Monthly Newsletter – September 2015

DON'T BELIEVE THE HYPE!

Time and time again the media gets handed yet another plum opportunity to instill fear, confusion and panic into every single person unlucky enough to stumble upon their content. This month, like dirty drug dealers they fed their readers, viewers and listeners with an oversupply of high grade clichés and dodgy lines which left many in a state of a drug-like induced psychosis. Luckily, as clients of New York Securities having read all our previous material you should have already known that a) Drugs are bad for you and b) Never believe the Hype!

Tuesday last week I couldn't believe some of the garbage I was reading. Here are some of the dodgiest lines I'm sure we all had a sniff of on that day;

"We Are Now On For a Full Market Crash"
"China's Black Monday Sends Markets Reeling"
"China Plunge Rattles Markets across the Globe"
"Markets Lose Faith in China"

And last but not least my favorite, **"The Great Fall of China".** Well in truth I made that last one up, but for those who did find themselves a little sweaty under the palms **to your defence** the human mind is naturally wired to emphasize negative events. After all it's our ability to sense danger and stay away from it that has been key to human survival.

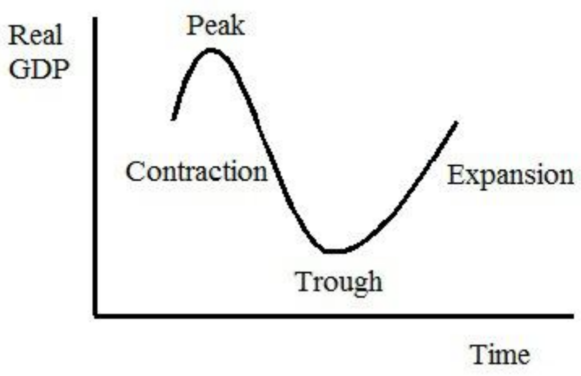
So it comes as no surprise that if you wake up one morning and look upon a "red screen of death" as I like to call it, that you might get an urge to sell **your entire share portfolio**. But before you make such an impulsive move ask yourself and remember;

- **What is my investment timeframe?** The most successful investors are long term strategists. The Australian market has returned on average (All Ordinaries Accumulation Index (AOAI), which includes dividends) 13% per annum over the past 110 years. If you fixate on a long term goal and act with diligence you insulate yourself from reacting to short term market swings.

- **What am I looking to achieve from my investment?** Reexamine why you purchased the stock/s in the first place. Did you buy for yield purposes and is it meeting your objectives? If it is, relax there is no need to panic. Don't create problems for yourself by dumping your portfolio like a kamikaze pilot in the hope of buying them back at a cheaper price to achieve a slightly higher yield. In most cases you would have already sold too late in the downturn and you are simply gambling from thereon in to pick a market bottom, which you may very well miss out on all together.

- **What are the alternatives?** It's important to take into account what alternatives are out there in the market place. Yield remains the key theme in today's market. It wasn't as important leading into to the GFC. Parking your money into a term deposit won't fund your retirement, while it's difficult to conclude property will return the type of gains we have experienced over the past decade. The stock market remains very attractive and as long as you focus on quality companies, you give yourself the best opportunity to achieve your long term goals.

- **Business Cycles are real. Ensure they are factored into your investment strategy.** Economies always have and will cycle through periods of expansion or contraction. All savvy businesspeople will have factored this into their business strategy. The same should apply to your investments. Right now the Australian economy sits in-between the "Contraction" and the "Trough" phase. In our view this is not the time to sit on the sidelines with cash parked in the bank. Global markets are on the mend and you have a great opportunity to be a part of the next expansionary phase. Seek a diverse portfolio of quality companies, without limiting yourself to just the Top 200 ASX stocks (i.e. XJO.asx).



WHAT WE ARE EXPERIENCING IS A CLASSIC CORRECTION, NOT A MARKET CRASH!

