Welcome to the March 2014 edition of the Martin Bros Monitior.

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Market Predictions (ASX 200, $A, Cash Rates, 10 Year Bonds)

Some years ago in our first edition of the MBM for the year, we included our predictions on where various markets would be trading by the year end. As we all know, predictions are at best an educated guess. Whilst we have quite firm views on the medium term outlook for these markets, trying to pick exactly where they will be at one specific date in the future is a little futile. Therefore, if you are to take anything specific away from these forecasts, it is the macro longer term theme that they point too. Nevertheless, we think it’s quite fun to pen our predictions and then re-visit towards the end of the year. We know a number of you liked it the last time we did this. But before we get to these predictions, a little bit more on where we see things right now.

In the Xmas 2013 edition of MBM we wrote:
“So whilst tapering may cause some short term volatility in asset prices, the market is well aware it is coming and “known events” very rarely tend to spook the market. The same can be said for the US debt ceiling debacle (it can only be called a debacle that they let this go on). This will again raise its head in February, but just like the last four times it has come up, the two political parties will reach an agreement and extend this debt ceiling. A couple of years ago, these debt ceiling debates caused equity market sell offs in the vicinity of 10%. The last time this occurred in October of this year, markets fell all of 3%. We think this speaks volumes about the confidence in equity markets that has been building all of 2013 and will continue to be a theme in 2014.”

After the traditional “Santa Claus” rally we saw the markets sell off from mid January to early February by about 5%. As with all sell offs, it felt like something bigger, but as we have seen over the past year or so, these are strongly supported and result in quite a sharp rebound. And so it is again in 2014 that we believe the general approach should be to “buy the dips”. The major themes of low cash rates globally, stimulatory monetary policy, bond prices unwinding and improving economic fundamentals in the US, Europe and hopefully Australia, all continue to support higher equity markets over the year ahead.

There will of course be sell offs along the way but we believe these will be typically short in duration and shallow in depth. The extent of any falls will also be a factor of how far the market has run up in the immediately preceding period. Geopolitical risks such as the Ukraine / Russia tensions may cause some temporary worries. China (corporate) credit defaults and slowing steel production may see further weakness in resource stocks at some point this year. This is probably the greatest risk that could see markets have a greater than 5-6% sell off. Of course, there will no doubt be something out of left field that also causes the market some concern, but all of these factors cannot outweigh positive global fundamentals. All sell offs will be supported and result in new highs for the market by year end.

In our Xmas edition last year of MBM we said that we would provide you with the factors to watch out for that the market has peaked and a major sell off is overdue. These factors are not scientific, just observations. Here we go:

- Your taxi driver who cannot find your destination, knows the next hot stock
- Your friend decides to throw in his/her job and day trade for a living
- Bank stocks yield under 4%
- Your work Christmas party is cancelled because HR cannot find an available venue six months out
- The cash rate is higher than the average yield of the top 50 blue chip stocks
- Your neighbour becomes a financial market expert
- The local BMW dealer sponsors your child’s football club
- There are less than 1,000 jet skis for sale on boatsales.com.au (because everyone can afford one)

Whilst some of the above points sound almost comical, in reality, these are the sorts of things that do occur when markets are extremely overheated and near a medium to long term peak. We don’t believe many, if any, of these alarm bells are ringing right now.

Finally, our predictions for year end prices / levels:

- ASX200 – 5,850 points (currently 5,355)
- A$/US$ - 82 cents (currently 89.58)
- $A/Euro – 59 euros (currently 64.67)
- $A/GBP – 48 pence (currently 54)
- Aust Cash Rate – 2.5% (currently 2.5%)

- Aust 10 yr Bond yield – 4.80% (currently 4.17%)

So there they are, laid bare to be ridiculed or applauded by year end. We will provide an update of our strike rate in our Xmas edition of MBM.

Stock Review - Brickworks (BKW)

We have covered Brickworks in this section before, but felt an update is warranted. Brickworks were first listed in 1962, after being an unlisted company for many decades prior. Brickworks chairman, Robert Milner, is also Chairman of Soul Pattinson (SOL) and Milton Corporation (MLT), amongst others.

Brickworks is 48% owned by Soul Pattinson and in turn has a cross shareholding in SOL of 43%. This cross shareholding is currently under threat from a corporate agitator who is arguing that it should be unwound. If it was unwound, this would be a short term positive for BKW's share price. This structure has worked well over many decades though by smoothing out BKW's earnings during lean construction periods. Either way, we're happy owners of BKW.

As the name suggests, Brickworks is a building products producer and supplier. Its main brands include Austral Bricks and Masonry, Bristile Roofing and Auswest Timbers.

The last time we wrote about BKW the residential housing construction sector was in the doldrums. We wrote though, "there are signs that the interest rate cuts over the past twelve months may have just started to spur new home construction activity. Brickworks will be a major recipient of any housing recovery."

The housing construction market certainly has bottomed and year on year activity is up over 15%. Adding to the positive tail winds is the expected repealing of the carbon tax, which is a major positive for Brickworks given their heavy reliance on power prices during the brick manufacturing process.

Brickworks shareholding in SOL, based upon current market prices, is some $1.52B. Brickworks own market capitalisation is only $2.1B. Therefore, the market is ascribing a value of only $600m to its entire operating business (and large land holdings), at a point in the cycle where the recovery has only just begun.

The dividend BKW receives from its equity interest in Soul Pattinson underwrites its own dividend. Any earnings surprise will only add to the ability for it to raise its own dividend. It trades on a gross yield of 4.08% at current prices ($14.16) and has never missed paying a dividend every six months.

Superannuation Contribution Cap changes for 2014/15

The Tax Office has released the key superannuation rates and thresholds for the **2014/15** year.

These rates and thresholds have been indexed in accordance with average weekly ordinary time earnings (AWOTE) and reflect reporting changes made by the Australian Bureau of Statistics.

The key changes to superannuation rates include the following:

- Concessional Contribution Cap - 48 years or less as at 30 June 2014 - $30,000 (previously $25,000)

- Concessional Contribution Cap - 49 years and over as at 30 June 2014 - $35,000 (previously had to be over age 59)

- Non-Concessional Contribution Cap - $180,000 (previously $150,000)

ASX Market Hours - Easter Period

Please note the amended ASX trading hours below over the upcoming Easter period. Members of the Martin Bros. Team will be available each day the market is open.

- Friday 18th April - Market & Office closed (Good Friday)
- Monday 21st April - Market & Office closed (Easter Monday)
- Tuesday 22nd April through Thursday 24th April- Normal Trading
- Friday 25th April - Market & Office closed (ANZAC Day)
- Monday 28th April - Market returns to normal trading hours