

**PRESIDIUMWEALTHGROUP**



**Welcome to 2014  
OFF AND RUNNING**



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We hope you managed to have a lovely break over Christmas and spend some quality time with family and friends. Here we are again welcoming in another year, 2014, year of the Horse. The “Wood Horse” year to be more precise. It is a time of fast victories, unexpected adventure, and surprising romance. It is an excellent year for travel, and the more far away and off the beaten path the better. Energy is high and production is rewarded. Decisive action, not procrastination, brings victory. But you have to act fast in a Horse year. If you are not 100% secure about a decision, then don’t do it. Events move so quickly in a Horse year that you don’t want to gallop off in the wrong direction.

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## Looking Back Down the Straight at 2013

We have had much to worry about, fiscal gridlock in America, an imminent collapse of the Chinese financial system and also the potential escalation of the Syrian conflict to name just a few. In many ways we have dodged a bullet. The aforementioned China fears were vastly exaggerated. It seems after 5 years of really challenging global economic conditions, and much “mucking out of the stables”, equity markets are improving. Term Deposits have provided a ‘safe harbor’ during these challenging times, but they won’t be providing sufficient returns to sustain most investors for some time to come as interest rates continue to come under pressure

Looking back on calendar year 2013, overall the performance of the Australian Equity Market was pleasing. November/December bucked the trend from the October highs; the ASX200 finished the month at 5320, down about 100 points for the month. Over the past 12 months to the end of December the index has returned 23.8%. Never the less, the pace of economic growth has slowed as the mining investment boom plateaued and conditions in the non-mining sector remain soft.

The Australian Equity market has yet to break its pre-GFC high, in contrast with the US and New Zealand markets which have recently reached new all-time highs. US consumer sector continues to show encouraging signs of growth, whilst the property market is at its best since the GFC . These factors, coupled with an outlook for material earnings growth from US companies operating both domestically and internationally has seen the US equity markets reach record highs.

International markets were stronger, as measured by the broad MSCI All Countries index for 45 markets and 9,000 companies; this hit an all-time high in 2013 with the Germany's DAX and Japan's Nikkei as standouts.

The Australian Dollar had a wild ride in 2013. It fell by 15% between April and

August but recovered back to an “uncomfortably high” level of around US\$.97cents in late October due to better Chinese and domestic data, the decisive Federal election outcome, iron ore price strength and the postponements of the US Federal Reserve’s withdrawal of its monetary stimulus.

The reserve bank of Australia cut the cash rate twice in 2013 to a record 53 year low of 2.5%, 90-day Bank Bills are at 2.63% and 10 year Bonds are at 4.25%pa. For the first time, the Australian government, as one of the few still rated AAA, took advantage of demand and launched a 20 year Bond issue, with a 4.50%pa coupon over the duration. Fixed deposits are yielding between 3.30% and 3.90%pa for short to medium terms up to one year.

This helped boost the residential property market, with capital city house prices up by around 8% over the year to December.

This calendar year we have seen all of the big 4 banks issue capital raisings via Income Securities which Presidium has been successful in obtaining allocations for clients despite all of these issues being very oversubscribed by the general public. The latest NAB issue for example which has \$3 billion of applications for a raising of \$1.5 billion. We were lucky enough to secure a guaranteed allocation for our clients. Most bank backed Income Notes are yielding around 6.5% income which compares favorably against bonds and term deposits.

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### **The 2014 Outlook: A Trot, Cantor or Gallop?**

In the near term (2014 and 2015) Australia’s economic growth prospects look bright. Low borrowing interest rates are working their magic lifting housing activity and retail spending. The signs of reasonably robust growth in China (close to 8% 2013) also bodes well for growth in Australian export volumes – enhanced by greater capacity to supply on several completed major resource investment projects. A declining Australian dollar could also add to the mix of near-term growth positive factors. However, medium-to-longer term Australian growth prospects are potentially not so good, highlighted by the announcement in December by General Motors that Holden would cease manufacturing in Australia from 2017.

Australia is likely to grow well in 2014 and 2015, but if stronger growth is to be sustained, the opportunity exists now to make haste on all the reforms necessary to allow stronger long-term growth to occur. Here is hoping that our politicians find some courage in 2014 for the benefit of all of us and so that the loss of Holden and Ford is not in vain.

The Abbott Governments focus on infrastructure investment should be a positive for non-mining activity, especially since improved transport links are critical for improving labour productivity, given the weakening Australian Income Growth. Despite this, fiscal policy will likely be moderately contradictory in terms of the overall growth contribution next year.

- Within equities, investors should favour the international markets again over Australian equities in 2014, particularly the Asian equity markets and the U.S.
- Another important theme we see emerging is that we should continue to seek out companies which will be the primary beneficiaries of the most significant and defining phenomenon of our lifetime, namely, the rise of the Asian middle classes and, add to that, Africa and South America.

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### **From the Starting Post:**

We are excited to embrace 2014. This year, our goal as a business is to focus on “holistic family financial planning”. By that we mean looking at will’s, powers of attorney, are your personal insurances up to scratch, are they costing you too much?

We will be extending you an invitation to join us for our client function in May which will involve much horsing around and again promises to be very “out of the ordinary”. In the mean time, please keep Presidium in mind for friends

and families that may require some financial advice.

Again we thank you for your support and we look forward to showing you our commitment in return. As always, do not hesitate to contact us if there is anything you would like us to go over with you, we look forward to catching up in 2014.

Yours sincerely

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