



New York Securities Pty Ltd

## Monthly Newsletter – July 2013

For most Australians the election can't come soon enough. It is fair to say most of us are politically exhausted, bored with the nonsense that deviates away from the challenges we are confronted with. What was Julia thinking when she delivered her speech with teary eyes after being renounced as Prime Minister, defeated by the very person she declared she would never challenge 3 and a half years ago. Perhaps she had finally come to the realization it was her that destroyed the Labor Party.

Thankfully the Golden Goose has a chance to be saved from the effects of political poison, not before Julia exits with a Golden egg in the form of a lumpy pension and plump benefits. Let's hope this change will benefit all Australians allowing us to make a choice between two functional families, rather than making a choice by default.

### **REMINDER**

**All clients that have a Praemium Portfolio; Currently Praemium is only automatically updated with Buy and Sell transactions; everything else needs to be manually entered. Whenever you take up Rights Entitlements, Share Purchase Plans, IPO's, Exercise Options etc. Please scan and email or fax through a copy of the paperwork so your Praemium can be updated accordingly.**

Recent trends continue with Individuals and Households remaining concerned about the security of their employment, whilst large and small businesses defer investment decisions until

after the election. Confidence is needed fast and Kevin Rudd's reappointment is just the beginning.

As the election draws closer we believe the buildup will be positive, with domestic and international participants moving early in anticipation of a coalition victory whom are determined to place the economy back on the correct path. The combination of structural repair within the dysfunctional party and thought of a change in Government prior to the election will bring hope and a slow build up in confidence, followed by a further boost in confidence once the coalition is elected. This we believe would be the best case scenario politically to enable our market to reverse the current trend.

The latest statement from Ben Bernanke didn't deviate from previous statements. It did however provide the market with a tentative date the FED would exit its stimulus plan. The strategy of the Fed remains the same and the exit date is conditional. Improved and consistent data will be met with a gradual reduction in bond buying, whilst adverse movements will be met with QE stimulus. **The point made is the FED will continue to support the recovery until it no longer needs assistance. This is Good News**, however in this irrational market bad news is good and good news is bad and so the markets are acting accordingly. Considering the market has developed a dependency on cheap money, the overall sell down on the markets that followed was reflective of a market that seems adamant growth is not sustainable without it. In

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other words differences of opinions exist over the FED's view that the US economy is forecasted to improve and downside risks for the economy and the labor market have diminished since the GFC. In our view the market will adapt to the gradual reduction in quantitative easing and confidence will return once the underlying data supports the FED's view. This will be a catalyst for growth assets.

Amongst all the uncertainties, **what is certain is the appetite for yield** and with cash rates likely to decline further domestically and remain at low levels internationally, asset classes with an attractive yield will remain in demand.

Consequently, amongst the recent weakness in the market this creates a great opportunity for clients with an appetite for yield, or clients looking to diversify their portfolio away from growth assets, perhaps as part of a longer term strategy, to take advantage of the pullback in the prices of yield bearing assets. Companies we prefer in this space include; **CBA, WBC, NAB, ANZ, RHC, CSL, WES, TTS, CAB, TLS, IVC, and BWP** to name a few.

The resource sector remains an area for the extremely patient given flat commodity prices and questions over Chinas Economy. Newcrest is seen as good value at the current level (below \$10.00) by plenty of market analysts, so much so its current market capitalization of around \$6.5 billion places it in the realms of a potential takeover target. NCM has over 87.3 million ounces of Gold, 12.1 million tons of Copper and 77.2 million ounces of Silver (Dec 2012 Resources and Reserves Statement), long term assets that should not be overlooked.

Explorers are in the toughest market of all, where funds are already hard to come by, releasing good news has no in market sentiment. The mining services sector will be interesting to watch, we expect downward pressure on earnings in this sector as it continues to consolidate as a result of the reduction in mining investment from the large players. It is for this reason the mining services sector is the latest to be added to our AVOID list, sitting alongside the Retail sector. In our view,

tax loss selling had created further weakness in the market, particularly the small resources sector and so with the EOFY now behind us, this should provide a positive by alleviating selling pressure.

#### Performance of Key Indices

<u>Equities</u>	<u>Close</u>	<u>Change (M)</u>	<u>Change %(M)</u>
All Ordinaries	4775.4	-175.2	-3.54%
S&P/ASX200	4802.6	-168.10	-3.38%
Dow Jones (US)	14909.6	-499.79	-3.24%
NASDAQ	3403.25	-85.64	-2.45%
S&P500	1606.28	-53.78	-3.24%
FTSE 100 Index	6215.47	-546.54	-8.08%
Nikkei 225 (Japan)	13677.32	-634.66	-4.43%
10-year bond rate (US)	2.4905%	+0.003226	+14.88%

#### Upcoming RBA Events

Reserve Bank Board Meeting – 2<sup>nd</sup> July  
 Speech by Governor Glenn Stevens, to the Economic Society of Australia – 3<sup>rd</sup> July  
 Minutes of the RBA meeting – 16<sup>th</sup> July

#### ABS releases March

Retail Trade (May) – 3<sup>rd</sup> July  
 Building Approvals (May) – 4<sup>th</sup> July  
 Labour Force (June) – 11<sup>th</sup> July  
 Housing Finance (May) – 12<sup>th</sup> July  
 Lending Finance (May) – 15<sup>th</sup> July  
 Consumer Price Index (June) 24<sup>th</sup> July

#### Upcoming US Economic Releases

ISM Manufacturing Index – 1<sup>st</sup> July  
 International Trade (March) – 3<sup>rd</sup> July  
 US Employment Situation (April) – 5<sup>th</sup> July  
 FOMC Minutes – 10<sup>th</sup> July  
 Producer Price Index – 12<sup>th</sup> July  
 Retail Sales – 15<sup>th</sup> July  
 Consumer Price Index – 16<sup>th</sup> July  
 Durable Goods Orders – 25<sup>th</sup> July  
 GDP – 31<sup>st</sup> July  
 Jobless Claims – Weekly Basis

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