The NIC Fund

Student-run Virtual Fund

February 2011

Nova Investment Club

www.novainvestmentclub.com

Andre Fernando
andrefernando@novainvestmentclub.com

Filipe Sodagar
filipesodagar@novainvestmentclub.com

Nuno Luís
nunoluis@novainvestmentclub.com

Tomás Gorgulho
tomasgorgulho@novainvestmentclub.com

Market Outlook

Markets are moving in the sidelines, while investors waiting for developments on the themes of European sovereign crisis, political uncertainty in the Middle East, and proactiveness of central banks in tackling mounting inflationary pressures, before making bold moves in their portfolios.

For the upcoming month, we see equities in DM strengthening, as the round of deleveraging of households is now mostly underwent. A good indication is given by the recent postings of quarterly results, with most companies beating analysts consensus amid strong growth in new orders and decreasing inventories.

At the same time, an improvement in the economic environment of the US is akin to a prolonged weak USD. How? By driving imports to normalized values back up again, US consumers contribute to the overheating of EM economies. Facing inflation, local central bankers will have to hike rates, with local currencies responding with the normal appreciation movements. As the Fed is likely to be last of the major central banks to normalize monetary policy, this effect is likely to hold against major crosses.

Portugal and Spain will continue to be testing markets, as these economies look to renew maturing debt at sustainable costs. Over January, seemingly political agreement among EU members is contributing for a lower cost of funding in the recent auctions. The expectation of concrete actions to be announced in March, especially the reinforcement of the mandate of action of the EFSF to allow for direct secondary market intervention, leads us to trade on further compression of spreads.

Investment Outlook

For the upcoming month, the NIC members are focusing on the macroeconomic outlook as a basis for their trade proposals.

The outlook for mounting inflationary pressures, driven by price increases in food and overall materials, makes the report heavy on the trading of commodities. In this sense, there is also a slight shift away from emerging markets which may seem overvalued, into an investment focus on developed markets.

In what concerns the main sectors, there is a clear bet on energy markets, the automotive industry and the technological sector, where the dispute to become market leader may originate interesting return opportunities.

On a final note, some members are betting on short-term speculation regarding the North-African crisis, where arbitrage opportunities may arise in terms of trading crude oil, as well as exploring corrections in these countries' stock markets.

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Middle East on the spotlight

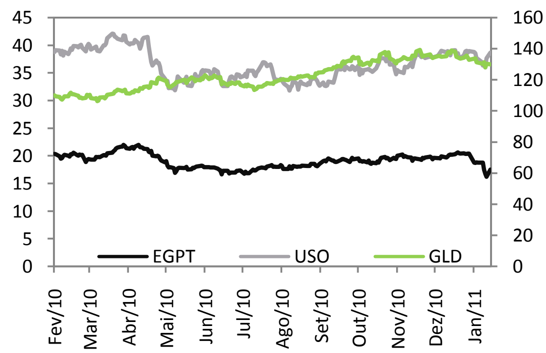
André Fernando

Trade Summary

-20%: Gold ETF
+40%: Oil ETF
+80% Momentum: EGPT ETF

Asset Class: Comm. & Index ETF
Region: Middle East

The linchpins of my strategy for February will be commodities and the recent political events in Egypt.
Albeit gold is one of the safest assets to hold when there is uncertainty in the markets, my view is that its price is nowadays a result of speculation and the decline verified in January is just the beginning of a price correction process. Thus, I do believe it is the right time to sell this commodity.
Although Egypt is not a huge player in the oil market, geographically speaking, it has the Suez Canal which is a crucial strategic point for oil trading. Therefore, as there is political turmoil in Egypt I believe that the oil price will be riding high in the next month since agents will start increasing the demand for it as they fear to have limited access to it if this situation in Egypt does not stop quickly. Hence, I go long on oil. Finally, on 28th of January, there was a sharp decrease in the Egyptian Stock Index and I believe markets will correct that movement. Yet, the situation in Egypt is unstable; consequently, I will use the momentum strategy on the Egyptian stock market to take advantage of the hot-tempered sentiment I envisage for the next month.



