JM Financial Group

Issue 20: December 2016

Investment Newsletter

Market Performance (As at 31st December 2016)	December 2016 (%)	Calendar YTD (%)	1 Year Rolling (%)
S&P - All Ords Accum. Index	+4.17	+11.65	+11.65

***Month in Review** – A review of events that influenced the share market in December.*

December was another strong month for equities with the market reaching a 16-month high in the lead up to Christmas. The Trump related exuberance combined with the much talked about "Santa Rally" pushed the All Ordinaries 4.17% higher.

Equity market strength wasn't confined to Australian markets with the Dow Jones setting another all-time high, coming within a whisker of the much vaunted 20,000 point level. This was a particularly impressive move considering the US Federal Reserve raised rates by 25 basis points during the month and alluded to three more possible rises in 2017.

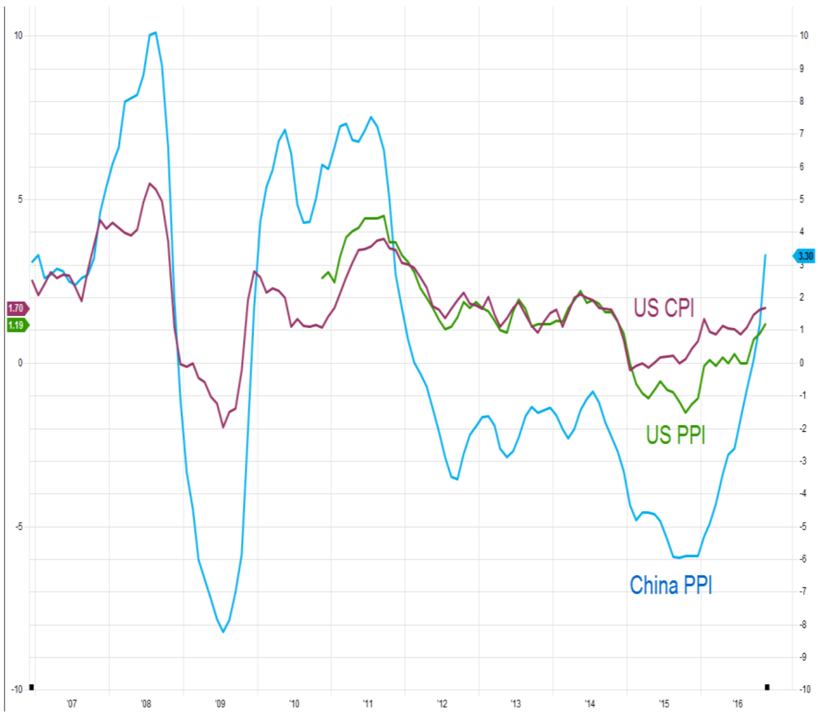
How quickly markets can change – only a matter of months ago the Dow Jones would've fallen 300 points on even the mere mention of interest rates increasing. The psychology of the market is a fascinating topic and worthy of a newsletter in itself.

Although our share market rose strongly, the September quarter GDP figures were surprisingly quite weak, indicating a shrinking economy. Economists are collectively holding their breath in the hope that the December quarter numbers will indicate strong growth and the dreaded 'R' word (Recession) will be avoided.

Historically a quiet month in terms of company news, December threw the market a curveball with a number of high profile surprises including the announced merger of APN Outdoor and Ooh Media, Santos' $1.5bn capital raising, Mayne Pharma being named in a US price-fixing lawsuit, and the trading suspension of former market darling Bellamy's after a shock downgrade and question marks around its future supply agreements.

The Small Ordinaries Index was once again on the nose as investors rotated into the Top 50 stocks. This weakness was exacerbated by a number of small companies announcing capital raisings at large discounts to current market prices.

***Chart of the Month –** Prices and interest rates rises*



The Producer Price Index or PPI, measures movements in input prices, and is regarded as an indicator for future consumer price rises and ultimately interest rate movements. According to Factset data, US CPI has moved largely in sync with US PPI, as indicated in the chart.

The PPI in both China and the U.S. has moved into positive territory in recent months with US CPI rising from largely static levels in 14/15 to over 1.5% recently.

While this may lead to increased global inflation, the signs are by no means alarming and we feel both US and global inflation will continue to remain moderate whilst wage inflation in the US and Europe is contained.

With this backdrop we feel rate rises in Australia (and the U.S.), whilst more likely to be up than down in 2017, will be limited in size until we see more sustained wage inflation.

