New York Securities Pty Ltd

Monthly Newsletter – July 2015

GREECE – RUNNING ON EMPTY

The banks are closed, the ATM's are running out of cash and the Government has imposed strict capital controls nationwide. Five years of austerity has made the situation worse for Greece as unemployment hits 25.6%, Debt to GDP remains the highest among Eurozone peers at 177%, GDP Growth is stagnant and consumers remain heavily pessimistic about the future. Perhaps an exit from the Eurozone (Grexit) is a better option for the people of Greece after all.

The resistance shown by the Greek Prime Minister Alex Tsipras to the latest austerity and reform demands from its creditors increased the odds of a Grexit; hence the negative movements across global market indices. Considering this reaction, it is clear the market will lose faith in the Euro if Greece were to default and exit, an outcome the **European Union has stated it wants to avoid.** It is now up to the people of Greece to determine, via referendum on Sunday the 6th July if they will stay in the Eurozone or Not. The Greek PM is urging the people to vote "No" citing the demands from its creditors as "insulting" and "absurd" and in no way assists them in achieving a genuine pathway to recovery. On the other hand the opinion polls suggest the Greek public would rather yield to the latest demands of its creditors and stay in the Euro, an outcome that would certainly please global market participants.

The general consensus is Greece, despite being in significant debt, is in a position of power and is simply playing hard-line politics to secure a better deal. After all, why is it that Europe is investing so much time and effort into a nation that contributes less than 1.5% to its total GDP? **The reason is this.** If Greece were to exit the Eurozone and (Heaven Forbid) its economy experienced a strong recovery it would give rise to anti-Euro politics and threaten the credibility of the Euro. Consequently it makes political and economic sense for the Greek PM to be playing hardball with its creditors. Despite his perceived "recklessness" it is popular opinion a deal will be concluded over the short term. The EU has acknowledged if the referendum is rejected the phone lines are open for further negotiations. In the meantime we can expect volatility to continue in the market place. Once a compromise is reached you can expect global markets to take advantage of the pullback in stock prices.

WHERE IS THE AUSTRALIAN MARKET HEADING?

In previous newsletters we touched on the theory of the Fibonacci retracement. The retracement levels continue to remain relevant as the market range trades around the 61.8% golden ratio, shown in the following chart. The next support level based on the Fibonacci is

5150 index points (100% retracement) while points of upper resistance exist at 5550 index points (50% on the Fibonacci) and 5650 index points (38.2% on the Fibonacci).

In the below chart we have included the Volatility Index (**green line**). The VIX often referred to as the “investor fear gauge” measures the anxiety level of market participants. The higher the VIX, the more concerned the market is about future stock market volatility. As uncertainty begins to filter through to the market, due to some fundamental catalyst i.e. *Fears about Greece leaving the Euro*, participants seek to hedge their positions by purchasing put options (expecting the market to fall) ultimately leading to a spike in the “investor fear gauge”. At the same time participants concerned about the market will sell equities forcing the Index lower. **Therefore the correlation between the Index and the VIX is negative.**

In the above I have highlighted points of interest where a spike in the fear gauge (within the red rectangles) has resulted in a corresponding decrease in the XJO index level (within the green rectangles). Here at NYS we look for instances where the VIX is at extreme high or low to determine if we are near the end of a short term trend. In the above example the VIX is currently topping out at a new high, while the Index is reaching a new low. The suggestion is low volatility always follows a period of high volatility (and vice versa) and given the relationship between the VIX and the Index is negative, the index could very well be at the bottoming out at its current level (5459.01 Index Points) i.e. the market will be supported at its current level.

In addition, using the VIX and given the XJO Index currently sits at 5459.01 we can determine market participants expect over the next month for the index to range between the following levels (where VIX=19.93);

Upper range: 5772.9 Index Points (+5.75%)
Median Range: 5459.01 Index Points
Lower range: 5145.10 Index Points (-5.75%)

NOTE: the Upper Range and Lower Range correspond to 23.6% and 100% on the Fibonacci retracement!

TAKE ADVANTAGE OF THE PULL BACK

The market pullback presents a great opportunity to pick up some good businesses offering attractive yield, if you agree with popular opinion that Greece and the European Union will come to a compromise. Additionally given recent comments from Glenn Stevens that he expects rates to remain low for an extended period of time, companies offering higher yield relative to other financial products i.e. term deposits will remain in demand. If you have been holding off entering the Stock Market we believe there is no better time to enter the market than now. Don't put yourself in a position where you end up chasing the market to save a few cents. Dependant on your views, this opportunity may not present itself again for a long period of time. If you would like to discuss what companies we are suggesting to other clients please give us call.

REMINDER: CHANGE OF CLEARER TO PERSHING (FROM BBY LIMITED)

We are still in the process of transferring client accounts from BBY Limited to our new clearer Pershing. **If you have not yet been contacted by us and you need to buy or sell in the immediate short term please contact us immediately so we can prepare your account**. We thank all clients for their patience as we continue to make the transition.

Performance of Key Indices

Equities	*Close*	*Change (M)*	*Change % (M)*
All Ordinaries	**5451.20**	**-323.7**	**-5.6%**
S&P/ASX200	**5459**	**-318.20**	**-5.5%**
Dow Jones (US)	**17619.51**	**-391.17**	**-2.17%**
NASDAQ	**4986.87**	**-83.16**	**-1.6%**
S&P500	**2063.11**	**-44.28**	**-2.1%**
FTSE 100 Index	**6520.98**	**-463.45**	**-6.6%**
Nikkei 225 (Japan)	**20235.73**	**-327.42**	**-1.6%**
10-year bond rate (US)	**2.35%**	**+0.002266**	**+10.7%**

Upcoming RBA Events

Reserve Bank Board Meeting – 7th July
Minutes of the RBA meeting – 21st July

ABS releases March

Building Approvals (May) – 1st July
International Trade in Goods and Services (May) – 2nd July
Retail Trade (May) – 3rd July
Labour Force (June) – 9th July
Housing Finance (May) – 10th July
Lending Finance (May) – 13th July
Building Activity (March) – 15th July
Consumer Price Index (June) – 22nd July
Building Approvals (June) – 30th July
Producer Price Index (June) - 31st July

Upcoming US Economic Releases

ADP Employment Report - 1st July
PMI Manufacturing Index - 1st July
ISM Manufacturing Index – 1st July
US Employment Situation – 2nd July
International Trade – 7th July
FOMC Meeting and Minutes – 8th July
Retail Sales – 14th July
Producer Price Index – 15th July
Industrial Production – 15th July
Consumer Price Index – 17th July
Housing Starts – 17th July
Existing Home Sales – 22nd July
New Home Sales – 24th July
Durable Goods Orders – 27th July
GDP – 30th July
Jobless Claims – Weekly Basis