

INVESTMENT NOTE

November 2011

Flash Rally

Investors resolve will be tested as the big issues refuse to go away.

Anyone who's ever been caught up in a flash mob will probably agree with the popular definition of a group of people who assemble to perform an unusual and sometimes seemingly pointless act for a brief time and then disperse. At TAM, we think we have seen a similarly puzzling event taking place in the stock market rally the catalyst for which being the latest rescue package for Greece and politicians hailing a final "comprehensive solution". It would be nice to think that as the FTSE approaches the point where it started the year, at 5,899, that we might look forward to new highs for the year. However, we already had our suspicions as the rally extended - cracks started to appear.



The rally in equities from 4th October has certainly been unusual. The 15% rise to the 27th October was the largest since 1992 and was giving us concern from a technical perspective particularly as the actual volume, or value of shares traded, was significantly less spectacular than the price rises themselves. Some rather unconvincing justifications were also hijacked into the story by the media always keen to pin big moves on specific events and this was utilised to the full in the middle of the US results season. Positively however this was generally an upbeat reporting season. The Euro was also on the rise – Problem solved then!

Meanwhile, away from the assembling crowd, Italian 10-year bond yields started rising again from the level of 5.7% reached in the initial euphoria, and are now back up around 6.2%. Even without drawing comparisons with German 10-year yields at 1.84%, this is telling us that the Euro zone rescue package is not being received as the "comprehensive solution" that the Euro zone politicians so earnestly want the markets to embrace. This was the earliest sign the party could be a brief one and a cue for the TAM Investment team to start taking profits in certain equities and re-investing in Gilts.

Clients will be aware, of course, of our longer term view that UK Government Bonds, or Gilts, are in overbought "bubble" territory. We have no appetite for inflation-linked bonds either because we believe inflation will moderate. This is not to say that the cost of living is getting any cheaper, unfortunately, but simply that the rate of change will moderate somewhat in the coming quarters. **However, a rise of over 15% in the equity market cannot be ignored and we took a decision to move quickly to lock in some of these gains which we believe are built on fragile sentiment. Short term Gilts offer protection but we are conscious not to get caught holding them for too long into 2012.**

The flash rally has subsided at a rapid pace but political rhetoric can readily affect this. We are also conscious of the macroeconomic indicators pointing to a slowdown in the global economy. Even if we were convinced that the worst of the Euro zone problems were behind us, we believe that this problem will immediately present itself as a new headwind to sentiment.

This document is not intended in isolation as an offer or solicitation or recommendation to use or invest in any of the services or products mentioned herein. Investors should be aware that the value of the portfolio and the income from it can go down as well as up so you may get back less than you invested. Past performance is not necessarily a guide to future returns. The value of investments denominated in foreign currency may fall as a result of exchange rate movements. The investments and services referred to in this document may not be suitable for all investors and, if in doubt, you should seek qualified independent financial advice. Any opinions, expectations and projections within this note are those of TAM Asset Management, represent only one possible outcome and do not constitute investment advice. TAM Asset Management is authorised and regulated, in the United Kingdom, by the Financial Services Authority.

For Further Information Contact:
TAM Asset Management
 City Tower, 40 Basinghall Street
 London, EC2V 5DE
 Tel: +44 (0)207 549 7650
 Fax: +44 (0)207 549 7786