



Market Watch

May 2018

1 May 2018

marketwatch@amscot.com.au

Editor's Note

David Brennan
Senior Investment Analyst
Phone: +61 2 9024 9142
dbrennan@stateone.com.au

As the S&P/ASX 200 heads towards 6,000 in these early days of May, we are reminded of the old saying "Sell in May and Go Away". Looking at the Index performance over the past few years, it is not hard to see merit in this advice. There were marked sell-offs in the Index in May in 2012, 2013, 2015 and 2017. See chart below.

There are many reasons behind this seasonal period of weakness in the ASX, including (I) Northern hemisphere investors ruling off their book for their summer holiday period, (II) investors looking to start the new financial year with a 'cleaner' portfolio, (III) investors selling underperforming positions at losses to offset taxable income and, (IV) investors selling outperforming positions to lock in financial year profits.

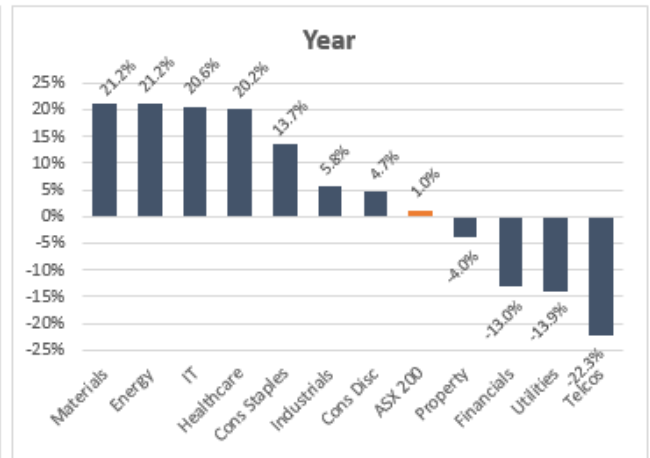
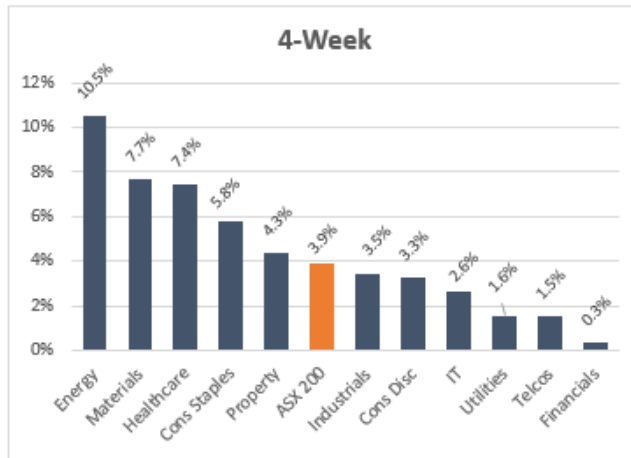
The impact of the above can have a particularly pronounced effect on small cap stocks which, by their very nature, have much lower levels of liquidity. In simple terms, share prices can fall dramatically on low volumes when ultimately the business fundamentals haven't changed. Some investors, however, may see this period to adopt a contrarian stance and buy when there is "blood in the streets".

When looking at your small cap portfolio during this time it is useful to consider the following; If you do plan on executing some profit taking or tax loss selling, don't leave it too late. Understand that others in the market might be selling for reasons not related to the company fundamentals, which can be a great opportunity to add to existing positions. Keep on top of your 'like to buy' stock watch list during May & June, good buying opportunities may present themselves. Take a medium to long term view, not a one-month view.

(Original Source: Naos Asset Management.)

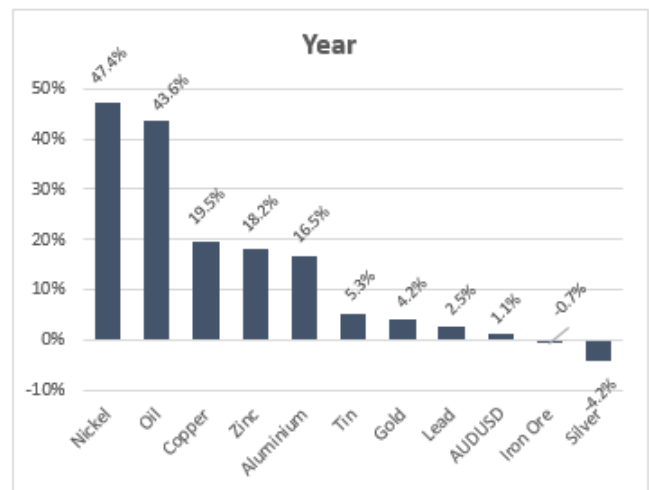
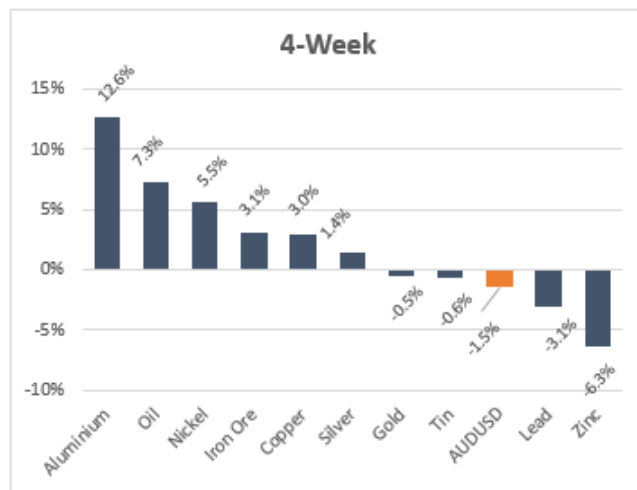


