Diverging Trends

Recent trends in Australian equities continue to show that mid to large caps, high yield, and defensive stocks, are driving the market higher. By contrast, the Resources sector has been left behind in the rally - the Small Resources Index is now back to levels seen in the Global Financial Crisis.

Will the demand for yield stocks continue? We think that for now the backdrop remains supportive for yield stories. Interest rates globally remain low, exacerbated by 1) the Bank of Japan's decision to aggressively expand its monetary base; 2) no urgency by the Fed to withdraw Quantitative Easing, and 3) the possibility that rates will also be cut in Europe.

Unless this changes or there is a sustained growth surprise, high yields stocks are still likely to be sought after. However, with the list of attractive yield stocks on the market diminishing, we prefer to focus on those with good yields but *plus a growth story.*

This month we discuss:

- Gold and its fall from grace
- US housing recovery and investment opportunities
- Apple Inc. – Stock update
- FY13 End of Year Check-list

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Market Performance

	Apr-13	Mar-13	1 MTH	YEAR TO DATE
ASX20	3,264	3,073	6.2%	13.9%
ASX200	5,191	4,966	4.5%	11.7%
ASX200 Accum	41,984	40,161	4.5%	13.1%
S&P500	1,598	1,569	1.8%	12.0%
MSCI World - ex Aus	1,477	1,436	2.8%	10.2%
AUDUSD	1.037	1.042	-0.5%	-0.2%
Oil (WTI)	93.11	97.19	-4.2%	1.5%
Spot Gold	1,476.40	1,595.35	-7.5%	-11.9%
AUS CASH RATE (%)	3.00	3.00	0bp	0bp
AUS 10Y BOND YLD (%)	3.09	3.42	-32bp	-18bp
US 10Y BOND YLD (%)	1.68	1.85	-18bp	-8bp

Source: IRESS, MSWM Research. Closing prices as at 31 March and 30 April 2013

ASX20 Stock Performance – Top 5 and Bottom 5

		Close Price	Return (mth)			Close Price	Return (mth)
Top 5				**Bottom 5**			
ANZ	$	31.84	11.6%	NCM	$	16.81	-16.2%
TLS	$	4.98	10.4%	ORG	$	12.32	-7.2%
NAB	$	34.00	10.2%	RIO	$	55.80	-2.4%
WBC	$	33.80	9.9%	QBE	$	13.37	-1.0%
SUN	$	12.98	9.8%	STO	$	12.35	-0.6%

Source: IRESS, MSWM Research. Prices as at 30 April 2013

Gold – how low can it go?

With the recent rout in Gold, our team takes a closer look at what could be driving pricing and the opportunities it may present.

The gold price has fallen >~30% from record levels, with the decline accelerating. In our view, the drivers of the price decline have included technical factors, ETF liquidation, fears of Central Bank selling and concerns of an early end to the US Fed's Quantitative Easing.

Looking ahead, from a supply perspective, the gold price should find long-term support around industry marginal cost of ~US$1200/oz.

So whereis the rout in Gold coming from. This is hard to track but what we do know is that one of the Net sellers are the 'PIGS' (Portugal, Italy, Greece, Spain) and Cyprus are raising capital from their reserves but the net buyer is still the other emerging markets (like China for example).

Quite possibly the speculators are also trimming back their positions (profits?) as we can see net sellers with Exchange Traded Gold Funds. We've seen net outflows -9% over the last 3 months which also appears to be flushing out speculators.

Our view though is that Gold in our portfolios acts as hedge against central bank monetary policy mis-steps and inflation. (So when things are bad, Gold is good!)

Newcrest (NCM), a gold stock within our recommended strategies has taken a dramatic slip too. But…we are still believers.

A couple things to remember about NCM.

1. They are a top 5 global producer and recognized as a leader in their respective space.
2. They have a very strong long term track record of low cost production in gold (and copper) which of course is important when managing pricing risk.
3. They average costs around $800 per oz to produce gold versus the market average $1200. This puts them in an enviable position to wait out or benefit from the recent rout in pricing. This could also lead to a number of other projects cancelor led delayed creating another swing upwards in demand (or deficit production of Gold available for sale).
4. 2013 is a ramp up year for NCM. Their goal is to increase their production by ~50% by next year which might coincide with recovery in price.

