GIBRALTAR ASSET MANAGEMENT

STOCKBROKERS & INVESTMENT MANAGERS

Market Commentary - September 2012

FTSE 100	**5,764**	S&P 500	1,447
Resistance	5,940	Gold	**$1,781**
Support	5,660	GBP/EUR	1.2559
VIX	14.8%	GBP/USD	1.6240

Introduction:

Since our last market commentary in which we retained a negative stance, the FTSE 100 has risen 45 points. The FTSE fell sharply in the first week of September but subsequently rallied nearly 300 points following positive ECB and FED action. Unrest in Spain has subsequently seen the FTSE fall to 5,764 but we feel it is time to change our bearish stance. Gold has benefited since the announcement of QE3, rising 7.5% and the VIX has remained low, suggesting investors are comfortable with the current outlook.

Our stock recommendations from last month performed well with Balfour Beatty up 11.2%, BHP up 6.2% and IG up 4.2%, producing a respectable overall one-month return of 2%.

Fundamentals:

As the facts change, we change. Positive developments in September included Germany's ruling on the constitutionality of the European Stability Mechanism, the Dutch General Election, Draghi's "*whatever it takes*" stance and the US Fed's announcement of QE3. These are, in our view, a game changer for the markets. The demonstrations in Spain and Greece illustrate that Europe's woes have not gone away but, in the short term, we feel the wall of money created by the central banks will counter the longer-term macro headwinds. This should see the market trading in a range over the next month or so before the rally in "*risk on*" assets resumes as we head towards Year End.

Technicals:

The outlook for equities looks positive from a technical perspective. The RSI, lying at 55, shows the market has positive momentum, yet is far from overbought. The 200 day moving average recently rose above the 400 day moving average, a traditionally bullish flag. The short-term trend line is pointing upwards with support lying at 5,740, just 24 points below the current level. The lower bollinger band provides the next level of support at 5,660.

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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.

Fourth Quarter

The fourth quarter tends to be a strong one for the stock market. For example, the FTSE 100 rose no fewer than 20 of the 25 years between 1990 and 2005, posting an average gain of 4.5%.

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 turns to neutral. The short-term dip in the rally we expected did not last for long. The old adage *"don't fight the fed"* springs to mind and $40bn a month is a lot of money that will surely filter through to *"risk on"* asset classes. UBS has accordingly increased its 2012 S&P 500 price target to 1,525 (5.4% above the current level) on the belief that the near-term liquidity-driven rally will continue. However, we believe the markets will see increased volatility trading largely sideways over the next month as negative news from Europe takes the shine off quantitative easing. In this environment, we recommend holding onto defensive stocks for the time being whilst tentatively adding to our cyclical exposure. Investors should also look to maintain exposure to precious metals, emerging markets, mid caps and be underweight the US dollar.

Recommended Investments:

Equities - British American Tobacco (15.4x P/E, 4.3% yield), Royal Dutch Shell (8.4x P/E, 4.7% yield), RSA (8.9x P/E, 8.4% yield), Vodafone (11.1x P/E, 7.2% yield) and Rio Tinto (8x P/E, 3.5% yield)

Special Situations - BG Group (14.3x P/E, 1.3% yield). Stock is trading at a >27% discount to it's NAV, compared with its long term average of a 2% premium. JP Morgan Cazenove has a 1800p price target

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

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)
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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