Monthly Newsletter – August 2013

Turning the corner

The resource sector may very well be close to turning the corner. The general trading pattern we have observed since December 2012 is one of either; a positive announcement falling on deaf ears resulting in very little share price movement or a positive announcement resulting in a higher share price met equally with selling from investors taking the opportunity to exit long positions, moving the stock back to square one. In the last few weeks we noticed a change in this pattern as the appreciation of share prices pulled along with it further support. We won't be convinced this isn't more than investors attempting to pick a market bottom, prior to reporting season, or pre FYE13 tax loss sellers who have been forced to chase their positions, until we see a technical break and sustained move above the long-term downtrend and the 50 day moving average as shown below.

A failure to break through the downtrend and the 50 day moving average and we would be looking at a continuation of the long-term downtrend for a second attempt at 3600. If this level is breached to the downside, the next lower target is 3300 which, given what we know today, we would consider would be a grossly oversold level. Fundamentally there are a number of reasons why we should be considering exposure to the resource sector with a longer term outlook;

- ***Chinese place floor on growth rate***, the Chinese premier was recently quoted by the Chinese media in saying "The bottom line for economic growth is 7 percent and this bottom line must not be crossed", signalling the nation will support growth if required to ensure this level is not breached.

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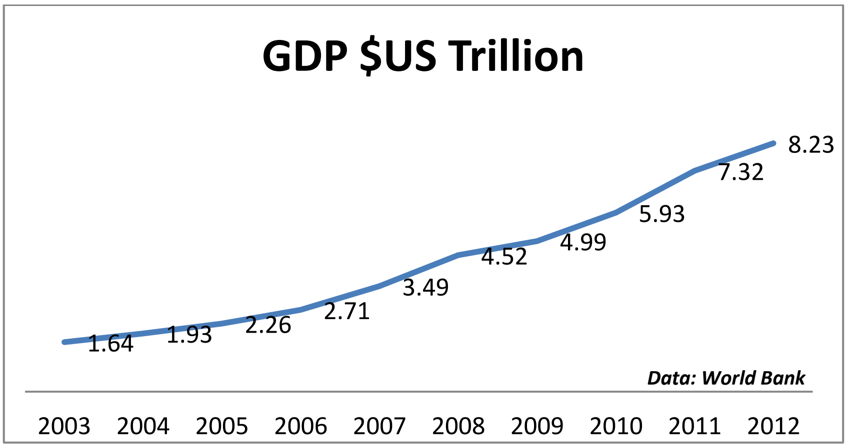
China undoubtedly continues to be Australia's largest export market, with resource and energy commodities, in particular iron ore, coal, gold, natural gas, crude, copper ore & concentrate, continually dominating as top exports. It is important to bear in mind when listening to noise about growth rates that the size of China's annual GDP in US dollar terms is now much larger than previous years when growth rates persisted above 10%. As per the chart below, Annual GDP in 2003 was US$1.64 Trillion while from the latest figures courtesy of the World Bank, 2012 Annual GDP sat at US$8.23 Trillion (US Annual GDP $15.6 Trillion). A 7% growth rate at a base of US$8.23 Trillion, still equates to a $575 billion addition to global growth, which when put into context would have equated to 44% of last year's growth in world annual GDP. We consider the slower growth rate to be a step in the right direction for China to sustain its position as an economic powerhouse. This view of course is based on the important assumption we can believe the numbers the Chinese publish, which have been questioned by many economists in recent times. We shall leave this debate for another time.



- ***Lower Australian dollar***, the outlook on the Australian dollar against the greenback is negative due to factors including the gradual spread decline between the Australian and US 10 year bond Yields (see chart below). The 10 year yields reflect the outlook of bond holders on the direction of long term interest rates, and as the spread closes makes our market less attractive from a yield perspective. The consensus is the AUD will decline to 80-85 cents per share within the next 12 months. A movement of this nature would be a positive for the mining sector amongst other exporting industries.

- ***Earnings Season***, There are sure to be a few surprises in store despite the downgrades from many companies that occurred in May. In reference to resource stocks, market participants will be hoping in the face of moderating demand in the sector companies have been able to reduce costs and increase productivity from existing assets, while maintaining earnings growth or at least convince shareholders they are adaptive to changing market conditions and are moving in the right direction.

Earnings Season

The earnings season is now upon us and there will be a plethora of company reports to decipher during the month. They should provide some clarity in what we can expect from individual companies and give insight into what is expected moving forward.

Reporting Dates in August;

8/8/2013 - *Rio Tinto, Telstra, BWP Trust*	***19/8/2013***- *BlueScope Steel, Calibre Group*
9/8/2013 - *Tabcorp*	***20/8/2013*** - *Ansell, BHP Billiton, Coca-Cola, Invocare, Oil Search, QBE Insurance*
12/8/2013 - *Newcrest Mining*	***21/8/2013*** - *Woodside Petroleum*
13/8/2013 - *JB Hi-Fi*	***22/8/2013*** - *Seven West Media, Tatts Group, Toll Holdings*
14/8/2013 - *CSL, Worley Parsons*	***23/8/2013*** - *Cabcharge*
15/8/2013 - *AMP, Wesfarmers*	***28/8/2013*** - *Flight Centre*
16/8/2013 - *Santos*	***29/8/2013*** – *Qantas, Ramsay Health Care*

Appetite for yield remains

In the July newsletter we outlined a number of stocks we were targeting for their yield and growth prospects. The companies were; CBA, WBC, NAB, ANZ, RHC, CSL, WES, TTS, CAB, TLS, IVC and BWP. It seems you can't stop a good business with the right market criteria from achieving capital growth and this is what has occurred in every instance since we tipped them as plays. There are a couple of companies we consider to be overbought in the short-term, so if you're looking at locking in gains from a traders perspective consider CBA, RHC, NAB, ANZ, WBC as possible sells. Before you sell ensure you take into account, CBA and RHC are due to pay a dividend this month.

