



## Woodhall's Weekly

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After five weeks of gains on the ASX 200, our market suffered a minor correction of -0.5% last week. With the Dow up 100 points on Friday night - giving the SPI a 25 point start on Monday - we could almost call last week 'no change'. However, that hides some big movements across sectors. Miners took a big hit on Friday on the back of a weak 'flash' PMI number from China. But even the conservative RBA Governor, Glenn Stevens, said yesterday the mining boom won't peak until 2013/14.

Iron ore prices did slip below \$1000 a ton but that is still more than double its price at its 2008 low! Monadelphous, a mining services company, reported strong results - backing the likes of Bradken and Emeco. BHP and RIO have revisited some very big projects putting a negative spin on that sector but something had to give with wage escalation, a high dollar and a mining/carbon tax double-header. Perhaps this is just the circuit breaker until the much-mooted stimulus packages get going. Bernanke is coming so close to announcing a US stimulus - given some mixed data.

We have the market priced at about par (-0.2%) with a much closer bunching across sectors than in recent weeks. Utilities and Discretionary are at par with Energy (-2.6%), Materials (-7.4%) and Industrials (-5.2%) dragging the chain. The other sectors are quite over-priced - but not in the danger zone. These over-priced sectors are dominated by defensive/yield stocks. Whilst they are still in favour, the gap has narrowed.

With the bulk of reporting season behind us, our 12-month-ahead forecast has only slipped one percentage point to 11.9% from broker downgrades.

A particularly satisfying pull back - in Fitch's 1-year ahead default probabilities - occurred over the last four weeks - down from 4.1% to 3.0%. The pressure from Europe is less intense than it was but this positivity is all on the back of Draghi's yet-to-be-tested statement of 'whatever it takes' coming true.

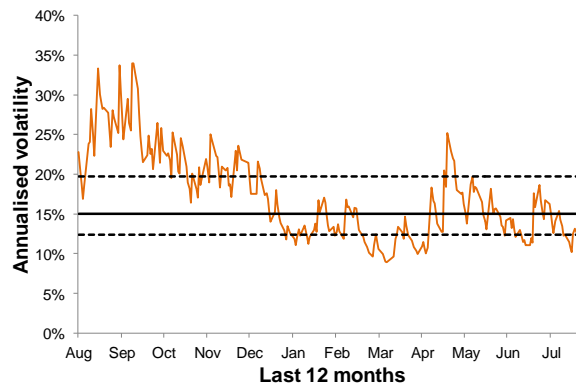
Volatility is at or below normal pre-GFC levels, fear is normal and disorder is at the higher end of normal due to some rotation among the sector. No negativity there.

Although the Jackson Hole meeting for central bankers is next week, September 12 is still the expected date for a US announcement. With Germany softening its stance - a little - an uneventful week or two on the markets might follow. But if Europe, the US and China don't soon lay out specific plans for stimulus, there will be a lot of disappointed investors. If they do deliver, the bad times could be behind us for a year or two.

**Woodhall Investment Research Pty Ltd** (ABN 17 141 486 160); [www.woodhall.com.au](http://www.woodhall.com.au)

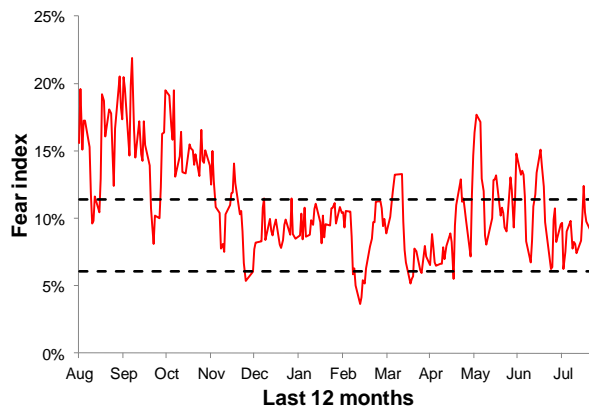
**General Advice Warning:** This note has been prepared without taking account of the objectives, financial situation or needs of any particular individual. Any individual should, before acting on the information in this note, consider the appropriateness of the information, having regard to the individual's objectives, financial situation and needs and, if necessary, seek appropriate professional advice. Past returns are no guarantee of future performance.