Full throttle on energy equities

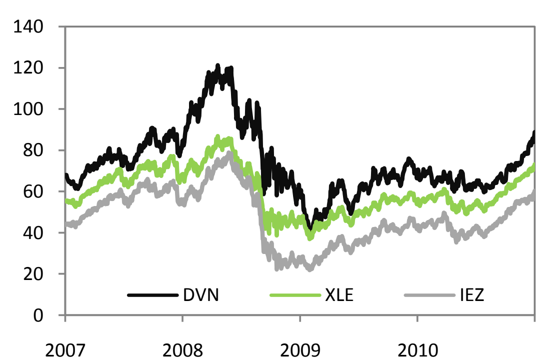
Diogo Lencastre

Trade Summary

+40%: US Oil Equip. ETF (IEZ)
+30%: Energy Sector ETF (XLE)
+30%: Devon Energy (DVN)

Asset Class: Equities
Region: USA
Sector: Energy

The most recent news on US GDP riding high contrast with the rest of the western world. Europe is fully focused on its itchy peripheries while central economies see a slow recovery based mainly on exports; the UK defrauded expectations on economic data for last quarter by far, putting the blames on bad weather; and Japan seems to have dropped from the confidence peak induced by late summer measure taken by the central bank, with rating agencies pushing their reputation to historical lows.
Provided with this scenario, I focus on the US economy, and bet on equities strongly under the rationale that all other asset-classes are over populated: commodities face a bubble that can burst anytime, credit and debt present too much risk even for the absurd yields they are paying, and currencies are still in the turmoil of a situation of near-war.
My recommendation is therefore a long only equity strategy focused on the energy sector, through two ETFS and a stock pick. This is, in my opinion, the sector that most will benefit from the economic takeoff, and is relatively cheap. Recent movements in the industry, namely asset purchases and integration deals further confirm my intuition.



Leverage up on Commodities

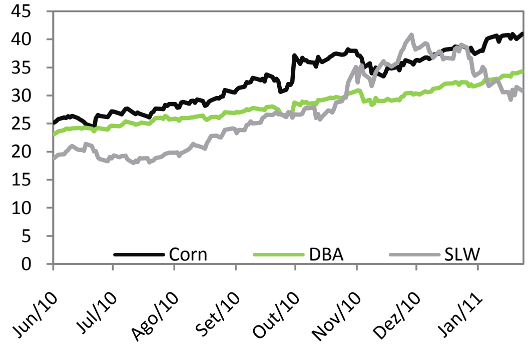
Filipe Sodagar

In the upcoming month I believe that equity markets will experience growth, but one may have a problem in understanding when to enter the markets, what is already priced in, and eventually consider an overvaluation of the emerging markets when investing. I believe that the worries about inflation may cause problems in the future, but in the short-term I believe that commodities are the product to beat. In what concerns precious metals I think that both gold and silver will still rise. Central Banks have increasingly accumulated Gold reserves possibly hedging against dollar depreciation or inflation, and in addition gold only accounts for 1 to 1,5% of the world's global portfolios and I believe that only when it reaches 4 to 5% will it constitute a bubble. Regarding silver, I have found a silver royalty trust corporation that has lock in the past several contracts to buy silver at fixed prices, and they will capitalize on those contracts this year with the rising of Silver's price. Finally I recommend investing in an Agricultural ETF and particularly in Corn, since demand for Corn continues strong and ethanol production is outpacing the forecasts.

Trade Summary

+20% Long Agriculture Fund DBA
+25% Long SLW
+25% Long Gold
+30% Long Corn

Asset Class: Commodities
Region: Global



Rising Inflation

Inês Serra

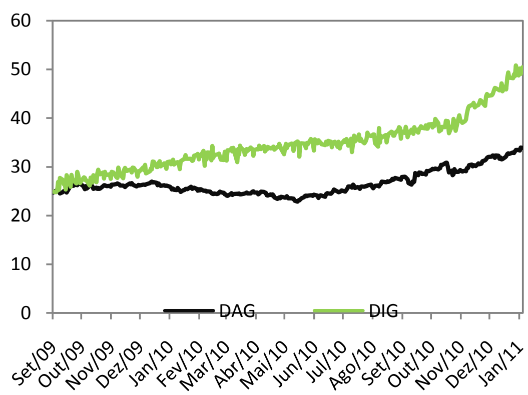
Across 2011 outlooks one common factor is the rising inflation and the 2 factors that are pointed to contribute more to this behaviour are oil and food prices.
Not only in the end of 2010 but also in this first month of 2011 we have seen prices rises in oil and agricultural commodities such as cotton, sugar and cocoa.
Therefore in this trade I want to follow the upward trend by having long positions on:

