GIBRALTAR ASSET MANAGEMENT

STOCKBROKERS & INVESTMENT MANAGERS

Market Commentary - May 2012

FTSE 100	**5,340**	S&P 500	1,313
Resistance	5,550	Gold	$1,564
Support	5,125	GBP/EUR	1.2488
VIX	24.14%	GBP/USD	1.5500

Introduction:

Since the neutral call of our last market commentary the markets have fallen 7% on the back of fears of an impending "Grexit" and contagion spreading to Spain and from there to Northern Europe. The VIX has continued to rise and is now 24.14%, 27% above its long-term average. The Euro and Pound have both fallen against the Dollar as the 'risk off' situation has led investors to turn to safe haven assets though gold has not been shielded, falling 5.9%. In times such as these, correlations between uncorrelated asset classes tend to increase with the good being brought down by the bad.

Fundamentals:

Currently, the market environment is dominated by an exceptionally high degree of uncertainty. Market sentiment towards the Eurozone is getting worse, as indicated by the rising yields in Spanish and Italian bonds. On the positive side, Nomura and HSBC believe that a resolution to the Greek crisis (whether that results in them staying in or leaving the Euro) will result in a 10% to 15% rally in the markets. Fundamentally, the market looks cheap with the FTSE 100 trading on a P/E multiple of 9.5x (40% below its historical average) and yielding 3.74% (far in excess of the 10 year gilt yield of 1.65%). These two indicators (buying on a P/E multiple of 8x-10x and when the equity market yields more than the gilt market) are a traditional sign that the market could outperform over the next three to five years.

Technicals:

The FTSE 100 has broken through its significant support level lying at the 200 day moving average of 5,550. With the ADX standing at 36, the market is in a strong trend, to the downside. However, there is hope that we are close to the bottom with the lower bollinger band lying at 5,150, the market close to its recent low of 5,125. A RSI reading of 31 also indicates that the market is oversold.

Gibraltar Asset Management Limited

One Irish Place, PO Box 166, Gibraltar

Telephone: +350 200 75181 Website: 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 is neutral, expecting the equity markets to move strongly in one direction or another over the next month. Macroeconomic events have overtaken normal stock market forecasting based on rational analysis, either technical or fundamental, making predicting the actual direction a thankless task.

Recommended Investments:

Equities - Astrazeneca (7.1x P/E, 7.3% yield), BAE Systems (6.8x P/E, 7.2% yield), BG (13.2x P/E, 1.2% yield), BHP (8.2x P/E, 4.1% yield), Gen Acc 8.875% Prefs (8.5% yield), RSA (7.1x P/E, 9.5% yield), RDSB (7.2x P/E, 5% yield).

Commodities - Gold, silver, platinum and palladium all appear oversold at these levels.

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

Gibraltar Asset Management Limited
One Irish Place, PO Box 166, Gibraltar
Telephone: +350 200 75181 Website: www.gam.gi

Gibraltar Asset Management
STOCKBROKERS & INVESTMENT MANAGERS

Market Commentary (cont)

Chart Legend:

(dashed red line)	20 day moving average	(signifies the short-term direction of the security. prices tend to gyrate around their 20 day m/a)
(red line)	50 day moving average	(signifies the medium-term direction of the security)
(thick red line)	200 day moving average	(signifies the long-term direction of the security - whether it is in a bull or bear market)
(blue line)	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).

Contact: Telephone +350 200 75181 Mail: gam@gam.gi Website:www.gam.gi


FTSE 100
N
Index
6800
6600
6400
6200
6000
5800
5600
5400
5200
5000
4800
4600
4400
4200
4000
3800
3600
5340.35
31/5/07
Oct
'08
Apr
Jul
Oct
'09
Apr
Jul
Oct
'10
Apr
Jul
Oct
'11
Apr
Jul
Oct
'12
7/6/12
14 ADX (Daily)
40
30
20
20 RSI (simple - Daily)
80
40