New York Securities Pty Ltd

Monthly Newsletter – January 2015

MERRY CHRISTMAS AND A HAPPY NEW YEAR

We would like to thank all our clients for their support during the year and hope you all had a great Christmas and enjoyed your New Year celebrations. 2014 was a challenging year. It was very good for some, not so good for others and overall a very one dimensional market all year. As we predicted in our December 2013 newsletter the "Hunt for Yield" was the major theme and if you weren't part of the yield movement it's unlikely you achieved an acceptable return for the year. The lack of alternative investments and trading opportunities in this year's market reminds us all of the importance in being dynamic in our investment approach. Following this path ensures you are more likely to allocate capital to its most efficient uses.

The year began in the red with a 5.2% decline through early January but recovered just as fast through February as confidence began to grow on the outlook of the Australian economy. Such was the level of confidence many economists predicted interest rates would follow the lead of New Zealand and the RBA would begin lifting rates late 2014 to early 2015. The markets confidence combined with generous yields offered by many companies created the perfect conditions for the “carry trade” strategy and so offshore money started rolling in leading to a “Chase for yield” among all participants, domestic and international. As the year progressed we identified the emergence of the “Bearish Rising Wedge” and informed our clients the excessive premium being paid for yield was neither warranted nor sustainable thus a pullback was nigh. It occurred faster than we anticipated and by late September we established a likely “pullback” target of 5078 and the index finally capitulated reaching a low of 5122 on the 13th October.

In recent months, the Australian market has been struggling with a number of negative catalysts, notably the lower dollar, the lower oil price and the lower iron ore price. Locally the WA government remains a party to this struggle. As iron ore and oil prices decline so do the royalties and tax revenues the government receives. The WA treasurer, Mike Nahan has revealed in the mid-year economic review WA is facing its first budget deficit since 2000, estimated at $1.287 billion dollars for FYE2015. Their solution, in part is to increase the payroll tax burden on businesses and apply heavy cuts to the public sector. In one example of cost reduction, the latest state government “workforce renewal policy” proposes any new employee who replaces an ex-employee will be paid 60% of the ex-employees salary. It seems obvious the current trend of subdued wage growth, public and private will be with us for some time. On another note, in what may be a boon to WA’s future share of the GST, known to be the lowest in the country, Joe Hockey has called upon the grants commission in Canberra to advise him on how to make the system fairer given volatility in commodity prices, potentially giving WA a larger share of the GST pie.