**Chart 1: Daily volatility - ASX 200**



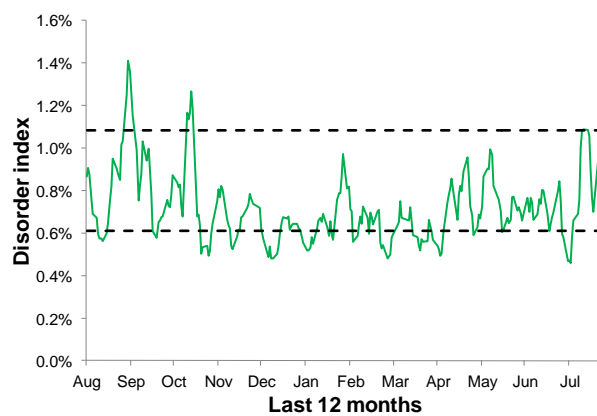
Notes: The solid black line denotes the current average volatility since January 2010; the lower dotted line denotes the average volatility pre GFC; the upper dotted line denotes average volatility during the GFC.

**Chart 2: The fear index - ASX 200**



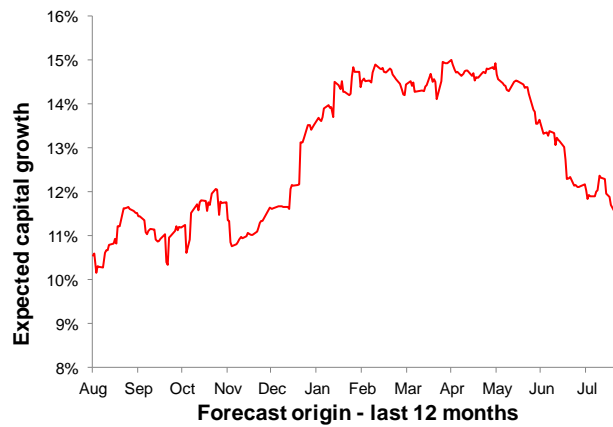
Notes: The two dotted lines denote the range where fear resided pre-GFC for two thirds of the time

**Chart 3: The disorder index - ASX 200**



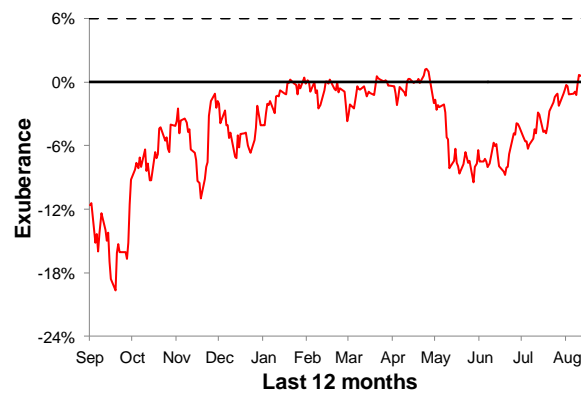
Notes: The two dotted lines denote the range where disorder resided pre-GFC for two thirds of the time.

**Chart 4: Forecasts of capital growth - ASX 200**



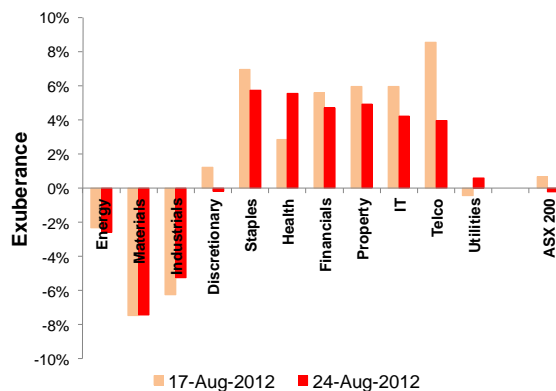
Note: These forecasts are updated daily for the following 12 months. Dividends should also be taken into account when assessing possible performance.

