Creative Global Investments

Morning Market Commentary

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Objectivity

Integrity

Creativity

US equity markets period of seasonal weakness

US equity markets have entered their annual period of seasonal weakness. **Seasonal tendencies for stocks turn firmly negative on September 16; average loss for the S&P 500 Index over the three weeks to follow is -2.5%. The DJIA has more often underperformed during the May to October time frame with a brief counter-trend rally occurring in July. September remains clearly the worst calendar month for stock market performance.**

No different this year, on the contrary, as the investors are increasingly concerned with the trifecta

- ***Syria***
- ***FOMC decision on tapering***
- ***Debt ceiling negotiations***

Syria

The White House said it would pursue talks despite skepticism from US lawmakers the Syria would accept Russia's proposal to relinquish chemical weapons to international control.

President Barack Obama has called for a military strike if diplomacy failed after Syrian President Bashar Hafez al-Assad's regime allegedly used chemicals weapons against civilians on August 21st.

Russia warned that a US strike could unleash extremist attacks and see Syria's civil war go outside its borders.

The news that Syria is willing to give up its chemical weapons to the international community to be destroyed and that the US is willing to consider this has provided a major short term, and short lived in our opinion, boost to the markets. As seen by the approval ratings in most countries, people do not want another war and this provides an alternative. Obviously, it's unlikely to be plain sailing from here, with complications arising along the way, but this is an encouraging development from last week.

FOMC decision on tapering

Contrary to market consensus, we remain convinced that the FED is not going to engage in tapering this September, and not in 2013, mainly due to evidence that the US and global macro picture is not stable enough yet. Recent US employment data, and consumer data related to residential housing and mortgage demand has proven us right with our forecast, and we cannot see the FED to reduce its QE program at this time yet.
Additionally, global macro data is not encouraging, as today the Eurozone announced its industrial production across the region fell 1.5% in July from June, the biggest fall since September last year. Economists' consensus was looking for a slight rise. Production was down 2.1% compared with July 2012. The last time the level of output was lower was in April 2010.

Debt Ceiling

We think it is extremely unlikely that Congress will allow the US to default on its debt. But it could cause fear-based selling to occur as the negotiating between republicans and democrats heats up. It would be fair to say there is gridlock in DC. This is generally a positive for the market as it makes it difficult for any meaningful legislation to get passed. The markets don't like the prospect of change so gridlock takes away that uncertainty.

However, a gridlocked Congress when it concerns the debt ceiling can cause investors to panic as the risk of default grows. However, if US Congress allows the US to default on its debt obligations it would be a negative for the markets. But again, the chances of default are slim to none. In an era of extreme partisanship the debt ceiling is just a bargaining chip politicians use to get the folks on the other side of the aisle to capitulate to some of their demands. But just like the 107 times before, Congress will eventually make it 108 times the debt ceiling has been raised.

A default would mean the government misses interest payments on its bonds. Currently, debt payments make up approximately 9% of tax revenue. That's about US$ 220 bn annually. The Treasury could service the debt with its cash on hand, which is about US$ 50bn per day. With that kind of cash, it wouldn't be difficult to make the interest payments and thus, preventing a default. Additionally, tax receipts are on the rise, making the pool of cash to draw from even larger. The government might have to cut spending and prioritize payments, but this isn't a default as long as the interest is paid on time.

Much like the fiscal cliff, which caused so much fear amongst investors, a deal may not get done until the 11th hour. The fiscal cliff turned out to be a non-event and we believe the coming arguing over raising the debt ceiling will be much of the same. No one in Congress wants to be the one responsible for the US defaulting on its debt so no doubt a deal will get done. In the interim however, the market may get jittery as a possible default creeps ever closer.

The debt ceiling has turned into just another political issue and the Congress seems to have fallen in love with arguing back and forth. It's important to remember that even though members of Congress will most likely debate the issue ad nauseam, possibly disrupting markets in the short-term, the issue will be resolved and will have zero impact on the economy and markets in the long-term.

The debt ceiling has existed in its current form since 1939. It sets a total limit on the federal government's obligations with the current limit set at $16.7 trillion. The statute includes among the government's obligations, all of the Treasury bonds currently in existence. These bonds are held by individuals, businesses, state and local governments and foreign governments. However, the federal government itself holds these bonds too. Several trillion dollars of the Federal Government's debt is actually money held internally. This internal debt is essentially the federal government owing itself money. This is a strange way to measure debt and another reason we don't believe the debt ceiling wrangling that is about to start will have any long-term impact on the markets.

