QUARTERLY NEWSLETTER – April 2016

Major Indices

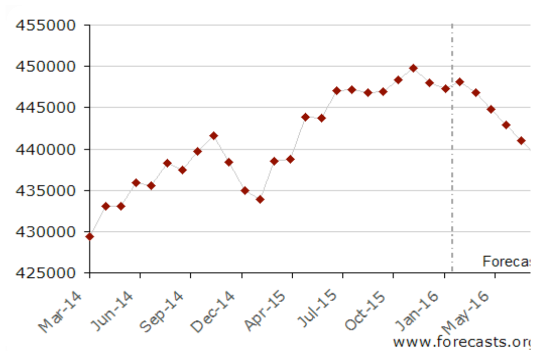
	Currency (AUD)	Interest Rate (%)	Share Index	*PE ratio (historical earnings)	Min daily wage (USD)	GDP Forecast (2016) IMF	Population (million)	Public Debt as a % GDP
Australia	1.00	2.00	All Ords – 5,083	14.6 (All Ords)	136	2.7	24.2	27.5
USA (Dollar)	0.76	0.50	S&P 500– 2,059	19.16	58	2.6	323	93.6
Japan (Yen)	86	-0.1	Nikkei 225 – 16,175	13.73	85	1.0	127 (stagnant)	261
China (Yuan)	4.95	4.35	CSI 300 -3,170 Hang Seng 20,501	China-10.79 Hong Kong- 11.44	9.60	6.3	1,375	17.7
India (Rupee)	51	6.75	BSE 200– 3,259	20.07	3.40	7.5	1,287	54.1
Europe (Euro)	0.67	0.00	DJ Stoxx 50 3,004	16.11	56	1.7 (Germany)	739 (stagnant)	86 (Germany)
UK (pound)	0.53	0.50	FTSE 100 – 6,174	16.81	80	2.2	65 (stagnant)	103
Global	N/A			17.43		3.4	7,373	

*PE ratios (based on historical earnings),
10 Yr Bond Rate – 1.79% US 30 Yr Bond Rate – 2.63% Source: Bloomberg NB: Fastest growing population is by far Africa.

Commodities

Oil –Nymex (WTI) (USD/barrel)	38	**Iron Ore** ($/tonne) spot price	56
Natural Gas ($per million mbtu)	1.95	**Copper** (USD/pound)	2.19
Coal-coking ($/tonne)	43	**Nickel** (USD/pound)	3.81
Uranium (USD/pound)	28	**Zinc** (USD/pound)	0.82
Gold (USD/ounce)	1,236	**Aluminum** (USD/pound)	0.68
Wheat (cents/bushel)	472	**Corn** (cents/bushel)	351
Baltic Dry Index(BDI) +	414 (slight decrease, recovering)	**Dow Jones Transport Index(DJT)**	7,944 (recovering)
US retail sales forecasts (million USD per month)	April(f) 447	May(f) 445	June(f) 443
Chinese PMI manufacturing	Jan (Caixin) 48.4	Feb (Caixin) 48.0	Mar (Caixin) 49.7

U.S. Retail Sales



Commentary – Past 3 months

The past 3 months for most share markets saw an incredible see-saw ride, first down then up, with a net sideways movement.

The main driver of this has been the oil price. As oil fell stock markets fell, and as oil recovered markets recovered.

While US moved sideways, Japan, China, Hong Kong and Australia all moved down, making it a bad quarter for Asian shares.

Global share market Prices to Earnings (PE) ratios are close to fair value with the PE for the Global 100 at 17.43. The US PE is now at 19.16 and looking expensive relative to most other countries. This reflects a lack of earnings growth partly due to the super strong USD.

Asia is on a PE of 12.28 is looking cheap, as China appears to be stabilizing. Both China and Hong Kong look very cheap with PEs of 10.79 and 11.44 respectively.

India is at last looking reasonable on a PE of 20.07, given their 7.5% growth rate.

US employment was flat at 4.9%, and **Australia** has stayed flat at 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 2.6%pa .The strong US dollar is hurting US profits. 2016 will see a new US President, perhaps Donald Trump or Hillary Clinton.

Europe is keeping out of recession thanks to the weakened Euro making them more competitive, however growth is still very weak, and the population is stagnant.

Chinese manufacturing and exports remains somewhat weak, but services and consumption are doing quite well. 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 show results, 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 have made some recovery in the past 6 weeks on the back of rising commodity prices, but still remain vulnerable if oil and commodity prices were to fall back.

