GIBRALTAR ASSET MANAGEMENT

STOCKBROKERS & INVESTMENT MANAGERS

Market Commentary - July 2012

FTSE 100	**5,687**	S&P 500	1,385
Resistance	5,763	Gold	$1,624
Support	5,515	GBP/EUR	1.2793
VIX	18%	GBP/USD	1.5693

Introduction:

Since our last market commentary when we turned negative, the FTSE 100 has risen 2%, but that masks an interim fall to 5,500 and a subsequent 3.6% rally over the last few days on increased speculation of ECB and FED intervention. Gold is up 3.5% and the VIX has predictably continued to fall. Our bearish call on the Euro has continued to pay off with the EUR/USD now at 1.2297, having only just rebounded from two year lows against the greenback.

Our stock recommendation from last month performed well with Reckitt Benckiser rising an impressive 4.3%.

Fundamentals:

The economy is continuing to deteriorate in the Eurozone with unemployment reaching 11.2% in June. With business confidence softening across all sectors, this rate is likely to move higher over the coming months. US consumer data due today could show a fifth consecutive drop in consumer confidence in July, after Americans stayed cautious and consumer spending rose less than their incomes in June. This week, the US Institute of Supply Management survey is expected to remain at depressed levels and non-farm payrolls data is expected to confirm the fact that the US economy is stalling. On a positive note, the S&P 500 is not expensive trading on 15.93x reported earnings, versus its mean average of 15.48x.

Technicals:

The FTSE 100 has rallied strongly after hitting the lower bollinger band at 5,500 and now sits at the downward-sloping 400 day moving average, a major resistance point. With the ADX at 18, the market is trendless and thus we see further resistance at the upper bollinger band at 5,763. The RSI is falling and, lying at 50, any breakthrough this level will be a bearish sign. Thus, with 76 points of potential upside and 187 points of potential downside, we see short-term risks to the downside.

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.

August
The month of August has risen on average 90% of the time during bull markets, with declines not averaging more than 1%.

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 remains negative. Having rallied substantially, one should now look at protecting against the downside. Bold action on the part of Europe is at least five weeks away with 1) Madrid requesting assistance, 2) EU leaders allowing their bonds to be bought at auction and 3) a positive German court ruling on the legality of the EU's rescue fund on 12th September required before the ECB takes decisive action. We believe the ECB will wait until their September meeting before cutting rates by 25bps. Nevertheless, deeper cuts in interest rates bring limited benefits (look at the UK), any further long-term loans to banks only result in the money being returned to ECB vaults rather than the wider economy and QE via bond purchase programmes will not durably reduce sovereign bond spreads. In summary, we believe that until the Eurozone *"explores the edge of the abyss"*, the markets will worsen.

Recommended Investments:

Equities - BP (6.6x P/E, 4.7% yield), SSE (10.8x P/E, 6.4% yield).

Special Situations - ETFX FTSE 100 Super Short x2. Security rises ~2% for each 1% fall in FTSE.

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:

(red dashed 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)
(red line)	200 day moving average	(signifies the long-term direction of the security - whether it is in a bull or bear market)
(green line)	400 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).

Printout from Alpha Terminal - 31/07/2012 11:07