Monthly Newsletter – September 2013

XJR S&P200 RESOURCES MOVES HIGHER TO CRITICAL POINT

In last month's issue we discussed the technical aspects of the XJR S&P200 Resources index and concluded it looked to be turning a corner. We now see the "vital signs" of this move coming into fruition. As displayed in the chart below, recent price action has touched the long term downtrend and the 50 day moving average. In addition the RSI pushed higher, reflective of an attempt to alter the course of future price action;

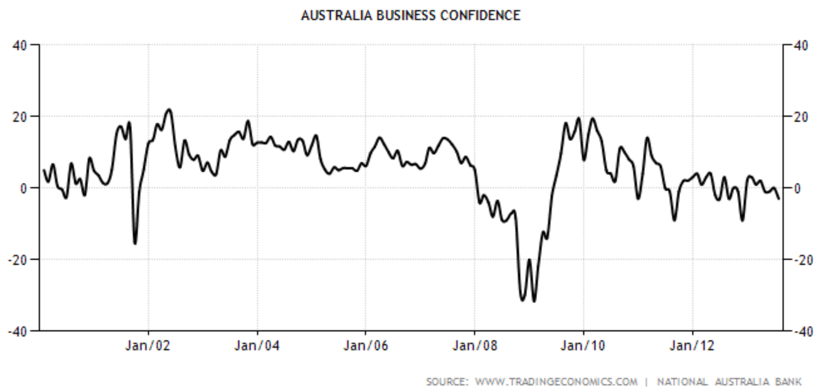
Required now is a further push towards 4500 and a resurgent shift in RSI to the high side. Behind the move metals have made convincing breaks of their long term downtrends, in particular copper which is considered a reliable leading indicator of economic health. Despite the latest events causing short term disruptions we believe demand will pick up for these commodities albeit at a slow pace as global growth improves.

Gold and Silver have bucked the trend on the back of Fed tapering talk, the velocity of the recent move likely due to short covering and the military action to be taken in Syria. Gold is now sitting at US$1397 and Silver at US$23.55 and we remain bullish long-term. A number of companies we suggested for investment in this sector have performed well with Northern Star (NST) and Beadell Resources (BDR) producing the best gains during the month. Our preferred juniors Panterra Gold (PGI) and Mutiny Gold (MYG) have not benefited from the higher Gold/Silver price to date, in fact PGI continues to struggle. It's still early days for PGI as they ramp up production and investors are waiting on numbers to prove cash costs will be as low as calculated in their feasibility studies. Mutiny shareholders still remain in "mining development" phase waiting on further news on the development of their Iron Ore asset and the likely timeline for commencement of mining. Considering the Iron Ore asset is taking precedence over their flagship Gold asset (Deflector) a delay in the latter project will occur, however we believe this will emerge as a positive in the form of achieving a higher gold price long-term. Overall there is still a great lack of confidence in exploration stocks. Good exploration results continue to fall on deaf ears and any rally on the back of good news is generally short lived, sold into by those taking advantage of the rally to redeem cash.

In our July issue we discussed the continuing appetite for yield and suggested clients consider a number of stocks for investment. The companies we suggested included; CBA, WBC, NAB, ANZ, RHC, CSL, WES, TTS, CAB, TLS, IVC and BWP. If you held these companies to date (excluding RHC, IVC) you would have yielded a 9% return over the 61 day period, a figure which includes dividend payments from CBA, WES, TTS, and TLS. For those clients holding RHC and IVC we suggested clients late July take their profits and reconsider these companies at a later date. This strategy had paid off as the share prices of both companies pulled back to our target levels. RHC had an impressive (but volatile) one day session to the upside a few days ago attributed to the announcement they had reached an agreement with Medicare and their full year results. A good performer, Ramsay Health Care (RHC) announced a dividend of 70.5 cents per share up 17.5% from the previous year reflecting strong performance across their portfolio. The dividend yield remains low relative to alternative investments but it's their drive in Asia particularly in Malaysia that will form a strong pillar for further growth. Investors can draw confidence in this direction since their Indonesian assets alone lifted combined earnings in 2013 by 28%. We continue to remain on the sidelines until after the elections.

