GIBRALTAR ASSET MANAGEMENT
STOCKBROKERS & INVESTMENT MANAGERS

Market Commentary - December 2012

FTSE 100	**5,925**	S&P 500	1,402
Resistance	5,990	Gold	$1,655
Support	5,605	GBP/EUR	1.2261
VIX	23%	GBP/USD	1.6158

Introduction:

Since our last market commentary in which we turned positive on the markets, the FTSE 100 has risen just 53 points (0.9%). Precious metals performed surprisingly poorly and investor fear has increased markedly with the volatility index rising to 23%, 20% above its historical average.

Our recommendations from last month produced a mixed performance with good gains from IG Group and Royal Dutch Shell offset by BG Group and Vodafone. We take comfort with the fact that UBS recently reiterated their respective 1400p and 200p price targets, indicating potential gains of 39% and 29% ahead.

Fundamentals:

The new consensus amongst business leaders and bankers on the world economy is that 2013 will be quite an improvement over 2012. Europe seems to be riding out the storm and US corporations have done a sensational job in expanding earnings through the downturn, We, however, remain unconvinced of the longevity of this recovery. France could flare up during the next year, the US *"fiscal cliff"* has not yet been settled and austerity Europe has a number of years to run. The UK's economy is *"bumping along the bottom"*, trying to avoid a triple-dip recession. With these factors in mind, we are looking to remain predominantly invested in quality blue chips, particularly those with high exposure to emerging market countries whose economies are largely shielded from the Western debt crisis.

Technicals:

The outlook for equities looks weak from a technical perspective. The RSI, lying at 72, shows the market is overextended and any break below 70 will be a clear reversal of the recent uptrend. With the ADX at 15, the market is clearly trendless but the market is currently more towards the upper Bollinger band than the lower, signalling more potential downside than upside. 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: *"History doesn't repeat itself, but it does rhyme" - Mark Twain*

January

The stock market has historically performed significantly better on average in the first month of the year.

First Quarter

The FTSE All-Share has risen no fewer than 19 of the 25 years between 1090 and 2005, posting an average gain of 4.2%.

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.

First-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.

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 reverted to neutral. The strong seasonal factors are coming to an end (the Santa Claus Rally officially ends on the 3rd of January) and with that in mind we are taking a more cautious view and recommending investments with a decidedly defensive bias.

Recommended Investments:

Equities

1) BG Group - 1008p, 11.6x P/E, 1.6% yield
Currently trading at 1008p, the stock is trading significantly below UBS's 1400p price target. Included in the Daily Telegraph's Top Ten Share Tips for 2013, the newspaper believes the company now looks cheap given the underlying strength of its oil and gas assets in places like Brazil, Australia and Tanzania. If the new CEO manages to convince investors that he can deliver on the company's potential, the share price should recover. If not, it is hard to see BG falling much further without one of the perennial bid rumours finally coming true,

2) BP - 425p, 7.3x P/E, 5% yield
Core defensive stock, that looks cheap on a technical level. J.P.Morgan Cazenove has a 550p price target

3) British American Tobacco - 3117p, 15.1x P/E, 4.3% yield
Core defensive stock that looks cheap on a technical level. J.P.Morgan has a 4102p price target

4) United Utilities - 670p, 16.9x P/E, 5.1% yield
Core defensive stock that looks cheap on a technical level. Nomura has a 695p price target

5) Vodafone (10.4x P/E, 6.4% yield)
Core defensive stock that looks cheap on a technical level. UBS has a 200p price target

Commodities

1) Gold Bullion Securities - low cost ETF that holds allocated gold in a vault
2) ETFS Physical Silver - low cost ETF that holds allocated silver in a vault
Both will benefit from further quantitative easing and loss of confidence in Fiat currencies.

