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Woodhall's Weekly

Ron Bewley PhD, FASSA

"We stand ready to act again"

Mario Draghi, the ECB President who cut rates to 0.5% the previous week, uttered these words a few days ago bringing even more joy to markets. The US jobs figure of 165,000 a week ago not only beat forecasts by 25,000 but it came to light over the weekend that the two previous months' data were revised upwards by 50,000 and 64,000 respectively. If that were not enough China came out with some hot data on exports and imports

It is, perhaps, not surprising that our Materials stocks exploded out of the blocks with a staggering +8.4% gain for the week and Energy with a 4.8% gain. This result fits in neatly with our Youtube piece on Switzer TV form April 30 and it has eroded a lot of the mispricing we reported over the last month or so. Materials is still underpriced (Chart 6) at -10.0% and a look at the "heat spots" map in our companion weekly publication on exuberance statistics for the ASX 200 backs that there might be more gains to follow.

The gain for the week on the ASX 200 was +1.5% beating the S&P 500's modest gain of +1.2%. Our market is only moderately overpriced at +3.9% (Chart 5) but the S&P 500 is getting bit too hot as our weekly on S&P 500 exuberance (due out tomorrow) will show. With these statistics in mind, the growth spurt in the US might be coming to an end for a while – or even correcting – but we still have some wiggle room left.

It has been encouraging to see our capital gains forecasts for the ASX 200 (Chart 4) has been retracing its recent fall – back now to +11.7% for the next 12 months. Our estimate of fair value for the index is now just above 5,000. So our e-o-y forecast of 5,350 is looking good and might even be revised upwards if this trend continues.

While resource related stocks stole the limelight this week, Financials and Telcos managed to slip under the radar each with a -1.3% correction. But this too is a positive story as the yield story only has legs if the yield stays high enough. Our forward estimates of dividend yield for the high-yield sectors remain solid: Financials (5.4%), Property (5.1%), Telcos (5.5%) and Utilities (5.4%) – plus franking credits. And these yields are still tightly clustered. We see little prospect for capital gains in these sectors in the near future. Exuberance in the first three of these sectors remains over the magic 6% line but this can be supported by yield.

Coca-Cola Amatil took a hit after a profit downgrade on Wednesday taking the heat out of its sector's mispricing leaving only Discretionary in major league overpricing without a dividend story to back it up.

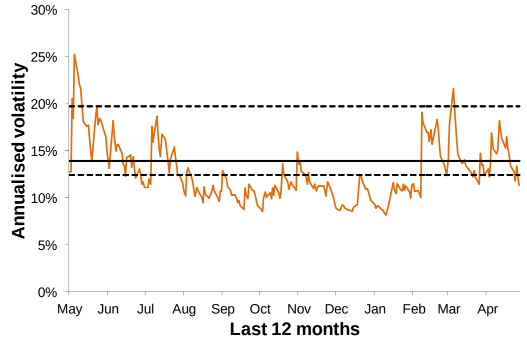
At home, our jobs data surprised the people who do not know how to analyse these statistics. Unemployment came in at 5.5% - bang on last month's trend estimate from the ABS – and jobs were up by +50,100 with +34,500 being full-time positions.

The RBA cut rates before these data were released to the lowest level in Julia Gillard's lifetime to be at 2.75% - below the emergency level of 3% during the GFC and recently. The dollar took a hit falling -2.2 cents on the week. Copper held its recent gains and iron ore was flat.

With almost no known news of any great significance on the horizon, our market next week could well be quiet with resources continue to bubble along.

