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At Zest we understand that investing can at times test our emotional mettle. Today more than ever with access to so much information one's ability to look through the noise and into fundamentals becomes harder.

Our role is to remain objective and focussed and continue to advise you appropriately. You are seeing an increase in communications as volatility has risen in equity markets recently. It's about providing you with information and views as we see it and how a properly constructed portfolio does not ignore what is occurring but in fact is built to consider it. That won't change the short term nature of pricing, but longer term we remain comfortable these matters are not structural and markets are not in collapse.

External focus – China and Greece. To what degree do these markets matter?

Recent market declines on the Shanghai stock market have sent shudders through other markets. Why? Does the Shanghai Market decline matter and does it affect us?

China - The Shanghai stock market has fallen from its highs (achieved only in the last month or so) by some 30%. It stands today around the same level it was at in April this year before a massive leg up, which was unsupported by fundamental earnings or a genuine re-rating. The Chinese investor has had a stellar run over the last twelve months, up about 70% even after the recent falls. Thus looking behind the tabloid headline can provide context and understanding of the extent of the recent declines.

Importantly, Chinese equities as an asset class is an undeveloped market with immature levels of governance and regulation, by western financial markets standards. Similarly, the imposition of capital controls such as freezing short selling and cancellation of capital raisings, in a market that is in the main only for domestic investors (as foreigners are not allowed to hold Chinese A class shares) makes for an untidy market that clearly needs more maturity in order to be considered efficient.

External fund manager and thus global investment exposure to the recent declines is VERY small. However, the spill over of negative sentiment to regional markets has been noticeable. The declines have been well short of those felt on the Shanghai market – for good reason; they are NOT closed markets.

The impact on Australian investors so far is evident in lower Iron ore prices (on the spot market), and a general reluctance to go 'on risk' when such a noticeable decline in one market is out of step with other markets. It is at this time that one sees buying stop and to some degree increased selling to reduce overall exposure. This results in lower prices overall.

Our view is that the Chinese situation is a reflection of a recent overbought market in China, which was driven by expectations of inclusion in the MSCI Global index. As this did NOT occur we have seen a reversal in speculative demand for Chinese shares.

We and others see that the recent declines will have a relatively marginal impact on fundamentals, as the issues at play here are not economics driven. However, investors will find that caution will be reflected via lower levels of buying activity, as more sustainable levels of value are established.

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GREECE - The Greek bail out developments over recent weeks provide another face of market volatility that is on a different plane to that of China. Referencing news as it is released we see that while the stakes appear to be high, one should not over-estimate the global impact of a decision either taken BY the Greek Government or taken FOR the Greek Government to exit the European Monetary System – the so called "GREXIT" scenario. The implications for Global Equities of such a move are now almost negligible, as the capital flows on a global stage will be hardly impacted should this occurrence play out. However, our friend "market sentiment" will take a hit if the GREXIT occurs, but this may be the buy signal that many, including fund managers have been waiting for.

In the short term, we expect that the level of importance in real terms of the Greek situation and the Chinese situation to decline and to be replaced by more important market sentiment drivers such as growing US employment and GDP, along with more of the very encouraging rises in demand within the European Community – both of which are far more likely and will be far more positive on markets.

Further, Chinese GDP is widely forecast to be around 6.5% - a rate of growth in the Chinese economy targeted by the Central Committee for some years now.

Conclusion

Markets - particularly Equity markets are being exposed to a heightened level of noise at the moment. As mentioned in previous notes we have issued, the level of market noise is not correlated to the importance of the issues, but it does cause swings of up to 2% on daily basis either way.

A well thought through approach to investing and risk tolerance is always important and times like this test those choices.

Income streams from portfolios are not effected by current volatility. Dollar cost averaging strategies in times like this result in great long term acquisition prices for investment assets.

Our procedures and processes ensure that as your portfolio is reviewed, your risk profile will be reassessed and confirmed. This is a good thing as client needs and desires change over time.

Our review activity of both your circumstances, the global economy and our portfolios continues to occur.

As always if you are overly concerned, please contact us to discuss your situation with one of our advisers.

Yours sincerely,

Zest Wealth Advisers