BAIOCCHI GRIFFIN
PRIVATE WEALTH

Issue 3

Winter 2013

Welcome to the winter 2013 issue of *Baiocchi Griffin Private Wealth's* Investment Update

This edition of our investment update focuses on the economic situation both here and abroad. We take a closer look at the improving situation in the United States, and what this may mean for the rest of the global economy. We also discuss some of the market volatility experienced during the past quarter. We trust you will find this newsletter interesting and informative.

With kind regards, Justin & Ray.

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The United States: is the glass half-full or half-empty?

> **"…creation of over half a million jobs in just over three months…"**

It has taken longer than expected, but there are growing signs that the US economy is well and truly recovering from the global financial crisis.

It may be a surprise to some people that the global financial crisis of 2008/09 is still an issue, but few countries escaped the GFC as unscathed as Australia. And as you might expect, the United States, which was largely the source of the GFC, has taken longer than most to shake off the negative impacts of the GFC.

A high level of unemployment, a collapse in property prices, and the draining effect of fighting two wars overseas at the same time, all acted in concert to hamper the recovery of the world's largest economy. There is mounting evidence however that the US has turned the corner. Most recently, this has been evidenced by the creation of 195,000 new jobs in the US during June 2013. This follows 175,000 new jobs in May and 165,000 new jobs in April. The creation of over half a million new jobs in just three months is concrete evidence of the improving economic situation in the United States.

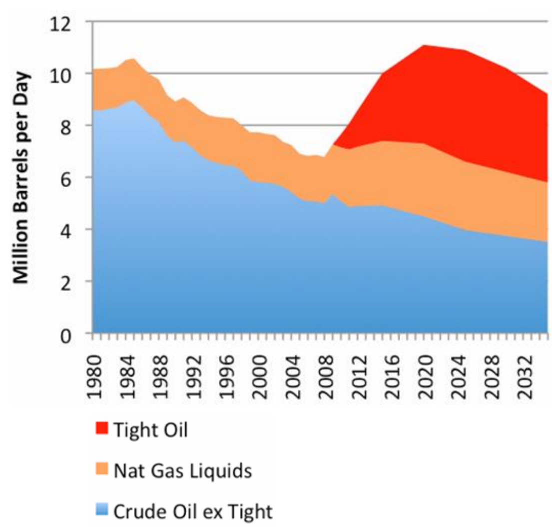
An oil and gas boom

A less obvious development in the United States has been the discovery of abundant natural gas and oil supplies. The development of technologies needed to extract gas and oil from shale deposits in particular, has provided the US with the potential to become one of the world's largest producers of oil and gas. Analysts predict that by 2020 the United States will be energy self-sufficient, meaning it would produce enough oil and gas to meet its domestic needs, and in fact would be a net exporter of both oil and gas. This is a significant turnaround from the years when the US economy was almost held hostage to the whim of OPEC, the cartel of largely Middle Eastern oil-producing nations.

While this new-found energy dependence will have significant political ramifications, the economic impact is likely to be as important. Many US companies, including large multinationals such as GE, Whirlpool and the major car manufacturers, have all announced plans to relocate production and manufacturing

The United States' economy may be on the cusp of an economic boom, with important ramifications for the global economy.

Forecast US oil production (source: IEA)



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facilities back to the US. This process reverses a multi-decade long drain of US jobs to low cost nations such as China, India and Thailand. American wages stagnated during the post-financial crisis years, leaving the US with a highly-skilled but relatively low-paid workforce. When this is coupled with an abundance of cheap energy, it is no surprise that multinational companies are increasingly moving back to the US. The contrast with Australia is stark, where we have seen the ongoing decline of our manufacturing sector.

From an investment perspective, we view the ongoing developments with interest. While we are not necessarily advocating a significant increase in exposure to US companies, we are aware of the impact these events may have on the global economy in general and client portfolios in particular. It may be that at some future time an increased exposure to international investments, and US companies in particular, is warranted. Rest assured we will advise accordingly should such a scenario arise.

"...the fall in the market is due to good news, not bad news."

