

## Investment Note

November 2009

### A Review of Our 2009 Investment Notes

Were we right or were we wrong?

We would like to take this opportunity to review the ad hoc notes presented in 2009 and critically assess; where we right or were we wrong? Below we give a summary of each note together with our views on how accurate the note turned out to be and the bearing each had on our future portfolio positioning.

#### NOVEMBER 2009 – Is the Party Over

**Maybe, but the secret is to keep the music playing!**

The “feel good” factor that emerged during the summer has resulted in extremely high levels of inflows into the investment fund universe. Figures show that inflows are even accelerating as we reach year end, suggesting that 2009 will show the largest annual net inflows for many years. But most relevantly the figures highlight that many investors are only now joining the party. Unfortunately one must question the longevity of the current recovery and ask; are these investors joining the party too late?



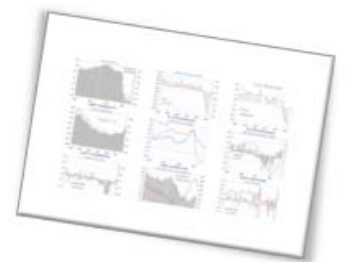
In Summary we anticipate some consolidation within financial, particularly equity markets, as the gap between market valuation (and expectations) and underlying valuation falls. But rather than a quick correction in either we foresee a slow and tepid reversion well into 2010. Such activity will offer medium to longer term investors an excellent opportunity to invest at levels not seen for many years.

Certainly equity market volatility has increased the news that Dubai would have to restructure its debt obligations negatively reverberated throughout the global equity markets. However, an improving economic picture helped them stabilise by month end and post solid gains. Interestingly the market leadership changed in November from the financial sector to the basic resource orientated sector – helped by gold reach over \$1,200 an oz. It was pleasing to witness the underlying strength of investor sentiment, even in the face of short-term negativity, reinforcing our view that we remain on the long-road to economic recovery.

#### OCTOBER 2009 – Pictures Can Tell A Thousand Words

**Do Economic fundamentals support equity valuations?**

The recent equity market rally has come as a welcome relief for many investors. Since hitting lows in mid-March the UK stock market (represented by the FTSE 100 index) has roared over 45%, with a similar pattern repeated across the globe. Many attribute this rise to improving economic fundamentals, whilst others simply to liquidity; too many side-lined investors chasing the market up and maintaining the momentum; interestingly both are true.



This is where the debate now centres; have the equity markets disconnected from economic fundamentals and more relevantly will they be pressured should new money inflows fall? Certainly further weakness in the labour markets and housing sectors could incite a double-dip recession but thankfully we consider this unlikely.

Certainly economic fundamentals have and continue to improve. The remaining dark cloud is unemployment, which though slowing remains to increase on both sides of the Atlantic. A failure to curb this trend will certainly increase the possibility of the recovery we are certainly now experience to falter.

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**For Further Information Contact:**  
**TAM International Limited**  
 7<sup>th</sup> Floor, Wing B, Cyber Tower  
 Ebene, Mauritius  
 Tel: (+230) 454 6400  
 Fax: (+230) 454 5413

## SEPTEMBER 2009 – A Weaker Dollar

### Dollar has fallen to one year lows!

Is it a coincidence that, as Gold breaks through the \$1,000 an ounce level, the US Dollar has fallen to its lowest level against many of its major trading partners in over a year? A report this week has suggested that some countries (particularly China) are, once again, diversifying reserves away from the US Dollar into Gold (and the Euro), thus helping to push the precious metal up to current levels. Statements from the United Nations suggest a multi-national reserve currency. Whilst it is true that the Dollar certainly becomes the favoured currency in times of economic “stress” and, given the wave of optimism that has swept the equity markets, including a number of company and industry upgrades, one might suspect the currency will weaken as risk appetite returns.



Our thesis remains sound with Dollar remaining weak against its major trading partners and pushed dollar-prices assets, in particular gold, to new highs. More of an academic argument than of strong tangible benefit to our clients in their portfolios.

## AUGUST 2009 – Equity Market Rally

### “Will there be a Sting in the Tail?”

Equity markets have rallied strongly since their mid-March lows on optimism that a global economic recovery is under way; however, in their fervour, are investors actually ignoring the underlying economic fundamentals? In this note we ask, “Will there be a sting in the tail for equity investors?”