Squeezing additional yield

One of the most important lessons we have learnt over time is that you must remain as dynamic as possible to react and adapt to all market conditions. This also means learning new techniques that you may not use instantly but rather have them launch-ready when the right time presents itself. One technique that is not often used, is the most simplest to understand concepts when it comes to derivatives and offers a great way to squeeze additional yield from your Blue Chip portfolio is the covered call. Writing options over your stock allows you to draw a premium and reduce downside risk to a fixed degree. So if you're in the view stocks are a little over bought at current levels, would like some downside protection and have no issue in potentially selling your stock at a locked price, consider writing a covered call. It has the potential to provide you with additional yield on a monthly basis. For full information on the risks and the rewards please give us a call in the first instance and refer to our website for further information. http://www.nysecurities.com.au/eto.php

Fibonacci Analysis - Matching the move

If you haven't heard of the theory previously, Fibonacci retracement is a common technical trading technique that is used to identify potential support, resistance and reversal levels. We applied it to the AUD/USD to determine the next support level, in response to recent comments made by RBA Governor Glenn Stevens signalling room for an official interest rate cut. The current odds of an interest rate cut next Tuesday, 6th August stand at 85% . As the govenors comments were aired there was significant reaction by market participants pushing the AUD/USD through the 61.8% retracement level, being one of the more significant fibonacci levels.This morning the AUD/USD has broken the 90 cent mark and from a technical persepective confirmed in our analysis the breakdown will continue its decline to "match the move" being a 100% retracement to the 80 cent level over time (Consensus from market analysists: 12 months).

High Frequency Trading- Giving it to the Panel

Recently a member of New York Securities attended a annual event called The Stockbrokers Conference. He was given the opportunity to share his opposing view on High Frequency Trading, in particular the implications it has on Market Participants/licensed dealers and their clients. We commonly refer to HFT as a "pain in the rear" as the millisecond buying and selling using algorithmic equations can at times create buy or sell contract notes for trades of very little volume i.e. 1 share. This morphs into multiple contract notes for clients and painful fees for all firms, including NYS who have to absorb the cost, potentially doing so everyday until the order is completely filled. In most instances these costs are passed onto the clients through higher fees (Incidently New York Securities does not pass on these costs to our clients) and the trade simply becomes uneconomical. The member effectively "gave it" to the four HFT member panel in a noteably constructive manner that once again the ones who put up with the inconvenience and cost are again forgotten.

Since the conference it now comes to light that the ASIC taskforce has finalised a review on HFT and concluded in its findings, because HFT accounts for 30% of all market transactions it is not significant to impose further regulatory changes in an attempt to further curb HFT practices. Rather, it has taken the view HFT is an "integral part of the market" and in the same step conveniently hiked the market supervision levy for message traffic (such as placing orders then cancelling before they trade or quotes for ETO's) by 37% to all ASX participants as at July 2013. So rather than tackle the HFT firms direct through policy changes all ASX participants and those whom outsource their services have been drawn in and lobbed with higher costs.

Performance of Key Indices

Equities	***Close***	***Change (M)***	***Change %(M)***
All Ordinaries	**5035.7**	**+260.3**	**+5.45%**
S&P/ASX200	**5052**	**+249.4**	**+5.19%**
Dow Jones (US)	**15499.54**	**+589.94**	**+3.96%**
NASDAQ	**3626.37**	**+223.12**	**+6.56%**
S&P500	**1685.73**	**+79.45**	**+4.95%**
FTSE 100 Index	**6621.06**	**+405.59**	**+6.53%**
Nikkei 225 (Japan)	**13668.32**	**-9**	**-0.07%**
10-year bond rate (US)	**2.58%**	**+0.000907**	**+3.64%**

Upcoming RBA Events

Reserve Bank Board Meeting – 6th August
Statement on Monetary Policy – 9th August
Minutes of the RBA meeting – 20th August

ABS releases March

Producer Price Indexes (June) – 2nd August
Retail Trade (June) – 5th August
Housing Finance (June) – 7th August
Labour Force (July) – 8th August
Lending Finance (June) – 12th August

Upcoming US Economic Releases

ISM Manufacturing Index – 1st August
US Employment Situation (April) – 2nd August
International Trade (June) – 6th August
Retail Sales – 13th August
Producer Price Index – 14th August
Consumer Price Index – 15th August
FOMC Minutes – 21st August
Durable Goods Orders (June) – 26th August
GDP – 29th August
Jobless Claims – Weekly Basis