The NIC Fund
Student-run Virtual Fund

March
2011

Nova Investment Club

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Market Outlook

Uncertainty and times of change characterize the upcoming month of March. Markets are expecting announcements and verdicts taken by the EU with regards to the sovereign debt crisis and the recovering European economies. In a time where the question is no longer if Portugal will ask for external help, but when will it ask, one wonders…

- will interest rates rise, and if so, how much will that hurt the peripherals?

Rising inflationary pressures, upcoming interest rate hikes by the BoE and the ECB, MENA's geopolitical distress and peripherals' agony will be the primary cause of such behaviour. The soaring path of commodity prices will most likely maintain a similar price momentum, that is unless Muammar Gaddafi retires. Oil prices will remain volatile, and the NIC's worries are focused around Bahrain and whether the protests escalade in one of the biggest players in the ME . The refuge on gold and precious metals will be influenced by dollar turnover and release of inflation features.

The future of the EU will certainly be the headliner of the month. The prime leaders will meet this month, on the upcoming EcoFin, in order to discuss the future of the EURO. Any decision on this panel will obviously conduct to several market movements. The European financial markets are likely to remain extremely volatile as consequence of the issues stated above.

The overall sentiment of expectation and high payers for Merkel's good temperament when inferring about the future of the Stabilization European Fund, will dominate this month. This can be the trigger that markets need to resurrect.

Investment Outlook

For the upcoming month, the NIC members are focusing on the European sovereign debt crisis and the macroeconomic environment as the basis for the trade proposals.

The expectations of ECB actions against inflationary pressures, are one of the main focuses for this month. Strategies vary between exposure to worldwide currencies against the EURO, as well as the bets on peripheral yields decreasing due to short-term speculation of the EcoFin outcome.

This month we observe a clear bet on lower volatility in the US stock markets, and several NIC members are betting on the outperformance of equities in this region. The main sectors that weight in are the financial and the technological sectors.

On a final note, commodities remain one of the main overweight asset classes. The escalade of energy prices and the growing demand of recovering economies can keep the momentum up for commodity trading.

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Uncertainty cooling down

André Fernando

The macroeconomic conditions have been rather shaky in the last month. Notwithstanding, the recent economic reports published in the US point out for the likely recovery.
The S&P is the prime benchmark of the US stocks; hence, as I believe in the strongly bullish sentiment for this market my educated guess is that it will by astoundingly buoyant in the month of February.

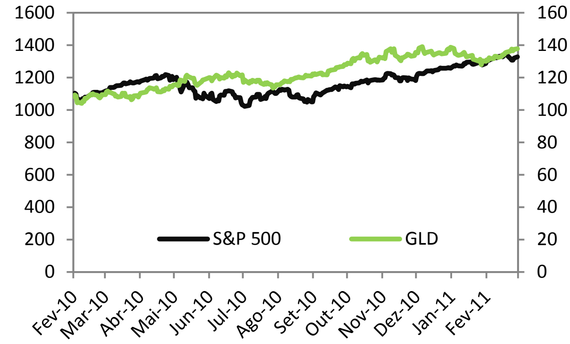
As I believe that less uncertainty will be surrounding the economy, I will go short on VIX.

The last resort for investors when turmoil is present in the financial markets is normally the so-called "zero beta commodity": gold. My conviction is that investors will seek for more risky positions and leave the gold behind! Thus, I will go short on gold.

Trade Summary

Long 200%: S&P 500
Short 50%: VIX
Short 50%: Gold

Asset Class: Commodities & Index ETF
Region: Middle East



"He-who-must-not-be-named"