JM Financial Group
AFSL 238397 ABN 68 007 364 132

Level 8, 140 Bourke St, Melbourne, VIC, 3000
Ph: +61 3 9627 9900

Web: www.jmfg.com.au
Email: enquiries@jmfg.com.au

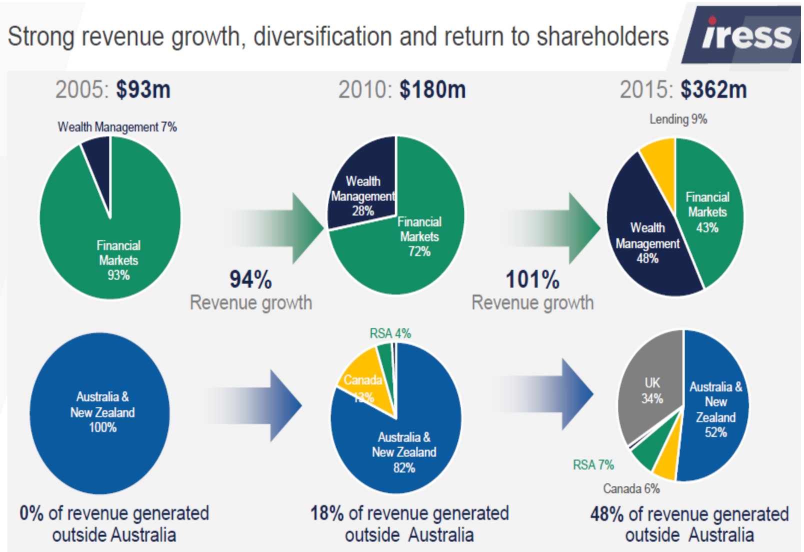
Due Diligence – *a closer look at a stock of interest*

Iress (IRE)

Despite being a relatively recent addition to a number of client portfolios, Iress is a business with which we are intimately familiar, having used a number of its products over the last two decades.

Having begun life as a data and software provider for financial markets, Iress has broadened its offering in recent years to include software for financial planning, wealth management and enterprise lending, with operations spanning Australia, New Zealand, UK, Canada, and South Africa.

With dominant market positions in its two key regions including 65% of Australia's top 100 wealth managers and 35% of the UK wealth management market, Iress's ability to win large clients is testament to the continued re-investment in its technology.



We have often discussed how success and dominance can lead to complacency. Iress to its credit, wasn't content with just being the leading player in market data, spending the last ten years diversifying and strengthening its operations across the entire wealth management spectrum.

With a highly diversified business providing globally significant software and technology platforms, we feel Iress has positioned itself to grow above-market returns for a number of years to come.

Looking ahead – *What to expect in 2017*

Generally when we reach this part of the year the financial press and other *market commentators* are called upon to make a number of "predictions" and estimates as to what they think will occur in the year ahead. Our firm belief is that these forecasts are generally not worth the paper they are written on given the impossible nature of forecasting the future. Who would've predicted Brexit, Trump, the Chicago Cubs, Western Bulldogs and Leicester City! For these very reasons our mantra has always been to observe rather than predict.

With that said, we are turning our thoughts below to what might occur in 2017. (Disclaimer: these are not to be relied upon and will most likely be incorrect!)

Increased volatility – With the Dow Jones creeping up on a record 20,000 points, investors would be forgiven for thinking the world (and financial markets) had entered a period of calm and stability. Despite the surge of positivity that has driven financial markets recently we can't help but feel that – with Donald Trump President of the USA, the UK removing themselves from the European Union, and a number of high profile elections due in 2017 – socioeconomic and political issues will continue to drive increased volatility in financial markets.

Interest rates will begin to rise – we are hardly going out on a limb with this call given most of the world's major bond markets are implying a series of upward moves but as we alluded to with the 'chart of the month' prices appear to be rising in the economy, which should see the end to the last decade of central bank expansionary monetary policy.

2017 to become the year of the "virtual assistant" - The 1950s to 1960s was a period of tremendous technological change as the Cold War pitted the USSR and USA against each other in a space race to be first on the moon. Fast forward to 2016; Amazon, Google, and Apple are racing against each other so that we can order a pizza through a *voice activated personal assistant* and have it delivered to our door by a drone. All of this occurring within 10 minutes and completed without leaving the comfort of our couch.

Both noble pursuits but the latter illustrates that the subtle evolution of leveraging technology to make life easier rather than pushing new boundaries is continuing. With this in mind keep a watch out for virtual assistant devices such as Amazon's Echo and Alexa, Google's Home, Lenovo's Smart Assistant, and Apple's yet to be released product, which are poised to become increasingly mainstream.

If only the virtual assistant could pick stocks too…

JM Financial Group would like to wish our clients all the best for the New Year and look forward to a successful and prosperous 2017.