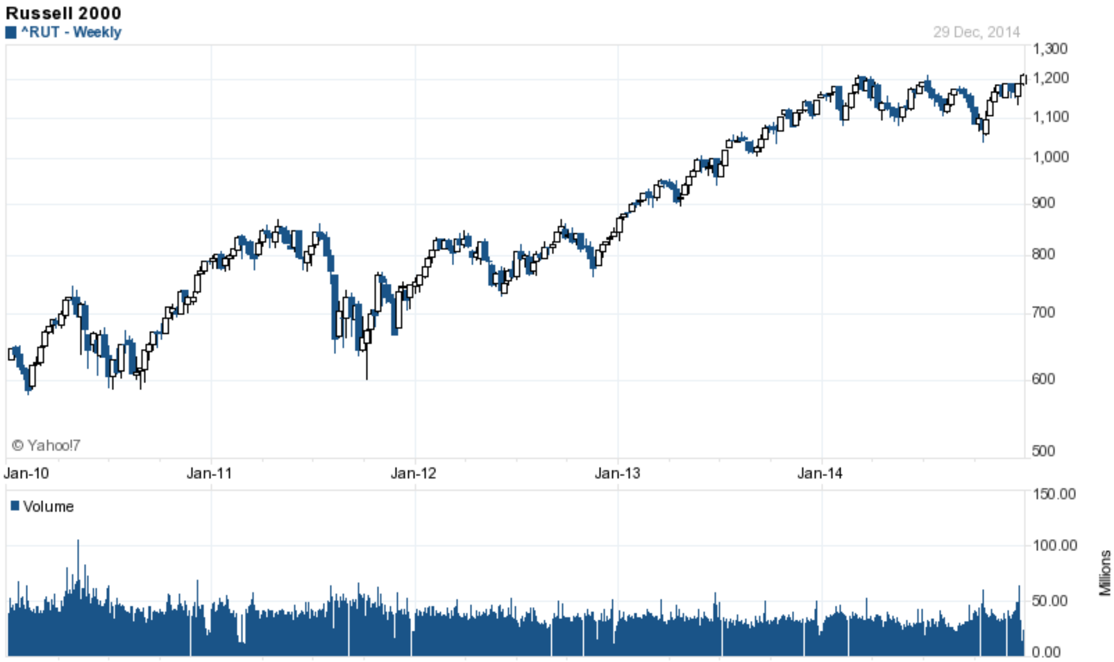
SYNOPSIS

As we begin the New Year we expect the trend of recent weak economic data to persist prompting the RBA to reduce the cash rate in the first quarter of 2015, most likely at its second meeting in March. This will provide a welcome boost of confidence among all sectors just as the market comes to recognize the ***benefit of a lower oil price on economic growth***. The real silver lining will emerge as the lower cash rate places additional pressure on the already declining Australian Dollar enhancing export sensitive sectors, such as the agriculture, resources and manufacturing.

Here at NYS, we remain particularly concerned about the level of debt among Australian consumers. The debt to income level remains historically high, wage growth remains subdued, the savings rate remains historically low and the cost of living remains elevated. As interest rates fall it creates a false sense of protection (confidence) against the data that is building against the indebted consumer, notably lower wage growth, falling net disposable income and a rising unemployment rate. As such if the RBA does reduce the cash rate, it will unleash a double edged sword heightening the risk of a consumer lead debt recession. Although we are not fully convinced of an impending disaster we continue to monitor the data closely for signs of further deterioration.

RUSSELL 2000 INDEX MAKING MOVE

The Russell 2000 Index represents the bottom 2000 small cap stocks in the US across three exchanges, NYSE, NASDAQ and OTC markets. The index is the benchmark for mutual funds exposed to the US small



cap sector. The index has been range trading between 1,100 and 1,200 for the 2014 calendar year and is now testing for the third time the 1,200 index level. As the index pushes above resistance at 1200 it will reflect a higher level of confidence among participants that the recovery of the US economy is deepening. We believe such a move will benefit Australian Small Cap stocks which, like their US counterparts, have largely been abandoned and replaced for yield and perceived safety of stocks in the major indexes. On this note we have opened our research wider for new opportunities within these sectors. Stay posted for Small-Cap opportunities in 2015.

Performance of Key Indices

Equities	*Close*	*Change (M)*	*Change % (M)*
All Ordinaries	**5388.60**	**+90.5**	**+1.7%**
S&P/ASX200	**5411**	**+98**	**+1.8%**
Dow Jones (US)	**17823.07**	**-5.17**	**-0.03%**
NASDAQ	**4736.05**	**-55.577**	**-1.2%**
S&P500	**2058.90**	**-8.66**	**-0.4%**
FTSE 100 Index	**6566.09**	**-156.53**	**-2.3%**
Nikkei 225 (Japan)	**17450.77**	**-9.08**	**-0.1%**
10-year bond rate (US)	**2.168%**	***None***	***None***

Upcoming RBA Events

Reserve Bank Board Meeting – 3rd February
Statement on Monetary Policy – 6th February
Minutes of the RBA meeting – 17th February

ABS releases March

International Trade in Goods and Services (November) – 6th January
Building Approvals (November) – 8th January
Retail Trade (October) – 9th January
Housing Finance (November) – 12th January
Lending Finance (November) – 14th January
Labour Force (December) – 15th January
Consumer Price Index (December) – 28th January

Upcoming US Economic Releases

ISM Manufacturing Index – 2nd January
International Trade (December) – 7th January
FOMC Minutes (November) – 8th January
US Employment Situation (December) – 10th January
Retail Sales (December) – 14th January
Producer Price Index (December) – 15th January
Consumer Price Index – 16th January
Housing Starts – 17th January
Existing Home Sales (December)–23rd January
New Home Sales (December) – 27th January
Durable Goods Orders (December) – 28th January
GDP – 30th January
Personal Income and Outlay – 31st January
Jobless Claims – Weekly Basis