

Martin Bros

MONITOR

Creating Long Term Financial Success For Our Clients



Welcome to the September 2014 edition of the Martin Bros Monitor.

In this edition of the Martin Bros Monitor:

- [Short Term & Long Term](#)
- [Medibank Private Limited](#)
- [Reminder - New Concessional Contribution Caps from 2014/15 FY](#)

Short Term & Long Term

The title of our June 2014 Martin Bros Monitor (MBM) was:

“Budget, Consumer confidence, China property, Iraq, Thai military coup, Chinese commodity scandal, US interest rates going up – Where’s the Volatility?”

If we weren’t concerned about being unoriginal, we would have used the same heading this time. All of the short term factors we discuss in our last MBM still hold true today. Volatility over the last six months has almost been non-existent, certainly in terms of historical equity market volatility. In a Bear market volatility tends to be extreme – moves of 2-3% a day are not uncommon. In a Bull market phase, such as we are currently in, day to day volatility will be substantially less, however month to month it is not uncommon to have 2-4% moves with short term corrections up to 10% from recent highs.

Since March this year however, equity markets have been very benign. This is not normal and normality will return at some stage, possibly in the very short term we suspect (if we had to guess). Volatility is not a bad thing. Too much complacency can be the breeding ground of dangerous bubbles as people forget that investing in shares is not a one way street. The usual volatility that will occur over time is also an opportunity in Bull market cycles, as it allows us to take advantage of temporarily mispriced companies.

Investing is not about focusing on the day to day movements but the long term value that can be added to the wealth that people work hard to accumulate. However, in the interests of providing a quarterly update in the MBM, these notes will provide you with a view into our current thinking on the short term nature of the (equity) market. The first chart below shows the ASX200 over the past year. Since March, the market has not had a sell off in excess of 3%. Whilst a constant grind higher with small 2-3% sell offs would be welcome for another few years, even indefinitely, it is very unlikely.

If you consider the first six month period in this same chart you will notice that we had two 6-7% sell offs during this time. As mentioned earlier, in Bull market phases, usual mini corrections would be in the 6-9% range. We may not see this type of sell off in the next few months (we suspect we possibly will), but it will occur at some stage in the not too distant future.



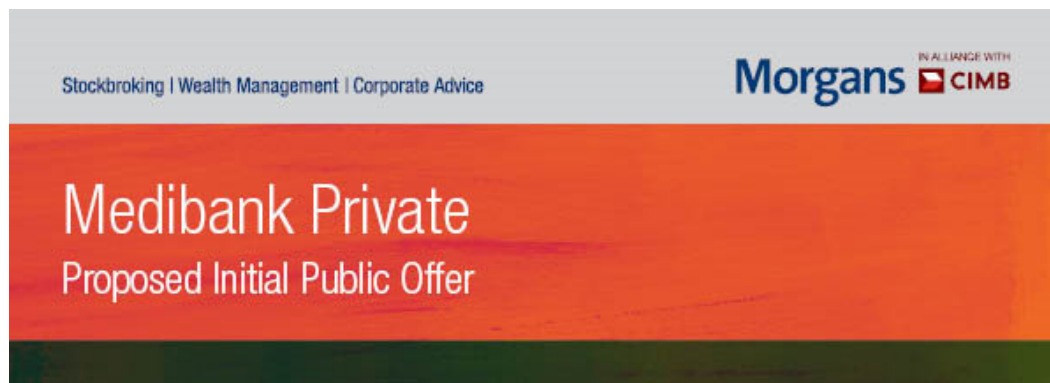
Back to the long term. Here is the chart of the ASX200 that we have used several times before in MBM's. This chart is of the last twenty years.



Taking a longer term perspective you can see that short term volatility makes for a pretty graph but has little effect on the long term projection of the market. As we have highlighted before, the equity market is a direct derivative of the general economy. Company profits and government spending represent the GDP (growth) of a nation. As our economy has grown over time, and as we expect it will continue to over the next 10, 20, 50 years, so will company profits. Share prices are driven by company profits in the long term, with short term share prices driven by a multitude of mostly psychological factors.

Notwithstanding our (very) short term view (guess), our underlying macro view we have held for the last few years remains. That is, global interest rates are low and staying low for quite some time. Bond yields are in long term bubble territory, cash rates are painfully low and investors who have been inappropriately (asset) allocated are being forced to use their cash to generate a higher return. This is true for individuals, super funds, institutional investors and governments. This is creating more and more buying demand for shares and underpinning the current Bull market cycle we are in.

Medibank Private Limited



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Government announces intention to complete IPO by end of 2014

Morgans appointed a Co-Lead Manager to the IPO

On 29 August 2014, Senator the Hon Mathias Cormann, Minister for Finance announced that subject to market conditions the Government has decided to proceed with the sale of Medibank Private through an Initial Public Offer in 2014.

The only details that have been released in respect of the proposed timing of the IPO are:

- All Australians will be given the opportunity to pre-register for a Medibank Private Share Offer prospectus towards the end of September 2014; and
- The Government expects to lodge the Medibank Private Share Offer prospectus with the Australian Securities and Investments Commission in late October.

Morgans is delighted to announce that we have been appointed a Co-Lead Manager to the proposed Initial Public Offering of Medibank Private.

Copies of the Minister's full announcements dated 5 August 2014 and 29 August 2014 can be viewed at www.financeminister.gov.au/media/2014.

There is no further detail at this stage, but we will contact you with more information in relation to the offer when it becomes available.

Reminder - New Concession Contribution Caps from 2014/15 FY



As mentioned in the June 2014 edition of the Martin Bros Monitor, the concession contribution caps have changed from 1 July 2014 to the below limits:

- Up to age 50 \$30,000 per annum per person
- Age 50* and over \$35,000 per annum per person

** Individuals age 49 as at 30 June 2014 are eligible for higher limit this financial year (2014/15)*

Please contact us should you wish to discuss concessional contributions or anything contained within this edition of the Martin Bros Monitor.

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