



## Market Commentary - November 2011



<b>FTSE 100</b>	<b>5,481</b>	S&P 500	1,239
Resistance	5,674	Euro Stoxx 50	2,275
Support	5,345	GBP/EUR	1.1685
VIX	32.81	GBP/USD	1.5927

### Introduction:

The FTSE 100 moved in a sideways range between mid-August and late September before rebounding strongly in October rising from 5,128 to 5,544 - an 8.1% increase and one of its strongest months on record. We have rarely seen such volatile times.

However, since the index reached 5,700, Greek Prime Minister Papandreou's announcement of a referendum sent the market back to 5,418 during the following days. Since then, the market has recovered to 5,481.

### Fundamentals:

European debt issues dominate the market environment and political risk is the overriding theme.

However, the results for UK and US companies in the last quarter were generally good. The "real economy" gives the impression to be in a better state than the financial markets suggest, though the impact of the historic debt crisis has led to significant sell-offs.

### Technical:

#### Primary Trend:

The primary trend of the market is down, as indicated by the downward-sloping 200 day moving average. The RSI is currently at 46, indicating possible further weakness.

#### Support Levels:

Natural support lies at 5,400 followed by 5,345, the lower bollinger band which should provide support considering the ADX is at 12.



## Market Commentary (cont)

### Seasonality:

The fourth quarter is historically the strongest quarter for the stock market though macro-economic events could obviously override this seasonal tendency.

### Market Scenarios:

Consistently predicting the direction of stock markets is an impossible task, however a view can be formed on the basis of rational analysis.

#### Bull Case Scenario

**Our view on the stock market** is rather positive. Despite the macro-economic backdrop, companies are reporting strong earnings and it is acknowledged that stock markets tend to follow changes in EPS, rather than GDP. The seasonal factor is in the bull camp's favour and if a credible solution for the EU/Italian debt situation is found, a relief rally would surely follow. Though minor corrections are a risk, they can be treated as a buying opportunity.

#### Neutral Case Scenario

A more pessimistic scenario could see the market drop to the support level of 5,345 which is the lower bollinger band and thereafter trade sideways with the upper range being at 5,700.

#### Bear Case Scenario

In the bear case scenario in which sovereign debt issues come to the fore, the market could fall back to the range between 4,950 and 5,450 and go sideways until 2012.

### Preferred Investments:

#### Equities

We are recommending investors to buy defensive stocks with attractive **dividend** yields such as: Astrazeneca (6.4%), Chesnara (8.8%), General Accident 8.875% Prefs (8.5%) & SSE (5%).

#### Special Situations

RSA is yielding 8% and is the 'penultimate profits prospect' of the 'Dogs of the Dow' theory. Centamin Egypt has fallen to the lower end of its trading range, a high risk investment for the brave.

#### Commodities

We see precious metals continuing to benefit from the macro situation and recommend: ETFS Physical Gold & ETFS Physical Silver.





#### Fixed Interest

Nationwide 7.971% 13/03/15 PIB (7.8% yield to call).  
National Grid I/L 1.25% 06/10/21 (5.4% GRY assuming an average inflation rate of 4.4%).



## Market Commentary (cont)

### Chart Legend:

	20 day moving average	(signifies the short-term direction of the security, prices tend to gyrate around their 20 day m/a)
	50 day moving average	(signifies the medium-term direction of the security)
	200 day moving average	(signifies the long-term direction of the security - whether it is in a bull or bear market)
	Bollinger Bands	(an indicator that measures 2 standard deviations away from the 20 day m/a)

### Technical Analysis Guide:

**RSI** (relative strength index) - indicates whether a security is overbought (above 70) or oversold (below 30). Also when the RSI moves above 50 that is considered bullish (or vice versa).

