GIBRALTAR ASSET MANAGEMENT

STOCKBROKERS & INVESTMENT MANAGERS

Market Commentary - August 2012

FTSE 100	**5,719**	S&P 500	1,399
Resistance	5,960	Gold	$1,656
Support	5,500	GBP/EUR	1.2615
VIX	17.8%	GBP/USD	1.5787

Introduction:

Since our last market commentary in which we retained our negative stance, the FTSE 100 has risen 32 points. Perhaps seasonal factors on top of low volumes (which are at 12 year lows excluding Christmas holidays) kept the market from falling as we expected. Gold is up 2% and the VIX has continued to fall, at one point to a 5 year low - absurd considering the macro event risks that most certainly remain. Our stock recommendations from last month performed well with BP up 4% and SSE up 5%.

Fundamentals:

Fundamentally, the outlook is not as bright as the stock market suggests. In addition to the seasonal risk (see next page), potential headwinds that could undermine equity performance in September include Germany's ruling on the constitutionality of the European Stability Mechanism, the Dutch General Election and the US Fed's next deliberation on 12th September. We feel Bernanke's speech today at the annual Jackson Hole Symposium (which has laid out the basic FOMC strategy over the last 2 years) will disappoint. Bernanke will likely stress that bold action will take place in the event of further downside risks such as lack of improvement in US jobs, adverse developments in Europe, softness in global growth and/or the looming fiscal cliff. However, we do not expect Bernanke to indicate that a new large-scale asset purchase programme is imminent, which would be a mild disappointment for the markets.

Technicals:

The FTSE 100 rallied strongly in the first week of August but after reaching the upper bollinger band at 5,848, traded sideways for the next 2 weeks. This sideways trading (up one day 4 points, down the next 3 points etc) was in fact a 2 year record. Technically, it indicates that the market is going to move strongly in one direction or another, rather like a recoiled spring. As it happens, the market subsequently came off 124 points. Support lies at the 400 day moving average at 5,680 but any break through the 200 day moving average at 5,651 could see the recent low of 5,500 reached pretty quickly.

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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.

September

September is typically a reversal month. If markets have fallen in August, they tend to go up in September and vice versa. As August looks set to produce a small gain, this makes a loss in September all the more likely.

In addition, September is historically the worst month of the year for stocks with the DJIA losing more than 1% on average since 1896. Furthermore, equities have moved higher only 40% of the time in September versus nearly 60% for the other 11 months over the same 115-year period.

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, this is a reasonable time to consider trimming back on positions and looking for instruments that offer the potential for downside protection. We feel that Bernanke will disappoint the markets and investors should be prepared for a short-term dip before the seasonal end-of-year rally.

Recommended Investments:

Equities - Balfour Beatty (7.9x P/E, 5.2% yield), BHP Biliton (9.5x P/E, 4.1% yield), British American Tobacco (16x P/E, 4.1% yield, & Vodafone (11.6x P/E, 6.9% yield), IG Group (11.2x P/E, 5.4% yield).

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

Fixed Interest - CLS Holdings 5.5% 31/12/2019 & iShares Emg Mkt Local Gvt Bond (5.9% yield).

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

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