

Martin Bros

MONITOR

Creating Long Term Financial Success For Our Clients



Welcome to the Xmas 2014 Edition of the Martin Bros Monitor.

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2014 - The Year That Was

In our March edition of Martin Bros Monitor (MBM) we included some year end predictions on where various indices, currencies and bond yields would be. Here they are:

ASX200 – 5,850 points versus current 5,240
\$A/\$US – 82 cents versus current 83 cents
\$A/Euro – 59 euros versus current 66 euros
\$A/GBP – 48 pence versus current 53 pence
Aust Cash Rate – 2.5% versus current 2.5%
Aust 10 year Bond – 4.80% versus 2.86%

Our market rallied for the first nine months of the year to a September high of 5,679 points. Since then we have drifted back to a current level of 5,240 points. This is almost exclusively as a result of the resource sector with the industry heavyweights falling substantially from the start of the year. BHP started the year at \$37.99 and is currently \$28.90, Rio Tinto \$68.18 versus \$55.45 currently, Woodside Petroleum \$38.90 versus \$34.60 currently, Santos \$14.63 versus \$7.28 currently, Origin \$14.07 versus \$10.60 currently and Oil Search \$8.11 versus \$7.13 currently.

As a result of these falls the resources and energy sector weighting as a proportion of the ASX200 has fallen from 20.16% of the index at the start of the year to 16.24% today (it was 24.23% at the start of 2013). So having a tactical underweight position to these sectors as a whole has been of benefit. This positioning has been based on several factors, but one in particular has been our view that the Australian dollar would continue to fall throughout the year. As commodities are priced in US dollars, as the greenback has strengthened, commodity price weakness has been one consequence. Add into the mix a slowing Chinese real estate / construction sector and increased commodity supply and there has been the mixture for softer commodity pricing.

These days the markets are extremely quick to price in any change in sentiment, and in the short term, momentum can mean that good quality stocks with sound medium term earnings outlooks (even taking into account lower commodity prices), will not be exempt from massive swings in their share prices.

Australia's commodities will still be in demand for many decades to come, but with lower realised prices, boom time earnings of the last decade are likely a thing of the past for some time to come. The falling Australian dollar against the US dollar will cushion some of the dramatic falls in commodity prices for Australian companies. But in the short term this is being overlooked. Some commodities, such as iron ore, seem to have found a support level for now. Some stocks may find support soon.

Oil is a different story right now, with the global crude price falling dramatically over the past few weeks, much faster and further than anyone predicted. Again, markets will overshoot, but in the short term it is a guessing game as to when this will turn. Australia has several profitable energy companies, even at these lower oil prices (Woodside, Origin). Oil will continue to be in demand and even the US shale gas "revolution" will not change its long term importance to global production.

Two conspiracy theories on the oil price fall are not outside the realms of possibility. One is that the US have been encouraging the Middle Eastern oil countries to keep production high (i.e. supply), forcing down prices to place increasing fiscal pressure on Russia. If you look at the oil price chart, it peaked for the year pretty much to the day that the Malaysian Airlines flight was shot down over Ukraine. The other conspiracy theory is that the Middle Eastern oil countries are keeping their foot on the gas of production to push the oil price down and force many of the US shale gas companies out of business and hence reduce the long term supply of energy coming from the US.

Our Chief Economist, Michael Knox, believes that the oil price will recover in the first half of next year back towards the \$100 barrel level (from \$61 currently). For now though, oil stocks will be on the nose. In the meantime, enjoy the lower petrol prices.

The falling commodity prices will also have implications for Australia's terms of trade which will make it very hard for the Reserve Bank of Australia to think about raising interest rates anytime soon. This, together with fiscal tightening (government reducing spending, lifting taxes), has several forecasters now predicting further interest rate cuts next year. Our cash rate in Australia is currently 2.5%. This may go to 2.0% next year if the growing chorus of economists are right. Term deposit rates are continuing to fall and

may go under 3% for shorter duration deposits. All of this should support reliable dividend paying banks and industrial companies next year, as it has done for the last couple of years.

Another consequence of our falling terms of trade is a depreciating dollar. This is good for international shares and Australian companies with offshore earnings. Although our dollar has fallen a lot this year, to 83 cents to the US dollar, we expect this will continue next year. It won't be good for travels to US denominated countries, but it will be good for our exports and hopefully lead to further pick up in the non mining sectors of our economy.

Wishing you a Safe & Merry Christmas.

Christmas Hamper Competition



It is that time of year, our traditional Christmas Hamper competition returns for 2014.

For those not familiar with this competition, you must 'qualify' to enter the draw by answering each of the questions below. Each question must be answered correctly before your name will be entered into the draw for the hamper.

Please email Cheyne at cheyne.peat@morgans.com.au or call on (03) 9947 4137 with your answers.

The competition closing date is Thursday the 18th December at 1.00pm AEDST. The winner will be drawn that afternoon and notified by phone, with delivery of the gift basket on Friday of that week.

This year's hamper is called "Premier Selection" and is valued at over \$300. It includes various goodies including an assortment of wine, shortbread, nuts, chocolate, biscuits and much more.....

1. Which famous group this year performed on stage together for the first time in 34 years?
2. What is the solution to the following equation: $5 + 10 \times 6 + 3 \times 2 = ?$
3. When the Commonwealth Age Pension was introduced in 1909, what was the qualifying age for males?
4. Who is currently 4th in line to the British Throne?
5. In which year is Barack Obama scheduled to end his term as President of the USA?
6. Which Pacific Island nation is the only country in the world without an official capital?
7. In which year did Australia's current postcode system begin? a. 1901, b. 1927, c. 1951, d. 1967

Good Luck!

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.

- Wednesday 24th December - Reduced Trading (10am to 2pm)
- Thursday 25th December - Market & Office closed (Christmas Day)
- Friday 26th December - Market & Office closed (Boxing Day)

- Monday 29th December - Normal Trading
 - Tuesday 30th December - Normal Trading
 - Wednesday 31st December - Reduced Trading (10am to 2pm)
 - Thursday 1st January - Market & Office closed (New Years Day)
 - Friday 2nd January - Market returns to normal trading hours
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