Fixed Interest

CLS 5.5% 31/12/19 - 5.74% GRY
iShares Emg Mkts Local Govt Bond ETF - 5.45% average GRY

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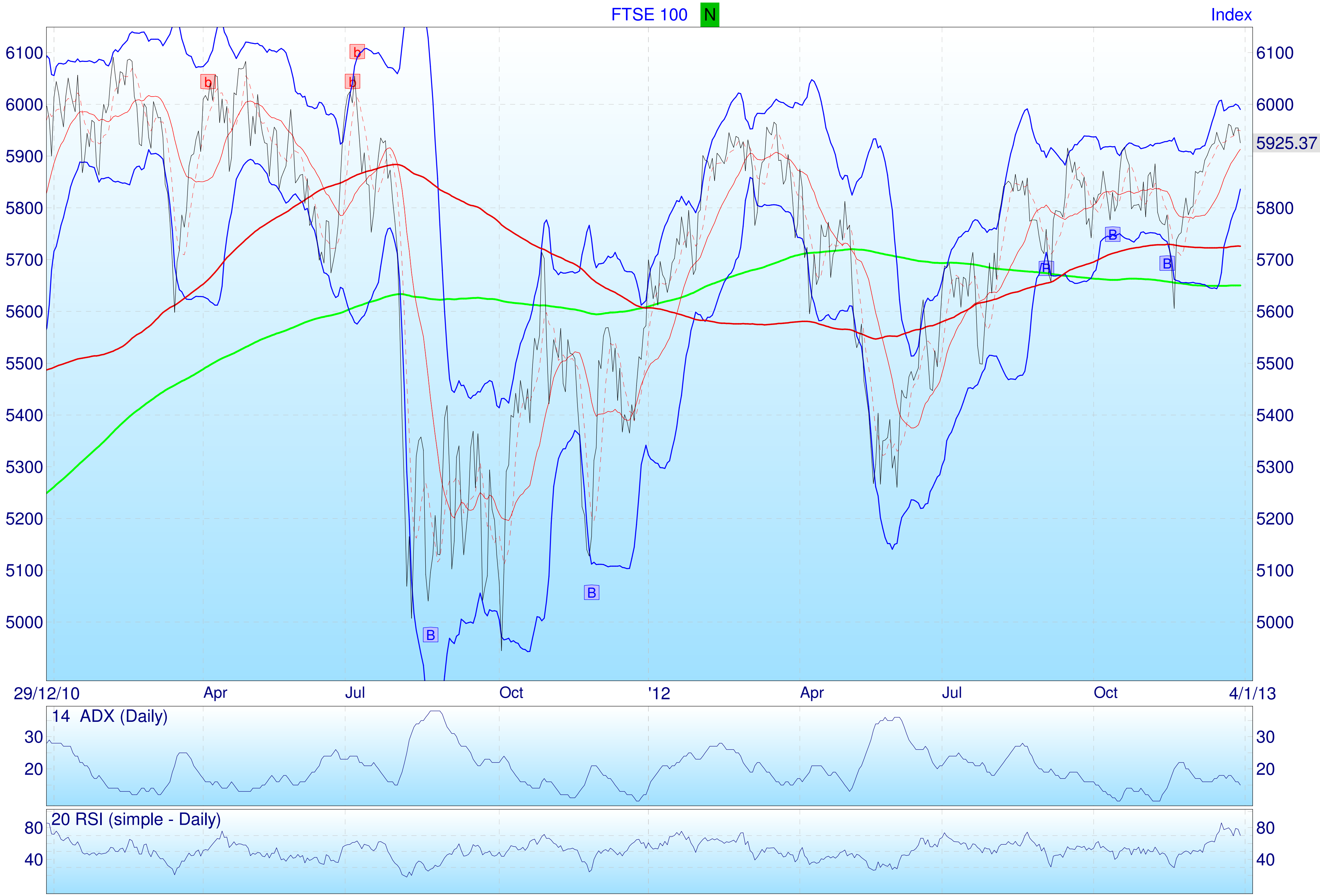
Chart Legend:

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 thick 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).



FTSE 100
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Index
6100
6000
5900
5800
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5600
5500
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5300
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5000
5925.37
b
B
29/12/10
Apr
Jul
Oct
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Apr
Jul
Oct
4/1/13
14 ADX (Daily)
30
20
20 RSI (simple - Daily)
80
40