New York Securities Pty Ltd

## Monthly Newsletter – December 2013

### MERRY CHRISTMAS

First and foremost we would like to thank our clients and associates who have supported us during this challenging year, just as we have supported you in your journey towards reaching your investment goals. We believe 2014 will emerge as a rewarding year for all and we look forward to being a part of your investment decisions in the New Year. In this edition we cover a variety of topics based on what we expect in the new year or as it's referred to in the Chinese Zodiac 'Year of the Horse', fittingly so-called because we expect 2014 to be the year where pent up demand from savers and institutions sitting in cash leap out of the gates and push our market beyond the index levels we are experiencing today.

### YIELD WILL REMAIN KING IN 2014

The main theme for 2014 will be the continued endorsement of loose monetary policy by global central banks in their bid to spur economic growth. The recovery has been far more lethargic than most have anticipated and this means a low interest environment for longer. If its yield rather than capital growth you're seeking, term deposits and government bonds aren't going to suffice. Sure they can provide a degree of financial certainty but with Australia's inflation rate at 2.2% and the current cash rate hovering around 2.5%, any further rate cuts from the RBA and your real return may start to cause slight insomnia.

It's important to remember, there remains a bevy of pent up demand from super funds and investors who remain on the sidelines sitting on cash, spooked from the affects the GFC unleashed on their portfolios. What we have noticed through discussions from like professionals and self managed retirees there is an evident emerging interest in higher yielding products, most of which involve the market in one form or another i.e. stocks, managed funds, subordinated debt. As the attitude develops it will give rise to higher demand in the market place and this means higher prices.

The bottom line is if you're looking for better yield in 2014 you should consider allocating to companies in the share market. In some cases you may obtain the benefits of franking. After all don't bother putting your money in the bank, buy bank stocks instead, they offer you a far better yield. The quiet period from late December through to January is the perfect time to develop a forward looking plan. If you would like your advisor to partake in the plan remember we are only a phone call away.

### PROPERTY BUBBLE?

Property has been a pillar of strength that has generated great wealth for many and until the interest rate cycle turns upwards, prices will remain buoyant. We argue this scenario is the most property investors can look forward to in the immediate term. The attractiveness of property as a growth asset is wearing thin so too is its attractiveness as a yield bearing asset. Realistically how much more upside is there to the property market given the RBA's constant reminder for banks to tighten their lending standards, increase their buffers through lower LVR's (higher cash upfront), mortgage repayments taking a greater proportion of income and the lurking employment challenges? Given the average term on a housing loan is around 25-30 years, we see the current environment a trap for many newcomers and those who feel obliged to enter the property market in fear of missing out and would generally not understand interest rate cycles. There are some other areas of concern but rather than risk being called the Christmas Grinch, we will leave our thoughts here to be continued into the New Year.

## THINK RETAIL

The retail sector may receive a belated Christmas present in 2014 if the state governments can agree on reducing the GST threshold to include items under $1000 for overseas purchases. Its purpose besides the additional revenue it will generate for state coffers is to create a level playing field for local manufacturers and retailers by swaying consumers' decisions to thinking local first. There's a high probability you will continue to find better prices through overseas websites (including shipping costs) however there are many products where discounts may be marginal, especially if you care about quality and rather than wait 10-15 days or longer for your item to be shipped you may prefer the convenience of a shorter delivery time through the conventional shopping centre pick-up and purchase within the borders instead. In addition to the potential upshot of a level playing field, there is a case building to allocate a proportion of capital to the retail sector due to its own structural advances. Prompt changes in the Australian retailer sector are occurring with David Jones and Myers in particular continually developing what is referred to as "Omni-Channel" or "Seamless multichannel marketing" campaign, so far yielding positive results.

