



## A TECHNICAL OVERVIEW - AUGUST 2016 NEWSLETTER

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Reporting season is once again upon us and in similar fashion to last year the market finds itself seeking endorsement of current valuations and a catalyst to push the index higher. Last year was a miserable tale of earnings hits but mainly misses, made worse by the lingering turbulence of the Shanghai stock market that would eventually lead to the breakdown of a four year uptrend and retest of 4800 index points on the S&P/ASX200 (XJO);



This year our market is nestled among a favourable global economic backdrop, with US reporting season providing a good lead into our own where 78% of US companies beat earnings expectations. Recent economic data in the US has been mixed with minor disappointment coming on Friday via a weak second quarter GDP growth number, however positives can be drawn from the sharp improvement in household spending, further decline in jobless claims and an improvement in consumer confidence levels. Overall the data points to the continued prudent approach displayed by the US Fed in raising the Fed rate, a general positive for Global stock markets moving forward.

Locally the general consensus for FYE2016 earnings is for a 6-8% decline in profits driven by falls in earnings of resource companies and the banks. The market will be looking for CEO's to address key themes particularly dividends, cost-cutting programs, business conditions and the outlook in commodities, particularly oil and iron ore to present a clear picture of what potentially lies ahead. If the market can beat earnings expectations in similar fashion to the US there is logic for the market to trend higher until the historically volatile October period, effectively leaving a window of two

months for the index to retest the elusive 6000 point level. The decrease in the RBA cash rate yesterday to 1.5% will assist, albeit mildly, the drive of additional demand toward risk assets as investors continue to shy away from skinny returns offered by interest bearing financial products.

Technically the chart reveals a sharp contrast to the fundamentals, suggesting there is little room for disappointment during reporting season. The pattern we have identified below, known as an “ABCD pattern” is used as a leading indicator to determine entry and exit points (reversals). The index move to point (D), the top end of the uptrend denotes a sell signal and a market demanding a fresh catalyst to propel the index beyond the 5600 index level. If earnings disappoint over the reporting season we would expect a pullback from the top of this trend as participants adjust their long positions and take profits from the more recent advance (C-D). The good news is if the index retraces from current levels, the momentum remains to the upside, signified by the uptrend established over the last 7 months;



A small number of companies have reported so far, notably one of our stock picks **Credit Corp** (ASX Code: CCP) who impressed yesterday in their Full year results presentation citing;

- 19% increase in Total Revenue
- 20% increase in Full Year Net Profits
- 19% increase in Earnings Per Share
- 14% increase in Dividend payment
- Profitability and returns projected to improve in FY17

For reporting dates for your companies please click [here](#) to view the corporate calendar.

## Performance of Key Indices

<i>Equities</i>	<i>Close</i>	<i>Change (M)</i>	<i>Change % (M)</i>
All Ordinaries	5643.96	+278.76	+5.20%
S&P/ASX200	5562.36	+280.58	+5.31%
Dow Jones (US)	18432.24	+482.87	+2.69%
NASDAQ	5162.13	+299.56	+6.16%
S&P500	2173.60	+70.65	+3.36%
FTSE 100 Index	6724.43	+202.17	+3.10%
Nikkei 225 (Japan)	16569.27	+793.47	+5.03%
10-year bond rate (US)	1.45%	+0.01%	+0.62%%

## Upcoming RBA Events

Reserve Bank Interest Rate Decision – Cash Rate reduced to 1.5%  
Statement on Monetary Policy – 5<sup>th</sup> August

## ABS releases March

Building Approvals (June) – Dwellings approved fell by 0.9% in June 2016 (Decrease of 5.2% in WA).  
International Trade in Goods and Services (June) – Trade Deficit of \$2,359m in June.  
Retail Trade (June) – 4<sup>th</sup> August  
Housing Finance (June)–10<sup>th</sup> August  
Lending Finance (June) –12<sup>th</sup> August  
Wage Price Index (June) – 17<sup>th</sup> August  
Labour Force (July) – 18<sup>th</sup> August  
Construction work Done (June) – 24<sup>th</sup> August  
Building Approvals (July) – 30<sup>th</sup> August

## Upcoming US Economic Releases

ISM Manufacturing Index - 1<sup>st</sup> August  
Personal Income and Outlays – 2<sup>nd</sup> August  
Employment Situation – 5<sup>th</sup> August  
International Trade – 5<sup>th</sup> August  
Retail Sales – 12<sup>th</sup> August  
Producer Price Index – 12<sup>th</sup> August  
Consumer Price Index – 16<sup>th</sup> August  
Housing Starts – 16<sup>th</sup> August  
FOMC Minutes – 17<sup>th</sup> August  
Durable Goods Orders – 25<sup>th</sup> August  
International Trade in Goods – 26<sup>th</sup> August  
GDP – 26<sup>th</sup> August  
Jobless Claims - Weekly Basis

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