- **PowerShares DB Agricultural Double Long ETN (DAG):** takes into account the performance of agricultural commodities such as corn, wheat, soybean and sugar futures contracts plus the returns from investing in 3 month United States Treasury bills.
- **ProShares Ultra Oil & Gas ETF (DIG):** aims to double the performance of Dow Jones U.S. Oil & Gas Index SM

Trade Summary

+50%: Oil & Gas ETF (DIG)
+50%: Agriculture ETF (DAG)

Asset Class: Commodities
Region: Worldwide



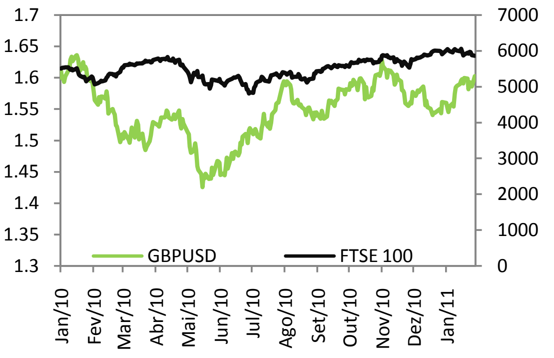
The Renaissance of the British Empire

John Valente

Trade Summary

+40%: GBPUSD
+30%: FTSE 100
+30%: Oil

Asset Class: FX, Comm. & Equity
Region: US & Europe



January was a crucial month for financial markets. Although some of the figures that were launched in the end of the month relatively to the UK economy were not the most promising, I still believe there are some very good insights to investor's future prospects. The 3,7% inflation implied in the previous year results brought a strong tension to interest rates. The expectations of high future reference interest rates in UK will certainly influence an appreciation of the pound.

I'm also bullish in the commodity market, using the FTSE to reflect this feeling, considering the high exposition of the companies that are quote in the index to basic resources that perfectly express commodities evolution.

I also want to take a position on oil, that can be justified by the constantly development of emerging markets, and awesome 2010 results of US economy. The situation of Egypt and the fear about the Suez canal will also contribute for oil appreciation.

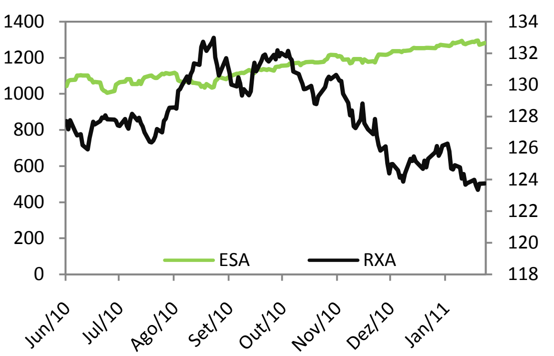
EM long gone: capturing Beta in DM

Nuno Luis

Trade Summary

\+ 50%: ESA (S&P mini)
\- 50%: Bund (2yr German)

Asset Class: Equity
Region: Developed Markets



With the recovery in EM seemingly priced, flows are moving back into DM as investors reallocate its risky holdings to capture the beta of the recovery of economies with fiscal adjustment and structural reforms already under way. Good indications are being given by recent manufacturing PMI readings: consistently above expectations for most DM and above waterline but with no surprises for EM. As this second group of economies start to overheat, monetary tightening is expected to have a sizeable effect on how manufacturers implement new investment in their structures. On the other hand, increasingly hawkish wording coming from G10 ex-US central banks supports a short-run view of price appreciation and a narrowing of the output gap.

In this context, a suggested trade to capture a broad economic recovery is to take long a position in a market-tracking index (S&P, US) and short position in a bonds future (Germany), analogous to an inflation-driven steepening of the yield curve.

Banks, Tablets and the Dollar

Tiago Lourenço

1) Long Millenium BCP

Trading close to its historical lows (0.59), and announcing earnings early in the month, BCP will benefit from the post-presidential election stability in Portugal.

2) Long Apple, Google, Research in Motion

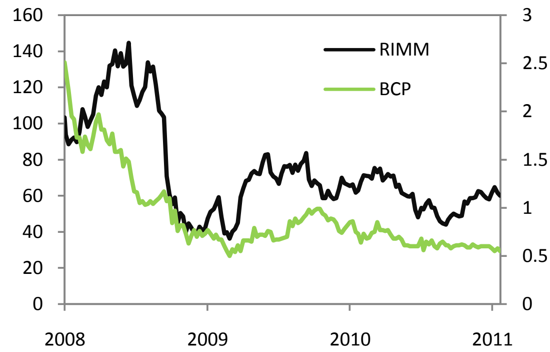
2011 is going to be the year of the tablet. The three companies will fight to struggle to define which OS/product is going to be the market standard.
Hedge market movements shorting the S&P 500 at a weighted average beta of 1.25.

