

Martin Bros

MONITOR

Creating Long Term Financial Success For Our Clients



Welcome to the Xmas 2013 edition of the Martin Bros Monitor.

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The Santa Clause Rally & US Tapering

In our last edition of Martin Bros Monitor (MBM) we stated that we expected a sell off could occur during the seasonally weak September / October period, but that any sell offs would be well supported. This certainly held true and the sell off was not really a sell off – as the market only pulled back a few percent.

The ASX200 index is now at 5,223, off its recent peak of 5,439. We suspect that the market may once again rally over the next four weeks, commonly referred to as the Santa Clause rally. This event has held true approximately 80% of the time over the last 30 years. The reason this Santa Clause rally often occurs is that there is approximately \$6 billion of dividends being paid from various companies (particularly 3 of the 4 major banks) over the next week. A large proportion of this money gets re-invested into the market. At the same time, many marginal sellers wind up for the year and so the selling pressure reduces. Further, as fund managers receive new money over the Christmas break, they often just buy the SPI (index futures). This pushes up the SPI and the market follows suit.

Whether this Santa Clause rally eventuates really has no bearing on the way we currently see things playing out in 2014, or 2015 for that matter.

Several commentators are making a lot of noise about the impending tapering of US bond buying by the

Federal Reserve, which we wrote about in our last MBM. This tapering has been well flagged by the Federal Reserve and no one will be surprised when they do start to implement this winding down of buying US bonds. It is just a matter of when.

The US bond buying program has kept long term interest rates at historically low and very stimulatory levels. Some commentators are concerned that tapering is effectively taking the candy bowl away as this “cheap” money has been pushing up asset prices – which it is designed to do. The flip side of the US beginning to taper is that it means the “real economy” is growing well and the Federal Reserve believe it can start to reduce some of this easy money policy.

Tapering however does not mean that the stimulatory practices of the Federal Reserve are going to be stopped in their tracks. We feel that this is the point many people are missing. When they do begin to taper, they will reduce their monthly bond buying program from the current level of \$85 billion per month to \$75 billion, then to \$65 billion and \$55 billion and so on. Even once the bond buying program ceases, the Fed Funds rate (cash interest rate) will still be at effectively 0%. This is still very stimulatory in nature.

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 which has been building for all of 2013 and we believe will continue in 2014.

In our first edition of MBM in 2014 we will discuss signs to look out for that the market has peaked. In short, none of these signals are going off yet, and likely won't be for some time.

[Introducing.... Morgans \(again\)](#)



You may have noticed that from November, we have dropped RBS from our name and we are now known as Morgans once again. This has occurred as RBS (Royal Bank of Scotland) has divested all of its Asia Pacific assets (to CIMB), so now once again, Morgans is 100% owned by the staff of the firm. This is a change of name only and all of our services to you remain unchanged. Please contact us if you have any queries.

Stock Review - Woolworths Limited (WOW)



Woolworths is well known to everyone and their effective duopoly position alongside Coles (Wesfarmers) places them in a strong position to benefit from any cyclical upturn in Australia. Retail sales recently came in stronger than expected and although it is early days, could be the start of a broader based recovery in Australia. With Australia's savings rate at historical levels – over 10% - there is a lot of room for consumer spending to increase once people feel more confident.

Woolworths recent quarterly update delivered a solid lift in real growth (ex deflation) in its supermarket division. This is the real driver for sustainable profit growth. Recent concern has surrounded its Masters division and the length of time it will take for this division to breakeven and ultimately be a profit contributor. Management have the expertise to execute in this regard and whilst there currently remains risk around this strategy, should Australian retail sales continue to improve and a renewed renovation cycle commence on the back of rising residential property prices, this division could surprise on the upside.

Woolworths is also Australia's largest online retailer and a significant emphasis is being placed on growth via this sales channel. Woolworths has the balance sheet and management expertise to continue its focus in this area.

Woolworths trades on a 17 times price to earnings ratio and 4% fully franked yield (5.6% gross yield), which we forecast to continue to grow year in year out. Morgans has a target price of \$35.20 versus a current share price of \$32.98.

ASX Market Hours - Festive Season



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

- Tuesday 24th December - Reduced Trading (10am to 2pm)
- Wednesday 25th December - Market & Office closed (Christmas Day)
- Thursday 26th December - Market & Office closed (Boxing Day)
- Friday 27th December - Normal Trading
- Monday 30th December - Normal Trading
- Tuesday 31st December - Reduced Trading (10am to 2pm)
- Wednesday 1st January - Market & Office closed (New Years Day)
- Thursday 2nd January - Market returns to normal trading hours

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