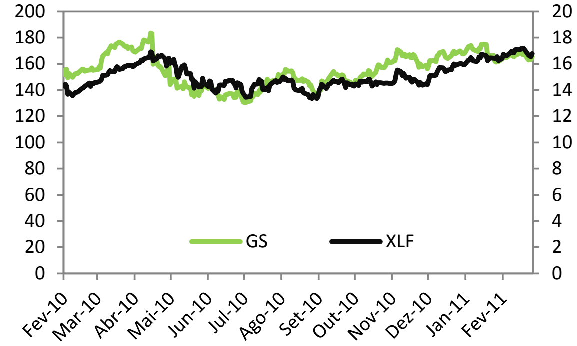
Diogo Lencastre

Despite some turbulence in the way, as we witness now, motivated by the conflicts in Midlle-East, the economic recovery has most likely come to stay, in the context of the DM's. Inflationary pressures have replaced the long gone fear of deflation, letting guess rising interest rates in a close time horizon, and economic indicators point towards the heating of industrial activity.
All sectors are expected to join this takeoff sooner or later, even that specific sector which most investors will not dare to pronounce the name – financials. I have been following its upward trend for some months now, and the fundamentals seem to be coming quite solid. Insurance companies, asset managers and banks are re-approaching (if not reached yet) their pre-crisis quotes, and faced with this scenario I built my trade for this month.
I am long 3 ETF's replicating the financial sector in the US, one of them being the most liquid one in the market, the other under a dynamic management policy, and finally an infamous 3X.
I have also picked 2 stocks in this sector, which in my opinion present a high potential for value increase in the coming month: PNC, a regional bank that recently accomplished a successful acquisition at sale price, and Goldman Sachs. GS is in my opinion being too penalized by its last results, and hence, for the first time in years, I believe it is fairly cheap, until that is recognized.

Trade Summary

Long 20%: PFI, UYG, XLF, PNC, GS

Asset Class: Equity
Sector: Financials
Region: US



Coal and Silver…Royalty?

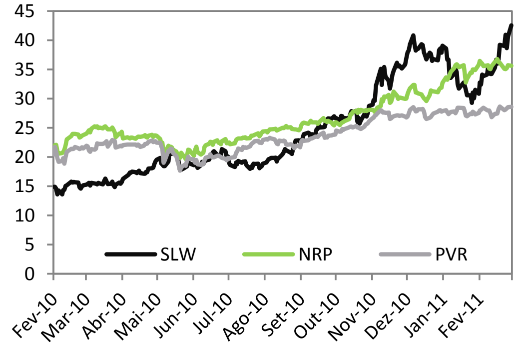
Filipe Sodagar

For the last month of February I felt bullish on commodities given the recent price momentum around the globe. For the upcoming month I have the same feeling, although in this case I would like to remain out of the more "glamorous" picks and turn my attention to Coal and Silver. Last month I had particular stock pick, SLW, which is a silver royalty company. In this month I am keeping that position and opening two new ones, coal royalty companies. These companies do not own coal mines nor do they have operating liabilities, they simply own the land and collect royalties. In the case of Coal I have the feeling that given the economic recovery worldwide, and the fact that the US are the Saudi Arabia of coal (98% of US Energy Reserves) coal will see a sharp increase in its price this year, as well as an over performance of coal related companies. Therefore I selected three companies that shall outperform this month.
I would also like to open a long position in Apple this month, given the release of the new iPad in late March.

Trade Summary

Long 40% EW: SLW, NRP, PVR
Long 40% EW: CLD, ICO, CNX
Long 20%: AAPL

Asset Class: Equity & Commodities
Region: US



EU Sovereign Debt and Food Prices

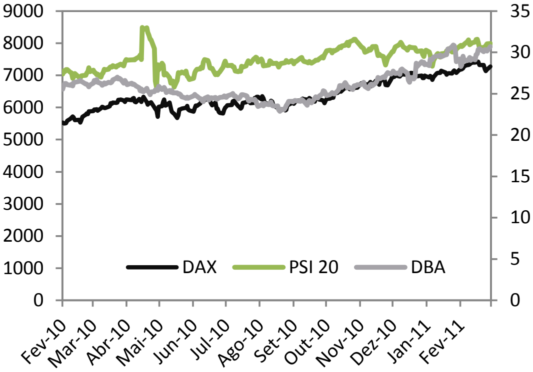
Inês Serra

Besides the Middle East turmoil there are 2 hot topics driving the market: the sovereign debt crisis and the rising prices of food.
Many people expect Portugal to ask for a bailout on a near future, as the cost of financing its debt is becoming unbearable. One strategy that might take advantage of this is the spread between the German index and the Portuguese one.
UN and IMF agreed that there is going to be further shortages on food supply. This combined with the climate catastrophes set the upward profile of agricultural commodities. They are not expected to decrease at least until the latest report on US and EU harvest comes out, which will be in mid-2011. Therefore to take advantage of this trend going long on Powershares Agriculture ETF (DBA) is a good strategy.