David Jones in their recent AGM informed shareholders of their recent performances including:

- In the last 6 months experienced 200% growth in the proportion of online sales derived from email marketing.
- Since launching new website last November, DJS has seen an increase in the quarter on quarter sales growth rate from the business, from 290% in 2Q13 (FYE) to 1,000% in1Q14 (FYE)

What caught our eye was the comment made by Paula Zahra in the latest AGM which explained "the company will be addressing international price discrepancies through our Cost Price Harmonization program". This comment hits the nail on the head. The department stores undoubtedly need to improve their competitiveness and addressing price discrepancies will not only be a win for consumers, but if DJ's get the program right with no forfeiture of profit margins, the company will claw back lost consumers and shareholders can expect revenue forecasts to emerge far more healthier. Right now market expectations on earnings from the retailers are low, we expect a strong Christmas turnover and there is a good chance the retail sector will exceed market expectations in the half yearly statements. Make sure you don't miss out on a piece of the action, get yourself some exposure.

## CONSIDER ALL YOUR OPTIONS

Last month's newsletter covered the topic of Price Earnings Ratio and its inverse, the Earnings Yield using a bank stock as an example. As the Earnings Yield on bank stocks moved lower near equal par with the 10-Year Commonwealth government bond rate + an element of risk (say 2% to cover market risk) it created a level playing field with financial products i.e. term deposits and bonds, capping the upside to bank stocks.

In a timely manner, the market agreed with our newsletter and as per the below chart for ANZ Limited reflects Earnings Yield and Dividend Yield lifted in line with the falling share price. Accordingly the P/E ratio moved to current levels averaging around 15 x earnings, where they had averaged prior at 17 x earnings. The **BLUE** circles as shown under headings Earnings Yield and Dividend Yield show the point of change where the markets considered profits short term. It was the rational decision to take given the great run the banks had experienced.


There were a number of clients who agreed with our view and consequently wrote call options against their stock, creating a limited hedge to the downside. Writing call options really can at times be money for jam, even if you only use them sparingly. They can add an attractive level of additional yield to your portfolio so you should really **consider all your options**. We have plenty of documents and scenarios on how they work so check out the NYS website in relation to Exchange Traded Options or give us a call. Even if you conclude they aren't for you at least you gave yourself the time to learn something new and explored a new way to make yourself more money.

## GOLD

As the low interest rate environment continues into the New Year and beyond, we maintain a long term bullish outlook on the precious metal, along with its little brother silver. One topic we have spoken about on occasion is the "Velocity of Money (VOM)" or the frequency of money sloshing around the system to purchase goods and services. The printing presses by large central banks has not been met with an increase in money changing hands for goods and services, instead remaining firmly within the balance sheets of large financial institutions. It's for many reasons including market confidence this has not occurred, but as the recovery advances we expect the VOM to more in unison creating the inflationary pressure that Gold and other precious metals will benefit from.

## *Performance of Key Indices*

| *Equities* | *Close* | *Change (M)* | *Change % (M)* |
|---|---|---|---|
| **All Ordinaries** | **5314.3** | **-106.00** | **-1.96%** |
| **S&P/ASX200** | **5320** | **-105.50** | **-1.94%** |
| **Dow Jones (US)** | **16086.41** | **+540.66** | **+3.48%** |
| **NASDAQ** | **4059.89** | **+140.18** | **+3.58%** |
| **S&P500** | **1805.81** | **+49.27** | **+2.80%** |
| **FTSE 100 Index** | **6650.57** | **-80.86** | **-1.20%** |
| **Nikkei 225 (Japan)** | **15661.87** | **+1333.93** | **+9.31%** |
| **10-year bond rate (US)** | **2.75%** | **+0.001890** | **+7.39%** |

## *Upcoming RBA Events*

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

## *ABS releases March*

**Retail Trade (October) – 3rd December**
**International Trade in Goods and Services (October) – 5th December**
**Housing Finance (October) – 10th December**
**Lending Finance (October) – 13th December**
**Labour Force (October) – 14th November**

## *Upcoming US Economic Releases*

**ISM Manufacturing Index – 2nd December**
**GDP – 4th December**
**International Trade – 4th December**
**GDP – 5th December**
**US Employment Situation (November) – 6th December**
**Retail Sales – 12th December**
**Producer Price Index – 13th December**
**Consumer Price Index – 17th December**
**FOMC Forecasts – 18th December**
**Housing Starts – 18th December**
**Durable Goods Orders– 24th December**
**Jobless Claims – Weekly Basis**