

Investment Matters



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Market Overview

The world remains a dark and dangerous place for the unwary investor in 2010. Many traditionally secure investment asset classes have continued to demonstrate levels of volatility that do not support their “secure” status and the need for continual vigilance has never been greater.

The big story of recent weeks has of course been the Irish Government bailout. The Butterfly Effect has ensured that the problems of this tiny nation of 4.5m people have rippled around world stock markets causing substantial sell-offs in Europe, the UK, America and further afield. The real fear is that what started in Greece and has spread to Ireland will not stop there. If Portugal or the much larger economies of Italy and Spain require a bailout the cost will be on an altogether different scale and maybe unaffordable even to the European economic superpowers?

In the meantime, another round of Quantitative Easing (Q.E.) from Mr Bernanke and the US Federal Reserve as they continue to try to spend their way out of the recession has buoyed up equity markets but achieved little else. Money intended for small businesses has been used instead to prop up bank balance sheets and buy shares and as a result equity markets remain somewhere near to their 12 month highs. As long as the European debt crisis can be held at arms length equity markets may continue to defy gravity. With QE propping up the markets and European Debt dragging them down, they begin to look like a driver with one foot on the accelerator and the other on the brake. They continue to steer the car and toot the horn as they career downhill and consequently the potential for an accident remains high.

Feature Article: Spotlight on Gold. All That Glitters?



With so much talk of potential devaluation of major currencies through QE, we need to find alternative investments that cannot be devalued by fiscal policies, and so have asked our new recruit to the Fish Investment Analyst Team for his views. Dean Morris is a Certified Financial Planner based in South Africa and we refer to him as our “Walking Encyclopaedia”; he admits to having

read over 150 books on all aspects of finance and a gold investor since 2004, so he is a great reference point on this subject.

Q: Do you think Gold is undervalued, fair value, or overvalued ?

Definitely undervalued. None of the major currencies have an intrinsic value as they once did when they were linked to a gold standard. As a result their ‘store of value’ is questionable because the supply of these currencies is adaptable to the needs of the monetary authorities. We are used to the hyperinflation / devaluation stories of 3rd world countries but the recent QE experiments in the US & UK demonstrates the flexibility and risks of printing presses.

I believe all “fiat” currencies, as they are called, are vastly over-valued compared to gold, and the investing public will

be clamouring to get in to gold. Remember also that there are now 3 billion people in Asia who now have access to funds (unlike in the 1970s gold bull run) and these people don’t share the predominant western view that gold is an old relic.

Q: Do you prefer physical gold or a basket of gold mining stocks ?

Both. They are very different animals. Bullion itself will provide you with relatively safe storage of value (relative to ALL fiat currencies). The gold price can move 30% in a short space of time, so those investing in gold must be aware of such moves; individuals must be emotionally prepared to deal with that kind of volatility. ETFs are the most practical way to obtain exposure to physical gold but care must be taken to understand the different types of ETFs.

Gold stocks represent a proxy multiplier to gold. The largest input cost into a gold mine is energy, so when the gold price moves up and settles on a new average price, the additional revenue can far outrun the increase in input costs. However, they are stocks and subject to the same risks as other stocks.

Gold stocks chosen on an individual basis can lead to a major loss of capital. Thus, unless you have both the time and inclination to investigate the fundamentals of individual stocks, a gold mining focused mutual fund is probably the safest option.

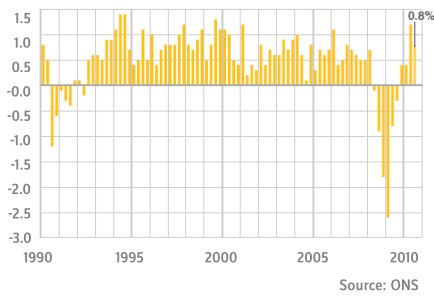
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Underweights & Overweights

UK Equity

The UK has continued its tentative economic recovery into the third quarter of 2010. GDP growth figures have come in at 0.8% (down from 1.2% in the previous quarter). The recession in this sense is taking on a V shape unless of course we suffer the “double dip” that has been on so many lips but is no longer uttered.

