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**Today's Stock Traders' and Investors' Free Wrap is based on
An EXTRACT from Edition 521 of our Mentoring style
'Investing & Online Trading' Report**



Inside Line By James Jerrish

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We thank James Gerrish from Shaw & Partners for the following 'Inside Line' update which he posted at www.mymarketview.com.au on Friday 17 July 2015:

1. Less volatility this week and more upside for equities with the market rallying +286pts from the recent lows. 5700 now becomes near term resistance and I'd think we'd see some form of consolidation/slight pullback from around current levels.

HOWEVER the headwinds we've discussed in the last few weeks have subsided for now, and the market should have some clear air for the next few months.

2. Seasonally we're strong - refer chart I've put in before - and the market is coming off a fairly low base. Reporting season domestically starts in three weeks and any sign of an uptick in earnings growth for the market collectively, we'll really get our mojo back. EPS expectations have bottomed, and it's the first time in a number of years that expectations have firmed.

They'll be volatility through earnings season, mainly around outlook statements and composition of earnings. Normally companies that are going to miss the mark, come out and confess prior - and we've seen a number of these recently (Seek (SEK), Primary Healthcare (PRY), Flight Centre (FLT) to name a few - however the outlook and quality of earnings will be key. We expect to see some significant individual stock volatility - which will present opportunity

3. This morning on Live Wire, Market Matters posted a very good article around the recent rate cut in Canada and continued search for yield in Australia. There is no doubt that interest rates globally are at or near historically low levels. That will change and interest rates will move higher. Indeed, Bond Markets are telling us this already. Anyway, we're not there yet however in the next 12 months we need to be very conscious of blindly chasing yield - and be very cognoscente of underlying earnings.

4. Building on that theme, Pimco released their Asset Allocation Outlook recently and the themes are interesting.

Just to recap, Pimco runs the **worlds biggest BOND FUND**, and from an asset allocation perspective, they are promoting an **overweight exposure to EQUITIES**, and underweight bonds.

The other interesting aspect they're keen on is corporate credit like Hybrids. Just on that theme, we've seen in recent days, BUYING has come into the HYBRID market...interesting. Shaw has recently hired Co Heads of income strategies who will cover listed debt securities and other income securities.

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Here's an overview (of Pimco's Report);

POSITIONING	SECULAR OPPORTUNITIES
<p>EQUITIES</p>  <p>WEIGHTING</p>	<ul style="list-style-type: none"> • A global survey of equity risk premia suggests fair to attractive valuations relative to bonds and recent history • Exposure in Europe and Japan appear attractive given policy efforts that are stimulating growth, the levels of dividend yields and current valuations • Emerging markets, particularly those in Asia, offer attractive opportunities for strategic overweights given macro trends, supportive policy and reforms, and levels of equity risk premia particularly when compared to recent history
<p>RATES</p>  <p>WEIGHTING</p>	<ul style="list-style-type: none"> • Core fixed income retains its important role in a multi-asset portfolio to provide diversification and income • We are wary of exposure to interest rates in developed markets as rates are low and poised to rise • There are interesting opportunities in select EM countries, including Mexico and Brazil
<p>CREDIT</p>  <p>WEIGHTING</p>	<ul style="list-style-type: none"> • Despite low all-in yields across credit sectors, spreads above government rates remain within fair to attractive levels • We find specific opportunities such as European financials and U.S. housing-related credits most attractive • A deeper appreciation for potential liquidity is needed given less inventory capacity at banks due to global banking regulations
<p>REAL ASSETS</p>  <p>WEIGHTING</p>	<ul style="list-style-type: none"> • Global inflationary trends may be poised to reverse and gain positive momentum, bolstering the case for real assets • Inflation-linked bonds are particularly attractive as their prices continue to imply very low inflation premia when compared with nominal bonds • Differentiation and tactical agility will be necessary to extract attractive returns from commodities as we believe supply and demand are generally matched
<p>CURRENCIES</p>  <p>WEIGHTING</p>	<ul style="list-style-type: none"> • We remain bullish on the U.S. dollar, and thus underweight international and emerging market currencies, given the divergence of Fed policy with most global central banks • There are select opportunities in higher-yielding EM currencies like the Indian rupee; investors should nevertheless be wary of the potential for heightened volatility

If you have the inclination, the report is [available here](#);

[Learn more about My Market View](#) and as always, if you have any feedback, send to jgerrish@shawstock.com.au

James Gerrish, Shaw and Partners

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