We are opportunistic buyers of NCM on weakness in 2013!

US Property

Consistent with Morgan Stanley Research's thesis: the US housing recovery continues to gather steam.

US home prices are rising at the fastest rate in seven years, with some communities seeing double-digit gains, as buyers are returning to a market where the number of properties for sale is in short supply.

The U.S. housing recovery continues as home prices grew at their highest annual growth rate since 2006, according to the S&P/Case-Shiller survey. Prices increased 9.3% in February from a year earlier while mortgage-interest rates hovered near record lows. According to the Standard & Poor's/Case-Shiller index (reported in the Wall Street Journal) that tracks home prices in 20 major metropolitan areas. All 20 cities posted year-over-year gains for the second consecutive month, which hasn't happened since 2005, before the crash.

In contrast to Australian residential property market (which still consistently ranks as one of the most expensive in the world and has yet to have experienced any real correction), the US property market is starting to show up on not just domestic but overseas investors radars.

The following table (source: Wall Street Journal) shows a table of some of the fastest recovering cities with some of the lowest unemployment rates:

City	Excess Inventory Change	Avg. Length on Market	Avg. Price Appreciation	Past Due Loans	Unemployment Rate
San Francisco	-17.8%	2.4	21.4%	5.0%	7.1%
San Diego	-32.9%	2.5	17.1%	6.5%	8.0%
Denver	-44.3%	2.1	13.1%	5.3%	7.4%
Seattle	-42.8%	1.8	10.1%	8.9%	6.6%
Washington DC	-28.6%	2.3	6.6%	8.3%	5.5%

Source: Wall Street Journal, graphic Tuesday, April 30, 2013

***Please see footnotes on page 4.

Please consult a tax advisor in regards to investment in overseas assets or property.

Apple (AAPL.O) Update

Apple diminished fears that its gadgets have lost their edge, reporting strong demand for its iPhones and iPads, but posted its first profit drop in a decade and signaled that new products may not arrive as quickly as (short term) investors hope.

The company sold about 10 million more iPhones and iPads in the latest quarter than it did a year ago, underscoring the resilience of its franchise amid competition from Samsung. Sales of iPads were especially strong, with unit sales jumping 65%. *Let us say that again…+65%!*

With new innovative products on the way (i.e. iWatch and other invoations) expected in the 4th quarter of 2013 (but not soon enough for short trem investors), we are long term believers in the Apple story. With more cash than the US government, an increasing dividend ,and a strong stock buyback program we believe the stock is positioned for a well deserved stock price recovery. We're not sellers until at least $800.

End of Financial Year Checklist

1. Superannuation contributions

June 30 is a Sunday and contributions need to be with the superannuation fund by Friday, 28 June 2013 to be counted this financial year. The fine line between maximising your contributions and exceeding the latest contribution cap is important to understand because the failure of doing so could mean an unexpected tax liability of up to 93%!

- If you're approaching age 65 now may be the last chance you have to contribute to superannuation – speak to us.
- If you're self-employed, have you made any personal deductible contributions to super this financial year?

2. Pensions

Make sure you take your minimum pension before the end of the financial year in order to continue to receive the generous tax concessions on offer for pension assets. And if you have a Transition to Retirement (TTR) pension, make sure you don't exceed the 10% rule for pension payments. Remember, due to the current financial situation, minimum pensions have been reduced by 25% for this financial year – they'll return to normal levels from 1 July 2013.

3. Consider using non-superannuation listed assets to make post-tax superannuation contributions.

If you have listed shares, now is a great time to speak to our team about how you can use these assets to make contributions to superannuation. If you have a Self Managed Superannuation Fund (SMSF) rules are set to change from 1 July 2013 which will more than likely restrict the ability to make in-specie transfers of shares into; or out of a SMSF.

