, Consumer Discretionary and Telecommunication Services sectors are among the healthiest, while Energy, and Health Care are least healthy.
- Despite the deterioration in the overall market's financial health, the fact some firms continue to do well means that the recent sharemarket correction is an 'opportunity of a lifetime' for investors to increase their exposure to quality businesses.

"The good news is that the pace of consecutive deteriorations in the financial health of companies has halted. However the market continues to represent a significant risk to investors who invest blindly into companies with questionable fundamentals," Mr D'Amato said.

"Investors must focus on those companies with quality fundamentals, and be positioned to take advantage of the current opportunities for long-term share investors."

Five lessons for savvy investors

Lincoln's *Health of the Market* Report reveals five investment lessons:

1. **The majority of companies are exposed to unacceptable levels of financial risk, with 25% in an acceptable position. This continues to represent a significant risk for investors who invest blindly into companies which have questionable fundamentals.**
2. **Rather than be scared by the overall health of the market, investors should be excited as now is an opportune time to re-assess their portfolio and look to position it for future long-term growth.**
3. **Companies that are financially healthy (Lincoln's Golden Rule 1), profitable, with good operating cash flows, a sound balance sheet and that are growing in this environment should form the cornerstone of an investor's portfolio.**
4. **Look for companies that have re-capitalised to better equip themselves to ride out the current crisis.**
5. **History shows that a bear market has often proven to be a good long-term investment opportunity.**

"Volatile sharemarkets, falling interest rates and two stimulus packages were major news items during the six months to 31 December 2008. And despite the world entering what most commentators expect to be the worst global recession in 70 years, a number of quality companies performed very well from a financial health perspective," Mr D'Amato said.

"These include Telstra Corporation Limited (TLS), CSL Limited (CSL), Westpac Banking Corporation (WBC), Woolworths Limited (WOW), JB Hi Fi Limited (JBH), BHP Billiton Limited (BHP), Energy Resources of Australia Limited (ERA) among many others."

"This goes to show that quality can be found in most sectors of the economy even during volatile times and we advocate exposure to quality businesses in all market conditions."

For a copy of Lincoln's *Health of the Market Report May 2009* please visit the media section of Lincoln's website at www.lincolnindicators.com.au.

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Notes to Editors

Appendix - Definition of ratings

The Lincoln methodology is based on accounting ratios and characterises the financial standing of a company using a single figure on a scale of risk from 0.01 to 1, with the company's level of risk increasing as the measure moves up the scale towards 1.

Strong (0.01 – 0.10) and Satisfactory (0.11 – 0.30)

- These companies have a financial standing that is interpreted as having sufficient cashflow and balance sheets robust enough to finance growth, or withstand significant business shocks or prolonged economic downturns.

Early Warning (0.31 – 0.50)

- These companies are neither satisfactory nor particularly unhealthy. Companies with this rating will need to address certain issues in regards to its business operations in order to achieve a healthy financial position.

Marginal (0.51 – 0.80)

- These companies have unsatisfactory risk above desired levels and it is preferable that management focus on getting the company in better shape. May have difficulties funding future growth or withstanding significant shocks or prolonged economic downturns.

Distress (0.81 – 1.00)

- These companies exhibit similar financial characteristics of failing companies. It would be difficult to recover should there be any negative developments. Recovery will generally be slow.

About Lincoln's Nine Golden Rules and Stock Doctor 'Star Stock' criteria

Lincoln's Nine Golden Rules gives investors a framework with which to select stocks which are strong and undervalued. Not surprisingly, identifying a company's fundamental financial health and strength is Golden Rule 1. This involves a thorough review of the company's financial statements. Once a company passes this test, there are eight more tests before the company should be considered as worthy of investment. For a company to be rated a Stock Doctor 'Star Stock' using Lincoln's methodology, the company needs to meet Lincoln's Golden Rules Numbers 1, 2 and 6.

An assessment of a company's management team is Rule 2 and, according to Lincoln, this is measured by the company's Return on Assets (ROA), Return on Equity (ROE) and/or Earnings Per Share Growth (ESPG), depending on the sector in which the company operates.

Share price value is Rule 3 which prevents buying into an overvalued company. For Star Stocks, a stock is considered undervalued if the share price is less than the Lincoln Valuation. For non Star Stocks, investors should look for a Price Earnings (PE) ratio of < Industry Average or a Price Earning Graph (PEG) of < 1.

Rule 4 is liquidity/volume and Lincoln recommends that the dollar value traded daily should be at least five times your investment exposure, ensuring a quick exit. Rule 5 is share price trend. Lincoln advises never trying to catch a falling dagger. As a guide, firstly look at the five-year share price trend, then a one-year view. Both should be positive with little volatility. Rule 6 is market capitalisation and separates smaller companies from larger ones, with the A$100 million market capitalisation being the divider. If a company has less than A$100 million market capitalisation, it is seen to be a small company and can be volatile and is therefore omitted from the desirable company list.

Rule 7 is a qualitative one for investors. Be comfortable with the company's activities. Rule 8 advises being constantly abreast of company news and announcements.

Lastly, rule 9 is to simply follow these rules! Many people still have the misguided idea of loyalty and, when it comes to investments, there is no room for emotion. Incredibly, less than 5% of companies listed on the Australian Securities Exchange meet all of Lincoln's Golden Rules.

About Lincoln

Lincoln is Australia's leading fundamental analysis research house and fund manager offering intelligent sharemarket solutions for the conscientious investor. Founded in 1984 by Melbourne University academic and Australian Olympian Dr Merv Lincoln, the company's specialist knowledge is based on Dr Lincoln's PhD thesis which analysed and derived models to assess the financial health of businesses. The resulting Lincoln methodology combines company health assessment, key accounting ratios and other quantitative and qualitative measures to identify well-managed companies with strong growth prospects. Stock Doctor®, the software-based incarnation of Dr Lincoln's approach, was introduced to Australian investors in 1996 and has proven itself over more than decade of sharemarket conditions.

In 2003 Lincoln established its Managed Investments business to allow investors to experience the company's distinct investment methodology through a professionally managed portfolio. In 2007 the Lincoln Australian Share Fund was opened to retail investors, with the Fund offering two classes of units: wholesale and retail. The launch of the Lincoln Retail Australian Share Fund has since broadened the reach of Lincoln's methodology even further. Today, the Fund has grown organically to around A$98 million in funds under management as at 31 March 2009.

Important Information

Lincoln Indicators Pty Ltd ACN 006 715 573 (Lincoln) AFSL 237740.
This information is current as at 5 May 2009.

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