

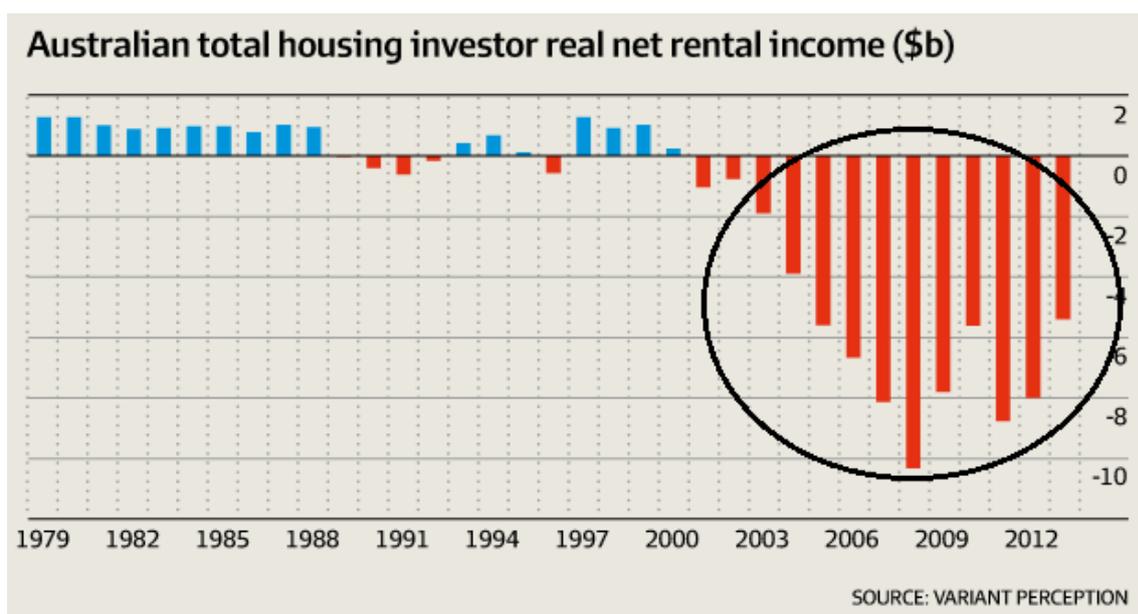


DEATH AND TAXES – TWO CERTANTIES IN LIFE

Will Rogers, a comedic actor in the early 1900's once famously quipped *"The difference between death and taxes is death doesn't get worse when congress meets"*. This assertion continues to resonate with us today, so it's no surprise we find ourselves once again in the middle of a political debate on **how to tackle the nation's huge pile of debt through none other than taxation reform**. While an increase in the GST has been averted for the time being, our supreme leaders have decided the best way to mask their true agenda is to **shift its focus on the perennial problem of 'housing affordability'** using it as a ruse to justify reform of **Negative Gearing and Capital Gains Tax laws**.

A case for **soft reform** of these laws, contrary to the view of many, is worthy of consideration. Negative Gearing has been a massive boon for the economy but it's showing vulnerabilities that need to be addressed. **The problem is the debate has come too late**, akin to Labors introduction of the failed mining super profits tax. The housing market is one of the few remaining pillars of strength holding up our economy. It's a touchy subject, **a potential confidence killer so great care must be taken**. What is needed is a soft approach to flatten the growth curve and provide a sustainable long-term solution.

Let's look at what's being targeted....Essentially both political parties are seeking to capture all or part of the tax benefits claimed by negatively geared householders as depicted by the circled area in the chart below. It's a highly lucrative option for the Government;



A HARD APPROACH IS NOT AN OPTION

If we take into account the current economic environment characterized by lean global growth projections, falling commodities, falling terms of trade, rising unemployment, sluggish wage growth and high levels of household debt, **why any political party would seek to impose further burden on consumers at this time is beyond us.** Consumer spending accounts for over 55% of Australian GDP. Any reform designed to reduce the tax benefits derived from negative gearing will lead to a **fall in after tax income.** For those who are eligible it means less money to spend on goods and services, **a negative for the Australian Economy.**

The effects it will have on property prices are debatable, but consider this scenario. If you own a property portfolio eligible for tax concessions and those concessions are in part or full ripped out from under you, then you suddenly find yourself liable to absorb the lost benefit with after tax income. It then becomes a case of how long you can absorb the lost benefit until you have no other option but to sell your property. If you find yourself up against others in the same predicament, you start competing for buyer's attention leading to downward pressure on property prices.