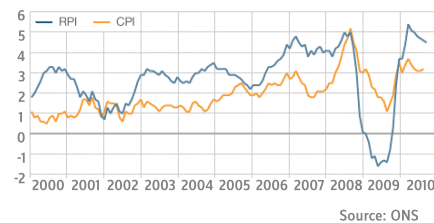
UK GDP growth, quarter on previous quarter



Source: ONS

In our last issue we discussed the spectre of Deflation (falling prices) replacing the fear of Inflation. Although the ingredients remain in place for this to happen and we believe this is still the most likely outcome, the latest CPI figures remain stubbornly above the Government target of 2%. The truth is that any increase in interest rates to combat inflation is likely to result in the aforementioned double dip and so, for the time being, this important tool of fiscal control remains on the shelf.

Inflation 2000-2010
Percentage Change over 12 months



Source: ONS

Unemployment figures also appear to have dipped, confounding the doomsayers for now. Although it is true we have still not felt the full effects of the cutbacks in Government spending.

Compared to the previous major recessions, unemployment has not reached the same levels and can be taken as an encouraging sign.

All in all, the UK, if left to its own devices for a while, looks okay. However, any idea that we will not be affected by the global environment is clearly preposterous. In our last issue, we discussed the fact that the major UK companies derive most of their profits from abroad. We still feel that these companies will provide the best security in

UK equity terms as their sheer scale protects them from entry level competition and they are not dependent upon domestic markets where credit is still contracting.

US Equities

The fiscal stimulus package we predicted of \$250bn was in fact dwarfed by the reality of the \$600bn announced by Mr Bernanke recently. However, as this money seems to have simply buoyed up equity markets, we do not believe that keeping these prices higher than they should be is a recipe for economic growth. So why have any exposure to this market you may ask? Firstly, in the short term, if the Federal Reserve is handing out “free money”, why not take some? Longer term Corporate America has embraced austerity and the American public have also shown their distaste for debt economics in the recent mid-term elections. Market dynamics and sentiment can change rapidly and the Fed’s progressive stimulus stance may be reaching revulsion levels in mainstream America. If this happens as we have seen here in the UK, the markets could respond positively to greater fiscal responsibility.

European Equities

Looking at Europe, we could tell a tale of “Two Cities”; Berlin and Dublin. On the one hand we have prosperous Germany, fiscally prudent and on the other, Ireland with its cap in hand. The truth is that we do already have a two tier Europe and the lack of productivity of the weaker nations remains the biggest failing of the Single Currency project. On the plus side, Angela Merkel continues to play the role of leading Stateswoman and the ECB (European Central Bank, not English Cricket Board!) is sticking to its mandate of keeping inflation low and providing stability in the same mould as the Bundesbank of old.

We continue to try to source funds that focus on the prosperous northern elements of Europe. But in their absence, we are preaching temperance if not abstinence from European Equities.

Far East (ex Japan)

We continue to see a global shift from West to East and nothing we have seen in recent months has changed this. In our last issue we mentioned Singapore as a leading light in the Far East story that has been eclipsed by the Chinese behemoth to the north. We feel that Singapore is punching above its weight quite nicely and, in the first half of 2010 it recorded blistering economic growth of 17.9%. The currency has been stable, the economy is

diversified and they have sensible regulation.

They also enjoy Asia’s biggest transport hub and have zero tolerance for racial or religious conflict. Development wise they have two large casino resorts on track to attract visitors and create \$4bn income streams, only 20% less than Las Vegas last year.

