New York Securities Pty Ltd

Monthly Newsletter – June 2014

RISING BEARISH WEDGE REMAINS INTACT – HEED CAUTION AS MARKET ADVANCES

The XJO S&P/ASX200 ended neutral for the month of May, a scenario ideal for many of our clients who wrote call options against their large cap stocks, successfully generating additional income for their portfolios. Against our own expectations the old adage "Sell in May and go away" failed to eventuate as the majority of participants continued to hold yield assets while buyers, most likely super funds and international institutions armed with cheap money, chipped away on light volume reversing the initial decline earlier in the month.

Technically, the 21st of May (**blue circle on chart below**) was the date the market came its closest to breaking the bearish rising wedge formation. The Bears were cheering during the morning session as the market fell deep into negative territory, only for their hopes of a correction to be dashed as a surge of buying midday closed the index higher at 5424. The move was followed by a few days of positive bias, enough for the XJO to recommence its upward journey within the wedge formation as shown below:

If you're sitting on the sidelines waiting for value to emerge in the banking sector, you will have to wait a little longer. The majority of market analysts agree there is great difficulty in finding value in this market, in particular, value amongst companies offering attractive yield. This is because **investors continue to pay a premium for yield**, after all where else can investors find similar returns? Certainly not in the bond market or at the local bank!

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PRICE TO BOOK VALUE RATIOS

You should never draw a conclusion on one financial ratio when deciding on your next investment, but the Price to Book Value (PTB) ratio is certainly one of those ratios that should be considered prior to making an investment decision;

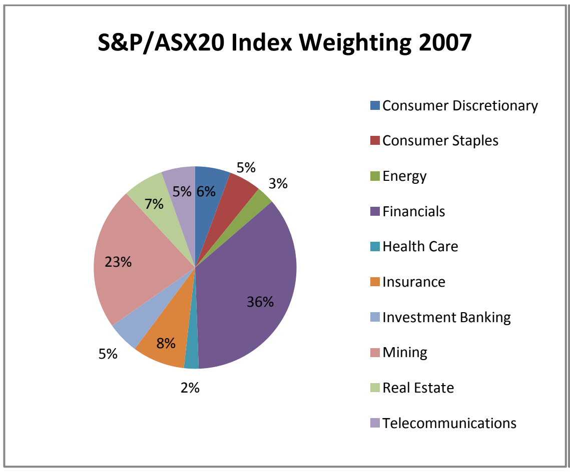
BANK	Price to Book (PTB) Value - 2014	Average (10 yr)
CBA (Commonwealth Bank of Australia)	2.92 X	2.16 X
ANZ (Australia & New Zealand Banking Group Ltd)	2.03 X	1.94 X
WBC (Westpac Banking Corporation Ltd)	2.26 X	2.04 X
NAB (National Australia Bank Ltd)	1.7 X	1.82 X

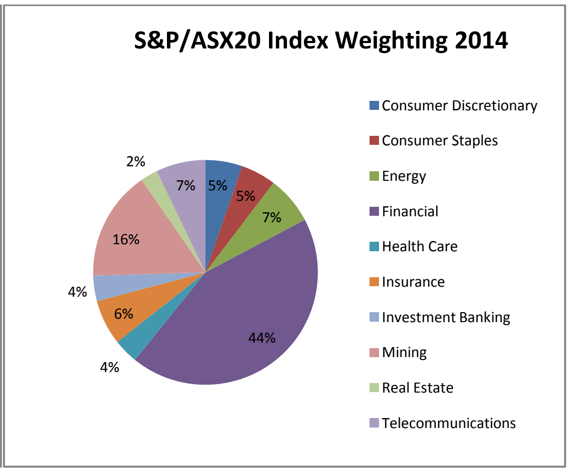
The PTB ratio indicates the price investors are willing to pay for the book value of a company. Book value is essentially the value of a company if it liquidates its assets and pays back all of its liabilities (Shareholders Equity). The above table displays the historical 10 year average for the Four Majors. CBA is trading at near 3 times its book value which we consider expensive given its historical average of 2.16 times. WBC and ANZ have PTB's higher than their historical average and look to be fairly valued. NAB is the exception trading below its historical average PTB of 1.8 times, due in part to the discount investors continue to apply on its earnings capacity, which is historically inferior to its peers.