4. Reducing work commitments in July

If you're likely to reduce your work commitments next financial year, think about how you can defer income into next financial year in order to reduce tax and/or bring forward tax deductible expenses to maximise the deduction this financial year while you have a higher taxable income.

Warm regards,

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STRATEGY CHANGES

COMPANY	SECTOR	REASON	ACTION
NA	NA	NA	NA

OUR SELECTION PROCESS

- The stocks selected seek to be profitable today with high Return on Invested Capital (ROIC), high gross margins and low capital intensity.
- High profitability that seeks to be sustainable for the long term, with the support of powerful intangible assets such as strong brands, products or services with high barriers to entry.
- The companies must have high quality management teams committed to maintaining the high returns through focused investment and innovation with careful stewardship of capital.

OUR BENCHMARKS

- ASX200
- Morningstar Balanced
- MSCI Global

TEAM PROFILE

David Leon (Investment Adviser) is a Certified Portfolio Manager® from the School of Engineering and Applied Science from Columbia University, New York, USA. David primarily advises Family Offices, Medical Professionals and Corporate boards within the Aged Care Sector. David began his finance career working as an analyst for a boutique investment banking firm in Chicago that executed underwritings and placements for state and local government entities. While still working in Chicago, he was invited to join UBS as a private client adviser and financial planner. In early 2007, David and his Australian wife moved closer to her family in Australia. David was recruited by Goldman Sachs where he held the title of Director. David graduated with honours from Northwestern University in Chicago, has an Advanced Diploma of Financial Planning, is an ASIC Accredited Derivatives Adviser and is licensed to trade equities, globally. David is also a Governor of the American Chamber of Commerce.

Geoff Smith (Strategic Financial Planner) is a Certified Financial Planner® with over 25 years of experience in Financial Planning and Investment Advice. Prior to joining Morgan Stanley Wealth Management, Geoff was a leading Financial Adviser and principal of Adelaide based financial advisory firm Prescott Securities. In addition to this experience Geoff holds a Diploma of Financial Planning and a Diploma with the Australian Insurance Institute. Geoff specialises in providing quality strategic and investment advice and portfolio wealth management both to individuals and to tax exempt organisations.

Jawad Ahmad (Financial Planner) is a Certified Financial Planner® and has been in the financial service industry since 2006. He has a strong technical background and has vast experience in holistic financial advice. Prior to joining Morgan Stanley Wealth Management, Jawad worked as a Financial Planner and Para planner with Godfrey Pembroke based in Adelaide. He holds a Bachelor of Finance (University of Adelaide), is an ASIC accredited Derivatives planner and has a Graduate Diploma in Global Wealth Management (University of Adelaide) for which he was awarded the most distinguished graduate award in 2007.

Please contact your financial advisers to obtain a copy of the full research reports listed or refer to our website at www.morganstanley.com.au.

Research sourced from:

1. The Scoop, "Implications of the Sharp Sell-off in Gold" – Morgan Stanley Research, 23 April 2013
2. Wall Street Journal, "Where Housing Is Headed", Tuesday, April 30, 2013
3. Wall Street Journal, "Housing Market Accelerates", Tuesday, April 30, 2013
4. Apple Inc, :"Y13 4Q Highlights" Morgan Stanley Research , Tuesday, April 30, 2013

***Notes : 1. Percent change from a year ago in the number of single-family homes, condos, townhouses and co-ops offered in multiple-listing services at the end of March 2. Number of months needed to sell current supply based on average monthly sales rate for past 12 months. 3. Year over year change in home values at the end of March, Zillow.com 4. Share of loans that were at least 30 days past due or in foreclosure at the end of February, LPS Applied Analytics 5. Unemployment rate estimate, end of March, Bureau of Labor Statistics

Sources for inventory: John Burns Real Estate Consulting, CoreLogic, Miller Samuel Associates, Otteau Valuation Group, RealEstate Business Intelligence, Minneapolis Area Association of Realtors, various local MLS firms including, Metrolist, TX Research Center, GeorgiaMLS, TREND, MRIS, Trendgraphix, & Northwest MLS

Important information