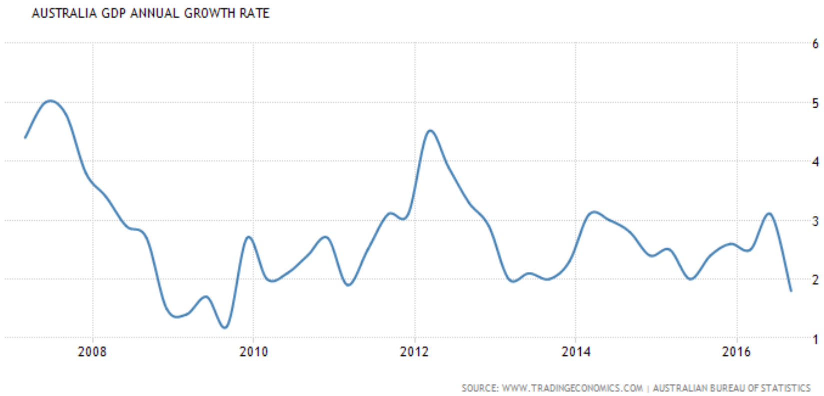
JANUARY 2017 - BUDGET PROPAGANDA AND A POSITIVE START TO THE YEAR

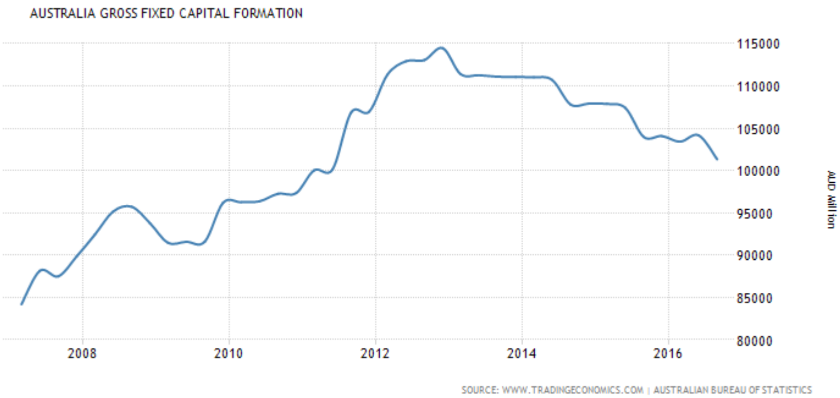
Budget Propaganda

The idea of a "Balanced Budget for Economic Prosperity" is one of the most overused political propaganda tools we have ever seen, created by politicians for the sole purpose of winning public vote. Constantly we are told a balanced budget is the key to achieving economic prosperity and any political party who fails to deliver accordingly is a party unworthy of our vote. While we agree there is a time and place to deliver a balanced budget you only have to review the latest ***National Accounts*** and ***New Private Capital Expenditure Accounts*** released by the Australian Bureau of Statistics (ABS) **to conclude the time for our Government to show Fiscal Restraint is not now.**

The National Accounts serve to give us an overall picture of our economic performance. The latest GDP figure released for the September 2016 quarter **reflected the worst level of performance we have witnessed since the onset of GFC**. The economy declined 0.5 per cent (seasonally adjusted) over the third quarter with annual GDP growth an anemic 1.8 per cent p.a., declining sharply from the June's figure of 3.3 per cent p.a. **This is not what we need considering one of the biggest positive contributors to GDP happens to be highly indebted households.**



However our main concern emerged as we delved further into the detail. Fixed Capital Formation (Public and Private), essential to the provision of future growth, employment and prosperity within the economy **continued its decline from the highs of 2012**. As the Government employs Fiscal restraint it becomes far more reliant on the private sector to pick up the slack and so far the private sector is failing to show any signs of being able to deliver;



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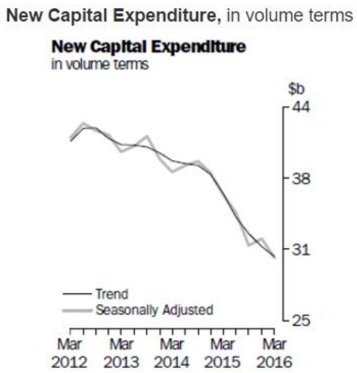
The accounts pursuant to New Private Capital Expenditure highlighted the risk of a continuation in private sector underperformance, creating an investment deficiency gap that can only be filled by Government investment expenditure. Emphasizing this point, total new private capital expenditure declined by 13.7 per cent in the 12 months to September 2016, while investment in building and structures declined by 24.3 per cent over the same period. In the September quarter alone total new capital expenditure declined 4 per cent, buildings and structure expenditure declined 5.7 per cent and equipment, plant and machinery expenditure declined 1.9 per cent. Even more troubling investment for 2016-17 is now 14.3 per cent lower than the equivalent figure 12 months ago.