Taking the above in totality, we believe there are some strong signals to suggest that further returns will be far harder to obtain in the equity markets over the next few months. We will, therefore, continue to maintain a balanced portfolio approach, spreading our equity exposure across a number of geographic regions and market sectors. In summary, therefore, there may certainly be “a sting in the tail” for some investors who may not be prepared to act on the market and we anticipate sector swings will be a feature of the next few months. Clients who took out their risk in late 2008 or early 2009 are either convinced of a bear market style collapse now, below the lows of 3,600 in March, (which is unlikely in our opinion), or they are hopeful for as sharp a setback as possible to allow them to re-enter the markets.

Conclusion – we remained invested into the next 300 points of upswing and did not consider a fall to the lows of March 2009 – In general our view has been the correct one and benefitted clients.

## AUGUST 2009 – UK Banking Sector

### The Banking sector - The Good, the Bad and Northern Rock!

The UK Banking sector bore the brunt of the recent credit crisis with a number of long-standing high-street names being effectively nationalised. However, a minority of Banks, most notably HSBC and Barclays, resisted the temptation of participating in the Government bail-out plan. This decision now seems to be reaping swift rewards, though at the possible cost of vilification from the general populous.

In this note, we consider who one might think of as good banks, bad banks or a Northern Rock! Buy Standard Chartered, HSBC and Barclays Don't buy Lloyds/RBS



Conclusion: The division between our Good and Bad banks remains although problems emanating from Dubai may take the gloss off even the best. Performance August 2009 to date:

The TAM “GOOD” Banks:	Standard Chartered +14%, HSBC +17%, Barclays -1%
The TAM “Bad” Banks:	Lloyds -11%, RBS -26%

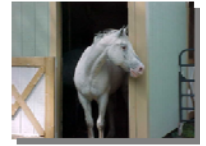
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## July 2009 - Absolute Return Equity Funds

**Shutting the stable door after the horse has bolted!**

Between October 2007 and March 2009 UK Equity markets fell around 45%, wiping years of gains from most investor's portfolios. The five year bull market for equities had come to a shuddering halt. The weighting of long-only directional funds (or 'Traditional Funds and Unit Trusts') within most portfolios had grown as markets appreciated. Unfortunately these funds simply tracked the market falls, in a broad sense, and offered no sanctuary for investors during the market falls.



When we compare this traditional fund performance to the performance of the *Blackrock UK Absolute Return Equity* fund for example, one of the new breed of absolute return products, which through a consistent strategic approach attempts to profit from falling markets as well as rising ones, we see that the fund returned a positive 4% over the same period (a near 50% out performance of the Index!) This positive return clearly demonstrated that when managed correctly an absolute return fund can help insulate an equity portfolio from market falls and has ignited the appetite for such funds with many investment houses rushing to launch their own "mirror" products. In this note we ask, we ask candidly, with the equity markets now languishing near five-year lows, is this the right time to rush into these new wave of absolute return equity funds?

Proved correct as directional equity funds have enjoyed one of their strongest periods whilst the more market neutral absolute return equity funds have languished in the shadows. Our clients benefitted from our reduced exposure to this sector.

## MAY 2009 - The Economy Will Recover

**But will it be a V, U, or W shaped?**

What are equity markets telling us about the state of the global economy since bottoming in early March? Technically, the scale of the recovery in equity indices, over 25%, has led to headlines declaring the end of the bear market. If we look at the causal historical link, equities have tended to discount economic indicators by something like 9 months in advance. If this were to hold true this time, it would appear that the market is telling us that an economic recovery could be beyond any doubt by the end of 2009. How does this affect our investment decisions?



As it became apparent that the worst of falls were over we reduced our sovereign fixed income exposure to bolster our directional equity exposure, leaving us in a strong position to make further focused investment within sectors that we believe are still highly undervalued. The investment grade corporate bond market is certainly appealing, with spreads still far above normal levels, potentially unjustified given the improving financial position of the issuing companies. Additionally the global energy markets offer an unprecedented opportunity should our theory of economic recovery materialise. Oil, may not rally for some time, to the \$150 level again, but \$70 to \$80 is looking increasingly feasible and would result in a massive boost for the sector.



Conclusion – pretty accurate and reflected in client portfolios.

## APRIL 2009 - Green Shoots of Recovery.

**Will Swine Flu derail the rally?**

Equity markets around the world have enjoyed six weeks of gains, with the UK FTSE 100 index rallying over 20% from the lows reached in mid-March. A number of positive events have led some in the financial arena to herald the bottom in equity markets and a possible end to the global recession. Whilst we support the theory that 2009 may witness the bottoming of the equity markets and support much of the positive commentary, we are still concerned that the UK faces mounting problems that may curtail further market appreciation over the summer. Incidents like the recent outbreak of Swine Flu, fears over Building Society strength and similar unknowns may add additional constraints to equity market growth.