Fish Financial Sentiment Indicator

Asset Class	Dec 2010	Aug 2010	Move
UK Equity	◆	◆	■
US Equities	◆	◆	■
European Equities	●	●	■
Japan	★	★	■
Far East	★	★	■
Emerging Markets	★	★	■
Gov't Bonds	●	●	■
Corporate Bonds	◆	◆	▼
Property	●	◆	▼
Gold	★	★	▲

Sentiment		Trend	
Underweight	●	Negative	▼
Neutral	◆	No Change	■
Overweight	★	Positive	▲

Japanese Equities

Many investors (professional and amateur alike) bear the scars of previous attempts to invest in Japan. Yet we at Fish do believe that the ugly duckling can become the swan! For the time being, Japanese stocks are among the cheapest in the world with dividend yields on stocks at 2.5% compared to their 10 year government bond at 1%. Given their deflationary environment, we feel this is a huge disparity especially considering their aging population who are looking for returns.

Emerging Market Equities

This story is compelling, with across the board growth of 6 to 10%, a market that contains three quarters of the world's population and a middle class increasing at the rate of 70 million a year. The journey will be volatile yet we feel exposure at some level is necessary for the long term investor. Unless

we have the confidence that a single country story is compelling we will continue to choose funds with a broad exposure but focus on our favoured regions to mitigate risk.

Fixed Interest: Government Bonds

Instead of “fixed interest” we have been pondering a new category of “price fixing” as the likes of US and UK have been buying their own Bonds through Q.E.!! Although we recognise the “safe haven” argument, we do see little value at these derisory rates of return. However, a possible area of opportunity may open up in index linked issues should the inflation monster rear its ugly head once again.

Corporate Bonds

Turning traditional thinking upside down, the question that we ask right now is “would we rather be holding debt from prudent, well run corporations, or sovereign ‘basket cases’ like Ireland et al?” We, at Fish, believe so, however unfortunately yields have dipped significantly and value is harder to find. We continue to evolve our thoughts in this area whilst reducing our recommended exposure at all levels.

Emerging Market Debt

In the pursuit of yield, we note that this area is getting more coverage by the mainstream investment community. We have had exposure to this area for the last six months and still believe that many of the emerging nations are managing their balance sheets better than their emerged peers. As local interest rates fall, the sovereign debt prices will rise. With different countries at varying points in the economic cycle, it is important to understand the entry/exit points for any particular country and to have a diversified basket of emerging market debt.

Currencies

USD: *Overweight*

Euro: *Underweight*

JPY: *Underweight*

EUR/USD

■ EURUSD=X



Despite the Euro having strengthened against the US dollar during the last quarter, we feel comfortable with our previous recommendation (Long USD/ Short Euro) and we believe that the correction of the last few weeks,

due to renewed fears for the Euro, is the inevitable directional trend.

USD/JPY

■ USDJPY=X



The other currency that appears interesting is a likely weakening in the Yen which would help stimulate the Japanese economy. A long USD/short JPY currency position via an ETF therefore provides a potentially attractive opportunity at this time for the adventurous investor.

Commercial Property

Although we have seen positive returns from our property exposure in the past quarter, short term yield pressures in the UK and excess supply in markets such as China make us cautious.

On a positive note, European centres such as Paris and Stockholm are benefiting from positive demand and supply factors as experienced by London earlier in the year. The same can be said for Australia.

Commodities

Grains

We had feedback from our clients in the last newsletter that you felt grains had more upside due to expanding Emerging Market demand, so why did we recommend taking profits? One point we’d like to clarify is that commodities can experience sharp price movements either way. We felt the Russian ban on grain exports had represented a price rise that was a profit taking opportunity.

Oil & Gas

Recent data indicated that the Chinese consumption of Oil per capita is 9% of the USA. For India the figure is 4%. Sobering thoughts as their relative populations enter the first world.

The price of gas has been trampled since early July 2008 when it was trading \$13.33 and is currently around the \$4 level. Short term there is simply too much of it yet the price remains low and many energy experts believe gas will exceed oil demand in the future. We see little downside at this price level. This is a subject we will embellish upon in the next newsletter with our analyst Tony Lewer.

Insurance should play a key part in your asset planning

We give a lot of thought to protecting the value of our financial assets. But do we give as much attention to our tangible assets - homes, cars, collections - which are often worth far more.

