QUARTERLY NEWSLETTER – Jan 2016

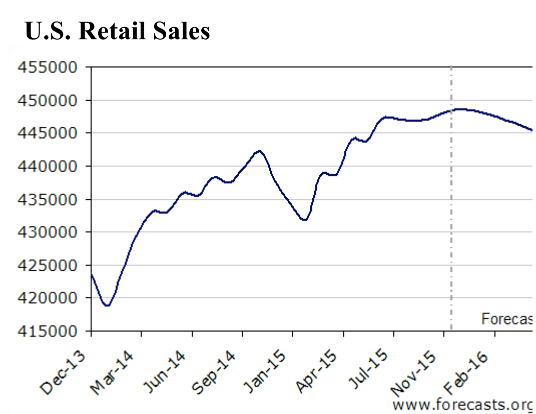
Major Indices

	Currency (AUD)	Interest Rate (%)	Share Index	*PE ratio (historical earnings)	Min daily wage (USD)	GDP Forecast (2016) IMF	Population (million)	Public Debt as a % GDP
Australia	1.00	2.00	All Ords – 5,344	16.14 (All Ords)	136	2.9	24.0	27.5
USA (Dollar)	0.73	0.50	S&P 500– 2,063	19.15	58	2.8	322	93.2
Japan (Yen)	88	0.1	Nikkei 225 – 19,033	15.69	85	1.0	127 (stagnant)	260
China (Yuan)	4.74	4.35	CSI 300 -3,740 Hang Seng 21,914	China-14.12 Hong Kong- 8.72	9.60	6.3	1,374	17.7
India (Rupee)	48	6.75	BSE 200– 3,361	30.19	3.40	7.5	1,282	54.1
Europe (Euro)	0.67	0.05	DJ Stoxx 50 3,118	18.0	56	1.6 (Germany)	742 (stagnant)	86 (Germany)
UK (pound)	0.49	0.50	FTSE 100 – 6,274	17.31	80	2.2	65 (stagnant)	103
Global	N/A			16.57		3.6	7,300	

*PE ratios (based on historical earnings),
10 Yr Bond Rate – 2.29% US 30 Yr Bond Rate – 3.03% Source: Bloomberg NB: Fastest growing population is by far Africa.

Commodities

Oil –Nymex (WTI) (USD/barrel)	37	**Iron Ore** ($/tonne) spot price	42
Natural Gas ($per million mbtu)	2.29	**Copper** (USD/pound)	2.13
Coal-coking ($/tonne)	44	**Nickel** (USD/pound)	3.93
Uranium (USD/pound)	34	**Zinc** (USD/pound)	0.72
Gold (USD/ounce)	1,061	**Aluminum** (USD/pound)	0.69
Wheat (cents/bushel)	469	**Corn** (cents/bushel)	358
Baltic Dry Index(BDI) +	563 (slight decrease)	**Dow Jones Transport Index(DJT)**	7,537 (downtrend)
US retail sales forecasts (million USD per month)	Jan(f) 448	Feb(f) 448	Mar(f) 447
Chinese PMI manufacturing	Oct (Caixin) 48.3	Nov (Caixin) 48.6	Dec (Caixin) 48.2



Commentary – Past 3 months

The past 3 months for share markets saw some recovery after the large falls from last August. The past year was really a nothing year, with most markets moving sideways for the year and some downwards (Japan actually moved up). The Australian share market returned 0% for the year while the US returned +2.3%. Asia achieved around +1% for the year. CFS Global Resources had a shocking year at -22%.

In fact 2015 will be remembered as the year that the mining and energy industry collapsed led by oil's massive falls from USD 53 to USD 37 over the year, a 30% fall. The best sector in 2015 was Australian commercial property up 14%, helped by low interest rates and a lower dollar.

Global share market Prices to Earnings (PE) ratios are close to fair value with the PE for the Global 100 at 16.57. The US PE is now at 19.15 despite share prices moving sideways all year. This reflects a lack of earnings growth partly due to the super strong USD. Asia is on a PE of 14.77 (as of Nov 31), and China on a PE of 14.12.

Hong Kong is still looking very cheap at a PE of 8.72, but it is very dependent on the local property market. India is still expensive at 30.19.

US employment has fallen to 4.9%, and **Australia has** fallen to 5.8% unemployed. Both countries have increasing underemployment rates, suggesting their jobs markets are not as strong as the statistics would suggest.

USA economy is perhaps the strongest western economy right now even if it is only growing around 3%pa .The strong US dollar is hurting US profits. 2016 will see a new US President.

Europe is keeping out of recession thanks to the weakened Euro making them more competitive. However there are several Southern European countries struggling with high debts still, especially Greece. These countries will need to have their debts relieved or leave the Euro and weaken their currency.

Chinese manufacturing and exports remains weak, but services and consumption are doing quite well. The Government has been reducing interest rates and reserve requirement ratios as well as tax relief on property. As a result, Chinese property has started to stabilize despite it's over supply. China is launching the Asian Infrastructure Bank and a Silk Road railway from China to Europe.

