



## Market Commentary - March 2012



FTSE 100	5,767	S&P 500	1,403
Resistance	6,000	Gold	\$1,666
Support	5,580	GBP/EUR	1.1993
VIX	15.48%	GBP/USD	1.6016

### Introduction:

Since our last market commentary in which we stated “we feel the market is overheated at these levels”, the FTSE 100 has fallen 161 points. Despite this the VIX has continued to fall to 15.48%, far below its long term average and suggesting investors are more comfortable at these levels. It is interesting to note that Fund Manager Ben Gill of L&G believes that the BoE could now resort to devaluing the pound to stimulate the economy. As “around 65% of all income from the FTSE 100 is foreign, if you devalue the pound, they become richer companies straight away and the FTSE becomes cheap. I think we could see the FTSE at 7000.”

### Fundamentals:

The situation in Europe is still precarious with the pain in Spain now dominating the front pages. European finance ministers have today revealed a plan to boost the European Financial Stability Fund to EUR700bn. Over the pond, Fed Chairman Ben Bernanke said on Monday “further significant improvements in the unemployment rate will likely require a more rapid expansion of production and demand from consumers and businesses, a process that can be supported by continued accommodative policies.” This brought a swathe of analysts predicting a further round of Quantitative Easing with Wells Fargo stating there was a “very good chance” and Bill Gross of PIMCO commenting “The FED is likely to hint at QE3 on 23rd April.”

### Technical:

Technically, the market has gone from approaching overbought to oversold territory in the space of just 30 days. Longer term, the outlook does not look good with the 200 day moving average having fallen below the 400 day moving average, however the 200 day is now starting to point upwards. The market is trendless, with an ADX of 17 and with the FTSE having broken through above the lower bollinger band, we could be about to witness a short-term jump in the markets.

**Gibraltar Asset Management Limited**

One Irish Place, PO Box 166, Gibraltar

Telephone: +350 200 75181 | Website: [www.gam.gi](http://www.gam.gi)



## Market Commentary (cont)

### Seasonality:

#### Year 2012

2012 is the Year of the Dragon in the Chinese Zodiac. The year of prosperity.

#### As Goes January...

So goes the rest of the year. This may be coincidental but back data shows that the indicator is 85% accurate in predicting the “up years” and 45% accurate in predicting the “down years”. As the market rose 1.96% in January, it cannot be ignored.

#### Four-Year U.S. Presidential Cycle

The stock market tends to bottom out during the second year of each new presidential term and then recover strongly in the final two years. This is due to each Administration ensuring that the economy is strong by re-election time. Unfortunately, the excessive stoking of the economic fires creates excesses, including over-priced stocks, leading to poor stock market returns in the first two years of the next term.

### Market Outlook:

**Over the long term** (since 1962), the FTSE All-Share for has returned 7.2% per annum and that does not include the average 3.8% dividend yield earned on top. Considering inflation averaged 6.2% over the same period it is vital that an investor invests in equities in order to preserve the purchasing power of their money. However, markets can be subject to swings in the interim and investors should be mindful of these with a view to protecting their capital.

**Our current view on the stock market has turned cautiously positive.** Technical indicators are pointing to a short-term bounce in the markets from here and fundamentally, with a better than even probability of QE3 being introduced very soon, there could be a flurry of inflows into “risk-on” asset classes. There is a saying, “*don’t fight the Fed*” and we are heeding this advice.

### Recommended Investments:

**Equities** - Astrazeneca (7.4x p/e, 6.8% yield), BHP Biliton (8.2x P/E, 3.7% yield), Carillion (6.8x P/E, 6% yield), RSA Insurance Group (7x P/E, 9% yield), Royal Dutch Shell B (8.4x P/E, 4.6% yield), Unilever (15.3x P/E, 3.9%) & Unilted Utilities (17.3x P/E, 5.4%).





**Commodities** - Gold Bullion Securities. ETF that tracks the gold price (backed with allocated gold in a bank vault in HSBC). QE3 will only boost the gold price, where BNP Paribas has a \$1,850 Y/E target price.

**Fixed Interest** - iShares Emerging Markets Local Gov Bond ETF (6.7% GRY)



## 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).

### Research Disclaimer

Gibraltar Asset Management is a trading name of Gibraltar Asset Management Limited, is a member firm of the London Stock Exchange and is authorised and regulated by the Financial Services Commission. Research: Neither the information nor the expressed opinions in this document constitute or intend to be an offer, or a solicitation of an offer, to buy or sell relevant securities ( i.e. securities mentioned herein and options, warrants, or rights to or interests in any such securities). The information and opinions contained in this document have been compiled from, and based upon generally available information and independent research undertaken by ourselves which has been qualified and reviewed by our portfolio managers for suitability or appropriateness. However, the accuracy or completeness of the analysis cannot be guaranteed. Confidentiality: The information in this document and any attachments may contain proprietary information some or all of which may be legally privileged. It must not be disclosed to or used by persons other than the intended recipient. If received in error, please notify us immediately and then delete this document. Content: Please note that the content of this document may be e-mailed and may be intercepted, monitored or recorded for compliance purposes. Copyright: Copyright in this document and any attachments created by Gibraltar Asset Management Limited belongs to Gibraltar Asset Management Limited unless otherwise stated. Care: Gibraltar Asset Management Limited shall not be liable to the recipient or any third party for any loss or damage howsoever arising from this document and / or its content, including if e-mailed, loss or damage caused by virus. It is the responsibility of the recipient to ensure that the opening or use of this document and any attachments shall not adversely affect systems or data. Contact: Telephone +350 200 75181 Mail: gam@gam.gi Website:www.gam.gi

FTSE 100 N

Index



14 RSI (simple - Daily)



14 ADX (Daily)