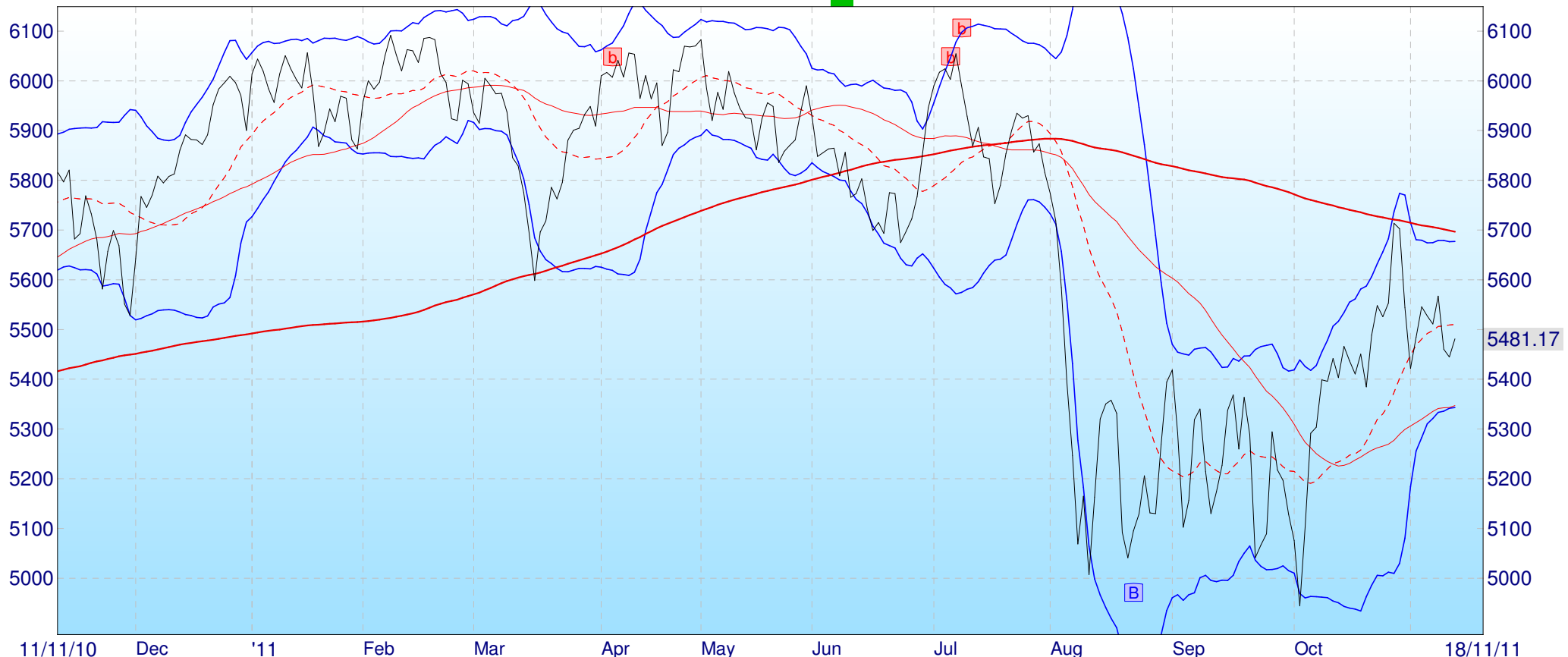
**ADX** (average directional index) - indicates whether a security is in a trend (above 20) or not in a trend (below 20). For trending markets moving averages work best when considering lines of support/resistance. For non-trending markets Bollinger Bands work best (sell at upper band, buy at lower band).

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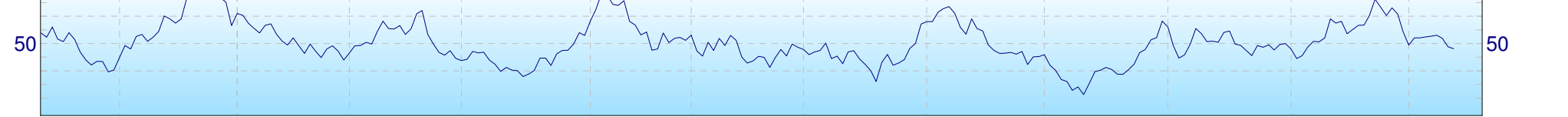
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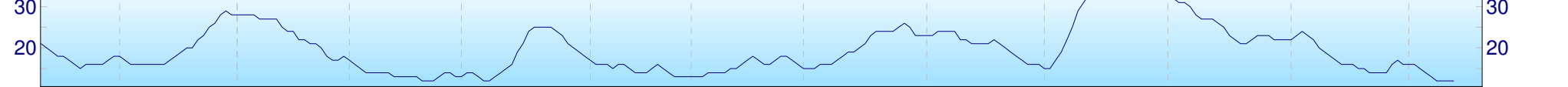


5481.17

14 RSI (simple - Daily)



14 ADX (Daily)



Volume (Daily) - M's

Cumul. Vol Index (FTSE 100 - Daily) - M's