Global GDP is forecast by the IMF for 2016 at 3.4% (downgraded from 3.6%), due mostly to lower commodity prices, and a slowing China. The US is still looking quite strong. China is forecast to further slow from 6.8% growth to 6.3% growth in 2016. Extremely low oil and other commodity prices have hurt the global economy, as many countries rely on them as a major source of income. For example Russia's 2016 GDP is -1%, and Brazil -3.5%. Saudi Arabia is at 1.2% 2016 GDP, saved somewhat by the fact they are the lowest cost oil producer.

Interest Rates remained the same in most of the developed world over the past quarter. The exception was Japan moving for the first time ever into negative rates at -0.5%. Europe remained at 0% however lowered the deposit facility rate to -0.4%. Japan and Europe are trying to strongly encourage banks to lend the money out, so as to stimulate stagnant growth.

US long term bonds rates fell sharply over the quarter due to expectations the US Fed Reserve will slow down the pace of rate increases or not increase at all in 2016.

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 except the Japanese Yen, and flat against the Euro, rising from 0.73 to 0.76 to the US dollar. This was mostly due to some commodity prices recovering from very low levels.

Commodities

The first 6 weeks of 2016 was a shocker for oil and commodities which rocked global share markets.

Oil moved sideways this past quarter from USD 38 to USD 37 as oversupply worries continued.

The rally in the past 6 weeks after a February low around USD 29, was thanks to talk of an oil output freeze by major oil exporting nations Saudi Arabia, Russia etc.

Natural Gas also fell heavily again to USD 1.95 as a global oversupply is coming.

Copper recovered very slightly to $2.19 per pound, after a 5 year decline from the 2011 peak when China's construction peaked. The other base metals were all about the same, except Zinc which did very well.
Iron Ore prices recovered strongly ending the quarter at $56 a tonne.
Coking Coal moved sideways over the quarter to $43 per tonne.
Uranium moved slightly down finishing at USD 28 per pound.
Gold rose significantly to reach $1,236 per ounce.
Soft commodities were little changed with wheat and corn prices much the same as last quarter.
Australian Resources Price Earnings Ratio is still cheap at 13.6; however the energy sector is facing very serious competition from renewable energy and electric vehicles.

Commentary – Forecast next 6 months

Leading indicators have turned positive.
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 7,954 up from 7,537 last quarter and recovering. A promising sign for the US.
US Retail sales are forecasted to fall. The graph shows them falling but that is seasonal as they always rise over the Christmas season. An overall neutral sign.
The Baltic Shipping Index (BDI) – (the cost to ship raw materials such as coal & iron ore) bottomed mid February at 219 with the low oil price, and has since recovered to end the quarter at 414. Still slightly down for the quarter but recovering in March. Overall, a neutral signal with a hint of positive the last 6 weeks.
The HSBC Caixin Chinese Manufacturing PMI index –It has risen slightly over the quarter from 48.2 (December) to 49.7 (March) showing China's manufacturing sector is at least stabilizing and perhaps recovering slightly. Chinese Government is successfully shifting the economic growth from manufacturing industries to service industries, and consumer consumption. The PMI Services Index has been rising. Overall a positive sign.

A summary of the above leading indicators right now is to expect "some continued recovery after the low point of mid February. Off course oil prices will be key. If oil falls back below USD 30 it will again slow down the economy as oil exporting countries will be forced to cut back spending. Oil profits are like money printing for the global economy.
China appears to be doing better.

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.
- 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.

Oil, global share markets and electric vehicles

The biggest concern the world has now is very low oil and commodity prices.
At least half the world countries (around 100 countries), rely heavily on oil and commodity (iron ore, copper, coal etc) exports. If oil is below USD 30 a barrel then most of these countries are no longer making profits from oil.
This means these countries cut back their spending which slows the global economy.
Off course commodity importing countries such as India and China are beneficiaries.
My concern is with electric vehicles rapidly becoming more popular (as I forecast).
http://seekingalpha.com/article/3759696-solar-electric-vehicles-make-oil-ice-cars-obsolete-era-oil-almost
The side effect may be less oil demand and hence a lower oil price and slower global economy as stated above.
As recently reported in Bloomberg, "Netherlands Moves To Only Allow EV Sales By 2025 – End Of Gas, Petrol".
http://insideevs.com/netherlands-moves-to-allow-only-all-evs-by-2025-no-more-gas-diesel-sales/
The solution to this would be to hold some electric vehicle companies in your portfolio (some examples are Tesla, Byd and BAIC). Also you can hold various ETFs that go up if oil goes down. DRIP is a 3x leveraged ETF that does just that.

Given Tesla releases for sale the mass market Model 3 on March 31, 2016 and April 1, I thought I would include in my newsletter this month a section on Electric Vehicles (EVs) from one of my recent Seeking Alpha articles.

