VOLATILITY EXPECTED TO CONTINUE

Its been a while since we've experienced the level of stock market volatility we have seen over the past month and a half and unfortunately its not looking to abate any time soon. Three specific areas have left market participants confused and highly emotional so its no surprise this month saw the biggest one day fall in the All Ordinaries (XAO) for 2015 of 187 points.

The first market shock came courtesy of the Federal Reserve. Having spent a good year preparing the markets for a rate increase they turn around and pull the pin on the whole idea, bruising their credibility in the process. This left market participants wondering "what does the Fed know that we dont?" and consequently a **new level of uncertainty among market participants developed.** Interestingly, the Feds comments against the rate increase were directed heavily towards global activity and were rather dismissive of economic data at home. In our view the Fed attempted to send a strong message that their mandate is influenced by global economic circumstances more than the market may realise and as such their future decisions are to be treated as highly comprehensive and without doubt, perhaps a message that had been missing into the lead-up. This could be a boon for markets over the longer term, but for now until we get the rate rise market participants will continue to question the strength of the global recovery.

China continues to disrupt markets as questions over the **reliability of their economic data** continue to flare up. Its the type of rash that never goes away but it will be cured in good time as China continues to ramp up structural reform. The shock currency devaluation back in August which proceeded the release of Chinas half year "bang on target" GDP figure of 7% created the perfect platform for the sceptics to build their case that the Chinese continue to "favourably adjust" their figures to hide their Impending Doom. Since then any weak data released by China, as had occurred during the month is quickly glorified by doomsayers to argue their point. There is no doubt this time around the sceptics have been able to infiltrate the minds of many investors given the volaility we have seen in the market. The panic sellers really have been out in force recently and in all honesty we do feel sorry for those poor misguided sweaty palmed souls until that is we see how generous they have been in forcing down the prices of good quality high yielding stocks. **Consider this**, China knew very well their investment driven strategy was unsustainable over the longer term and this was the very reason they adopted their "12th Five Year Guideline" back in 2011 to re-balance the economy and achieve a **lower and sustainable growth profile**. Isn't this a far better option than continuing to run a high risk strategy that could collapse at any given moment? We think so. If

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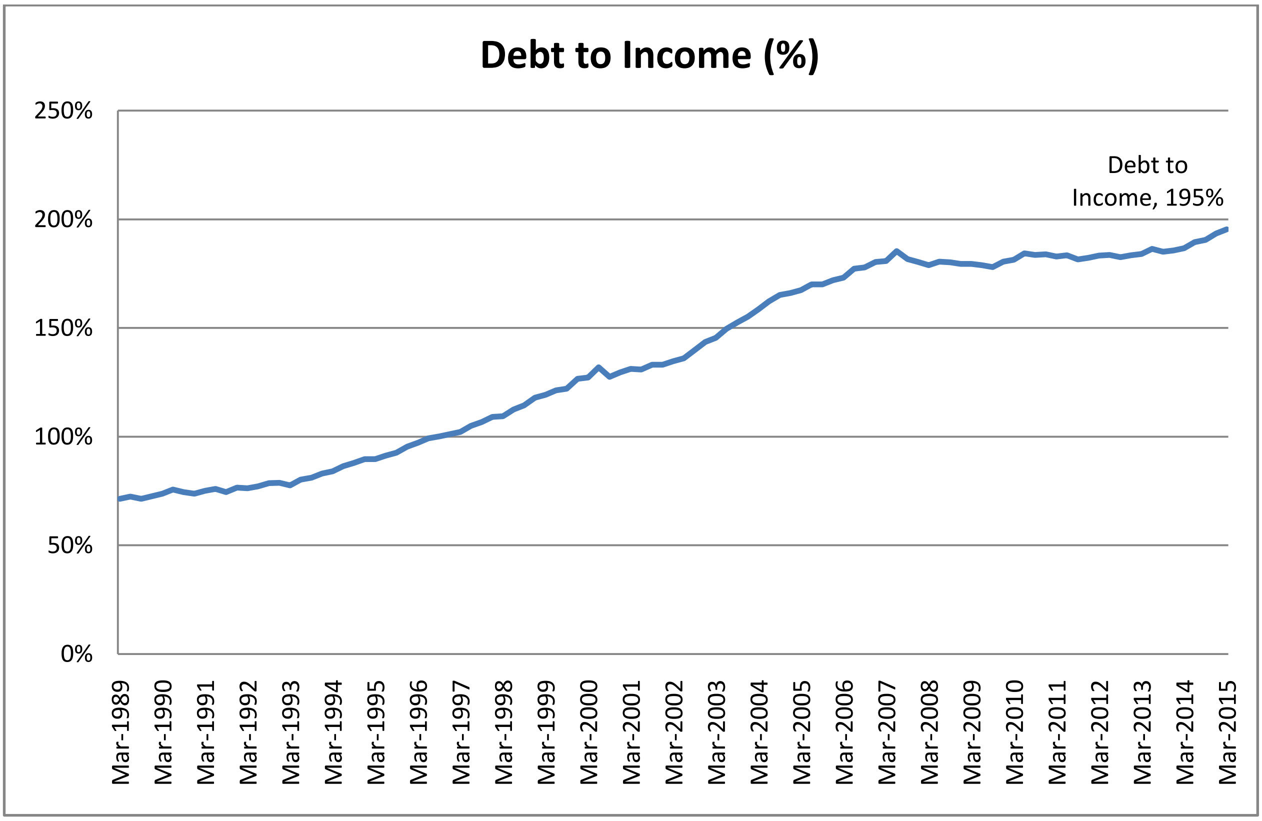
for one second you don't think a transition to a new growth model in a behemoth economy like Chinas doesn't come with its fair share of ups and downs then you would be completely insane, so **<u>EXPECT the ride to be bumpy and take it in your stride, don't panic</u>**. China has far more firepower by way of policy tools and financial buffers to manage the transition effectively, compared to the US and Europe who have nearly used up all their options to support their own economies. If I had to bet on one between the three, I would put my money on China.

