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INVESTMENT ADVISORS SA

Market Commentary

April 2013

MARKET ANALYSIS

The Drop In The Price of Gold: The dramatic drop in the price of gold which exceeded 15% over a period of just three days has caused a lot of concern and questions about the future price of gold. Though many reasons are being suggested for this sudden plunge, there are four aspects that are being focused on.

1. The perception that risks related to the financial and debt crises have subsided.
2. Inflation does not appear to be a threat.
3. The FED may reduce quantitative easing sooner than expected.
4. Cypress will sell its gold to raise much need capital and other central banks will follow.

		Tonnes	% of reserves			Tonnes	% of reserves
1	United States	8,133.5	76%	21	Austria	280.0	55%
2	Germany	3,391.3	73%	22	Belgium	227.5	39%
3	IMF	2,814.0	-	23	Philippines	192.7	12%
4	Italy	2,451.8	72%	24	Algeria	173.6	5%
5	France	2,435.4	71%	25	Thailand	152.4	4%
6	China	1,054.1	2%	26	Singapore	127.4	3%
7	Switzerland	1,040.1	11%	27	Sweden	125.7	13%
8	Russia	957.8	9%	28	South Africa	125.1	13%
9	Japan	765.2	3%	29	Mexico	124.5	4%
10	Netherlands	612.5	60%	30	Libya	116.6	5%
11	India	557.7	10%	31	BIS	116.0	-
12	ECB	502.1	33%	32	Kazakhstan	115.3	22%
13	Taiwan	423.6	6%	33	Greece	111.9	82%
14	Portugal	382.5	90%	34	Romania	103.7	12%
15	Venezuela	365.8	75%	35	Poland	102.9	5%
16	Turkey	359.6	16%	36	Korea	84.4	1%
17	Saudi Arabia	322.9	3%	37	Australia	79.9	9%
18	United Kingdom	310.3	16%	38	Kuwait	79.0	13%
19	Lebanon	286.8	29%	39	Egypt	75.6	25%
20	Spain	281.6	30%	40	Indonesia	73.1	4%

Top 40 reported official gold holdings (as of December 2012) Source: IMF, World Gold Council

Our Opinion: Though we agree that risks are more limited than they were before the ECB Presidents declaration of support in September last year, we do not think that they are as subdued as the consensus appears to believe. It is clear that at current levels of overcapacity and unemployment inflation will be contained. However, history has shown the turn can be sudden and of a larger magnitude than expected especially when money supply is increasing by more than real GDP for extended periods of time. What puzzles us however is the fear that the FED will reduce quantitative easing earlier than expected even though inflation is not a threat. The FED has clearly stated that they want to see employment firmly below 6.5% and as long as inflation does not exceed 2.5% for an extended period, they intend to persist with current levels of quantitative easing. With the additional worries regarding growth in other parts of the world it is hardly likely that the FED would reduce easing sooner than planned especially while inflation is not a threat. Cypress made a clear announcement that they had no intention of selling their gold and we do not expect this to be a condition imposed on them or any other country. In fact net buying of gold by Central banks last year reached the highest levels in over 50 years. Gold as a percentage of reserves is currently just about 7% in most emerging markets and is at levels of 5-10 times higher in most European countries and the US. Therefore, there has been a tendency for emerging market central banks to be purchasers of gold over the past few years. With the recent large setback, we expect to see them speed up the purchases allocated for this year. As far as retail consumers of gold in Asia are concerned, the two largest markets China and India have seen demand rising two to three fold as compared to the week earlier and there has been a rise in physical gold demand in London, Australia and the US. We are not of the opinion that the gold price trend is broken. As with all assets that have appreciated so strongly for more than a decade, a correction of this magnitude cannot be ruled out at any time.

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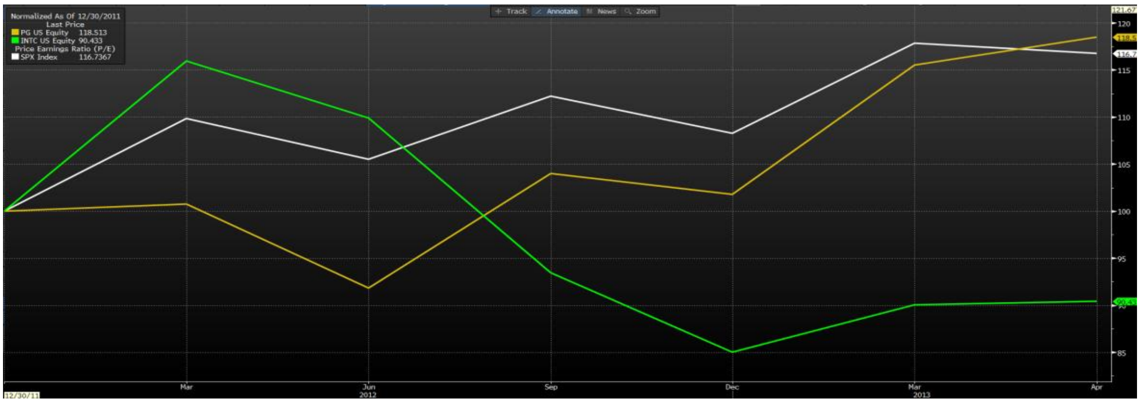

P/E Ratios: Development over a one year period. Procter & Gamble (Orange), S&P 500 (White), Intel (Green) Source: Bloomberg

General Thoughts: We recently reduced our holdings in consumer staple and healthcare stocks and booked some of the excellent profits we have made over the past 12-18 months. We believe that these stocks look expensive compared to the rest of the market and are overbought and over owned. We have been looking for opportunities in multinational companies with solid balance sheets and reliable dividend yields in the more cyclical areas of the market. These stocks are out of favour and under owned and selling at a discount to their historic multiples as well as to the broad market. To us they offer a better opportunity for price appreciation going forward than the more defensive stocks. Two examples are Intel and Siemens, both with good balance sheets and dividend yields around 4%. Expectations for both companies are very subdued and any slight positive surprise would lead to upgrades and new buying interest. Intel reported this week and has delivered better than consensus results and forecasts. Sentiment around the stock seems to be changing from very negative to slightly positive which we believe is the first step in the right direction. We await Siemens results next month in order to judge the progress in the restructuring efforts.

Gillian Hollenstein

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