**Chart 5: Exuberance over time - ASX 200**



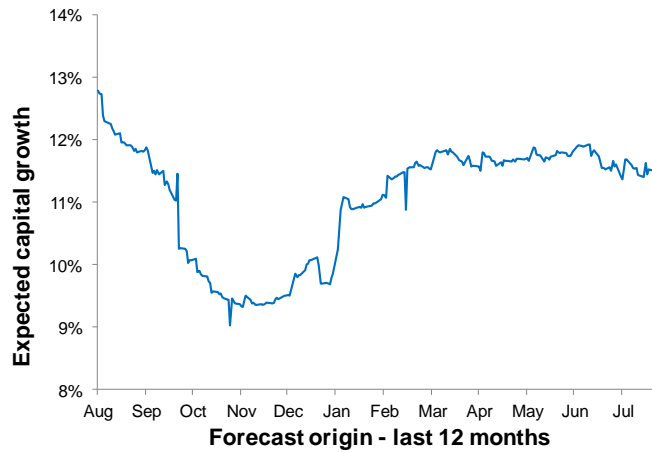
Notes: 0% represents 'fair pricing' and the dotted line at 6% represents possible overheating preceding a correction. Cheap markets (below the 0% line) can get a lot cheaper before they recover!

**Chart 6: Sectoral exuberance - ASX 200**



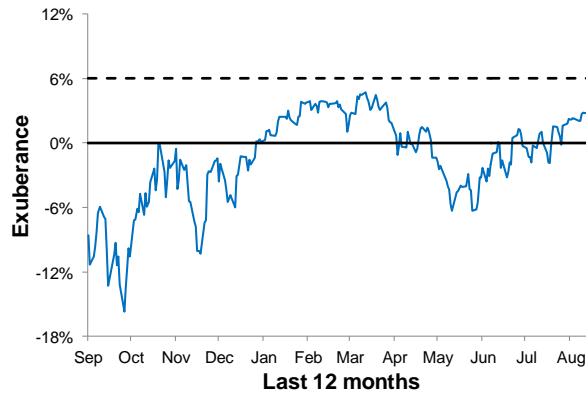
Notes: Our *Guide to Woodhall's Publications* should be consulted for a better understanding of how all nine charts are constructed.

**Chart 7: Forecasts of capital growth - S&P 500**



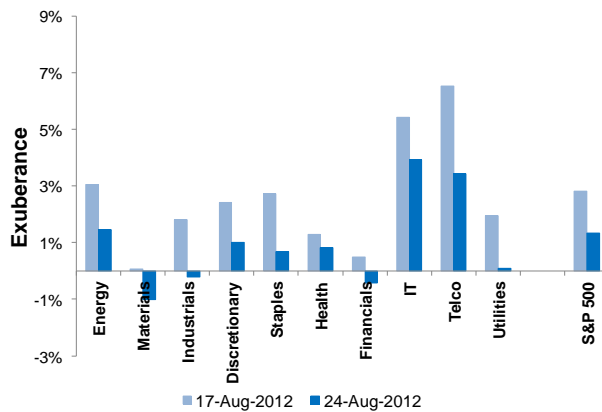
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**Chart 8: Exuberance over time - S&P 500**



Note: 0% represents 'fair pricing' and the dotted line at 6% represents possible overheating preceding a correction. Cheap markets (below the 0% line) can get a lot cheaper before they recover!

**Chart 9: Sectoral exuberance - S&P 500**



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