ASX 200: sector performance over past four weeks and year



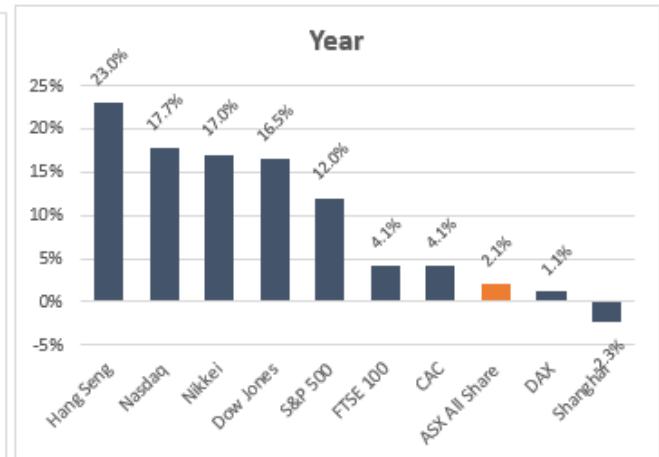
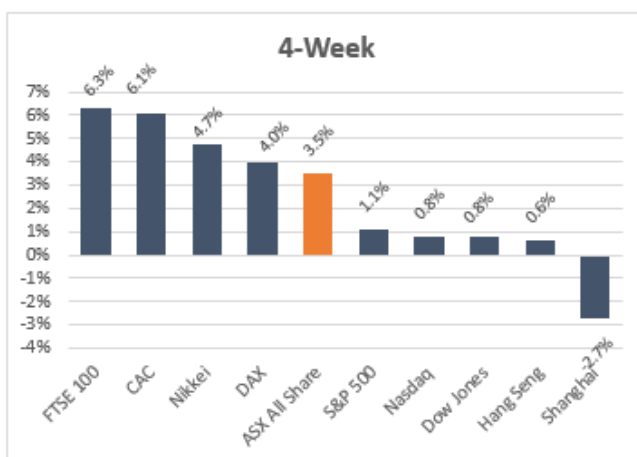
Source: IRESS, compiled by State One Stockbroking

Commodities and AUDUSD: performance over past four weeks and year



Source: IRESS, compiled by State One Stockbroking

World Indices: performance over past four weeks and year (local currency)

