



Market Commentary - April 2013



FTSE 100	6,447	S&P 500	1,593
Resistance	6,533	Gold	\$1,463
Support	6,238	GBP/EUR	1.1848
VIX	13.7%	GBP/USD	1.5479

Introduction:

Since our last market commentary, in which we turned neutral on the equity market and advised sticking with investments with a decidedly defensive bias, the FTSE 100 has risen 60 points (0.9%). Precious metals prices collapsed and sterling gained further ground against the Euro and the USD.

Our equity recommendations from last month were mixed with Aviva up 3.7%, BG Group down 4.2%, Imperial Tobacco up 1.9% and Rio Tinto down 3.8%. We are still confident in these positions and would still be buyers of all at these levels. Unfortunately, the largest 2 day fall in the gold price in 30 years saw our gold and silver recommendations fall 7.6% and 12.3% respectively. We shall discuss this in more detail later in the commentary.

Economics:

Global economic news remains gloomy. Confidence in the Eurozones' economy fell for a second straight month in April and by more than expected to hit a four-month low, intensifying the pressure on the ECB to cut its bank rate from 0.75% to 0.5% on Thursday. Even if the cut is not made then, it is surely going to happen sooner than later on the concern that the single currency area is headed for yet another GDP drop in the second quarter of 2013 after almost certainly suffering a sixth successive drop in the first quarter of 2013. Eurozone executive and consumer sentiment also fell to 88.6 in March, below the 89.3 estimate, driven by "significantly worsened assessments of the business situation and demand". The disappointing data highlights the Eurozone's difficult road out of recession.

In Asia, Chinese Industrial Profits growth weakened and the IMF lowered its growth forecast estimate for the Asia-Pacific region to 5.7% citing ongoing buildup of financial imbalances and rising asset prices.

Technical Analysis:

Despite minimum direction in the market, the equity market is still clearly in positive mode, as evidenced by the upward-sloping 200-day moving average. The RSI, at 59, is at a bullish level, and neither overbought nor oversold. In these conditions, any pullback should be treated as a buying opportunity. Support for the FTSE lies at the recent low of 6,238.



Market Commentary (cont)

Seasonality: *"History doesn't repeat itself, but it does rhyme" - Mark Twain*

Sell in May and go away; don't come back till St Leger Day 🚫

Historically, this is the worst time of the year. Since 1966 to 2009, the FTSE All-Share has returned an average of just 0.7% between May Day and Halloween (it is known as the Halloween effect in the US) compared with 7.8% between Halloween and May Day.

Our pagan ancestors knew this, which is why *Beltane* is a time of festivity (where people look ahead to fertility, plenty and joy) while *Samhain* marks the beginning of the "darker half" of the year. In March & April lighter evenings and warmer days cheer us up, which makes us more willing to take risks such as buying shares. So prices rise to high levels, which are difficult to sustain over the summer. In the autumn the darker nights make us more gloomy, with the result that prices fall to low levels from which they recover.

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.

Market Outlook:

Over the long term (since 1962), the FTSE All-Share 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 neutral. The market is forecast to close higher at the end of the year by most investment banks, with Goldman Sachs the most bullish with a 7,200 FTSE 100 12-month price target. J.P.Morgan Cazenove thinks the market will be higher 6-9 months from now, based on the following rationale:

- 1) Technical indicators are not stretched-the RSI is in the middle of its trading range and the Bull-Bear index points to an upside on a 6-month time horizon.
- 2) The big picture remains the one of asset reflation and financial repression. Equities are underowned and attractively priced vs. bonds.
- 3) Europe is weak but peripheral spreads are well behaved. The Italian equity market actually outperformed the DAX by 8% in the latest dip.
- 4) The fall in commodity prices is initially a signal of weaker macro backdrop, but it is ultimately a positive as it restores purchasing power.

Of course, there are negatives-seasonality is a headwind, US CESI has moved negative again, EPS revisions



Market Commentary (cont)

are back to negative in the US and remain poor in Europe and there is some complacency in the market - very few see potential for a correction of more than 5%-10%. Thus, we see stocks higher in 6-9 months from now. However, seasonal dips will no doubt occur and we would use these as a buying opportunity in preparation for a strong fourth quarter. We remain overweight on defensives, as the main driver of the equity market has not been an improvement in growth expectations, but rather the fact that bond yields are so low and stocks are one of the few asset classes left offering any sort of decent return.

Tweet of The Month:

This month we retweeted a piece on why gold won't fall through the floor - a slowdown in ETF liquidation, robust retail demand from India and China and buying by emerging market banks. Many of our clients are concerned at the recent fall in the gold price and we thought now is a good time to share our thoughts on the matter.

The drop in the price over the period 12th to 14th April equated to the largest 2-day drop in 30 years and was on the back of not just investors selling but a surge in speculative selling and stop losses being hit, combined with technical breaks in gold's price trend. We found the fall surprising - the commodity has certainly decoupled from fundamental drivers, with disappointing US macro data and falling 10-year treasury yields still persisting.

As a general rule, we like to hold precious metals as a long-term investment. Commodities add diversification benefits to a portfolio. Gold, for example has a correlation of just 0.09 with the FTSE 100. Over long periods of time the CFA Institute has found that portfolios containing a significant exposure to precious metals experience higher average annual returns whilst exhibiting lower levels of volatility.

