However, at some point markets need fundamental support to move up and stay up. In other words, (actual/forecast) company earnings will need to start increasing. As we move through the next few reporting periods (February, April and July), Australian companies will need to put some "profit runs on the board" – for the better part of 2012, each profit reporting period heralded downgrades to average company earnings. Earnings and guidance will now need to be positive to justify a further significant run-up in share prices. More so than at any other time in recent history, those companies that disappoint will be hammered.

From a technical point of view (ie those fixated by charts and historical trends) the Australian market is strongly positioned as we enter 2013. Most technical pundits expect the Australian bourse to push through 5,000 at some point in 2013. Some note that the market is tracing out a correction similar in many respects to that which emerged after the 1970's bear market.

In the immediate short term, however, given that the market has rallied strongly over recent months, it is expected that it will need a period of consolidation or potential pull-back during January to lay a platform for the next up-leg - momentum indicators (such as the RSI) ticked up into "over-bought" territory as we entered January'13.

March/April loom as a period of potential technical instability – if this coincides with a protracted debate in the US around the debt ceiling, one could easily conceive of a material correction around this time.

The top performing shares and sectors in 2012 may not finish top of the leader board again in 2013. Many of the defensives (eg health care, utilities, consumer staples etc) are looking rather expensive. Companies like Telstra and the banks might also sit in this category, however, in the absence of any negative news, they are likely to continue to be supported by the more conservative investors moving funds back into the market – as a theme, "yield" is likely to continue to be well supported in the Australian market in the short to medium term. On the flip side, some of the "uglies" from 2012 are likely to have much better years – industrials, selected discretionary retailers and resources are all looking cheap.

ASSET ALLOCATIONS

We are looking to position client portfolios as follows:

- **Australian Equities (Overweight):** We are constructive on Australian stocks, with further reductions anticipated to official interest rates and above-average growth expected out of China. Any near-term dip in the Australian market should be seen as an opportunity to accumulate quality stocks.
- **Global Equities (Neutral):** The US market may soften in the next month or so, but increasing global liquidity levels will be supportive of equity markets over the medium term.
- **Property (Underweight):** Property is still clouded by uncertainty and typically will hold more attraction as a late-cycle play.
- **Fixed Interest (Neutral):** Market rates continue to soften and we expect reductions of the order of 0.5% in official cash rates over 2013. There may be merit in accessing duration (ie, longer term securities) and limited credit risk via suitable managed funds. Listed income securities continue to be an attractive investment, albeit prices are firmer.
- **Cash (Slightly Underweight):** As a result of our positions in other asset classes, cash is moving toward a slightly underweight position.

Regards

Andrew & Stephen
10 January 2013