Possibly we assume that standard insurance will be enough, without realising the pitfalls.

Unfortunately, most home and car insurance is based on a ‘one-size-fits-all’ policy with small print restricting the claims and sums the insurer will pay. So, if you own a higher-value home or car, you could find - usually when you make a claim - that you’re not fully covered.

To heap insult on injury - regardless of the service they provide - standard brokers not only take a standard commission, but also often obtain further hidden income from your premium.

But, owning a higher-value home or car doesn’t have to mean resigning yourself to insufficient cover and excessive premiums. Symmetry is a private broker that specialises in the personal insurance needs of discerning clients with more to protect.

Their guiding belief is that good insurance is about balance, fairness and equity ... symmetry. They offer a truly personal service with:

Fairer cover - their initial home appraisal means they match your cover to your precise needs, with almost no restrictive conditions. They will also advise on loss prevention, security and collection management. So you can be certain you are properly protected, but paying only for what you really need.

Fairer claims - their claim service is consistently rated the best in the UK. After a loss, they ensure you have the choice of cash or replacement/ repair using a supplier you nominate. Non-complex claims are usually paid within two days of notification.

Fairer charges - they return the commission other brokers keep and charge you only for the service level you have chosen.

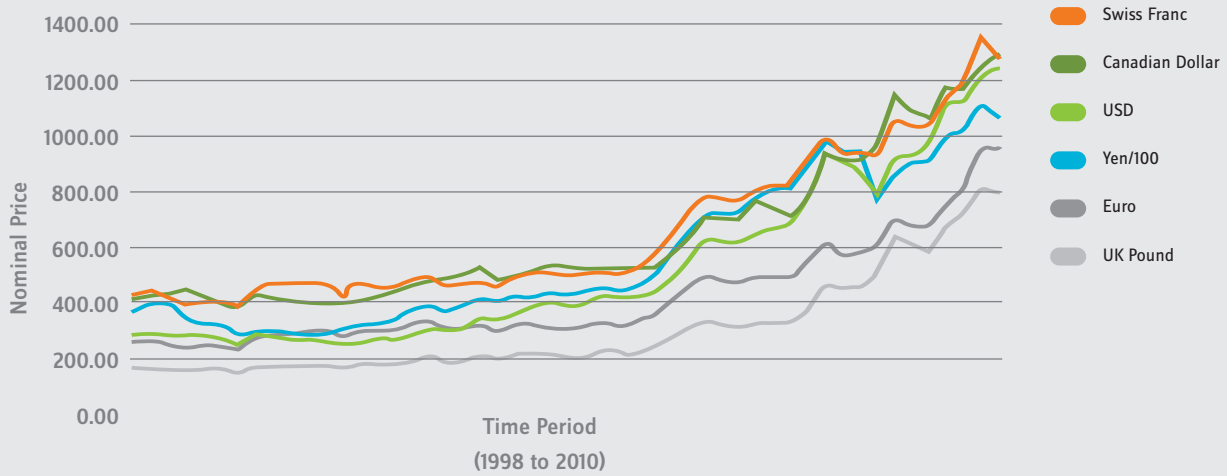
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Quarterly Gold Price in Major Currencies

Source: World Gold Council



Q: How long do you think this bull market will go on for?

Another 5 years - minimum. Looking at the history of bull markets, they usually last for 17-25 years. This gold bull market started in 2000, so as of now (2010) we're probably at or just over the halfway mark in time, and much lower in terms of returns. I believe the exponential stage of price rises still lies ahead.

Q: What price target would you place on gold and why?

Higher, much higher, compared to all currencies. I'd say conservatively, US\$4000/oz. Too much more Quantitative

Easing along with the public becoming aware of the declining value of their 'money' and it could be multiples of where it is today.

This article is not specific advice for individuals, but a personal view and people should not act on the discussions within. We recommend that you contact Fish Financial for any specific investment advice that you may require. The value of investments can fall as well as rise and past performance is not a guide to the future.



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