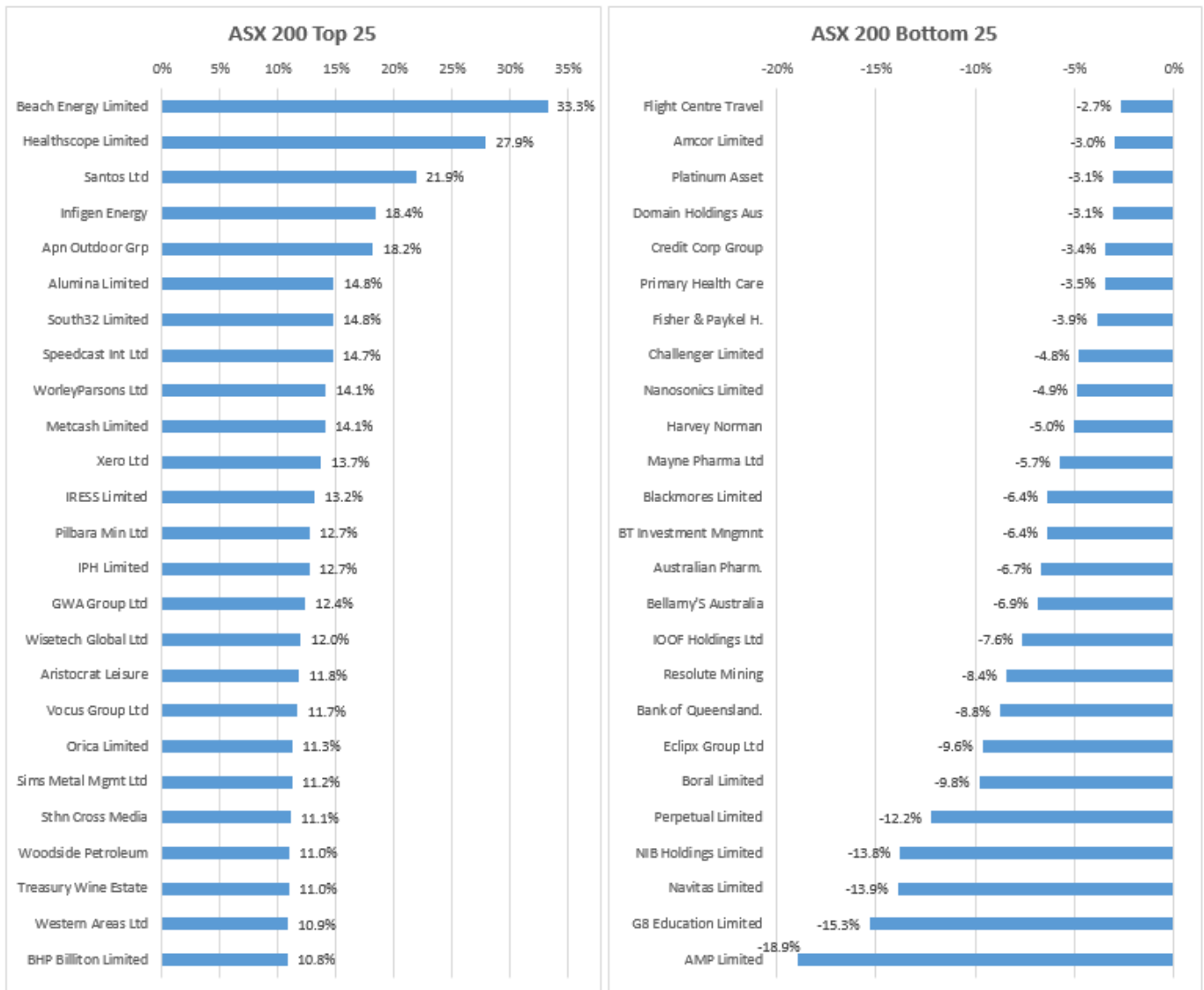


Source: IRESS, compiled by State One Stockbroking

Commentary

- The FTSE/ASX 200 Index gained 3.9% in April (reversing the 3.8% drop in March); all sectors gained ground although the Financial sector only just made a +ve gaining +0.3%; the Energy sector was the standout performer, posting a 10.5% gain.
- April was broadly positive for commodities, with aluminum and nickel benefiting from the threat of US sanctions against Russia; oil also strengthened as political issues over Iran resurface. Precious metals sold off as the US dollar strengthened.

ASX 200: top 25 and bottom 25 performing stocks over the past four weeks (% gain/loss)



Source: IRESS, compiled by State One Stockbroking

- **Top performer:** Beach Energy (ASX: BPT) appreciated by 33.3% on the back of stronger oil and gas prices, strong production numbers and +ve drilling results.
- **Worst performer:** AMP Limited (ASX: AMP) down 18.9% as revelations of poor corporate governance emerge during the Banking Royal Commission; CEO and Chairman resign, with more resignations expected.

Month in review - *events that caught our eye in April*



After meeting with the Chinese President, North Korean leader Kim Jong-un meets with South Korean President Moon Jae-in to discuss “denuclearisation” in the inter-Korean truce village of Panmunjom.




Blue Sky Alternative Investments' share price plummets, and CE resigns, following scathing valuation report by short seller Glaucus Research. Prompts discussion on how non-listed assets can be valued.




One of Australia's largest gas suppliers - Santos - is a target of a US\$10bn (A\$6.50ps) takeover bid by US-based Harbour Energy. FIRB concerns see the share price trading below the offer price.



Revelations of poor advice from AMP financial planners lead to the immediate resignation of CE Craig Meller and calls for the resignation of Chairman Catherine Brenner.



Australia comes tops in the medal standings at the 2018 Commonwealth Games in Brisbane, with 198 medals, including 80 golds.



Proposed US sanctions against Russia due to Syria, leads to volatile movements in commodity prices – particularly in aluminium and nickel.



Online comparison site iSelect searches for a new CE after declaring a +50% downgrade to profit guidance due to a slump in activity (partially due to lack of marketing/advertising).