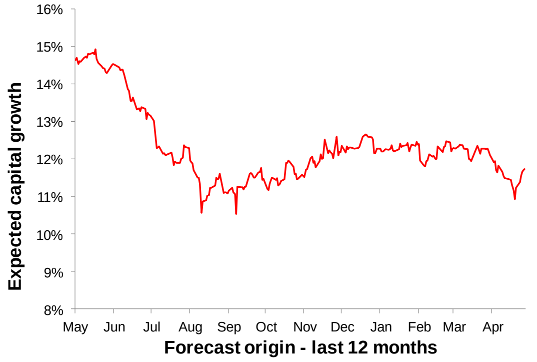
WoodHall Investment Research

Chart 1: Market volatility



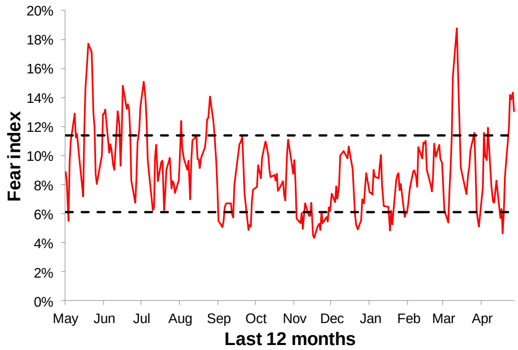
Notes: The solid black line depicts the average volatility since January 2010; the lower dotted line depicts the average volatility pre the GFC; the higher dotted line depicts the average level of volatility during the GFC - up to December 2009. The brown line is a daily estimate of the ASX 200 index volatility.

Chart 4: 12-month-ahead capital gains forecasts



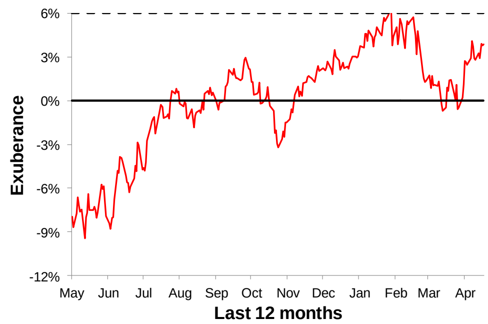
Notes: Each business day we update our estimates for capital gains on the ASX 200 for the following 12 months. For example, the left-most estimate on the vertical axis is a forecast for the 12 months concluding today. The right hand estimate is for the 12 months from today.

Chart 2: Fear index



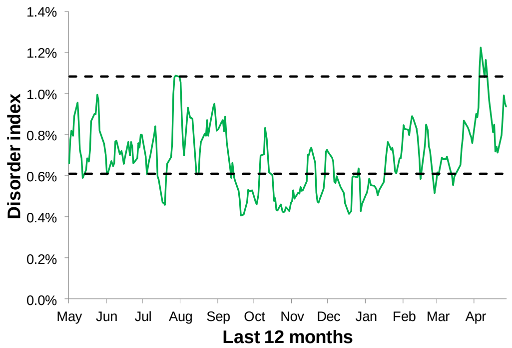
Notes: The fear index is a measure of 'excess' volatility denoting behaviour outside the open/close values each day. The two dotted lines depict the band in which the fear index resided before the GFC in two thirds of days. Extended periods below the lower dotted line might indicate complacency. Extended periods, or extreme values, of the index above the higher dotted line might indicate a propensity for the market to overreact in an irrational manner.

Chart 5: Market exuberance



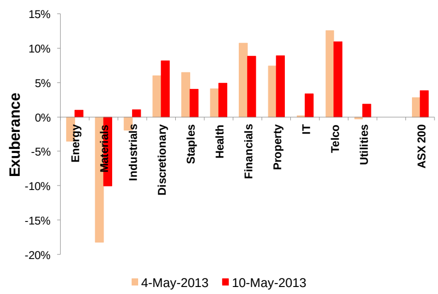
Notes: Exuberance is our measure of mispricing on the ASX 200. A value below the solid black line denotes the market is perceived to be cheap and above that line expensive. Experience suggests that exuberance above +6%, denoted by the dotted line, is an indicator of a potential correction of 6% to 10% - or for the market to move sideways for an extended period.

Chart 3: Disorder index



Notes: The disorder index measures the degree to which the 11 sectors' daily returns move in harmony. The two dotted lines depict the band in which the disorder index resided before the GFC in two thirds of days. Extended periods below the lower dotted line might indicate belief that there is little information to have different impacts on different sectors. Extended periods, or extreme values, of the index above the higher dotted line might indicate investors and traders are lurching from sector to sector in search of a new trend.

Chart 6: Sector exuberance



Notes: The estimates in this chart are based on the same notions as for Chart 5. More detailed information on mispricing is contained in our companion weekly publication in the same section of our website