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Blueprint Update

PARTNERING WITH YOU IN SECURING YOUR
FINANCIAL FUTURE AND ACHIEVING YOUR
LIFETIME GOALS.

Celebrating milestones

As we head into the season of spring, we would like to celebrate with you some major milestones we are achieving within our team here at Matrix Norwest.

We would like to congratulate both Romy & Christina as they reach their 10 years of service within our business. What a great accomplishment and we would like to thank them for the amazing contribution they have made!

October 1 is a great milestone for Rob as he celebrates his 60th birthday. What an achievement in both his professional and personal life! Happy birthday!

Enjoy and we will see you in our next edition....



Market Update - Global Snapshot

Country	Index	Index 27/08/2014	% Change in 12 months
Australia	ASX 200	5,680	16.32%
USA	Dow Jones	17,154	18.51%
USA-Tech	Nasdaq	4,576	29.36%
UK	FTSE100	6,895	10.07%
Hong Kong	Hang Seng	25,243	19.16%
Japan	Nikkei	16,320	16.68%

Source: Bloomberg World Stock Indexes as at 27/08/2014

Market Update



Australian Economy and Sharemarket

In Australia, the focus is now on the companies reporting season and the outlook statements which should drive the equities market over the coming months. Although unemployment has increased to 6.4%, business and consumer confidence appears to be returning, although from a low base. The government needs to be mindful not to retard the drivers of growth as we come off record terms of trade and a slowing resources sector. Current GDP growth forecast for 2014 is 2.75% and is below the long term growth of 3.5%. The S&P/ASX 200 Index reversed the disappointing first half of the year. This was despite the number of geopolitical issues which played on market sentiment during the latter stages of the month.

- Whilst this appears to be an encouraging development, some of the themes that have emerged from the current reporting season would suggest a cautious approach is still warranted. The key theme is that, whilst the earning season has been solid (particularly large cap stocks such as the net profits of the major banks), Australia's companies are still operating in a low revenue growth environment, and relying heavily on cost cuts to deliver higher earnings growth. It shows up in profit reports as a big spread between revenue growth and profit growth.
- For example, Rio Tinto's 21% underlying profit increase actually came on 3.8% lower revenue as commodity prices softened. The mining group shored up its top line by boosting volumes, particularly in iron ore where it still achieves attractive profit margins. Cost cuts were a crucial part of its profit growth equation.
- The other key theme is that company boards are still acutely aware that their shareholders remain hungry for yield. For example, CBA boosted its final dividend by 9% to take the payout for the year 10% higher. Its dividends have risen by \$1.45 a share or 57% since 2006-2007. It is only when the revenue growth picks up that shareholders are more prepared for companies to hold cash back for acquisitions and investment.
- It is our expectation that corporate earnings and profitability will, in aggregate, remain subdued. We also reiterate that the Australian equity market (especially, the largest market capitalised stocks, as illustrated above) remain preferred investments, for those investors seeking a tax effective income.

International Economy and Sharemarket

The US economy continues to undergo recovery, although at a low level. There are positive signs of an improving jobs market. US wages have bottomed and appear to be on the rise. Business confidence is providing confidence and the housing market recovery is still intact.

China and Indian equities markets are showing strong recoveries. The Chinese leadership is stepping up the reform process as the country transforms from the export and investment phase to a consumption phase where the strong growth rates of the past have slowed but still remain at a sustainable pace. Positive signs are emerging for China and opportunities starting to emerge in its sharemarket where values are attractive.

Selected emerging markets are showing signs of improvement and capital flows have turned positive. Fears are still high with many of the emerging markets such as Russia, Turkey, South Africa and Brazil underperforming as well as dealing with geopolitical uncertainties, social unrest and currency problems. Geopolitical risks have heightened with increased tensions between Russia and the West, where stronger sanctions are now being put in place. The Iraq and Middle East (Israel/ Hamas) tensions also increase uncertainty for markets and further escalation may negatively impact global equities markets.

The Eurozone continues to lay the foundations for recovery with most countries moving out of recession, although there is little growth being generated from the region. High debt burdens and high unemployment levels continue to be major issues for most Eurozone countries. The ECB is aggressively implementing a liquidity strategy with banks being forced to on-lend the liquidity rather than hold it on deposit in an attempt to stimulate growth.

The Japanese equities market continues to be driven on the back of the large QE stimulus being implemented by Prime Minister Shinzo Abe who continues to embark on an ambitious growth strategy. A major risk ahead for the global economy is the mismanagement of the unwinding of the QE stimulus programs currently in place and its repercussions on bond markets and rising interest rates.

In terms of global opportunities, the Asian region continues to generate satisfactory GDP growth and should continue to be a major driver of world growth. A key factor for continued Asian growth is the increasing demand by China's consumers as they develop greater wealth and require ever increasing volumes of commodities and agricultural products, which should underpin the Australian resources and agricultural sectors over the longer term. Chinese interest in Australian assets is increasing. We are starting to witness greater interest by China in our agricultural sector.

*Source: Bloomberg World Stock Indexes
McGregor Asset Consulting August 2014
Matrix Research Committee Key Messages August 2014*

Rob Pedersen CFP

Corporate Authorised Representative of
Matrix Planning Solutions Limited
AFSL & ACL No. 238256
ABN 45 087 470 200

Street Address
Unit 306, 10 Century Circuit
BAULKHAM HILLS NSW 2153

Mailing Address
PO Box 6787
BAULKHAM HILLS NSW 2153

P: 02 9899 6077
F: 02 9899 6067
W: www.matrixnorwest.com.au