New York Securities Pty Ltd

Monthly Newsletter – February 2013

FEDERAL ELECTION DATE SET

In a speech at the National Press Club, Julia Gillard announced the Federal Election is to be held on the 14th September. The announcement followed a fitting strategic speech on her 2013 priorities; shifting focus to families, child education and addressing the impact of the high Australian dollar on lagging sectors, three areas of which she has failed to deliver on since rolling Kevin Rudd and all of which should have been addressed a long time ago. In the longest campaign Australian Politics has ever seen, the next eight months will give the ALP the opportunity to redeem themselves in the polls.

SMALL CAP MARKET OBSERVATION

We are seeing a number of small capped companies improve in value and volume traded, in particular oil and gold juniors, however any increase in price is being met by those who have been stuck in the non-performers for a good period of time, so they are using the opportunity to exit. Whilst the increase in volatility is welcomed by traders, don't get caught selling out too early if the company's prospects are good. Patience in the small cap market is still required.

EXTRACTING CASH FROM BLUE CHIP SHARES

The market is giving participants a great opportunity to utilize the 'covered call 'strategy to extract premium (cash) from blue chip shares to boost yield in addition to dividends paid to date. As the market continues to favour yield stocks, namely the Financials, Telstra, Wesfarmers and Woolworths amongst others we have seen their prices outperform the broader market to a degree which we believe are unsustainable in the short term. We agree yield stocks will still remain a key component of participant's portfolios; however prices are becoming too expensive and gains are being made on falling volumes. This is an indication we could be in for a period of weakness as buyers subside. If you agree with our view you could consider taking some profits at current levels or writing covered calls to extract premium (cash) in the event weakness prevails. We have on a number of occasions provided educational documents on how to implement this strategy and the risks and rewards in doing so. If you would like further information and/or the documents required to proceed with the strategy please call the office.

The strong rally does serve to remind us the market can throw opportunities our way when we least expect it, so we must be ready to act when and if required and remain dynamic in our approach to ensure returns in portfolios can be maximized.

THE CURRENCY WAR CONTINUES....

The currency war continues to linger behind the scenes via the ongoing stimulus programs from Japan, Europe and the US with Japan stepping up its approach to devalue its currency. Since mid November when new Prime Minister Shinzo Abe vowed an all out assault to combat two decades of deflation, the Japanese Yen has devalued against the US dollar by 11% as per the chart below illustrates;

The Bank of Japan announced in a joint statement with the Japanese Government to introduce a "price stability target" and an "open ended asset purchasing program". The bank introduced a 2% inflation target and will set out to achieve this at the earliest possible time through US Fed

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styled open-ended asset purchases. The program will include buying around $13 trillion yen (AUD $137 billion) in assets per month from January 2014, including $2 trillion yen in government bonds and $10 trillion yen in treasury bonds until the inflation rate target is reached, almost two thirds more than US has committed to its own treasuries and mortgage purchases.

The drive for a looser policy will attempt to suppress its currency against trading partners strengthening its competitiveness and jump start its economy. In the meantime the pressure to achieve the "price stability target" will be on how the government can apply fiscal measures. It has already earmarked spending of $10.3 Trillion Yen (AUD $108 billion) which it predicts will increase gross domestic product by about 2 percentage points and create 600,000 jobs.

The result for Australia is mixed, considering our relatively higher cash rate at 3%, demand for Australian Assets including Bonds and high yielding Equities should remain intact. Consequently it's likely to lead to an appreciation of the AUD against other currencies adding pressure to our export markets, creating further challenges to the manufacturing, retail and agriculture industries.

The dispute between Japan and China over the Diaoyu Islands has been heating up and the Japanese government has stated it considers the bilateral agreement with China as an immediate economic risk. China is Japans biggest export market and biggest source for its imports and given Japans trade deficit swelled to a record last month. Further escalation of the dispute would hinder the stated economic targets.

INTEREST RATE OUTLOOK FOR 2013

The big four have announced their predictions on the outcome of the yearend cash rate for 2013. The Commonwealth Bank sees no change and predicts a yearend cash rate of 3%, Westpac Bank 2.75%, National Australia Bank 2.25% and the ANZ is predicting the lowest cash rate of 2%. A number of factors lead us to conclude there will be a number of interest rate cuts in 2013.

The economy will need to be proactively managed to achieve balanced growth amongst sectors given the persistent challenges that the economy is faced with, including the high AUD and recent upward pressure on the unemployment rate. The laggards on GDP growth continue to be Manufacturing and Agriculture (Negative Contributors) whilst Mining is the clear positive contributor to growth, albeit slowing.

If the RBA are to adhere to their mandate of ensuring the economic prosperity and welfare of the Australian People, we conclude interest rates will have to be adjusted lower to compensate for the laggards. The inflation rate remained subdued at 2.2% and well within target for the RBA to consider a move in March.

Performance of Key Indices

Equities	***Close***	***Change (M)***	***Change %(M)***
All Ordinaries	**4901.00**	**+236.41**	**+5.07%**
S&P/ASX200	**4878.80**	**+229.85**	**+4.94%**
Dow Jones (US)	**13860.58**	**+756.44**	**+5.77%**
NASDAQ	**3142.13**	**+122.62**	**+4.06%**
S&P500	**1498.11**	**+71.92**	**+5.04%**
FTSE 100 Index	**6276.88**	**+379.07**	**+6.43%**
Nikkei 225 (Japan)	**11138.66**	**+743.48**	**+7.15%**
10-year bond rate (US)	**1.9889%**	**+0.002284**	**+12.97%**

Upcoming RBA Events

Reserve Bank Board Meeting – 5th February
Minutes of the RBA meeting – 8th February

ABS releases March

Producer Price Indexes -1st February
Retail Trade (December) – 6th February
Labour Force (January) – 7th February
Housing Finance (December) – 11th February
Lending Finance (December) – 13th February

Upcoming US Economic Releases

ISM Manufacturing Index – 1st February
US Employment Situation (January) – 1st February
International Trade (December) – 8th February
Retail Sales - 13th February
FOMC Minutes – 20th February
Producer Price Index (October) – 20th February
GDP – 28th February
Durable Goods Orders (October) – 27th February
Jobless Claims – Weekly Basis