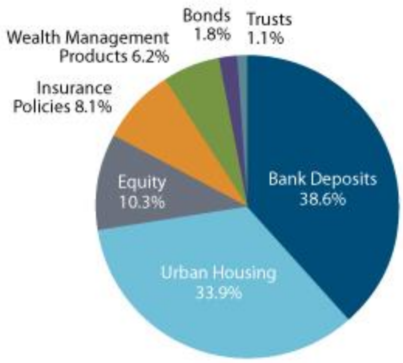
The Dow Jones had been in an uptrend for **seven years** fuelled by cheap money and driven by a strengthening economy, jobs market and improving household sector. The larger market players could only stretch the divergence between price and value so far, so what better way to justify taking money off the table than using the stock market turmoil and unreliable data (albeit common knowledge) of the second largest economy, China, as the catalyst.

DON'T FEAR CHINA….

Last month we discussed how highly geared and inexperienced Chinese retail investors had inflated the Shanghai Composite Index to spectacular new heights. The Index had risen from 2060 Index Points at 30th June 2014 to 5166 Index Points by the 12th June 2015, **a 150% increase in the space of 1 year.** The average P/E ratio for companies listed on the Shanghai Composite just prior to the collapse that began on the 12th June was on average 30, far in excess of its historical P/E average of 16. It would only be a matter of time before the excessive valuations would come to a grinding halt creating follow on effects like margin calls leading to the deeper collapse in stock prices.

Global markets soon began to fear China's transformation to a "Consumer-Driven" economy would be placed at risk by the "wealth effect" of the collapsing stock market. In truth stocks make up less than 11% of Chinese household wealth, with most households preferring to park their wealth in property and cash i.e. very little impact on household wealth.

Figure 1: Chinese Household Wealth
As of December 31, 2014



Sources: CBC, Wind, and UBS estimates.

In addition we have long been aware Chinese economic growth has been slowing since 2007. However it's important to understand the lower rate of growth is being achieved from a much larger base, in fact its projected China's GDP value will surpass that of the US by 2026 (Bloomberg).

China GDP growth total dollar amount vs. China GDP growth percent
(12/31/00 – 12/31/14)

Data from the IMF as of 12/31/2014

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.

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.

Performance of Key Indices

Equities	*Close*	*Change (M)*	*Change % (M)*
All Ordinaries	**5222.1**	**-459.60**	**-8.09%**
S&P/ASX200	**5207**	**-492.2**	**-8.64%**
Dow Jones (US)	**16528.03**	**-1161.83**	**-6.57%**
NASDAQ	**4776.51**	**-351.77**	**-6.86%**
S&P500	**1972.18**	**-131.66**	**-6.26%**
FTSE 100 Index	**6247.94**	**-448.34**	**-6.70%**
Nikkei 225 (Japan)	**18890.48**	**-1694.76**	**-8.23%**
10-year bond rate (US)	**2.216%**	**+0.0003**	**+1.52%**

Upcoming RBA Events

Reserve Bank Board Meeting – 1st September
Minutes of the RBA meeting – 15th September

ABS releases March

Balance of Payments and international Investment Position (June) – 1st September
Building Approvals (July) – 1st September
International Trade in Goods and Services (July) – 3rd September
Retail Trade (July) – 3rd September
Household Income and Wealth – (2013-2014) – 4th September
Building Approvals (July) – 8th September
Housing Finance (July) – 9th September
Labour Force (August) – 10th September
Lending Finance (July) – 11th September

Upcoming US Economic Releases

PMI Manufacturing Index – 1st September
ISM Manufacturing Index – 1st September
ADP Employment Report – 2nd September
International Trade – 3rd September
US Employment Situation – 4th September
Producer Price Index – 11th September
Retail Sales – 15th September
Industrial Production – 15th September
Consumer Price Index – 16th September
FOMC Minutes – 17th September
FOMC forecasts- 17th September
Existing Home Sales – 21st September
Durable Goods Orders – 24th September
GDP – 25th September
Jobless Claims – Weekly Basis