



Market Commentary - June 2012



FTSE 100	5,577	S&P 500	1,329
Resistance	5,694	Gold	\$1,569
Support	5,260	GBP/EUR	1.2435
VIX	19.71%	GBP/USD	1.5651

Introduction:

Since our last market commentary where we expected “*the markets to move strongly in one direction or another over the next month*” the FTSE 100 has rallied 4.43%, a decent move for a 30-day time period. The VIX has fallen to around its long-term average as the “*risk-on*” trade firmly came back on. The Euro and Pound have held steady, as has gold.

Our stock recommendations from last month performed well with Royal Dutch Shell up 8.2%, AstraZeneca 9.2%, BHP Billiton 5.7%, BAE Systems 4.7% and RSA an impressive 8.24%.

Fundamentals:

The European Summit has today reached an agreement where Spanish banks will be recapitalised directly by allowing a EUR100bn EU bailout to be transferred off Spain’s balance sheet after the ECB takes over as the Euro’s banking supervisor at the end of the year. Relief for Spain was accompanied by a pledge to begin purchases of Italian bonds using EU bailout funds to reduce Italy’s borrowing costs along with a promise to “*examine the situation of the Irish financial sector*”.

Technical:

The FTSE 100 has rallied strongly to the upper end of the bollinger band from the lower end. With just a few points to the 200 day moving average, we see strong resistance at these levels. The market is trendless, as indicated by the ADX at 20, and thus we see further resistance at the upper bollinger band at 5,647. Thus, with 70 points of potential upside and 294 points of potential downside, we see short-term risks to the downside.

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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.

July

The Dow Jones has gone up around 62% of the time in July, posting an average gain of 1.3%.

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 negative. Having rallied substantially, one has to question how much more upside there is compared with downside. We are advising our clients to switch out of cyclicals and into defensive, low beta, high-yielding stocks for the time being. We remain sceptical on the Euro and have a target of EUR/USD 1.20 over the next few months. Any positive impact from today's European summit may last a few days, but might be cut short by a disappointing ECB press conference.

Recommended Investments:

Equities - Gen Acc 8.875% Prefs (8.4% yield), Reckitt Benckiser (13.6x P/E, 4% 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), Provident Financial 7% 04/10/17 (6.2% 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).

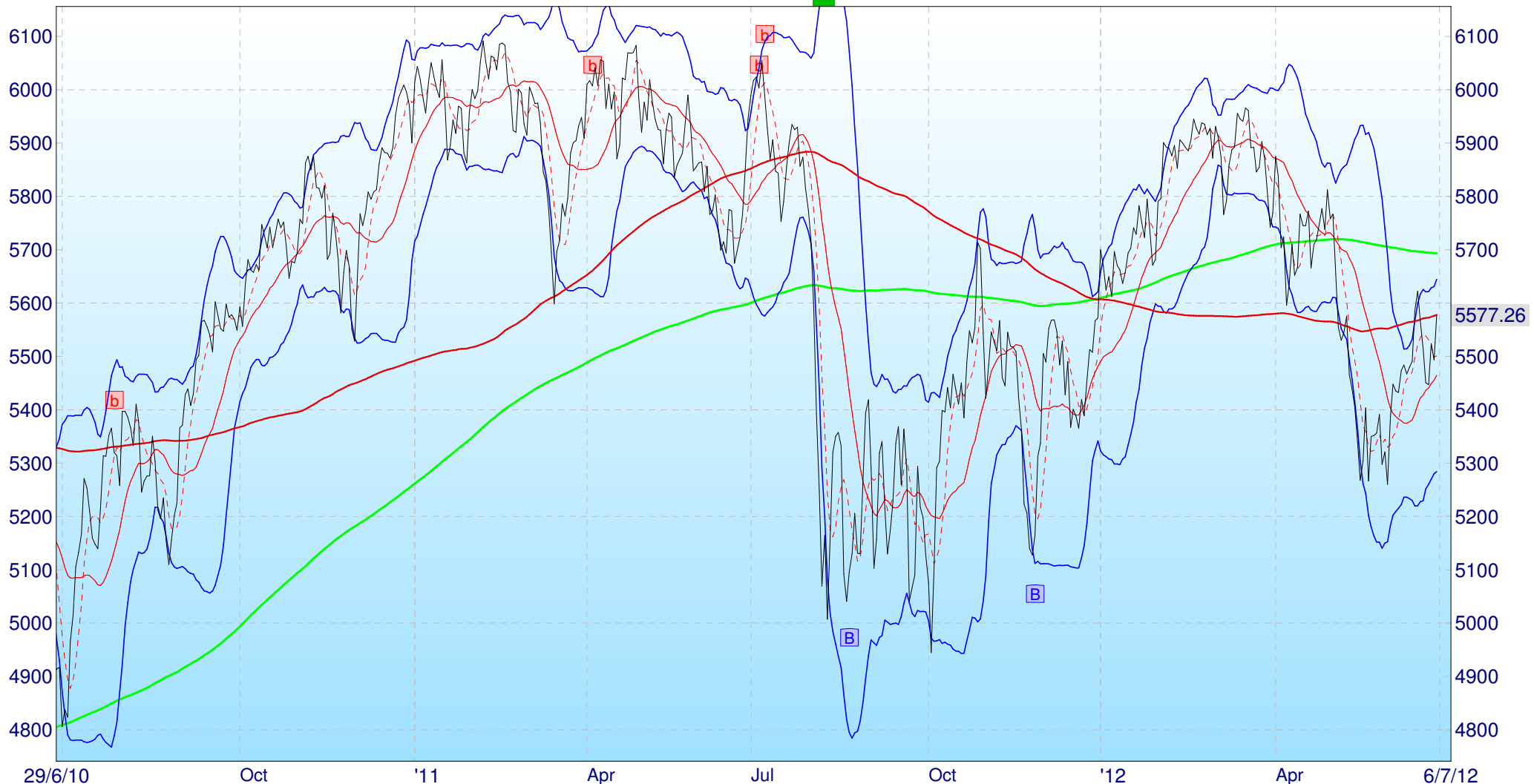
ADX (average directional index) - indicates whether a security is in a trend (above 20) or not in a trend (below 20). For trending markets moving averages work best when considering lines of support/resistance. For non-trending markets Bollinger Bands work best (sell at upper band, buy at lower band).

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