India is the strongest growth area in Asia right now and is forecast to grow 7.5% for 2016 by the IMF. The "make in India" Modi project should start to help, along with generally lower Oil prices. However persistently high interest rates in India are stalling growth to some degree, and 2016 should see Indian interest rates decline further, which should help growth.

Emerging Market and the Frontier countries are still struggling, as China demand for their commodity exports remains weak.

Global GDP is forecast by the IMF for 2016 at 3.6% with the developed economies improving somewhat and the emerging economies continuing to struggle due to lower commodity prices. China is forecast to further slow from 6.8% growth to 6.3% growth in 2016.

Interest Rates rose by 0.25% in the US to 0.5%, but remained the same in all the other major developed economies. China decreased by 0.25% to 4.35%, making it 6 rate cuts in 2015 to a record low rate. Australia remained at 2.00%.

US long term bonds rates rose slightly over the quarter with the Fed Reserve increasing US rates by 0.25% as expected in December.

Inflation has still been mild in most countries and currently not a concern.

Currencies over the quarter were summarized by a slight rise in the Australian dollar against all currencies, rising from 0.70 to 0.73 to the US dollar. Many emerging currencies continued to weaken heavily following further commodity price falls.

Commodities

2015 was a shocker for commodities.

Oil fell this past quarter from USD 45 to USD 36 as oversupply worries continued, and as the USD strengthened somewhat. This is the lowest levels reached during the GFC. Many oil companies will soon go bankrupt at these levels and oil exporting countries such as Russia and Saudi Arabia are suffering. Natural Gas also fell heavily to USD 2.29.

Copper weakened further dropping again to $2.13 per pound, continuing its 5 year decline from the 2011 peak when China's construction peaked. The other base metals were all down.

Iron Ore prices fell again ending the quarter at $42 a tonne on oversupply concerns.
Coking Coal moved sideways over the quarter to $44 per tonne.
Uranium moved slightly down finishing at USD 34 per pound.
Gold fell slightly to reach $1,061 per ounce.
Soft commodities were also weak with wheat and corn prices falling.
Australian Resources Price Earnings Ratio is still cheap at 12.8; however the energy sector is facing very serious competition from renewable energy and electric vehicles.