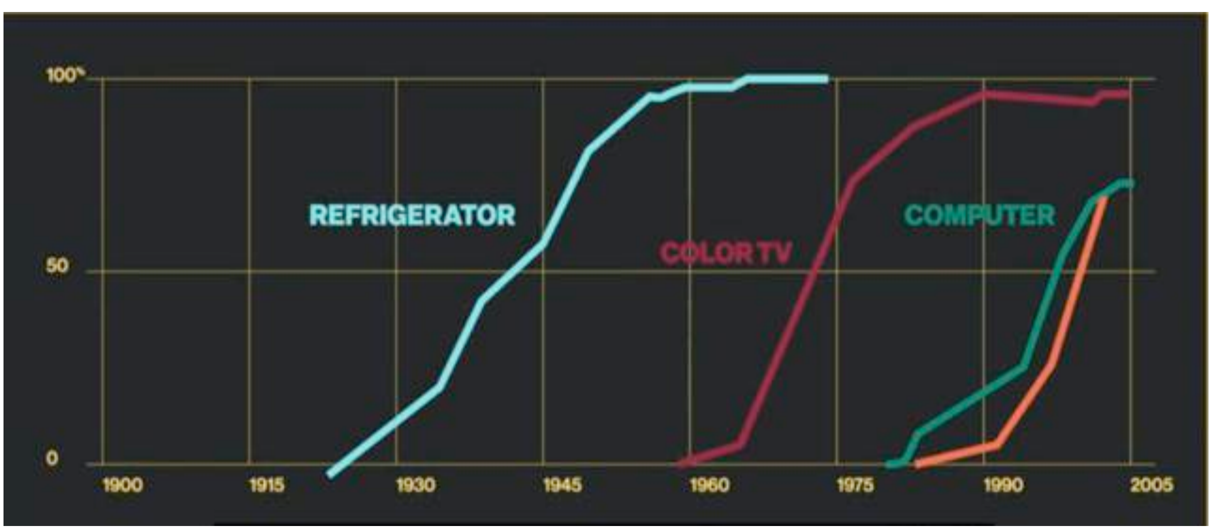
Electric Vehicles Will Most Likely Be The Next Big Thing

- The technology adoption S curve applied to electric vehicles.
- Electric vehicle sales are growing rapidly from a low base.

If we look back over the past 50 years, we saw several new trends that made investors very rich. Some examples were:

- The color TV
- The computer - IBM (NYSE:IBM), Microsoft (NASDAQ:MSFT), Apple (NASDAQ:AAPL), Lenovo
- The internet search engine - Alphabet's Google (NASDAQ:GOOG) (NASDAQ:GOOGL), Baidu (NASDAQ:BIDU)
- The Smartphone - Samsung (OTC:SSNLF), Apple

On each occasion, the sales growth followed the "S" curve (see graph below).



Source

There are several possible areas for the next big thing:

- Personal robots and Artificial Intelligence (AI).
- 3-D printing.
- The Internet of Things (NYSEMKT:IOT). You can read my article here.

But I think the next big thing will be electric vehicles (EVs). And this is why:

1. EVs are better than internal combustion engine (ICE) vehicles. They have more acceleration with better handling.
2. EV Lithium-ion battery costs have already dropped by over 65% since 2010. In early 2016, GM (NYSE:GM) said its cells cost $145 per kilowatt-hour, and by late 2021, they could be at the $100 mark. This means even now a 60kWh battery pack for a GM Bolt or Tesla Model 3 will cost $9,000, and by 2021 just $6,000.
3. EVs are about to be affordable for the mass market buyer.
4. EVs may one day be cheaper than ICE cars. The EV battery and electric motor may soon be cheaper than a gasoline car's engine, fuel system, and exhaust system.
5. EVs are cheaper to run. No fuel and much less maintenance. A typical EV has much less moving parts compared to an ICE car.
6. EV supercharging networks are rapidly becoming well established.
7. Media attention towards EVs has intensified, especially with CNBC and Bloomberg giving large coverage of Tesla (NASDAQ:TSLA).
8. EVs can be seen driving around now in ever increasing numbers.
9. EVs are now trendy and better for the environment.
10. EVs are just at the beginning or "awareness" and "understanding" stages of the S curve now.

