



## Market Commentary - December 2011



<b>FTSE 100</b>	<b>5,496</b>	<b>S&amp;P 500</b>	<b>1,265</b>
Resistance	5,602	Gold	\$1,584
Support	5,319	GBP/EUR	1.1986
VIX	21.9%	GBP/USD	1.5672

### Introduction:

The FTSE 100 finished 84 points higher (1.6%) during the month of November but that does not tell the whole story. The market fell to just 5127 at its low, though as predicted in our last commentary (“*though minor corrections are a risk, they can be treated as a buying opportunity*”) it experienced a swift rally, rising to 5505 - a 7.4% increase in just 6 days.

Since then the market has ended at 5496.

### Fundamentals:

Companies are in general performing well. However it is the macro side that is keeping investors up at night. With the EU just papering over the cracks, it is obvious that a massive deleveraging is required to be undertaken by most European countries and that will surely affect consumer spending. Having said that on a fundamental basis, stocks are cheap so much is already priced in.

### Technical:

The FTSE 100 is currently totally trendless (as evidenced by the ADX at 11), trading in the 5300 to 5600 range. We would look to take profits once the expected Santa Claus has finished (4th January) and certainly look to cut back positions on a short-term basis should the FTSE 100 reach its 200 day moving average/upper Bollinger band, just 85 points above the current level.

Again, sell offs should be bought into, particularly those that take us down towards the 5100 territory.



## Market Commentary (cont)

### Seasonality:

#### Fourth Quarter

The fourth quarter is historically the strongest quarter for the stock market. The FTSE All-Share has posted an average gain of 3.8% from 1980 to 2010 and has only fallen 7 times.

#### December

The month of December is traditionally a good time to be in equities. For example, the FTSE All-Share has risen in 24 years from 1980 to 2009. The average monthly gain including the 6 down years has been 2% and in the up years the average gain was 3.2%. And the chance of taking a big hit during December is much less than at other times of the year. Even during bear markets, the size of December's falls-around 0.5% on average-has been pretty modest.

#### Santa Claus Rally

This occurs during the last 5 days of the year (usually on low volume) and officially ends on the second trading session of the New Year. The primary reasons for this are:

- 1) Window dressing. For fund managers chasing bonuses, performance is everything and they seek to maximise it at the year end.
- 2) Seasonality. As stated above, the fourth quarter has been a great time to be invested in equities.

The gains are weighted to the final two weeks of December as trading volumes tail off and as dealers and traders shut up shop. As liquidity dries up, the only market participants still trading are likely to be buyers of shares. By comparison, the odds of the UK market rising in the first 10 days of December are no more than 50:50.

### Market Scenarios:

#### 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 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 5,319 which is the lower bollinger band and thereafter trade sideways with the upper range being at 5,602.

#### Bear Case Scenario

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



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## Market Commentary (cont)

### Preferred Investments:

#### Equities

We are recommending investors to buy quality companies with attractive **dividend** yields such as: Aviva (9%), Chesnara (9.9%), General Accident 8.875% Prefs (8.5%), Reckitt Ben (3.9%) & SSE (6.3%).

#### Special Situations

RSA is yielding 9% and is the 'penultimate profits prospect' of the 'Dogs of the Dow' theory. Halfords is currently yielding 7.6%. A bounce in the New Year is likely should Christmas trading prove better than expected, which often happens to retail stocks.

#### 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 (8.3% yield to call).  
RBS 5.1% 01/02/20 (7% GRY).

### 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).

### Research Disclaimer

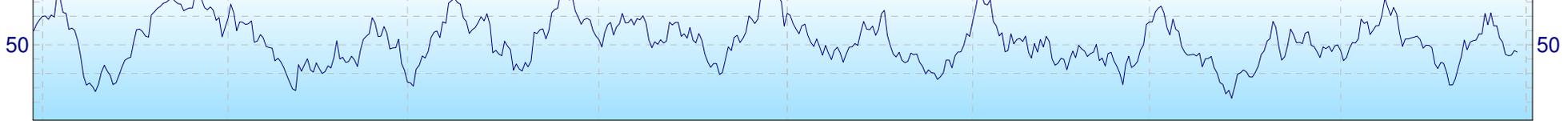
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14 ADX (Daily)