Trade Summary

Long 50%: DAX
Short 25%: PSI-20
Long 75%: DBA

Asset Class: Index & Commodities
Region: Worldwide



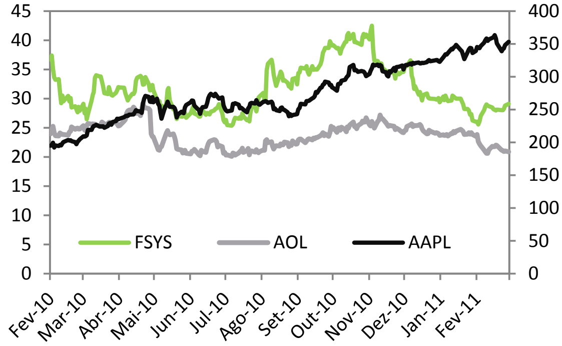
Overdue Oil and stock picking

John Valente

Trade Summary

Long 60%: AAPL
Long 30%: FSYS
Long 30%: AOL
Short 20%: Brent Oil (BSO)

Asset Class: Commodities & Equity
Region: US & Europe



Despite the news about Steve Jobs health condition, the launch of Ipad2 is expected to completely offset the impact of those negative news. The aggressive pricing ($499) appears much better than the competitor Motorola's Xoom ($800), which allied to a higher quality, can turn iPad2 into another enormous success of Apple Inc. Therefore, I continue to believe that Apple will outperform its peers, given its strong iPad and iPhone sales and new product launches. Furthermore, the outlook for Mac, iPad and iPhone remains optimistic, backed by domestic and international demand. As a consequence, I am long on Apple Inc.

I am also long on two other stocks, Fuel Systems Solutions Inc (FSYS) and AOL Inc. The former, from the Auto Parts Industry, is currently 1.22% above its 52-week low and the latter, from the Internet Information Providers Industry, is currently 2.7% above its 52-week low. Over the last year, both companies have beaten analyst earnings estimates by an average of 50,43% and 41.67%, respectively, and I am confident they will beat the estimates again.

The recent (huge) increase in Brent Oil prices was mainly due to the big instability around Libya. I believe the worst has already passed and I believe that the EU and the USA efforts to fight Kadhafi's decisions will have a positive impact on Libya's stability. Therefore, I believe oil prices will decrease to values closer to the ones we were assisting before the revolutions in Libya.

We've bought the rumor, now we sell the (prospective) fact

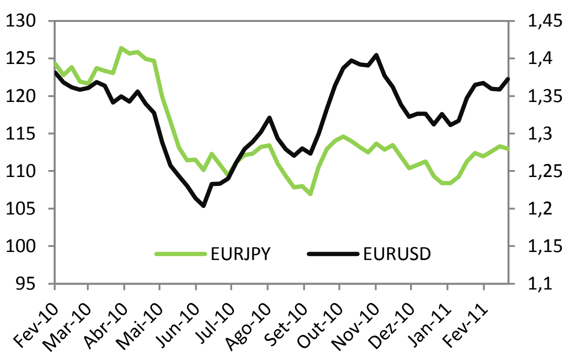
Nuno Luís

Trade Summary

Short Euro TWI: Limit: 5% | Stop: -2%

42% USD; 18% JPY; 11% SKW, 11% CAD, 10% HKD, 8% SGD

Asset Class: Currency
Region: World



The dynamics of expectations after this month's ECB meeting are providing markets with yet another increase in rate differentials from Europe to the US, with the anticipation of Trichet's hawkish speech adding inflows into the economic bloc leading the Euro to trade into the 1.38 level.

However, looking at the upcoming calendar of major events, it seems that this will be a movement difficult to translate into a trend. The state of affairs in the peripheral Euro area has the potential to progress into the presentation of a rescue package for Portugal in the upcoming EcoFin or EU leaders meetings (Mar-15/16 and Mar-24/25), with the first signal being given by the S&P presence in Portugal to assess the Portuguese republic.

In this sense, the only reasonable path for the single currency is of weakness in the short-run, thus the bearishness of this trade. I am choosing to cross it against a trade-weighted basket (of free-float currencies) as this limits the downside risk of a tougher FOMC speech (Mar-15) and gets exposure to economies in advanced stages of normalization of the monetary policy (SK, Canada, or Singapore)