WHAT THIS MEANS FOR THE STOCK MARKET

Clearly the debate adds a new level of uncertainty among an already uncertain and fragile market. Truthfully the timing couldn't be worse and with politicians involved you can be certain this debate will continue to play out like a low budget drama. **Because the issue is structural in nature** it does command a higher level of respect from market participants, so we cannot take the discussions lightly. At the same time we mustn't forget negative gearing is not the sole cause of the 'housing affordability' conundrum, the second part is a function of land supply which oddly enough has yet to become a newsworthy topic. If there is any consolation to the unpopular debate it's that **Malcolm Turnbull understands the importance of confidence in the economy,** he's made that very clear in recent days. This means, unlike the opposition, **he is likely to adopt the most conservative approach towards tax reform, that is if reform takes place at all.**

Unless Labor has its way, the conclusion drawn is we need not be frightened of the outcome, **instead use the fear instilled in others to your advantage.** Conveniently the reporting season has come to an end so we've been able to sift through a number of winners and losers. What we found was a large number of our suggestions posted results above or in line with the market's expectations, a truly pleasing result. They included **CSL Limited** (ASX Code: CSL), **Cochlear Limited** (ASX Code: COH), **Blackmore's** (ASX Code: BKL), **Pioneer Credit** (ASX Code: PNC), **Invocare** (ASX Code: IVC), **Credit Corp** (ASX Code: CCP), **Ramsay Health Care** (ASX Code: RHC), **Bellamy's** (ASX Code: BAL) and **APA Limited** (ASX Code: APA). Although historical the company results continued to reveal "core" truths, highlighting sectors that should be favoured over others for their resilient performance among a challenging market. They are **Health Care, Utilities, Agriculture and Specialised Finance.** If you haven't already, consider exposure to these sectors.

7th MARCH - ASX TRANSITION TO T+2 SETTLEMENT

The ASX has indicated in March 2016 they will reduce the settlement period for Equities and Warrants from Trade Date + 3 business days (T+3) to Trade Date + 2 Business days (T+2). The ASX has announced the target date is the 7th March. This means all clients will need to ensure funds are available in their nominated bank account a day earlier than what is currently required.

Performance of Key Indices

<i>Equities</i>	<i>Close</i>	<i>Change (M)</i>	<i>Change % (M)</i>
All Ordinaries	4947.9	-21.7	-0.44%
S&P/ASX200	4880.9	-35.1	-0.71%
Dow Jones (US)	16516.5	+422.99	+2.63%
NASDAQ	4557.95	-33.23	-0.72%
S&P500	1932.23	+25.33	+1.33%
FTSE 100 Index	6097.09	+197.08	+3.34%
Nikkei 225 (Japan)	16026.76	-931.77	-5.49%
10-year bond rate (US)	1.74%	-0.00319	-15.52%

Upcoming RBA Events

Reserve Bank Interest Rate Decision - 1st March
Minutes of Monetary Policy - 15th March

ABS releases March

Balance Payments and International Investment Position (December) - 1st March
Building Approvals (January) - 1st March
Australian National Accounts - National Income Expenditure and Product (December) - 2nd March
International Trade in Goods and Services (January) - 3rd March
Housing Finance (January) - 9th March
Lending Finance (January) - 11th March
Job Vacancies (February) - 31st March

Upcoming US Economic Releases

ISM Manufacturing Index - 1st March
EIA Petroleum Status Report - 2nd March
Employment Situation - 4th March
Treasury Budget - 10th March
Producer Price Index - 15th March
Consumer Price Index - 16th March
Housing Starts - 16th March
FOMC meeting announcement - 16th March
Industrial Production - 16th March
Durable Goods Orders - 24th March
GDP - 25th March
Jobless Claims - Weekly Basis

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