In light of these figures it's obvious the Government needs to quit using the Budget as a propaganda tool and and embark on a significant Fiscal Stimulus plan immediately. While interest rates remain at near historically low levels it makes sense for the Government to **embrace the use of Good Debt,** that is **employ debt that will create productive assets and build productivity capacity over time**, rather than accelerate a plan to balance the budget through Fiscal restraint which limits the amount of capital available for the Government to deploy for investment and places our economic prosperity at risk.

Market Review

The S&P/ASX200 has started the year well touching a new high of 5700 Index Points in its first day of trade. While optimism remains abundant, the low volume surrounding the advance is a cause for concern. For the optimists it's been a simple task to push the index higher namely because the real "market makers" (i.e. institutions, fund managers) or those who provide the majority of market volume are still away from their desks. While we can't rule out the market moving higher and beyond resistance at 5700 Index Points, the Stochastic Oscillator signals there isn't much upside left in this rally. What we expect is a test of major resistance of 5800 Index Points followed by an emergence of profit taking as market makers return to their desks over the coming weeks and positions are adjusted to reflect the reality of our economic environment.

A Great Reminder for All

As the S&P/ASX200 edges itself higher participants have been given an early reminder that even if you may be right on the direction a market should be moving (up or down) it's those highly irrational market participants that can easily stop it from happening. What we have witnessed since mid-November is a prime example of what occurs when participants get heavily caught up in the hype and dismiss the truths that lay in their own backyard. Despite the strong wave of optimism that has landed upon our shore following Trumps Fiscal "Boast" its suffice to say the market has erased any knowledge of our own economic standing, **perhaps because the truth is hardly worth celebrating**. The reason we make this point is its easy to be misguided where irrationality has corrupted market sentiment. Its often said **"danger lies within an idle mind"** so if you find yourself watching the market move against firm belief be careful not to allow impatience to consume you or you risk coming to the rally late and exposing yourself to unnecessary market risk. **Patience is often best policy**.

New York Securities - Operational Update

New York Securities will embark on fresh change in early 2017 as result of discussions held with a third party over the past six months. The initial outcome for Clients will be the ability to trade companies on the National Stock Exchange (NSX), Chi X and ASX shortly followed thereafter with the resumption of International Trading activities.

While on the topic, The NSX is quickly becoming home to companies who no longer meet ASX minimum requirements i.e. junior exploration, small industrial and tech stocks. The NSX is under new management and will in due course become the home for a slew of new smaller IPO's and an exchange to allow family and small companies to raise capital, and or allow a family member to divest their holdings.

We will also be changing our Execution and Clearing agents to allow for these extra facilities to be provided including direct access to your portfolios direct from your computer. The set up and transfer process is very simple and we intend to transfer our personal accounts in the immediate term. If you would like to be one of the first to make the switch please advise us as soon as possible. All clients will be transferred to the new agent over the coming quarter.

Performance of Key Indices

Equities	*Close*	*Change (M)*	*Change % (M)*
All Ordinaries	**5719.10**	**+278.60**	**+5.12%**
S&P/ASX200	**5665.80**	**+163.40**	**+2.97%**
Dow Jones (US)	**19762.6**	**+639.02**	**+3.34%**
NASDAQ	**5383.12**	**+59.436**	**+1.12%**
S&P500	**2238.83**	**+40.02**	**+1.82%**
FTSE 100 Index	**7142.83**	**+359.04**	**+5.29%**
Nikkei 225 (Japan)	**19114.37**	**+805.89**	**+4.40%**
10-year bond rate (US)	**2.44%**	**+0.06%**	**+2.43%**

RBA releases

Index of Commodity Prices – 3rd January

ABS releases

International Trade in Goods and Services (November) – 6th January
Building Approvals (November) –9th January
Retail Trade (November) – 10th January
Building Approvals (November) – 16th January
Housing Finance (November) – 17th January

Sales of New Motor Vehicles (November) – 17th January
Labour Force (December) – 19th January
Lending Finance (November) – 23rd January
Consumer Price index (December) – 25th January
Producer Price Indexes (December) – 27th January

Upcoming US Economic Releases

ISM Manufacturing Index – 3rd January
FOMC Minutes – 4th January
Employment Situation – 6th January
International Trade – 6th January
Producer Price Index – 13th January
Retail Sales – 13th January
Consumer Price Index – 18th January
Industrial Production – 18th January
Housing Starts – 19th January
International Trade in Goods and Services – 26th January
Durable Goods Orders – 27th January
GDP – 27th January