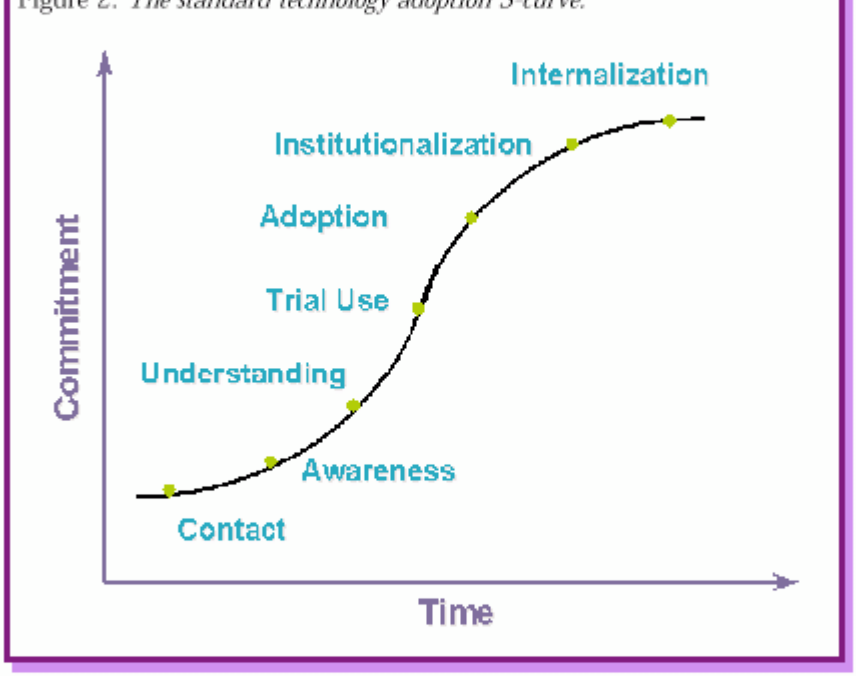


Figure 2. *The standard technology adoption S-curve.*

Source

EV problems are being solved and should be mostly solved by 2018-2020

The main problems of EVs are being too expensive and range anxiety. Both of these are partially solved now and will be mostly solved in the next 2 years.

1. The high price to be solved very soon - BYD's [1211:HK] (OTCPK:BYDDF)

$37,500 when released later in 2016, and Tesla's Model S will be $35,000 when released late 2017. All of these prices are typically reduced to below $30,000 after subsidies. So by 2018, there will be at least 3 different EVs available that are priced similar to the average US car price.
2. Range anxiety has been solved in many locations. Tesla currently has 3,519 superchargers globally. It has most of the USA covered, most of Western Europe and Norway, China and Hong Kong, parts of Japan, and Sydney to Melbourne in Australia.

You can view the coverage here on Tesla's website.

Meanwhile, China plans to add 5 million new EV charging stations across China before 2020. In fact, China plans to have 5 million EVs by 2020 and be the "epicentre of electrification of the auto industry globally".

Electric vehicle sales are growing very rapidly from a low base

With virtually all ICE car companies now having, or planning, an EV model, EV sales will likely continue to grow rapidly as the S curve suggests.

As you can see from the table below, global EV sales are certainly gaining momentum and grew an impressive 50% in 2015 and 49% in 2014.

	2012	2013	2014	2015
Number of Plug in EVs sold p.a. globally	12,000	206,000	307,000	462,000

Source

In 2015, global EV sales were 462,000, out of the 88.6 million total new car sales market, representing a mere 0.52%.

However, Norway had a staggering 23% of sales in 2015 being EVs, perhaps a sign of what's to come for the rest of the world.

The table below gives estimates of how many global EV sales p.a. can occur from now (end 2015), based on different growth rates. Figures are in millions, so 2015 EV sales of 462,000 is 0.462 million

Growth rate	2015	2020	2025	2030
30% p.a.	0.462	1.715	6.369	18.190
40% p.a.	0.462	2.484	13.363	51.337
50% p.a.	0.462	3.508	26.641	134.871

Given the EV growth rate was 49% in 2013 and 50% in 2015, we could assume this is the correct rate going forward. However, we need to factor in that these sales were from a very small base, and whilst demand may be there, supply may struggle to reach the 50% p.a. growth figures.

So let's assume the 40% growth rate to be the most likely. That would suggest by 2030, about 51.337 million EVs p.a. would be produced. If the total global car market by then had risen from the current 88.6 million to say 100 million, then EVs would then be 51% of all new cars produced.

A recent study published by Bloomberg estimated total EV penetration to reach 35% by 2040.

OPEC still contends that electric vehicles will make up just 1% of global car sales in 2040. Of course, they are extremely bias against EVs and in favor of petrol guzzlers.

What does this mean for investors?

Put simply, it means early investors can get multi-bagger returns if in fact the technology (EVs) takes off and becomes a mass market mainstream product, similar to what happened with the smartphone boom of the past decade. Those investors in Samsung or Apple from 10 years ago have had multi-bagger returns.

These are my last few articles written in the past quarter.

http://seekingalpha.com/article/3794516-energy-storage-next-big-thing

http://seekingalpha.com/article/3874206-invest-booming-global-electric-motorcycle-market

http://seekingalpha.com/article/3939816-electric-vehicles-will-likely-next-big-thing

http://seekingalpha.com/article/3953076-3-ways-play-rising-asian-middle-class

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.

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