Regardless of the constitutionality, the debt ceiling will almost certainly be increased to avoid defaulting, which would be a disaster no one wants to see the aftermath of. In the weeks ahead you should expect to hear and read a lot about the debt ceiling and the implications of not raising it. The financial media is going to produce headlines meant to scare you, grab your attention and make you want to adjust your portfolio. Don't let that happen. Just like the fiscal cliff and the last debt ceiling wrangling, we believe this time will be no different and we will see the 108th increase to the debt ceiling.

Global Macro commentary

Euro economies

ECB member Jorg Asmussen said the Eurozone was not ready for an end to loose monetary policy. Amussen said any swift change in monetary policy would be too soon for the Eurozone economy. He also said Europe's biggest economy Germany would slow slightly in the third and fourth quarters of this year and encouraged France to do more to boost its competitiveness.

Eurostat today said industrial production across the region fell 1.5% in July from June, the biggest fall since September last year. Economists in a Dow Jones poll had anticipated a slight rise. Production was down 2.1% compared with July 2012. The last time the level of output was lower was in April 2010. Sizable declines in output by German, Italian and to a lesser extent French factories were responsible for much of July's weakness. German industrial production fell 2.3%, reversing an increase of similar size the prior month. Even steeper falls were registered in some of the currency bloc's smaller members, such as Ireland, where output dropped 8.7% in July from June, and Malta, where it declined 6.7%.

Grocery sales in the UK are set to surge by a fifth to more than GBP 200bn by 2018 amid a combination of inflation, an increasing population and a steadily improving economy. Recent research studies by various government bodies predict growth of 21% to push the market to roughly GBP 206bn in the next five years. UK food sales are currently worth almost GBP 170bn, up 3.7% on 2012. The GBP surged yesterday to its highest level against the dollar since January as investors bet that the Bank of England will lift rates sooner than expected in response to the rapidly improving jobs market. The number of jobless benefit claimants dropped to 1.4m in August, the lowest since early 2009, in the latest sign that Britain's recovery is gathering steam

Upcoming events

- ECB Publishes its Monthly Report at 4:00am EST.
- Euro-Zone Industrial Production for July will be released at 5:00am EST. The market expects no change (0.0%) on a month-over-month basis versus an increase of 0.7% previous.
- Canadian New House Price Index for July will be released at 8:30am EST. The market expects a year-over-year increase of 1.9% versus an increase of 1.8% previous.
- Weekly Jobless Claims will be released at 8:30am. The market expects Initial Claims to show 330K versus 323K previous.
- Import and Export Prices for August will be released at 8:30am.
- The Treasury Budget for August will be released at 2:00pm

