New York Securities Pty Ltd

Opes Domus

Monthly Newsletter – JUNE 2013

CONSPIRACY THEORIES OUT THE DOOR....FOR NOW

This month we bring you less conspiracy theories and groaning about the government (we are sick of talking about them anyway) and instead we bring to you more about what you care about........**The Stock Market**. If yield hasn't been your objective, you've most likely found yourself in the Resources sector and it most likely hasn't been a pleasant experience. Take a look at the chart below (Daily 2 Year);

Blue: XFJ.ASX S&P200 Financials
Green: XJR.ASX S&P200 Resources
Red: XSR.ASX S&PASX Small Resources

The small resources sector has been an obvious underperformer. In this sector many companies have been and still are experiencing their "Charles Darwin" moment, finding themselves in a state of "Survival of the Fittest". A fair amount of junior exploration companies over the last few years have been battling balance sheets, shareholders and market participants and they have been losing. As a consequence a large number of small cap companies are finding it increasingly difficult to obtain funding to continue their operations. This is a greater concern to those companies which are light on attractive assets and are running a high cost structure. In good times shareholders are often complacent towards cash flow, pace of progression and often turn a blind eye to excessive pay packets. But this has changed due to the recent state of the market as such focus has shifted towards what matters, productivity, performance (including performance linked to pay packets) and justifying expenditures.

In saying that if you can pick out the good apples from the bad, companies with the right fundamentals will benefit when the resource sector finally turns the corner. Some of the companies we consider worth looking at include; ***Atlas Iron (AGO), Medusa Mining (MML), Ampella Mining (AMX), Mutiny Gold (MYG), Panterra Gold (PGI), Central Petroleum (CTP), Baraka Energy (BKP), Shree Minerals (SHH), Linc Energy (LNC), Northern Star (NST), Beadell Resources (BDR), Sirius Resources (SIR), Beadell Resources (BDR), Pancontential (PCL), FAR Limited (FAR), Buru Energy (BRU) and Rex Minerals (RXM).***

The ***RED CIRCLE*** on the previous chart reflects a point of infliction where underperformance of the market and a bleak outlook on growth took its toll and market participants gave up on growth assets and focused completely on yield instead. The divergence is remarkable from this point, where we now find ourselves at a level where we are questioning if this pattern of divergence can continue. As the Australian dollar falls yield plays are likely to experience a pullback as carry traders/hedge funds/participants lock in profits and move their cash overseas, but it won't be for long, we anticipate the focus on yield will remain unchanged and subsequently will continue to support prices for yield assets in the near term, after all the printing machines are still operating 24/7 and despite the noise of a slowing down it won't be done unless the data exceeds expectations. This presents a good opportunity, if you're not already exposed, to enter the market and capture the yield these companies offer, assuming of course <u>you are seeking it</u> and not too focused on capital growth. However as we will reiterate later in the newsletter <u>don't over allocate capital in this sector if you choose to enter at these levels.</u>

We believe resources stocks are worth adding/accumulating in your portfolio at current levels. Lower commodity prices we believe have already been priced in to date and with the Australian dollar coming off, as the historic positive correlation between the two restores itself stocks should be supported at current levels. From a technical perspective the S&P200 resource stocks are close to the post GFC bottom seen in late 2009 as per the chart below, so some exposure here is worth considering. Importantly resource

companies are looking to become more shareholder friendly which can only mean a focus on capital return down the track. This means resource stocks are now offering both a growth and yield aspect. We prefer <u>**BHP** *over* ***RIO***</u> and <u>**Woodside** *over* ***Santos***</u> as and look to avoid the mining services sector at this stage as mining investment tapers off.

