GIBRALTAR ASSET MANAGEMENT

STOCKBROKERS & INVESTMENT MANAGERS

Market Commentary - November 2012

FTSE 100	**5,872**	S&P 500	1,415
Resistance	5,914	Gold	$1,730
Support	5,605	GBP/EUR	1.2333
VIX	15%	GBP/USD	1.6051

Introduction:

Since our last market commentary in which we remained neutral on the markets, the FTSE 100 has risen just 33 points (0.56%). The FTSE 100 fell sharply in mid-November to 5,605 but has subsequently rallied an impressive 267 points. Precious metals performed well and, following the rally, investor fear has eased with the volatility index falling to 15%, over 20% below its historical average.

Our recommendations from last month performed well with gold and silver up 0.5% and 4.2% respectively. BATS rose 7%, RSA 4.5% and United Utilities 4.2%. Only Vodafone disappointed with a 4.7% fall, but we note that UBS recently reiterated its 200p price target.

Fundamentals:

News of Eurozone unemployment reaching a record high of 11.7% has not been well received with Graeme Leach of the Institute of Directors noting *"This is extremely bad news – it is clear that the instability in the Eurozone is not going away"*. On a more positive note, German lawmakers have approved the Greek debt deal today and looking forward, ECS President Mario Draghi said that the Eurozone will begin its recovery in the second half of 2013. Data from the US economy yesterday indicated the world's leading economy grew more than expected and investors are increasingly confident that US lawmakers will be able to reach some kind of compromise and avoid plunging over the fiscal cliff. This bodes well for the stock market in the short term.

Technicals:

The outlook for equities looks flat from a technical perspective. The RSI, lying at 50, shows the market has no momentum and with the ADX at 17, the market is clearly trendless. The 200 day moving average recently rose above the 400 day moving average, a traditionally bullish flag that offers the only hope to the upside. Support for the FTSE lies at the recent low of 5,605.

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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%.

November - April
Delaying re-entering the market from St. Ledgers Day to Halloween has yielded statistically significant outperformance with the FTSE All-Share rising an average 13.4% from Halloween to May Day since 1965. There is a 1-in-2,000 chance of this arising by chance in random data. One explanation for this is that as the nights draw in during winter, we become anxious and depressed, which means share prices fall and expected returns rise. This then leads to a decent winter rise.

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.

Santa Claus Rally
The FTSE All-Share has risen in December 25 of the 30 years from 1980 to 2010. The average monthly gain, including the 6 down years, was 2% and in the up years the average gain was 3.2%. Also, the chance of taking a big hit during December is much less than at other times of the year. Even during bear markets, the size of December's falls - around 0.5% on average - has been pretty modest. The DJIA exhibits similar characteristics. The Santa Claus Rally occurs during the last 5 days of the year (usually on low volume) and officially ends on the second trading session of the new year. There are several reasons for this:

1) Window dressing. For fund managers chasing bonuses, performance is everything and they seek to maximise it at the year end.

2) Seasonality. The 4th quarter has been a great time to be invested in equities and the UK stock market generally. December is also the stock market's strongest month, by quite a margin. Since 1970, the market has achieved positive returns 86% of the time, increasing by an average of 2.6%.

The gains are weighted to the final few weeks of December as trading volumes tail off and traders shut up shop. As liquidity dries up, the only market participants still trading are likely to be buyers of shares. By comparison, the odds of the UK market rising in the first ten days of December are no more than 50:50.

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Market Commentary (cont)

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 has turned to positive. Macro concerns should ease once the fiscal cliff has been resolved and seasonal factors are very strong at this time of year, all of which are pointing to a higher stock market at year end.

Recommended Investments:

Equities - BG Group (12.6x P/E, 1.5% yield), IG Group (11.4x P/E, 5.4% yield), Royal Dutch Shell B (8.4x P/E, 5% yield) and Vodafone (10.8x P/E, 6.2% yield).

Fixed Interest - CLS 5.5% 31/12/19 (5.78) GRY).

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).

Research Disclaimer


FTSE 100
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7/12/12
14 ADX (Daily)
30
20
20 RSI (simple - Daily)
80
40