GIBRALTAR ASSET MANAGEMENT
STOCKBROKERS & INVESTMENT MANAGERS

Market Commentary - June 2013

FTSE 100	**6,263**	S&P 500	1,613
Resistance	6,459	Gold	$1,202
Support	6,000	GBP/EUR	1.1684
VIX	16.9%	GBP/USD	1.5274

Introduction:

Since our last market commentary, in which we remained equalweight on equities, the FTSE 100 has fallen 334 points (5.1%). The gold price collapsed 15% following the announcement by Fed Chairman Ben Bernanke of the tapering of QE in September and its eventual withdrawal in June 2014. The corresponding increase in 10 Year Treasury Bills has done the metal no favours. Sterling is flat against the Euro and the USD. Our recommendations from last month were disappointing with Rio Tinto off 6.2%, emerging markets down 6.7% and gold falling 15%. We feel this fall is rather overdone considering that interest rates are still low, the Bank of Japan has launched QE and the BoE will print money "*as long as is necessary*". UBS this week set its year end price target at $1,440.

Economics:

This week, the US economy delivered a quadruple whammy of positive economic news - 1) Sales of new US homes climbed to the highest level in more than 5 years in May; 2) Better than expected data on durable goods orders; 3) Better than expected data on consumer sales; and 5) Confidence among US consumers climbed to a five-year high. Whilst that is good news, we believe that the QE withdrawal timeline is not set in stone and will be dictated by economic conditions. As New York Fed Head William Dudley reminded the markets "*If labour market conditions and the economy's growth momentum were to be less favourable than in the FOMC's outlook-and this is what has happened in recent years-I would expect that the asset purchases would continue at a higher pace for longer*". Meanwhile, the Bank of England's new Governor Mark Carney is likely to push for more QE, since revisions to earlier GDP figures mean the economy is operating at a level further below the peak level seen in Q1 2008. Outgoing Governor Mervyn King has also suggested that people have jumped the gun in thinking that Bernanke's announcement would lead to higher interest rates. This is beneficial for equities.

Technical Analysis:

The stock market recovered strongly from its low of 6029 reached in the month as the RSI hit 17. The FTSE 100 has recovered back up above its 200 day moving average, still upward-sloping, which is positive for the long-term. Short-term, the market is looking weak. The RSI at 39 is in bearish territory and having pulled back to its 20 day moving average, the market's respite could prove to be brief.

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Market Commentary (cont)

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

July

The Dow Jones has gone up 62% of the time in July, posting an average gain of 1.3%.

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 allocation to the stock market moves to overweight. Despite the recent pull-back, Citi is staying bullish, insisting that the only way is equities. They expect a 20% return to Year End 2014 and remain buyers on the dips. We concur with this and with the market having fallen 9% from its recent high, this certainly counts as a dip and thus a good buying opportunity, with the following factors supporting our bullish thesis:

1) Firming US economic growth
2) Less bad Eurozone growth
3) A trough in European earnings, heralding a potential turn in the earnings cycle
4) A modest absolute and cheap relative equity valuation
5) Signs that capital allocators are being "forced" back to equities-strong relative to bonds valuation attraction, sharp fall in systemic risk and a fall in political risk
6) Macro supportive of equity gains-modest global GDP growth, low inflation, super-low interest rates
7) Liquidity support from key central banks

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Market Commentary (cont)

Whilst we recommend shares from the UK, European and US stockmarkets, the UK market looks particularly favourable at this moment in time. According to UBS, the UK has underperformed the MSCI World by 18% since 2007, but this may be about to turn, due to the following factors:

1) The UK is decoupling from Europe. GDP is forecast to grow 1% this year and 1.2% in 2014, higher than Germany, whilst the Eurozone as a whole is still mired in recession.

2) Banks are easing credit standards and are now largely seen as a positive support to UK growth.

3) House prices are rising. Higher UK house prices should support consumer confidence and consumer spending.

4) Policy has been aggressive, with large-scale QE as well as more specific measures introduced including the Funding for Lending scheme and the "Help to Buy" scheme.

