New York Securities Pty Ltd

Monthly Newsletter – May 2015

S&P/ASX 200 CHART DISPLAYS SHORT TERM BULLISH SIGNAL

The S&P/ASX 200 index continues to send bullish signals despite April being one of the tedious months we have witnessed. Last month we discussed the upward "bullish continuation move" which has been in play since 2011, however index movements we have witnessed since March have formed a clearer signal of its near term intention and it's looking bullish.

The above pattern is called a **symmetrical triangle** formed by four major points of resistance and support. To determine if the formation is bullish or bearish depends on how the first point (**point 1**) comes to fruition. In this instance **point 1** was formed after a significant upward move from 5300 Index Points in January 2015 before hitting resistance at 6000 index Points in March 2015 thus creating **point 1** the beginning of the formation. The index movements thereafter are bullish in nature because exhaustion starts to weaken the sellers, leading to lower lows (**at point 2 and 4**) as the triangle forms over time. Because the line of failure (**lower red trend line**) is close to the breakout line (**upper blue trend line**) the risk/reward ratio is in the bulls favour i.e. traders can cut their losses at a higher exit point.

The triangle was broken at point 5 but subsequently failed in the following day's trade, finishing inside the triangle formation. The longer it takes for the index to make a move beyond the breakout line the more pessimistic people become and eventually the formation will fail. If the RBA reduces the cash rate

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next Tuesday we believe this will be the catalyst to propel our markets higher, beyond 6000 index points in the immediate term. If this is the case we calculate a short term target of 6150 index points, calculated by subtracting **point 1** (6000) from **point 2** (5800) i.e. 200 points and adding this to the likely breakout point, 5950 index points. If the formation does fail the immediate target to the downside is 5800 index points, the initial support level of the symmetrical triangle.

WHAT THIS MEANS FOR INVESTORS

One thing you can count on this month is volatility. The symmetrical triangle will break soon and it's going to lead to increased volume on either side. A break to the downside will cause plenty of Nervous Nelly's to dump stocks, while a break to the upside will force those sitting on the sidelines to chase stocks up for fear of missing out. If the market does break to the downside just remember, the **global background looks positive**. US earnings continue to improve, China continues to stimulate its economy through various measures, Europe is finding its feet with the ECB forecasting growth up in 2015 to 1.5% from 1% previously and even Japan is motoring along with the Nikkei reaching a new index high not seen since 2000. Any downside from here is a buying opportunity; don't waste your chance if you have been sitting on the sidelines.

THE IRON ORE MARKET – BIG PLAYERS WIN THE BATTLE, WAR CONTINUES

The iron ore majors have certainly been flexing their muscles since we first covered their devious (but unproven) scheme in September last year, pushing the iron ore price to an all time low of US$47 per tonne this month before recovering to near US$60 per tonne, but not before claiming its first victim Atlas Iron. Perhaps sensing a reaction from regulators and/or politicians was around the corner BHP pulled rank this month and announced they would be slowing down their expansionary efforts. Following this and the general view many commodities including oil had been grossly oversold the price soon recovered to where we are today US$60t. Unfortunately the pressure remains on the higher cost producers such as BC Iron (Cash Cost of US$52t), Arrium (Cash Cost of US US$66.9t), and Grange (Cash Cost of US US$71t) who are in a race to drive down costs. It's only a matter of time before one of these groups finds itself in the same position as Atlas Iron. Don't get sucked in by the recovery story in iron ore and chase these stocks up. Tough times in this sector are here to stay as the war continues.

THE LEECH TEST

While we are on the topic of companies struggling to generate free cash flow, you might have noticed recently there has been an increase in exploration companies seeking funds to continue their activities. Before you let go of your hard earned money make sure you have a look at the quarterly or annual reports and determine if the board is spending funds to add real value to the company i.e. to acquire a new project or begin a serious drilling campaign. Generally speaking if administration fees (which include salaries to directors) exceed the amount being spent on the ground then you likely have a leech on board, sucking shareholders dry to fill their own bellies with little to no benefit to shareholders. If you happen to get a call from the Managing Director asking to support the latest capital raising and the company has failed the Leech Test and the raising is unlikely to add any real value, tell them why you won't be departing with your money. It might bring about a much needed change in an industry where some directors are still living in the past.

IMPORTANT CHANGES TO YOUR ACCOUNT

We recently sent all clients' correspondence on the changes that are occurring at Broking Houses Australia wide due to the implementation of the new Financial Stability Standards (FSS) introduced by the Reserve Bank of Australia in conjunction with the Australian Stock Exchange. These standards are proposed to take effect on the 25th May 2015 and will affect the way your account operates including payment arrangements and settlement of stock transactions. If you haven't received the correspondence and/or would like to discuss how these changes will affect you please give the office a call to discuss further.

Performance of Key Indices

Equities	*Close*	*Change (M)*	*Change % (M)*
All Ordinaries	**5818.20**	**-43.7**	**-0.7%**
S&P/ASX200	**5838.60**	**-52.9**	**-0.9%**
Dow Jones (US)	**18110.14**	**+334.02**	**+1.88%**
NASDAQ	**5055.42**	**+154.53**	**+3.2%**
S&P500	**2114.76**	**+46.87**	**+2.3%**
FTSE 100 Index	**7030.53**	**+257.49**	**+3.8%**
Nikkei 225 (Japan)	**20058.95**	**+851.96**	**+4.4%**
10-year bond rate (US)	**2.00%**	**+0.000794**	**+4.1%**

Upcoming RBA Events

Reserve Bank Board Meeting – 5th May
Statement on Monetary Policy – 8th May
Minutes of the RBA meeting – 19th May

ABS releases March

Producer Price indexes (March) – 1st May
Building Approvals (March) – 4th May
International Trade in Goods and Services (March) – 5th May
Retail Trade (March) – 6th May
Labour Force (April) – 7th May
Housing Finance (March) – 12th May
Wage Price Index (March) – 13th May
Lending Finance (March) – 15th May

Upcoming US Economic Releases

PMI Manufacturing Index – 1st May
ISM Manufacturing Index – 1st May
International Trade – 5th May
US Employment Situation (April) – 8th May
Retail Sales – 13th May
Producer Price Index (April) – 14th May
Industrial Production – 15th May
Housing Starts – 19th May
FOMC Meeting and Minutes – 20th May
Existing Home Sales (April) – 21st May
Consumer Price Index – 22nd May
New Home Sales (April) – 26th May
Durable Goods Orders (April) – 26th May
GDP – 29th May
Jobless Claims – Weekly Basis