

# THE AUSTRALIAN

STOCK QUOTES			
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<b>MARKET</b>	S&P/ASX 200 <b>+0.73%</b> 5268.2000   RIO		
S&P/ASX 200 <b>+0.73%</b> 5268.2000	AUD/USD <b>-0.55%</b> \$0.73	TOP GAINER TEN <b>+11.76%</b> \$0.19	TOP LOSER ILU <b>-8.15%</b> \$6.76

## Hard economic numbers will beat soft sentiment any day

STIRLING LARKIN THE AUSTRALIAN OCTOBER 17, 2015 12:00AM

**Galileo, the Italian renaissance scientist, said that if he were to begin his studies again, he would have followed the advice of Greek philosopher Plato and begun with mathematics.**

As qualitative and interpretative as finance has been allowed to become, at the end of the day, the maths is really all that matters.

For the arithmetically driven global investor, September's US Federal Reserve FOMC (Federal Open Market Committee) meeting chaired by the "data-driven" chair, Janet Yellen, could fairly have been considered "quantitatively uneasy" and this unease is motivating some to find new ways of redefining the rules of the financial road.

The most explicit example of this was seen last week, when Blackrock, the world's largest asset manager, proposed new and somewhat radical rules for extreme sessions of market-wide volatility.

In response to August 24's "flash crash mark II" — which saw extreme volatility, erroneous trades and by the end of that trading session, one in five exchange-traded products on NYSE Arca platform being suspended — BlackRock proposed that regulators consider market-wide "circuit breakers", which, put simply, would see the entire S&P 500 shut down on such days.

Such suggestions have dangerous implications and fly in the face of the free-market "price discovery" mechanisms upon which the US S&P 500 and Australian ASX 200 rely.

But the significance surrounding the timing of this proposal is that larger institutional market participants, such as BlackRock, now believe that the FOMC's September ambiguity allows them the scope to test new boundaries.

By the Fed acknowledging that market "tantrums" can, and have, influenced their decisions, it is now not unreasonable to expect more changes to come, or, at the very least, more being tested.

Such perceived carte blanche matters to Australian domestic stockmarket investors, who rely upon very similar rules to those established in the US and as our ASX's Central Limit Order Book, or CLOB, is also built to facilitate "price discovery", during both calm and volatile trading sessions, any change to this relative status quo will affect how Australians approach investing — both in and outside of superannuation.

The uneasiness surrounding how Yellen and the FOMC managed September's much anticipated Federal Reserve meeting can best be seen in the graph, which reflects aggregated global PMI

sentiment surveys, benchmarked against quantitatively objective hard data indices.

Interpreted at face value, even though the economic numbers pertaining to the performance of the US real economy look sound, the sentiment of both global investors and US commerce is anything but.

The outgoing chief economist of the IMF, Oliver Blanchard, has even suggested governments, rather than following QE programs, might increase their fiscal deficits by spending on national infrastructure projects: central banks would then purchase the debt components of these projects with newly created money.

In relation to the global investor experience, although often calcified in their ways, this current debate has motivated the resolve of many Australian ultra high net worth investors to reappraise what continued distortions, caused by ambitious monetary policies, mean for their respective wholesale investment allocations.

With specific reference to ASX miners, Goldman Sachs reminded clients this week that “given the distortion of multiple and return metrics, we think cashflow and NAV valuations provide a better indication of value”.

According to Koby Jones, managing director of The SILC Group and Larkin Group advisory board member: “We are seeing a heightened interest from Australian wholesale investors to seek clarity in listed and unlisted markets given the volatility and confusion around economic activity and global markets.”

Jones adds: “UHNW clients, more than ever, are seeking greater accessibility and enhanced choices in order to meet their risk and return objectives.”

Balancing the influence of global and sectorial distortions against the foreseeable trends in Australian rates, real estate and equity markets, the comments of RBA deputy governor Philip Lowe this week that a peak of the current housing cycle was very near, should be received particularly well.

This is because domestic certainty — even if unfavourable — provides much needed stability, when set against the current global financial and economic flux.

Coupled with the knowledge that the risk of severe drought in Australia and New Zealand has risen sharply and if eventuating, will lead to the historically significant 20 per cent median GDP decline, it is not difficult to foretell where our Reserve Bank is headed.

Respecting the basic maths adds up.

Larkin Group is a Wholesale Wealth Adviser focusing on high yielding global investments.

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