The Banking Royal Commission uncovers unsuspected levels of non-compliance and poor customer services amongst the country's largest players in the financial sector.....fines and increased regulations are likely.



In between everything else, US President Trump takes time to clean the dandruff from Emmanuel Macron's suit during a 3-day visit to Washington by the French President.

Short Selling

Dawn Chia
 Business Development Manager
 amscot Stockbroking and Advisor Services

The conventional way of trading is Buying and Selling after. In all understanding, it works that any investor wants to Buy low and Sell high in a perfect world. Short selling turns the convention around. Short selling is to sell borrowed asset, and hopefully buying it back at a lower price and profiting off the position. In a case as such, the investor would have use this trading strategy when they have a bear view on a specific stock. At current, the stock price may be at its high and may take a turn based on the investor’s trading view. Covered short sales is when there are assets delivered on the settlement date; naked short selling is selling assets with no offsetting form of ownership of those assets. That is illegal.

In our context, our asset is stocks. Short selling stocks is possible with margin accounts as they provide the facility to stock lend at a minimal amount. Margin lenders would normally require a certain amount of capital or collateral to allow the account to hold a short position. Short selling involves a number of additional costs apart from trading commissions – margin interest, stock borrowing costs, and dividends. In addition to significant expenses, other risks associated with shorting include the ever-present risk of a short squeeze or buy-in, regulatory risk, the fact that short selling is contrary to the long-term upward trend, and a skewed payoff ratio.

In a situation of borrowing stock and short selling, does the seller receive dividend would be a question in every investors mind. Well, in a nutshell, once you have short sold the stocks, the buyer will receive the dividend. You may have the position still open in your trading books but you do not just get paid dividend in advance for short selling.

In conclusion, short selling can be risky strategy in comparison to a buy and hold strategy. Doing a lot of homework before taking the jump is vital to having a profitable trading experience.

SHORT SELLING

Short sellers borrow shares of stock from a broker to sell on the financial market. After an agreed-upon number of days, the short seller will have to buy the stock back and return it to the broker, along with a fee. The short seller’s hope is to sell the stock high and buy it back low to make a profit.

An example of short selling



Warnings and Disclosures

These Research products and their contents at all times remain the property of State One Stockbroking Ltd ("State One") and as such cannot be reprinted, distributed, copied, posted on the internet, in part or whole, without written prior approval from State One. The contents of this document constitute General Advice and have been prepared without taking account of your investment objectives, financial situation or needs. Because of that you should, before taking any action to acquire or deal in, or follow a recommendation (if any) in respect of any of the financial products or information mentioned in these documents, consult your own investment advisor to consider whether that is appropriate having regard to your own objectives, financial situation and needs. While State One believes information contained in these documents are based on information which is believed to be reliable, their accuracy and completeness are not guaranteed and no warranty of accuracy or reliability is given or implied and no responsibility for any loss or damage arising in any way for any representation, act or omission is accepted by State One or any officer, agent or employee of State One. If applicable, you should obtain the Product Disclosure Statement relating to any relevant financial product mentioned in this document (which contains full details of the terms and conditions of the relevant financial product) and consider it before making any decision about whether to acquire the financial product. The directors and associated persons of State One may have a long or short interest in the financial products discussed in these documents and they may earn brokerage, commissions, fees and advantages, pecuniary or otherwise, in connection with the making of a recommendation or dealing by a client in such financial products. Additionally, State One may earn fees due to having been appointed advisors to, or may be undertaking or about to commence research relating to any of the companies mentioned here.

Alan Hill
Executive Chairman
Phone: +61 8 9288 3388
ahill@stateone.com.au

Ric Heydon
Equities & Derivatives Advisor
Phone: +61 8 9288 3307
rheydon@stateone.com.au

Mark Sullivan
Institutional Dealer
Phone: +61 2 9024 9134
msullivan@stateone.com.au

Thomas Tan
Equities Advisor
Phone: +61 2 9024 9131
ttan@stateone.com.au

Morris Levitzke
Equities Advisor
Phone: +61 8 9288 3315
mlevitzke@stateone.com.au

Graeme Johnson
Equities & Derivatives Advisor
Phone: +61 8 9288 3316
gjohnson@stateone.com.au

Yitz Barber
Equities Advisor
Phone: +61 2 9024 9107
ybarber@stateone.com.au

Tammie Wong
Equities Advisor
Phone: +61 2 9024 9133
twong@stateone.com.au

Dawn Chia
Business Development Manager
Phone: +61 8 9288 3336
Dawn.Chia@stateone.com.au

David Zhang
Equities Advisor
Phone: +61 2 9024 9130
dzhang@stateone.com.au

David Brennan
Senior Investment Analyst
Phone: +61 2 9024 9142
dbrennan@stateone.com.au