Recent market volatility

You will no doubt be aware of the market volatility over the past few months. Indeed, the ASX All Ordinaries index, being the index of the 500 largest companies listed on the Australian stock market, fell by 204 points, or 4.1%, over the period from the 1st of April to the 30th of June. This fall will no doubt be reflected in the value of your investments, which likely show a decline in value over the same period.

Surprisingly, the fall in the market is due to good news, not bad news. In this instance, the good news is the ongoing recovery of the

US economy, as we have already discussed. While this is undeniably good news, markets are concerned that the recovery may lead the US Federal Reserve to withdraw its stimulus program. As you may be aware, for some years now the US Fed has been engaged in a form of 'money-printing' in an effort to keep interest rates low and stimulate the US economy. This tactic, while controversial, appears to be working, with the net result that the Fed is in a position to wind down the stimulus as the economy improves.

Markets are concerned that some of the stimulus found its way into the stock market, pushing up share prices in both the US and abroad. The reasoning is that the withdrawal of the stimulus will be matched by a fall in markets, hence the recent volatility.

In our view, this type of reasoning places too little emphasis on the underlying good news of the US economic recovery. While it is possible that markets have to some extent been artificially buoyed by the 'money-printing' measures, a methodical approach to investing in profitable, well-run companies, with strong balance sheets and healthy dividends, will be rewarded appropriately, regardless of the actions of the US Fed.

Outlook for 2013

With less than six months to the end of the year, we still retain our reasonably cautious view on the outlook for the Australian economy. The early end to the mining investment boom appears to have come as a surprise to both the RBA and Federal government. With the remainder of the economy still relatively weak, we expect to see at least one or two further interest rate cuts from the RBA. A pick-up in the housing market (which is already evident in certain locations) will be the first sign that the RBA's actions are having an impact.

The end of the uncertainty associated with the upcoming Federal government election, combined with the continuing improvement in the United States, should hopefully set the scene for a reasonable end to 2013.

The mining investment boom has peaked, and so may have the Australian dollar.

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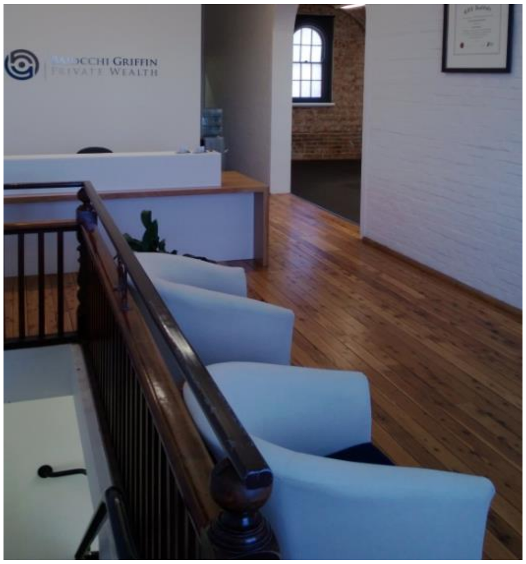

We thank you for your support and look forward to working closely with you in the years to come.

Facebook & Twitter

You might have noticed the Facebook and Twitter logos on this Newsletter and also on our website. We've been posting on Facebook and tweeting on Twitter since late last year with articles and blogs we've written, along with interesting snippets we find relating to financial matters. If you're 'on the net' and keen to see what we're up to please '*Like*' us on Facebook and '*Follow*' us on Twitter. We'd love to see you there and welcome your comments on our posts and tweets.

Facts & Figures at a Glance

	Rate/Value	Change from last reading
Australian inflation rate	2.5% (March)	0.3% ↑
Australian unemployment rate	5.7%	0.2% ↑
RBA Cash rate	2.75%	0.25% ↓
ASX 200 Index	4,802	-3.30% ↓
MSCI World Index (ex-Australia)	1,443	1.43% ↑
Australian $ vs. US $	$0.9142	11.96% ↓
Australian $ vs. UK £	$0.6002	12.36% ↓
Australian $ vs. Euro €	$0.7026	13.53% ↓

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