3) Long USD, against the EUR

At 1.359, the dollar is fundamentally underpriced. Consumer Spending and Personal Income for December are expected to rise .6 and .4 and will set the tone for the last January close in US equity markets.

Trade Summary

1. +20%: BCP
   - *stoploss at 0.55*
2. +30%: AAPL
+30%: GOOG
+20%: RIMM
-125%: S&P 500
3. +500%: USDEUR
   - *stoploss at 1.385*



Running for food and dollars

Tiago Paixão

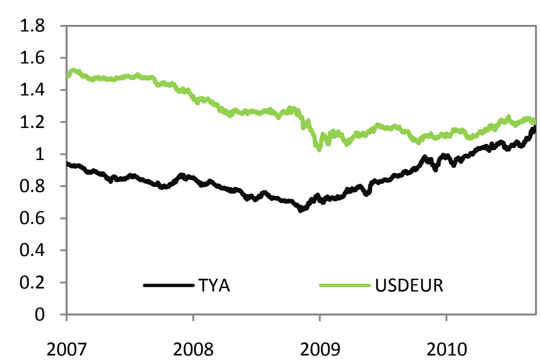
In late December the US showed some important figures concerning their recovery for 2011. The prospect for the following year is that the US economy will rebound and that the double dip is less probable. Moreover the fact that the S&P reached the barrier of the 1300 b.p. is also a good indicator for the forthcoming season. Therefore, the first part of my trade for this month consists in going long on the USD against the EUR.

The second part of my trade consists in PowerShares DB Agriculture ETF (DBA), which is an ETF that trades futures contracts in corn, wheat, sugar, soybeans, coffee, cattle and cocoa. Food prices are surging and becoming more volatile, in part due to the supply-side. The weather in the most important exports has been crushing the crops and making the prices go up. Moreover, the expansionary monetary policy of countries such as the US and even China created inflationary pressures that will also reflect in the food prices for sure.

Trade Summary

+50%: USD/EUR
+50%:Agriculture ETF (DBA)

Asset Class: FX & Commodities
Region: US & Europe



Betting on recovery

Tomás Gorgulho

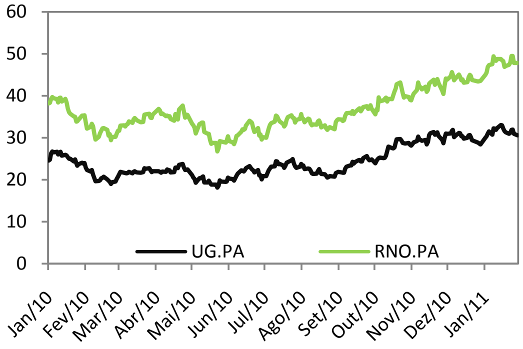
A lot of investors perceive and even entitle 2011 as the "year of recovery". After a worrying final 2010 where the market players repeatedly punished European markets, betting on the Euro deterioration as a consequence of peripherals inappropriate heath and compliance. This new year opening seemed to be very promising for the domestic equity sector and peripherals restructuring. I'm totally bullish on an adjustment of the economic cycle for Europe, looking for opportunities that emphasize this feeling. Therefore, I will go long on the European EFT of basic resources (IS shares basic resources (EXV6:TH). The behaviour of this particular ETF in the last few weeks showed a clear underperforming path when compared to the European markets evolution.

I also want to open a position on the auto sector. Global auto fundamentals appear well supported by growth in major auto markets such as China and US. Fundamental quantitative analysis allowed me to identify Renault and Peugeot as higher prospects.

Trade Summary

+50%: STOXX 600 ETF (EXV6)
+25%: Peugeot (UG.PA)
+25%: Renault (RNO.PA)

Asset Class: Equity
Region: Europe



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The **Nova Investment Club** is:

André Fernando | Corissa Koopmans | Diogo Conceição
Diogo Lencastre | Filipe Sodagar | Inês Serra
John Valente | Jorge de Mello | Leonor Ladeira
Leonor Santos | Mariana Marques | Martim Cantante
Nuno Ibérico | Nuno Luís | Ricardo Antunes
Ricardo Barahona | Tiago Lourenço | Tiago Paixão
Tiago Palma | Tomás Gorgulho

nic@novainvestmentclub.com

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