WHEN BANK YIELDS BECOMES INCREASINGLY SPECULATIVE

When the RBA cut the cash rate by ¼ percent in May, the banks were quick to pass on the full cut. Previously they have showed reluctance to do so, but as growth in credit lending remains subdued and banks concentrate on reducing costs, increasing market share is more important as ever. The ability to retain, generate a larger client base and consequently build upon the customer deposits they inherit, places less pressure on banks to seek external funding at a higher cost. Hence it's more important now at the bottom of the credit cycle they continue to remain competitive so they are quick to pass on any cash rate reduction in an attempt to capture a wider base in anticipation of an improvement in lending growth.

One issue we view as a cause for concern in the longer term is the risk of overinflated asset prices created by those losing yield in traditional assets such as term deposits, as interest rates fall, shifting into higher yielding assets. Retirees for example have x amount of income they require to maintain their standard of living, so if rates fall comparative to other assets such as bank stocks it in effect forces a rotation out of term deposits to higher yielding assets, creating an inflated market. This creates a riskier proposition to those going in late and they may very well find themselves paying too much for yield that is in no way guaranteed, therefore making yield plays increasingly speculative over time. All this talk about bubbles in bank stocks is a legitimate concern as we must remember dividends are not always guaranteed, so don't over allocate your capital in this sector if you're considering getting in at current levels.

THE AUSTRALIAN DOLLAR TO CONTINUE ITS DECLINE

The high persistence of the Australian dollar was finally addressed as a concurrent reduction in the cash rates and a topping out of yield assets short term created the perfect storm for the Australian dollar to break parity. The AUD broke through major support at 97 cents per share and we see a continuation and a test of 92 cents over the medium term.

The fall in the Australian dollar bodes well for companies whose earnings are derived overseas including BHP and Woodside which we mentioned before, ***Incitec Pivot (IPL), Sims Metal (SGM), Orica Limited (ORI), Select harvests (SHV)*** to name a few.

MYER, DAVID JONES, JB HI FI, HARVEY NORMAN....BEST TO SHOP ELSEWHERE

The retail sector has taken no part in our investment strategy for some time. The high Australian dollar and choices the World Wide Web offers has placed considerable pressure on traditional department stores, not forgetting the additional challenges created through high overheads. Myer boss Bernie Brookes recently came out to praise the falling Australian Dollar as a deterrent against buying goods on foreign websites, but it's hard to believe it will create a declining trend in internet shopping. If you browse the internet for long enough you can find the same goods overseas for cheaper even after adjusting for shipping (if not free) and the exchange rate. Achieving sales growth will be modest at best and a continual challenge, we would prefer to wait this sector out despite the attractive yields they possess, until we see a return of confidence in consumers.

Performance of Key Indices

Equities	Close	Change (M)	Change %(M)
All Ordinaries	**4950.60**	**-218**	**-4.22%**
S&P/ASX200	**4970.70**	**-220.5**	**-4.25**
Dow Jones (US)	**15409.39**	**+569.59**	**+3.84%**
NASDAQ	**3488.89**	**+160.1**	**+4.81%**
S&P500	**1660.06**	**+62.49**	**+3.91%**
FTSE 100 Index	**6762.01**	**+331.89**	**+5.16%**
Nikkei 225 (Japan)	**14311.98**	**+451.12**	**+3.25%**
10-year bond rate (US)	**2.1679%**	**+0.004943**	**+29.54%**

Upcoming RBA Events

Reserve Bank Board Meeting – 4th June
Minutes of the RBA meeting – 18th June

ABS releases March

Business Indicators (March) – 3rd June
Retail Trade (April) – 3rd June
Housing Finance (April) – 11th June
Lending Finance (April) – 12th June
Labour Force (May) – 13th June

Upcoming US Economic Releases

ISM Manufacturing Index – 3rd June
International Trade (April) – 4th June
US Employment Situation (May) – 7th June
Retail Sales – 13th June
Industrial Production -14th June
Consumer Price Index – 18th June
FOMC Minutes – 19th June
Durable Goods Orders (May) – 25th June
GDP – 26th June
Jobless Claims – Weekly Basis