New York Securities Pty Ltd

Monthly Newsletter – March 2013

CHANGE IN MOMENTUM, NOT A HARD HITTING CORRECTION

The fear of a sharp correction occurring after a hard, fast and extended uptrend in the market remains planted into the minds of market participants from memories of the GFC and numerous corrections we have experienced along the journey since, making certain to most that a large correction is looming for the market around the corner. The problem with this ideology is the fear itself. This emotion can cause us to be bias towards a pessimistic idea and completely dismiss hard evidence to the contrary. So consequently we become bearish or do nothing when we should be bullish and once we get this wrong we might just miss some great opportunities to make money.

We have seen a phenomenal run since the last pullback Mid-November 2012 from 4336.85 on the XJO to the current level of 5104.10, a rise of 17.7%. The standout has been the strength of the rally. For the purpose of visually describing the strength, below is a chart of Relative Strength Indicator (**RSI, green**) for the XJO since Feb 2012 to Current. In short, the RSI is a technical indicator used to measure the speed and change of price movements or momentum to identify if a stock or index is 'oversold (**lower blue line**) or 'overbought' (**upper blue line**). Theory suggests if the RSI moves above the upper line the stock or index would be considered 'overbought or overvalued' by market participants (and vice versa) and hence is a prime candidate for a pullback.

The XJO has been in the highest quartile of 'overbought' territory for a number of months as indicated by the (**red circle**) above. This is simply not a sustainable movement in the short term and we have since seen a slowing in its momentum. So its begs the question "where to next?"

Market sentiment has been positive and the majority of market participants are satisfied the recent strength in the stock markets is justified by a positive earnings season here locally and in the US. Consumer Confidence in the US and Australia is improving and Global growth is gaining momentum, projected to strengthen to 3.5% in 2013, with emerging markets and developing economies continuing to be a main contributor (predicted to grow by 5.5% in 2013). "No news is good news" has been the case from Europe over the previous few months; however the recent election deadlock in Italy is raising fears any adverse change in the direction of economic policy could affect the willingness of the European central bank to support the Italian bond market, bringing the European debt crisis under the spotlight once again.

Domestically, Australia is offering great yields across many sectors and with the interest rate cycle not likely to reverse anytime soon yield is the key point which will keep our market attractive to investors. Using the banks as an example, despite squeezing net interest margins, a key guide of bank profitability, Australian banks continue to produce sound profits, suggesting there is very little risk to the attractive yields of 5-6% (not including franking) being paid to investors ending any time soon. Another point to recognize is the challenging times forced a lot of businesses both domestically and globally to adapt a more conservative approach to their balance sheets and the effects of this approach are slowly coming into fruition and remain more so than ever an integral part of the business model even as the outlook improves.

In addition Glen Stevens from the RBA has suggested interest rates will remain on hold in order to give the loose monetary policy time to flow through to the economy.

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The RBA does have concern over the high dollar but their primary mandate is inflation which is within target at 2.2%. Off Shore investors will deem this to be a positive near term building the case for capital inflows from them rather than a repatriation of funds

We conclude we are part of a longer term uptrend, but the momentum has been too hard and fast in the short term to have continued at pace we experienced. As such expect a pull back in momentum in the immediate term as the XJO consolidates around the 5000 level. Two immediate issues to be addressed in the market are The US sequestration debate and Italy's political deadlock. We don't expect either to have any major impact on the markets as they are both of political nature and we have experienced these situations play out previously with favorable outcomes, but they will create a near term period of indecision from buyers and sellers prior to the resumption of the longer term uptrend.

Whilst many are focusing on yield, be sure not to overlook small to mid cap companies in particular the small resources sector (XSR). This sector has been in a long term downtrend since the beginning of 2011 and is currently trading at its lowest point not seen since mid 2012. Investor concerns in this sector have amongst other factors focused around balance sheet issues, in particular cash/debt positions and concerns over their ability to raise funds in a sector lacking investor confidence. Technically the XSR looks to be forming a 'double bottom'. Considering our view on the direction of the market near term, it is a great time to analyze the small cap space and allocate funds to quality companies which will benefit from a resumption of the upward trend and the lift in investor confidence that follows. Please give us a call if you wish to discuss companies you are considering or for further information.

The current consolidation which followed the strong rally is a great example of what a covered call writer is looking for after taking their position. After a strong rally and as the momentum built to unsustainable levels it provided a great opportunity to sell covered calls to potentially lock in a higher exit price for their stock and draw in additional income to improve return.

THE PEOPLE ARE LOSING THE FAITH

The latest news poll survey show Julia Gillard has fallen behind Tony Abbot in the polls as preferred leader. We do not believe she can claw herself back to take out the election in September. Wayne Swan should consider resigning, when confronting the media he looks to be in constant denial, constantly on the back foot and quite frankly his speeches are cringe worthy. We almost feel sorry for him. A change in government will provide a good boost to the local market. Locally we predict Collin Barnett will be reelected as premier in the forthcoming election as we interpret most West Australians have been reasonably comfortable with the direction he has taken and aren't likely to look for change from McGowan who's political agenda is to take Barnett's ideas, adjust them to suit his vision, whilst not putting forward any convincing plans of his own.

Performance of Key Indices

Equities	***Close***	***Change (M)***	***Change %(M)***
All Ordinaries	**5120.40**	**+219.4**	**+4.48%**
S&P/ASX200	**5104.10**	**+225.3**	**+4.62%**
Dow Jones (US)	**14054.49**	**+193.91**	**+1.40%**
NASDAQ	**3160.19**	**+18.06**	**+0.57%**
S&P500	**1514.68**	**+16.57**	**+1.11%**
FTSE 100 Index	**6360.81**	**+83.93**	**+1.34%**
Nikkei 225 (Japan)	**11559.36**	**+420.7**	**+3.78%**
10-year bond rate (US)	**1.8782%**	**-0.00111**	**-5.57%**

Upcoming RBA Events

Reserve Bank Board Meeting – 5th March
Minutes of the RBA meeting – 19th March

ABS releases March

Building Approvals (January) – 4th March
Retail Trade (January) – 5th March
Labour Force (February) – 14th March
Housing Finance (January) – 13th March
Lending Finance (January) – 18th March
Job Vacancies (February) – 28th March

Upcoming US Economic Releases

ISM Manufacturing Index – 1st March
US Employment Situation (February) – 8th March
International Trade (January) – 7th March
Retail Sales - 13th March
Producer Price Index (November) – 14th March
Consumer Price Index – 15th March
FOMC Meeting Announcement – 20th March
Ben Bernanke Speaks – 20th March
Durable Goods Orders (October) – 26th March
GDP – 28th March
Jobless Claims – Weekly Basis