We conclude there is a distinct trend of rising disconnection between price and value for yield assets. If we consider the low interest rate environment and the ongoing unexceptional growth in alternative assets, it's not impossible in the short term for prices to go higher, **however it comes with greater capital risk**. Our view is: Think long term and be patient, the worst thing you can do is react emotionally. The "fear of missing out" leads to a common error where one "chases the market" and ends up overpaying for their investment. In this instance **you end up risking capital for perceived infallible yield**. It almost always leads to nothing but bitter disappointment.

WHERE THE MONEY FLOWS

The financial sector today makes up 44% of the S&P/ASX20 compared to 36% in 2007 (Pre-GFC), the result of investor focus on yield in a low interest rate environment. The Top 20 stocks making up the S&P/ASX20 by Market Capitalization are AMP, ANZ, BHP, BXB, CBA, CSL, IAG, MQG, NAB, ORG, QBE, RIO, STO, SUN, TLS, WBC, WDC, WES, WOW and WPL. Their weightings by Industry are shown below:





The pie charts above reflect (on a relative basis) the allocation of funds by investors, by industry type over time. The Financial Sector has undoubtedly been a major beneficiary post GFC. The Mining Sectors' relative market share has declined, as lower commodity prices forced companies to strengthen balance sheets through divestment of non-core assets, internal cost cutting (CAPEX) and the reduction of debt levels amongst other measures.

From a technical perspective, the charts of various commodities suggest we are at the bottom of the current price cycle. The only commodity that has confirmed a break of its long term price decline is Nickel;

Nickel has been the top performer for 2014, rising 58% on the back of a ban imposed by the Indonesian Government on the export of unprocessed ore. Other Commodities continue to either consolidate at current levels or have made attempts to break long term downtrends with so far very little conviction. Here are a few examples of performance over the 7 year period;

WHERE TO FROM HERE? - SHORT TERM

After failing to break the bearish rising wedge formation in May, a further advance in the Index short term is possible, albeit on unconvincing volume. We suggest new investors seeking yield specifically in the banking sector are best to remain on the sidelines to avoid capital risk, given the rising disconnection between price and value among yield assets. Considering the background of inconsistent macroeconomic data from the US, Europe, China and within our own shores, we remain unconvinced commodity prices will outperform in immediate short term (1-2 months) and so the mining sector is likely to remain deflated during this period. In general, we continue to monitor the data for signs of a shift towards growth assets, which is currently lacking conviction.

Performance of Key Indices

Equities	*Close*	*Change (M)*	*Change % (M)*
All Ordinaries	**5403**	**-12.4**	**-0.23%**
S&P/ASX200	**5394.8**	**-10**	**-0.19%**
Dow Jones (US)	**16717.17**	**+268.43**	**+1.63%**
NASDAQ	**4242.62**	**+168.22**	**+4.13%**
S&P500	**1923.57**	**+54.14**	**+2.90%**
FTSE 100 Index	**6844.51**	**+144.35**	**+2.15%**
Nikkei 225 (Japan)	**14632.38**	**+344.15**	**+2.41%**
10-year bond rate (US)	**2.48%**	**+0.0023%**	**-8.36%**

Upcoming RBA Events

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

ABS releases March

Building Approvals (April) – 2nd June
Retail Trade (April) – 3rd June
Job Vacancies (May) - 6th June
Housing Finance (April) – 10th June
Labour Force (May) – 12th June
Lending Finance (April) – 13th June

Upcoming US Economic Releases

ISM Manufacturing Index – 2nd June
International Trade – 4th June
US Employment Situation (May) – 6th June
Retail Sales – 12th June
Producer Price Index – 13th June
Consumer Price Index – 17th June
Housing Starts – 17th June
FOMC Meeting announcement– 18th June
FOMC Forecasts – 18th June
Existing Home Sales – 23rd June
New Home Sales – 24th June
Durable Goods Orders– 25th June
GDP – 25th June
Jobless Claims – Weekly Basis