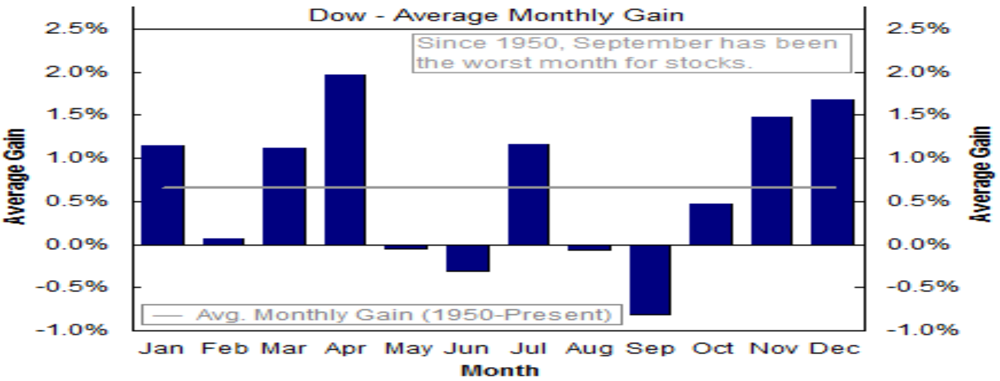
Past data

Event	Actual	Forecast	Previous
EUR German Consumer Price Index (YoY)	**1.50%**	1.50%	1.50%
EUR German Consumer Price Index (MoM)	**0.00%**	0.00%	0.00%
EUR German Consumer Price Index – EU Harmonized (MoM)	**0.00%**	0.00%	0.00%
EUR German Consumer Price Index – EU Harmonized (YoY)	**1.60%**	1.60%	1.60%
GBP Claimant Count Rate	**4.20%**	4.30%	4.30%
GBP Jobless Claims Change	**-32.6K**	-21.0K	-36.3K
GBP ILO Unemployment Rate (3M)	**7.70%**	7.80%	7.80%
GBP Employment Change (3M/3M)	**80K**	55K	69K
USD MBA Mortgage Applications	**-13.50%**		1.30%
USD Wholesale Trade Sales (MoM)	**0.10%**	0.50%	0.40%
USD Wholesale Inventories	**0.10%**	0.30%	-0.20%
USD DOE U.S. Gasoline Inventories	**1658K**	-1000K	-1827K
USD DOE U.S. Distillate Inventory	**2586K**	600K	549K
USD DOE U.S. Crude Oil Inventories	**-219K**	-2100K	-1836K
USD DOE Cushing OK Crude Inventory	**-639K**		-1829K
NZD Reserve Bank of New Zealand Rate Decision	**2.50%**	2.50%	2.50%
JPY Japan Buying Foreign Bonds (Yen)	**-Â¥66.5B**		-Â¥530.9B
JPY Machine Orders (MoM)	**0.00%**	2.40%	-2.70%
JPY Machine Orders (YoY)	**6.50%**	7.70%	4.90%
JPY Japan Buying Foreign Stocks (Yen)	**Â¥38.1B**		Â¥65.6B

US equity markets commentary

The following chart presents the Dow's average performance for each calendar month since 1950.

The DJIA has more often underperformed during the May to October time frame with a brief counter-trend rally occurring in July. September remains clearly the worst calendar month for stock market performance.



Over the last two sessions, the Dow Jones Industrial Average has been on a tear, gaining 1.75% and outperforming the S&P 500 by three-quarters of a percent. The outperformance comes as Dow Jones announced a change to the composition of the widely followed benchmark. Alcoa (AA), Hewlett-Packard (HPQ), and Bank of America (BAC) will be dropped while Nike (NKE), Visa (V), and Goldman Sachs (GS) will be added as of the close on September 20. Funds that track the blue-chip benchmark will be forced to liquate the three stocks that are being removed and purchase the three stocks that are being added, either on or around September 20th, an event that should certainly add to the volumes, and potential volatility, surrounding quadruple witching, which occurs on the same day. The week ahead of similar index changes since 1930 has seen the benchmark trade higher, on average, by almost nine-tenths of a percent. Positive results ahead of the 24 changes over the past 73 years have been realized in 75% of occurrences. Averages show that the day before and the day of the event are fairly neutral with flat returns typical and no significant change to the frequency of positive results. However, while the benchmark typically posts fairly robust gains prior to the event, losses are more typical in the 30 days that follow.

Average decline for the Dow Jones Industrial Average reaches 1.50% with just 42% of instances showing a positive result 30 days after.

The negative period that follows falls right within the negative seasonal period for stocks, which runs through to third quarter earnings season in October.

Dow Jones Industrial Average Change Date	One Week Prior to Change	30 Days Following Change
9/14/2012	1.86%	-1.56%
6/8/2009	3.09%	-6.84%
9/22/2008	-0.29%	-20.58%
2/19/2008	0.88%	-2.01%
11/21/2005	0.75%	0.36%
4/8/2004	1.18%	-3.46%
1/27/2003	-5.31%	-2.72%
11/1/1999	2.48%	1.38%
3/17/1997	-0.93%	-5.02%
5/6/1991	0.91%	3.03%
3/12/1987	0.51%	3.08%
10/30/1985	0.32%	7.81%
8/30/1982	1.63%	4.06%
6/29/1979	-0.07%	-0.39%
8/9/1976	0.14%	1.07%
6/1/1959	1.43%	-0.03%
7/3/1956	1.13%	5.44%
3/4/1939	2.28%	-11.37%
11/20/1935	4.12%	-6.40%
8/13/1934	-0.53%	-0.46%
8/15/1933	4.30%	7.38%
5/26/1932	-7.03%	-8.68%
7/18/1930	5.14%	-4.40%
1/29/1930	3.33%	4.46%
Average Return:	**0.89%**	**-1.49%**

Stocks in the US gained for a seventh straight session on Wednesday despite a significant drop in shares of Apple, a stock that has typically been the most influential stock in the S&P 500 and NASDAQ.

The S&P 500 Index is just one positive session short of matching the longest string of gaining sessions of the year. The large cap index is attempting to push through a level of resistance at 1685, next reaching toward the all-time highs and significant resistance just below 1710.

Momentum indicators are continuing to follow through with last week's momentum buy signal and evidence of a peak has yet to be realized. The 20-day moving average continues to point lower, suggesting that the grip of the recent negative down draft in equity indices has yet to be released.