Thirdly, back home there are signals that concern us about the economy in general. GDP continues to move lower, the trade deficit remains historically high, terms of trade continues to fall, the unemployment rate remains elevated, wage growth is at a 20 year low and a number of "micro" statistics are concerning. One particular statistic we keep a close eye on, the Household Debt-to Income has now hit an all time high of 195%. Australia officially has the highest Household Debt to Income percentage in the world while the global average is 78%.



The issue here is **<u>the ability to service debt</u>**. In the current environment households are doing well to address this issue with mortgage delinquency rates sitting at historically low levels, no surprise given interest rates are at their lowest level since the 1950's and inflation remains subdued. APRA and the RBA are well aware of the issues that stem from excessive household debt, including the impact on consumer spending which accounts for about 54% of Australia's GDP and consequently moved to impose new capital requirements and surveillance measures to address the issue earlier this year. There is no doubt the RBA is trying to coerce households to pay down their debt through indirect measures but its very difficult to do so during a low interest rate environment. At this stage the real risk of any major problems stemming from the household debt debate are remote, a number of factors do need to "line up" before we start to see this as a real and serious threat. The trend in the Unemployment rate is one we will be watching very closely. **The key metric in all of this is of course the Australian Dollar. Given the current economic trends emerging along with the AUD which remains stubbornly fixed to US$0.70c interest rates will have to be cut again at some stage either before 2015 or early 2016.**

From a market perspective if you consider;

a) The high probability of the cash rate being cut by 25 basis points prior to the end of this year and/or by early 2016 (February) and
b) September and October historically being two of the poorest performing months of the year,

there is good reason to be emerging yourself now in the market looking for quality companies offering higher yield, as long as you are comfortable with the associated capital risk. The market historically lifts leading into the new year. **An unexpected rate cut before the end of the year would certainly magnify this historical trend.**

MARKET EXPECTATIONS

The XJO finshed yesterday at 5112.14 Index Points while the VIX finished at 25.554. From this we derive the following range based on the markets expectations;

Upper range: 5489.04 Index Points (+7.37%)
Median Range: 5112.14 Index Points
Lower range: 4735.23 Index Points (-7.37%)

These ranges closely coincide with the Fibonacci retracement levels of 23.60 and 61.80 which happen to be major resistance and support levels respectively, as depicted below;

DEADLINE APPROACHES - 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.

It is essential to have your shares registered with New York Securities on a HIN for us to identify you as a shareholder via our Scanning and Filter systems if any one of your shares announces a material event for us to contact you and provide advice if required. Hence our reason for following up our clients who have not yet completed the minimal documentation to transfer the HIN to our new clearing and settling agent. Please help us to help you if you have not already completed the documentation, which we can provide instantly via email.

OFFICE CLOSED – 5th OCTOBER FOR PUBLIC HOLIDAY

Please be advised the Australian Stock Exchange is closed Monday the 5th October for Labour Day and our office will be CLOSED on the day.

Performance of Key Indices

Equities	*Close*	*Change (M)*	*Change % (M)*
All Ordinaries	**5144.13**	**-163.50**	**-3.13%**
S&P/ASX200	**5021.63**	**-185.37**	**-3.56%**
Dow Jones (US)	**16284.7**	**-243.33**	**-1.47%**
NASDAQ	**4620.16**	**-156.35**	**-3.27%**
S&P500	**1920.03**	**-52.15**	**-2.64%**
FTSE 100 Index	**6061.61**	**-186.33**	**-2.98%**
Nikkei 225 (Japan)	**17388.15**	**-1502.33**	**-7.95%**
10-year bond rate (US)	**2.0396%**	**-0.00177**	**-7.97%**

Upcoming RBA Events

Reserve Bank Board Meeting – 6th October
Minutes of the RBA meeting – 20th October

ABS releases March

Retail Trade (August) – 2nd October
International Trade in Goods and Services (August) – 6th October
Building Approvals (August) – 8th October
Housing Finance (August) – 9th October
Lending Finance (August) – 12th October
Labour Force (September) – 15th October
Consumer Price Index (September) – 28th October

Upcoming US Economic Releases

PMI Manufacturing Index – 1st October
ISM Manufacturing Index – 1st October
US Employment Situation – 2nd October
International Trade – 6th October
Producer Price Index – 14th October
Consumer Price Index – 15th October
Philadelphia Fed Business Outlook – 15th October
Industrial Production – 16th October
Housing Starts – 20th October

Existing Home Sales – 22nd October
New Home Sales – 26th October
Durable Goods Orders – 27th October
FOMC Meeting Announcement – 28th October
GDP – 29th October
Personal Income and Outlays – 30th October
Jobless Claims – Weekly Basis