Lock in Some Gains

A mixed bag for equities in November as investors tried to gauge the Fed's intentions on Quantitative Easing (QE).

Minutes from the last Fed meeting suggested tapering is likely "in coming months" if data remains consistent with their expectations. On the other hand, the absence of inflationary pressure means that there is little urgency to withdraw QE until growth accelerates.

In China, the 18th Communist Party gathered for the third plenum to discuss a general roadmap for long-term reform. The key policy announcements were generally seen as pro-market, driving China-linked equity indices up 4-8% during the month. Outcomes from the meeting included aims to gradually lift restrictions on foreign investment; increase private sector involvement; and further de-regulate the exchange and interest rate regimes.

Though the recent news flow and outlook on global growth remains positive, our asset allocation analysts have trimmed their tactical overweight in equities to lock in some of the strong outperformance (particularly versus defensive asset classes like bonds) over the last 17 months.

However, they still expect further upside over the coming year on the basis that liquidity remains ample, confidence is improving, and earnings revisions will turn positive. Indeed, they forecast the ASX200 to reach 6100 by year-end 2014.

In this issue:

- *Superannuation (SMSF) Update*

- *Asset Allocation: continued overweight in equities with a dash of profit taking where possible.*

David Leon, CPM®
First Vice President
08 8468 6129
david.leon@morganstanleyy.com

David is a Certified Portfolio Manager and advises Family Offices, Medical Professionals and Corporate Boards in the Aged Care sector.

Geoff Smith, CFP®
Vice President
08 8468 6130
geoff.smith@morganstanley.com

Geoff is a Strategic Financial Planner with extensive experience in financial planning, investment markets and insurance solutions.

Jawad Ahmad, CFP®
Financial Planner
08 8468 6127
jawad.ahmad@morganstanley.com

Jawad is a Financial Planner with the technical proficiency in developing comprehensive strategies and providing holistic Financial Planning.

Market Performance

	Nov-13	Oct-13	1 MTH	YEAR TO DATE
ASX20	3,366	3,423	-1.7%	17.4%
ASX200	5,320	5,425	-1.9%	14.4%
ASX200 Accum	44,285	44,873	-1.3%	19.3%
S&P 500	1,806	1,757	2.8%	26.6%
MSCI World - ex Aus	1,642	1,612	1.8%	22.5%
AUDUSD	0.911	0.946	-3.7%	-12.3%
Oil (WTI)	92.76	96.24	-3.6%	1.1%
Spot Gold	1,251.59	1,322.30	-5.3%	-25.3%
AUS CASH RATE (%)	2.50	2.50	0bp	-50bp
AUS 10Y BOND YLD (%)	4.22	4.03	19bp	95bp
US 10Y BOND YLD (%)	2.75	2.56	19bp	99bp

Source: IRESS, MSWM Research. Closing prices as at 31 Oct and 30 Nov 2013

ASX20 Stock Performance – Top 5 and Bottom 5

		Close Price	Return (mth)			Close Price	Return (mth)
Top 5				**Bottom 5**			
MQG	$	54.18	8.3%	NCM	$	7.69	-25.3%
QBE	$	15.65	5.7%	STO	$	14.00	-7.7%
RIO	$	66.06	3.2%	ORG	$	13.95	-4.6%
CBA	$	77.82	2.3%	WDC	$	10.40	-3.9%
BXB	$	9.51	2.3%	WPL	$	37.40	-3.7%

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

November 6, a positive day for Australia's self-funded retirees.

The 6th November brought some good news for retirees with the announcement of the review of nearly 100 unlegislated taxation and superannuation changes that had not become law; one of which had the potential to impact self-funded retirees significantly. You may recall that in April of this year, the then Gillard Government announced they would seek to introduce legislation that would see pension earnings above $100,000 per annum taxed at 15% - up from 0%.

On the 6th November, the Abbott Government announced its plans for nearly 100 unlegislated superannuation and taxation changes, and in this case said they *will not proceed* with the previously announced Labour proposal to tax pension earnings above $100,000.

This is a favourable outcome for the self-funded retirees with The Treasurer saying in his press release that "the complexity and compliance costs associated with this initiative are extreme and essentially undeliverable".

One further unlegislated change which has the potential to impact a large number of the 500,000 Self-Managed Superannuation Fund (SMSF) sector is the proposal to 'ban off market transfers' between related parties and SMSFs.

This was ruled out by Abbott and Hockey whilst they were in Opposition, and they have indicated that this measure will go to industry consultation with a view that this measure not be legislated *unless* industry believes the proposal should be legislated.

That consultation period is due to end very soon, so we await the outcome of this measure, which in my view is unlikely to come into effect. There were other superannuation related announcements, but most are not as wide ranging as the above.

This information has been provided by Morgan Stanley Wealth Management financial planning.

If you'd like to speak to a Morgan Stanley Wealth Management financial planner, please call Geoff or Jawad.

Recent Highlights from Research

Trimming the Equity Overweight

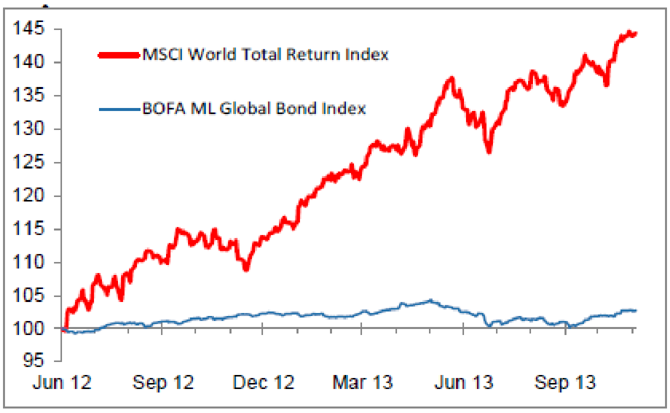
Morgan Stanley Wealth Management Research, 22 November 2013

Since the trough in the Eurozone crisis in mid-2012, global equity markets have performed strongly, rallying ~40%! Over the same period, global fixed income returns have lagged, returning less than 3%! As such, Morgan Stanley's substantial overweight in equities – both Australian and International - and underweight in Fixed Income has added material performance to their asset allocations models.

The strong equity market performance has been driven by a PE re-rating, rather than earnings growth. They attribute this to declining tail risks in the US, Eurozone and Japan. **Looking ahead, they expect further equity market outperformance, led by stronger US-led global growth**. This should lift earnings growth and support modest further market re-ratings. As extreme monetary accommodation is slowly withdrawn, they would expect further fixed-income underperformance.

Nonetheless, after such substantial equity outperformance, incorporating a large part of our expected equity rerating, **we lock-in some outperformance by trimming our equity overweights**. As an example, for a Balanced investor in Morgan Stanley's standard retail asset allocation, they have trimmed the tactical overweight to equities by 2%. They have also reduced their fixed income underweights.

Global Equities Outperformed Global Fixed Income Since Mid-2012



Source: Datastream, MSWM Research

Dleon

David Leon, CPM®

Geoff Smith, CFP®

Jawad Ahmad, CFP®

Morgan Stanley Wealth Management
Level 6, 115 Grenfell Street
(between Wyatt and Hyde Streets)
Adelaide SA 5000

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 adviser 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:

- "Private Wealth Manager: Trimming the Equity Overweight" – Morgan Stanley Wealth Management Research, 22 November 2013

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