Seasonal tendencies for stocks turn firmly negative on September 16; average loss for the S&P 500 Index over the three weeks to follow is -2.5%.

Technology Sector Technical Outlook

The Technology SPDR ETF, of which Apple is the largest holding at 15%, is hinting of a double top at US$ 32.42; negative intermediate momentum divergences suggest waning buying pressures, which could result in a downturn should resistance at US$ 32.42 fail to be broken.

Strength relative to the S&P 500 Index changed from neutral to negative. Short-term momentum indicators are overbought, but have yet to show signs of peaking. The period of seasonal strength for the Technology sector runs from October 9th through to January 17th.

Apple (NASD: AAPL 467.71) "Sell/short"

We still feel compelled to keep our "Sell/short" recommendation on AAPL, reinforced by the fact that more and more research analysts are following our lead, and are getting into our thought process on AAPL.

UBS, Credit Suisse and Bank of America Merrill Lynch, all downgraded their ratings for the stock.

All three brokers were dissatisfied with Apple's pricing strategy given that the cost difference between the supposedly high- and lower-end versions is not substantial.

Well, one could say, better late than never?

Watch for the "gap-down" rule, our next short-term target for AAPL is US$ 426.

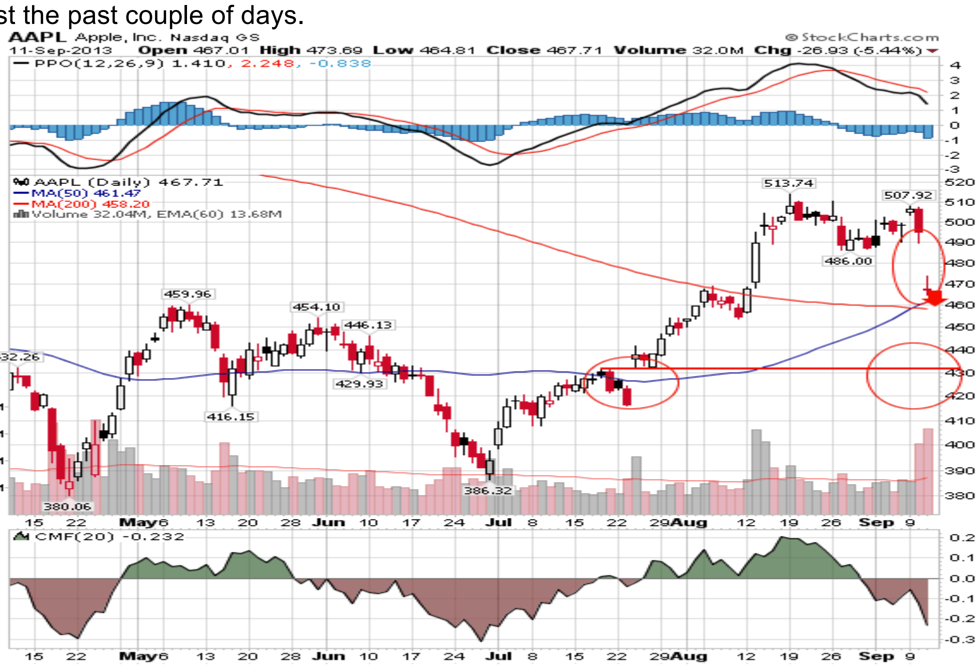
We think AAPL will not hold at that support level, ad will re-test US$ 385, which is our original target on AAPL which we forecasted last year on October 3rd, 2012.

Apple, the biggest company still by market capitalization in the US, didn't have the sort of effect it was hoping for with the launch of two new smartphones: its share price fell sharply as analysts expressed their disappointment with the latest gadgets: the iPhone 5S and iPhone 5C.

Apple, once the technological and applications leader has become an innovation follower, and it proves our point more and more, as the company management is struggling with its corporate vision and business plan and original strategy. Recent product announcements, like the iWatch, and "cheaper" iPhones are confirming our 2012 concerns, which we published in our leading "Sell/short" AAPL report on October 3rd 2012 (AAPL US$ 685). Apple's business model has run out of momentum, growth is declining, and AAPL is forced by market and consumer trend dynamics to test smaller, cheaper, and lower value added gimmicks, which are going to be having a negative affect on AAPL's margins, which we identified as unsustainable, in our last years original report.