Gold (and silver is a geared version) protects a portfolio against inflation, particularly topical given the current debt levels and QE programmes. The high reached in the 1980s equates to \$2,200 today in inflation-adjusted terms. J.P.Morgan Cazenove does not believe gold's positive investment case has fundamentally changed and we note that Deutsche Bank has a Y/E 2014 price target of \$1,810, 23.7% above its current level.

We do not feel the gold price is going to fall markedly from here - indeed, bull markets do not go up in a straight line. The last time the gold bull market ended, it was accompanied by a loose monetary policy turning into a tight monetary policy (the FED Chairman hiking up interest rates in 1979). We are not seeing this now. The FOMC has not vowed to stop printing money, there is no talk of a tight monetary policy. Nothing has changed. Instead, the Bank of Japan has recently joined the central banks of the US, the Eurozone and the UK in promising to keep printing money "as long as is necessary" to raise the level of inflation. Every major government in the Western world is running a big deficit. Every major central bank is printing money. 80% of the movements in the price of gold is correlated with the size of the Fed's balance sheet and that is still expanding. Not only that but so is that of the UK, US, Eurozone and Japan combined. The price of gold is 0.9x the price of the S&P500 vs. the 2008-2012 average of 1.1x. A reversion to that multiple would lead to a gold price of \$1,737.

In other words, we are still buyers. In any case, holding gold is similar to buying an insurance policy. You will be glad you had it when you need it the most.



Market Commentary (cont)

Recommended Investments:

Equities

1) BG Group - 1085p, 13.8x PE, 1.7% yield

Trading on a >30% discount to NAV, BG Group looks cheap on both a technical and fundamental level. We note that it was recently added to the Citi Focus List of European stocks and J.P.Morgan Cazenove has a 1600p price target, suggesting 47% upside.

2) Imperial Tobacco - 2293p, 10.8x PE, 5.1% yield

89% of Imperial's revenues derive from international markets. This makes the translation effect (sterling has weakened significantly in recent months) particularly relevant. A core defensive stock with a well covered dividend that is cheap on both a technical and fundamental level. Deutsche Bank has a 3000p price target, suggesting 31% upside.

3) Rio Tinto - 2959p, 7.3x PE, 4.0% yield

Mining sector yields are at multi-decade highs vs. bonds and at levels not seen since the turn of the millennium vs. the FTSE 100. Despite the prospect of negative headwinds from falling iron ore, we think RIO is pricing in sustained iron ore prices below \$90/t (unlikely in our view), whilst dividend coverage looks extremely robust under stressed commodity prices. J.P.Morgan Cazenove has a 4400p price target, suggesting 49% potential upside.

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 the loss of confidence in Fiat currencies. 80% of the change in the gold price is correlated with the size of the FED's balance sheet, which is still expanding.



GIBRALTAR ASSET MANAGEMENT

STOCKBROKERS & INVESTMENT MANAGERS

Chart Legend:

	20 day moving average	(signifies the short-term direction of the security. prices tend to gyrate around their 20 day m/a)
	50 day moving average	(signifies the medium-term direction of the security)
	200 day moving average	(signifies the long-term direction of the security - whether it is in a bull or bear market)
	400 day moving average	(signifies the long-term direction of the security - whether it is in a bull or bear market)
	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

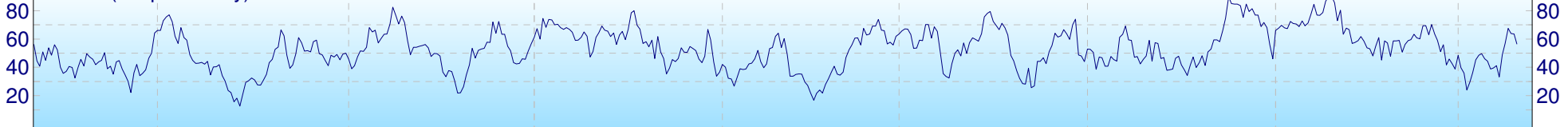
Gibraltar Asset Management is a trading name of Gibraltar Asset Management Limited, is a member firm of the London Stock Exchange and is authorised and regulated by the Financial Services Commission. Research: Neither the information nor the expressed opinions in this document constitute or intend to be an offer, or a solicitation of an offer, to buy or sell relevant securities (i.e. securities mentioned herein and options, warrants, or rights to or interests in any such securities). The information and opinions contained in this document have been compiled from, and based upon generally available information and independent research undertaken by ourselves which has been qualified and reviewed by our portfolio managers for suitability or appropriateness. However, the accuracy or completeness of the analysis cannot be guaranteed. Confidentiality: The information in this document and any attachments may contain proprietary information some or all of which may be legally privileged. It must not be disclosed to or used by persons other than the intended recipient. If received in error, please notify us immediately and then delete this document. Content: Please note that the content of this document may be e-mailed and may be intercepted, monitored or recorded for compliance purposes. Copyright: Copyright in this document and any attachments created by Gibraltar Asset Management Limited belongs to Gibraltar Asset Management Limited unless otherwise stated. Care: Gibraltar Asset Management Limited shall not be liable to the recipient or any third party for any loss or damage howsoever arising from this document and / or its content, including if e-mailed, loss or damage caused by virus. It is the responsibility of the recipient to ensure that the opening or use of this document and any attachments shall not adversely affect systems or data. Contact: Telephone +350 200 75181 Mail: gam@gam.gi Website:www.gam.gi

FTSE 100 N

Index



14 RSI (simple - Daily)



14 ADX (Daily)