EARNINGS SEASON

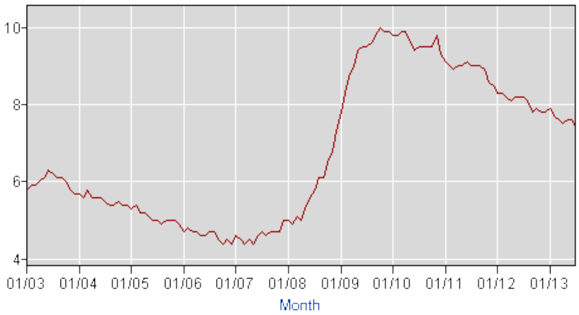
We suggested last Issue we are likely to see a few surprises this reporting season and we certainly saw that with a majority of companies outdoing expectations in terms of dividend payments.
The banks continue to satisfy shareholders after record profits however did so at the expense of slightly higher payout ratios. The question of sustainability arises considering credit growth will need to see marked improvements to support rising share prices. CBA released an Australian credit growth report reflecting a 30% decline in growth from previous FYE 2012 (3.1% vs. 4.4%). Housing and Business lending led the declines. Considering the fall in the AUD and the direction of Interest Rates these past few months which seem to have had little influence, it has to be for political reasons linked to the current government that we continue to see business and consumer confidence decline (A reading below zero reflects worsening confidence);



We expect confidence to reverse trend if the Liberals are successful in being elected. As for most miners they too provided shareholders with fair increases in dividend returns. Newcrest was a big exception confirming no final year dividend as they continue to struggle with high all in cash costs of production and lower gold price. The miners have trimmed a lot of fat but there is only so much cost cutting and restructuring that can be done before it becomes detrimental to operations. Most will still be making a lot of cash so with reduced capital spending there is a good chance this cash could be reallocated to shareholders.

FED TAPERING

Its seems all the talk about QE tapering from US Fed representatives has been somewhat a market experiment to determine how participants would react in such a circumstance. The slightest whisper of the word “tapering” sends long term US bonds yields higher, stock prices lower and creates edginess between participants on how it’s all going to play out. It’s a super sensitive topic with global implications. Emerging markets are calling upon the Fed to take into account the global implications, a notion they rebuffed instantly. What it has reinforced is the Fed had better get it right and this means they won’t start the reduction until it’s clear the US economy is making ground. We have seen improvement in many US economic indicators albeit slow including the US unemployment rate (below).



A large proportion of US economists expect the Fed to begin tapering $20 billion from the $85 billion a month asset purchase plan around mid September. This would have a short term bearish bias for stock markets locally and add downside pressure to the AUD creating an opportunity for clients to reassess the market for potential long term positions.

ORDER EXPIRY

We wish to remind clients when a Buy or Sell Order is placed for equities, unless an expiry date such as “Good for the Day” is specified the order will remain in the market for a period of 3 months. If you do wish to alter the expiry date of your order please let us know when the order is placed, otherwise it will remain on the market for 3 months.

ADDITIONAL YIELD GENERATED

The month of July was an outstanding month for clients who wrote premium on specific blue chip holdings. The previous month’s volatility set up a scenario for higher premiums and the resistance in the market to move higher towards the end of the month, which we expected provided a positive additional return to these portfolios. The month of September we will be holding off writing premium until after the election has passed and once we get some further direction on the impact of a potential tapering by the US Fed and most recently the Syrian situation.

The Covered Call is 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 generate additional yield from your Blue Chip portfolio. 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

Performance of Key Indices

Equities	*Close*	*Change (M)*	*Change %(M)*
All Ordinaries	**5125.3**	**+89.6**	**+1.78%**
S&P/ASX200	**5135**	**+83**	**+1.64%**
Dow Jones (US)	**14840.95**	**-658.59**	**-4.25%**
NASDAQ	**3620.3**	**-6.07**	**-0.17%**
S&P500	**1638.17**	**-47.56**	**-2.82%**
FTSE 100 Index	**6483.05**	**-138.01**	**-2.08%**
Nikkei 225 (Japan)	**13459.71**	**-208.61**	**-1.53%**
10-year bond rate (US)	**2.76%**	**+0.001814**	**+7.03%**

Upcoming RBA Events

Reserve Bank Board Meeting – 3rd September
Minutes of the RBA meeting – 17th September

ABS releases

Business Indicators (June) - 2nd September
Building Approvals (July) - 2nd September
Retail Trade (July) – 3rd September
Housing Finance (July) – 9th September
Lending Finance (July) – 11th September
Labour Force (August) – 12th September

Upcoming US Economic Releases

ISM Manufacturing Index – 3rd September
International Trade (August) – 4th September
US Employment Situation (August) – 6th September
Retail Sales – 13th September
Producer Price Index – 13th September
Consumer Price Index – 17th September
FOMC Minutes – 18th September
Durable Goods Orders (August) – 25th September
GDP – 26th September
Jobless Claims – Weekly Basis