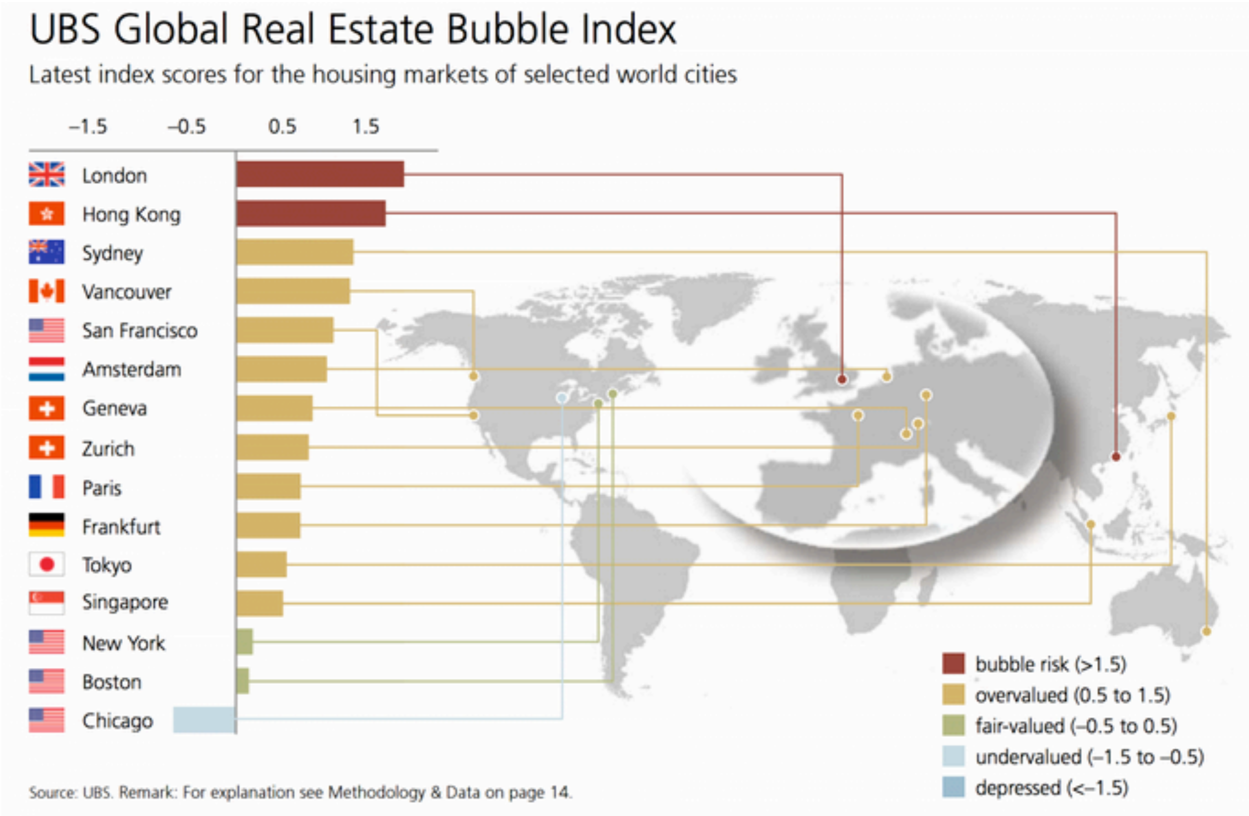
Commentary – Forecast next 6 months

Leading indicators are mostly negative both for China and the USA.
Dow Jones Transport Index (DJT) is another leading indicator. This index tells us how the US transport companies such as shipping, rail and air are doing. It is a good early indicator if the USA economy is slowing. In 2007, the DJT peaked in July. This was about 6 months before the GFC began. It peaked at 9,217 last Dec 29, 2014, basically 1 year ago, and today is at 7,537 and still declining. A warning sign at least for US share market may fall further.
US Retail sales are forecasted to remain flat.
The Baltic Shipping Index (BDI) – (the cost to ship raw materials such as coal & iron ore) is down over the quarter starting at 875 and ending higher at 563. Generally still a negative signal for a commodities recovery**,** as China switches from a construction/manufacturing economy to a services economy.
The HSBC Caixin Chinese Manufacturing PMI index –It has risen slightly over the quarter from 47.2 to 48.2 (December) showing China's manufacturing sector is at least stabilizing. Chinese Government is successfully shifting the economic growth from manufacturing industries to service industries, and consumer consumption. The PMI Services Index has been rising.

A summary of the above leading indicators right now is to expect "possibly some resources recovery and minimal China manufacturing recovery and the US economy to just struggle along with generally slow but positive global growth". Of note Chinese services are doing better,
In other words expect 2016 to be a lot like 2015. China may start to improve on the back of lower interest rates.
Global share markets are likely to continue to struggle.
The only bright spot in 2016 looks to be commercial property (interest rates are still relatively low) and renewable energy (after the COP21 successful climate agreement in Paris in late 2015). Currently BT and CFS don't offer renewable energy funds. They are however available on SaxoTrader as well as solar, wind and Electric vehicle shares.

Ideas

- Growth and Aggressive investors could buy into the disruptive technology areas such as electric vehicles, solar/wind energy, energy storage and IT areas such as 3D printing, cloud, big data, and robotics.
- Moderate risk investors should remain around 40-50% in safe areas, and have some exposure to commercial real estate (Australia REIT PE 15.08).
- All Investors should still keep at least some money in Cash or safe fixed interest
- Sell Australian residential property unless it's your home.
- Invest in countries with good demographics, jobs growth, low debt and positive GDP
- Avoid oil exporting countries and be cautious with commodity reliant Emerging Markets.
- Buy direct property in countries that are benefitting from Globalization and where property is still cheap. Eg: Philippines (household debt/GDP is a very low 6%), Thailand, Indonesia, Malaysia, Vietnam, Mexico, Myanmar, Cambodia, Laos……
- Avoid Euro/UK/Japanese currency. AUD likely to fall further.
- Avoid Chinese Yuan currency in the short term,
- Don't panic about any future Greece exit from the Euro as Greece is less than 1% of World markets.



The above information suggests be wary buying into overvalued global residential real estate such as in London, Hong Kong, Sydney and Vancouver.

Finally, in this newsletter I decided to give links to recent articles I have written for Seeking Alpha and clients can choose to read any topics they have interest in.

These are my last 10 articles written in the past few months.

http://seekingalpha.com/article/3778226-byd-co-catalysts-indicate-to-buy-now

http://seekingalpha.com/article/3767836-my-top-5-stock-picks-for-2016

http://seekingalpha.com/article/3759696-solar-electric-vehicles-could-make-oil-and-ice-cars-obsolete-the-era-of-oil-is-almost-over

http://seekingalpha.com/article/3738396-key-stocks-to-create-your-own-green-home-and-vehicle-portfolio

http://seekingalpha.com/article/3706886-invest-in-the-philippines-buy-the-ishares-msci-philippines-etf

http://seekingalpha.com/article/3684636-10-stocks-or-funds-to-have-for-the-next-10-years-part-3-of-3

http://seekingalpha.com/article/3676136-10-stocks-or-funds-to-have-for-the-next-10-years-part-2-of-3

http://seekingalpha.com/article/3670856-10-stocks-or-funds-to-have-for-the-next-10-years-part-1-of-3 http://seekingalpha.com/article/3637346-creating-a-rock-solid-growth-oriented-model-portfolio-of-stocks-and-equity-funds

http://seekingalpha.com/article/3626396-how-best-to-profit-from-the-internet-of-things

My articles are always posted on the HNW website, so you can also find them there and keep up to date if you wish. http://www.hnwfinancialadvising.com.au/hnw-articles.html

To find out more please contact an adviser at contactus@hnwfinancialadvising.com.au.

NB: High Net Worth Financial Advising attempts to enhance overall return for clients by investing in undervalued regions of the world and undervalued asset classes, that have positive growth stories.