But the basic 5C model, with 16 gigabytes of storage, has been priced at US$ 740, which we believe is way too expensive for emerging markets, and their buyers' choices of competing products. As we anticipated, Apple continues to have difficulties to boost its share those markets against competition from firms such as Samsung and Huawei. Apple has not been able to repeat that in emerging economies such as China and India, not least because its products are relatively more expensive. One of the key reasons has been that unlike the developed markets, many mobile carriers do not subsidize phones in these countries. That makes low-cost phones a much more affordable option for consumers. Apple's strategy not to launch a low-end phone to try to lure those buyers in our opinion will hurt its ability to attract buyers. We believe Apple is foregoing a valuable and relatively easy way to return to earnings growth. The real question is whether Apple plans to ever go after these markets or rather just remain a high-end phone maker. Either way, AAPL's margins will suffer.

Investors had also been hoping for an announcement of a deal with China Mobile, the world's biggest phone company with nearly 700 million subscribers - who could be potential customers of Apple's phones. The lack of any announcement also hurt investor sentiment. APPL shed 5.44% by the closing bell. The plunge erased the breakout move from August of this year in which the stock traded above an 80-point trading range that stretched back to March. The stock subsequently became overbought in the month of August and has now confirmed a lower short-term high in just the past couple of days.

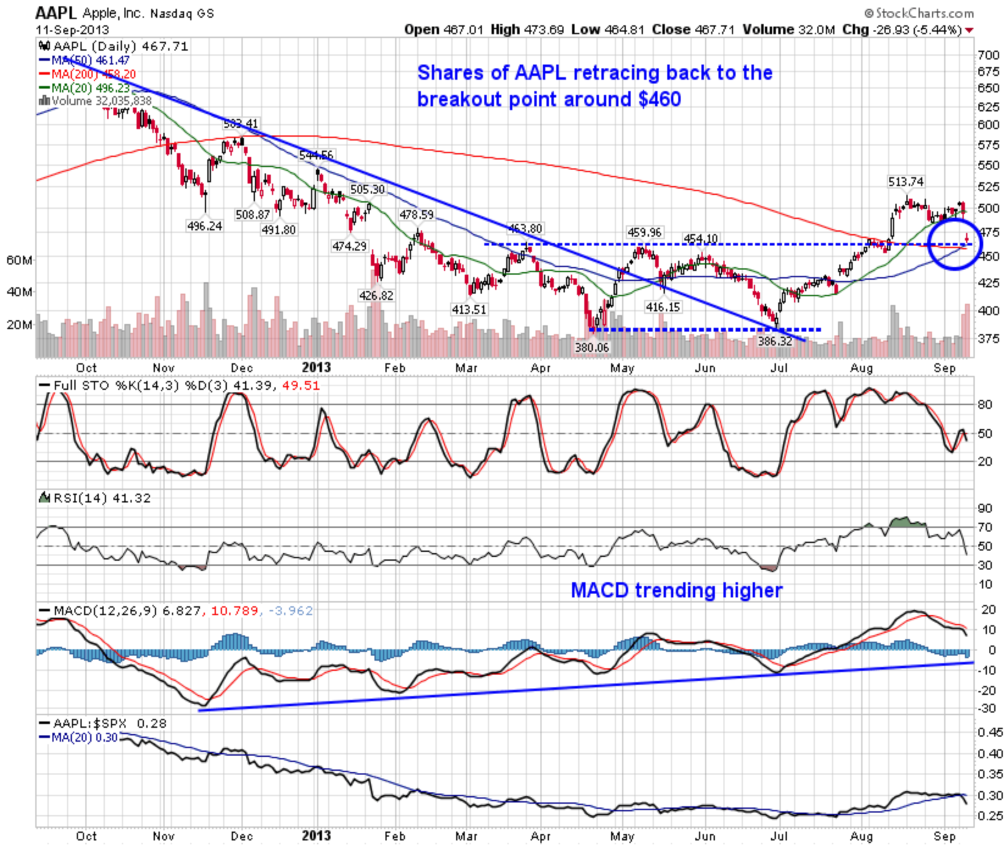


We think AAPL will not hold at the next support level of US$ 426, and subsequently will re-test US$ 385, which is our original target on AAPL which we forecasted last year on October 3rd, 2012.

Seasonal tendencies for AAPL have just turned sharply lower as the stock typically realizes a corrective phase following early September product announcements, similar to Tuesday's event.

The downturn typically runs through to the start of October when the period of seasonal strength for Technology begins, lifting stocks through the holiday season.

Watch for the "gap-down" rule, our next short-term target for AAPL is US$ 426.



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