5) There is a political angle, as the Government attempt to kick-start the economy ahead of the 2015 election.

In these respects, the UK is beginning to resemble the US. In USD terms, the FTSE 100 is nearly 30% below its "all time highs", compared with the S&P500 which is at its highs. The FTSE 100 is at a similar discount in real terms, once inflation is taken into consideration. Income investors should note that the UK also has the highest dividend yield of the major regions (4%), with dividends being revised upwards.

Tweet of The Month:

This month has been a bad one for investors of all asset classes with equities, bonds and gold having fallen in unison. We tweeted that investors should remain optimistic and there are good reasons for maintaining a positive outlook.

It has become fashionable to be a "*perma bear*" amongst investors. No matter how high or low the stockmarket goes, the perma bears are pessimistic. Another crash, panic or depression is always just around the corner.

It's an intellectually seductive position: the arguments sound smart, especially when they dovetail your worries. But such pessimism is a mistake. As JP Morgan once said, "*The man who is a bear on the future of the United States will always go broke*".

Count the perma bears on the Forbes 400 list of the richest Americans and you won't find any. You simply cannot go on to amass that kind of wealth with a persistently negative outlook.

Winners and men and women of foresight and ambition do monumental things; pessimists watch them from the sidelines making a list of all the reasons things won't work out.

Nobody should be a "perma" anything. But if you must err to one side or the other, as a default setting of sorts, the right way to lean is obvious.

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Market Commentary (cont)

Recommended Investments:

Equities

1) Rio Tinto - 2705p, 7.6x P/E, 4.5% 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. Deutsche Bank has a 4490p price target, suggesting 66% potential upside.

2) iShares DJ Emerging Markets Select Dividend - 1741p

Emerging markets have fallen drastically in recent weeks. This leaves this low-cost (0.65% p.a.) ETF that tracks emerging market dividend paying companies looking good value on a yield of 4.8%.

3) British American Tobacco - 3425p, 15.3x P/E, 4.3% yield

Core defensive stock that has fallen 9.9% from its recent high. BATS' focus on brands and emerging market growth has helped offset tough conditions in mature Western markets. Trading at a discount to global peers, J.P.Morgan Cazenove has a 4209p price target, indicating 23% potential upside.

4) United Utilities - 685p, 16.1x P/E, 5.3% yield

Core defensive stock that has fallen 13.6% from its recent high. We believe this stock offers good income for investors with a 5.3% yield that is set to rise at 2% above inflation. Despite the failure of the recent takeover attempt of Severn Trent, there is still an outside chance of capital gains through corporate activity. Deutsche Bank has a 850p price target, indicating 24% potential upside.

3) General Accident 8 7/8% Preference Shares - 117.5p

With base rates remaining stubbornly at 0.5%, income seekers are finding it hard to generate the kind of income they have grown accustomed to in recent years. However, for those prepared to widen their income-seeking horizon, there are attractive opportunities. A wholly-owned subsidiary of Aviva Plc, the General Accident 8 7/8% Preference Shares are cumulative, meaning if the dividend is not paid one year, it is rolled up to the next. Priced at 117.5p, the current yield is 7.6%. See research note of 19/06/12 on our website for further details.

Fixed Interest

1) CLS 5.5% 31/12/19 - 101.10

Unrated corporate bond with a GRY back at 5.3%. Good value in this low interest rate environment. See research note of 28/08/12 on our website for further details.

2) Tullett Prebon 5.25% 11/06/19 - 99.00

Investment grade corporate bond with a GRY of 5.5%. Good value in this low interest rate environment.

3) iShares Emerging Markets Local Government Bond ETF - 5709p

Emerging markets have come off in recent weeks, leaving this low-cost (0.5% p.a.) ETF looking like good value. The fund tracks the emerging market government debt of eight countries and has a average maturity of 8 years and GRY of 6.2%. See research note of 17/02/12 on our website for further details.

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 thin 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).

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