Butterflies in Portugal

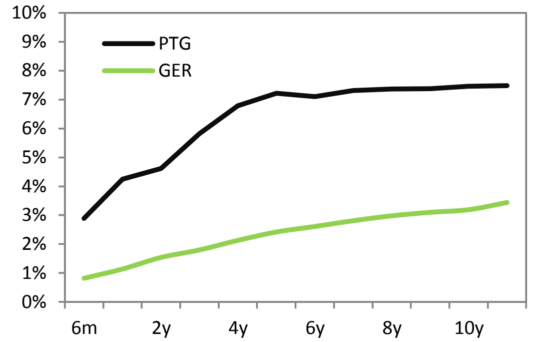
Tiago Lourenço

- Portuguese bond holders have been severely penalized by the markets in the past few months.
- The cost of debt has been rising since mid-2010, with the yield on 10y reaching 7% in late 2010.
- The yields on 10y have been fluctuating between 6.75% and 7.5% ever since.
- In early 2011 the 5y bonds become a problem as well, hitting a record 7.2% in February.
- The current shape of our yield curve is unusual (yields on 5y, one of our most liquid bonds, higher than 6y and 7y) and a **butterfly strategy** may provide some gains in the near future, regardless of the economic conditions in Portugal, the ECB decision on the Stability Fund and the possible intervention by the FMI.
    - Long Portuguese 5y against 2y and 10y
    - There is no directional bet on the curve
    - Positions weights are duration-neutral

Trade Summary

Short 25%: PTG 2y
Long 50%: PTG 5y
Short 25%: PTG 10y

Asset Class: Bonds
Region: Portugal



Portugal and the Euro, what's next?

Tiago Paixão

The recent fears in inflation, coming from the emergent markets, have made the ECB warn the financial markets on the possibility of an interest rate rise next April. It is therefore my conviction that this will bring the European currency to appreciate, not only by the fears of an austerity monetary policy but also on the mixed signs from the US economy and the effect of the oil price on this.

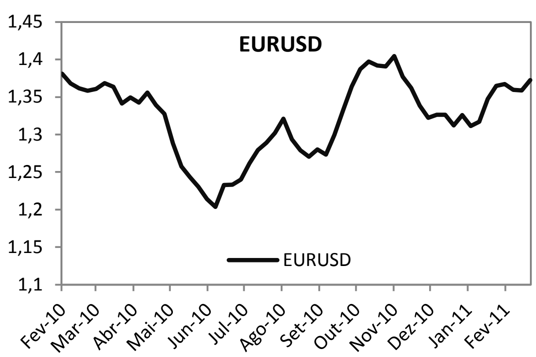
The recent rumors that hedge funds are shorting BCP, along with the fragilities of the Portuguese economy predict a difficult period for this Portuguese bank. It is therefore my opinion that a short position on BCP will yield high returns for investors this month.

Finally, the iPad 2 is out, and what a better prospect for Apple than Steve Jobs presenting it in their release conference. Thinner and faster than ever, this will be the main driver of Apple stock this month.

Trade Summary

Long 100%: EUR/USD
Short 100%: Millennium BCP
Long 100%: APPLE

Asset Class: FX & Equities
Region: US & Europe



Diversifiable Picks

Tomás Gorgulho

Trade Summary

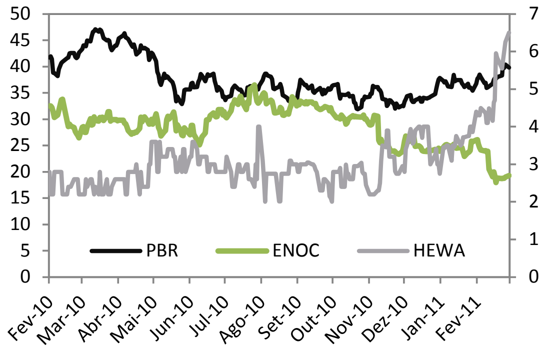
Long 75%: PBR (SL:38; TP:44)
Short 50%: HEWA (SL:6.7; TP:5.6)
Long 75: ENOC (SL:17.8; TP:22)

Asset Class: Equity
Region: US

Long Petrobras – PBR US - The strongest buy for this stock is based on a superficial technical and fundamental analysis. PBR's chart gives us a handle position in a cup-and-handle classic pattern. Handles usually take longer to form, but I believe the higher oil prices brought on by events in the Middle East and North Africa have accelerated the process, jumping up to the future $46 rang hikes. On the fundamental side, PBR last year net income increase almost 20%. Considering the production growth it has shown in the past, the political convergence and its future prospects, PBR is *cheap* in relation to the 10 PE.

Short Healthwarehouse.com - The reasoning behind such position is majorly related to the bizarre behaviour of this stock in the previous months with incremental hikes reaching 100%. At current levels HEWA commands an enterprise value of more than 10x revenues, compared to major competitors. High debt commitments and poor last quarter operating results substantiate the trade, as well as hedge funds and investors pull out.

Buy EnerNoc - The demand response industry is just taking off, and EnerNOC's growth has been exploding. Regulation and mismatch results managed to send EnerNOC down 25% in the past month, giving long-term investors an opportunity to get in to this disruptive company at a good price.



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