Conclusion – It was difficult to believe whole heartedly in the economic recovery so soon after witnessing the market capitulation. However, we increased exposure and continued to do as the story became more compelling. Swine Flu was a bit of a red herring!

## MARCH 2009 - Into the Bear Pit?

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## Meltdown or Long Term Opportunity?!

Global equity markets, already heavily battered this year, reacted violently to the news that US insurance-giant AIG posted the worst quarterly loss in American history and would require further Government support (on top of the staggering \$150bn it has already committed). Whilst AIG is more widely known in the UK for their sponsorship of the Manchester United football team, it is one of the biggest and most influential financial services companies in the world and is considered by the US Government to be a key foundation pillar in the entire monetary system (hence their willingness to invest such huge amounts to guarantee its survival; in contrast to their regard for Lehman Brothers). Concurrently in the UK, HSBC announced it would be raising £12bn from shareholders to help support its balance sheet; a figure still considered far too low by many. The resulting loss in confidence has pushed UK equity markets down over 6% this week so far, representing a near 20% loss for the year.



In summary, we do not believe this is time for inactivity, nor for the inexperienced or faint-hearted, but we believe we have been offered lifetime opportunities to invest in some of the strongest and well-known Companies/Funds in the world and will look to exploit these over the months to come. In short, into this weakness, we will slowly shift from Fixed Interest into Equities.

## MARCH 2009 -The Road to Recovery – A Trillion \$ Question!

UK Equity Markets have rallied nearly 15% but is this sustainable?

There can be no denying that the latest stimulus plans, announced primarily in the United States, have been welcomed by equity investors. The FTSE 100 has surged over 14% from the recent lows, but still 15% below year-end values. Likewise, the U.S. has rallied an even more impressive 19%. However, should we jump on the “everything’s fixed” band- wagon, or alternatively, worry that the light at the end of the tunnel is actually the headlight of the train hurtling towards us? We are, therefore, maintaining the investment stance out-lined in previous notes, as follows:-



- (a) Increasing our equity exposure below key levels;
- (b) Taking profits when we perceive the market has moved too far and too fast, before rotating into a longer-term core positions;
- (c) Seeking opportunities in high-grade Corporate Bonds where yields and value are compelling; and,
- (d) Reducing any significant over-weight Sovereign Bond exposure during periods of strength.

Conclusion: As the market gained momentum we implemented each of the four recommendations listed above.

## In summary

In summary, we believe we fared pretty well with the accuracy of our research notes and portfolio recommendations. We must concede that the strength and longevity of the rally (epically in the equity markets) which proved to be one of the strongest on record, took us by surprise. However we maintained our balanced portfolio exposure allowing our clients to consolidate good gains and participate in each of the major themes this year.

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## FEBRUARY 2009 - Obama

### No Quick Fixes

Many had hoped that the inauguration of President Barak Obama would ignite investor optimism and quickly kick-start both the US economy and global stock markets. To some extent, the latter few weeks of 2008 reflected that enthusiasm. However, during his inauguration week, and subsequently, we witnessed a serious loss of confidence in the global banking system which left many financial companies teetering on collapse and scepticism over the plan for recovery. So will there be any real "Obama-effect" and how will the new democratic Government cope with the worsening economic situation?



In summary, we have adopted a pro-active approach to building our core exposure to the equity markets during times of market weakness, whilst consolidating short-term gains generated as a result of the high levels of volatility still being exhibited. We, therefore, expect our portfolios to continue their relative performance trend and await better opportunities to position further in equities, as and when prolonged strength returns to the market.

In conclusion

## JANUARY 2009 – Is Cash Still King?

With UK interest rates poised to fall even further .... "Is Cash still King?"

Volatile and declining equity markets last year prompted many to seek the sanctuary of cash deposits, rather than risk further losses. Throughout the year, we recommended higher cash levels across most portfolios to both insulate investors from turbulent markets and as an attractive source of risk-free return.

In this process, we have used only the strongest of deposit taking institutions. However, conditions have

changed. Interest rates in the UK have now fallen to 1.5% and, if we follow the example of the US, may be expected to fall even further.

TAM Asset Management is, therefore, likely to make investment in diversified UK Sovereign Debt (or "Gilt") Funds as a short-to-medium term alternative to retaining cash within portfolios. Investment in these Funds, not only offers the liquidity we require to be able to exploit other investment opportunities when they arise, but also the potential for a far higher level of income than cash would offer this year. Additionally, should interest rates fall even further, modest capital appreciation can be expected, even from these levels.



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