The NIC Fund

Strategic orientation for November

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nic Nova Investment Club

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Overview of Performance in October

October was a month of astounding wealth premium for the NIC fund. The fund has tracked an escalating path, which started a bit shy with an overall return of 2.8% in the first week, but at the end of the month translated into the concretization of the expectations and prospects of the members, resulting in 6,6% overall return.

The relevant benchmarks, S&P and EEM registered a sharp decrease (almost 6% in both cases) comparing to the previous month, whereas the PSI20, building on the results of the two last weeks of October, shown an incredible upward trend (from 0,6% to 6,3%). Finally SX 50 recorded a tiny swell when contrasted with September.

In what risk is concerned, although a high level of uncertainty dragged throughout the month in the markets, our portfolio was able to stick to the 82% (annualized) volatility measure, mostly due to high diversification effects. Currency hedging also contributed for this stable over-performance, since the EUR/USD rate climbed 73 basis points during the period, which could have cut heavily on our gains.

At the individual level, all members' strategies posted a positive absolute return contribution ranging from 0,2% to 31,1%. Diversification was king.

Prospects for November

This week's tone is set by the anticipation of the FOMC meeting on Wednesday, where the Federal Reserve will discuss the implementation of a new round of asset purchases with the intent of stimulating the economy (the so-called Quantitative Easing 2). Nonetheless, the excess liquidity and weakness of the USD to be introduced by a new round of quantitative easing is seemingly already priced in the market: equities are trending strongly, with the S&P 500 gaining over 12% since September; the EURUSD was Tuesday down over 1% and trading above the 1.40 levels; an overall movement driven by the USD, with the Dollar Index now at the lowest value in a year.

With the excess liquidity in the US market and consequent overall weakness of the USD, most asset classes have rallied strongly. Focusing on commodities, which are denominated in USD, this meant a strong increase in prices that is not necessarily driven by fundamentals. This means that most emerging economies are now not only facing the prospect of having a currency that is trading above historical levels against the USD, the increase in consumption prices is creating expectations of inflation for the short term, which consequently will lead to currencies appreciation. In this sense, attentions will be drawn to Portugal and Greece. With the financing spreads over Germany at record levels, the countries saw themselves forced to take severe austerity measures. The fiscal contraction can compromise growth. Many observers suggest that, particularly in the Portuguese case, structural reforms are the only rescue.

Next week, attentions will be drawn at the 5th G20 Summit in Seoul, South Korea, which will take place on the 11th and 12th. FX will be high in the agenda, with the world leaders giving extensive focus in the avoidance of a possible currency war, as the emerging economies have been constantly intervening to stop currency appreciation in an atmosphere of dollar depreciation over the last two months.

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US the bull *vs.* PT the bear

André Fernando

The Quantitative Easing (QE) issue has given rise to a hot discussion after Ben Bernanke's speech on October 15th since he declares that the FED might buy long-term treasuries, therefore undertaking a second round of QE in November.

I believe that the plan of purchasing bonds that may be conducted by the Fed will directly lower yield curve mainly in the belly and in the long-end. Consequently, the rates on mortgages, corporate debt and other loans pegged to the Treasury securities will also drop. This makes loans even cheaper and eases the access to credit conditions, promoting investment and spending, and thereby stimulating economic recovery. Moreover, I think that QE will also play a crucial role in "expectations management" since the use of this non-conventional monetary tool will raise the optimism of economic agents as there is more money available to spend.

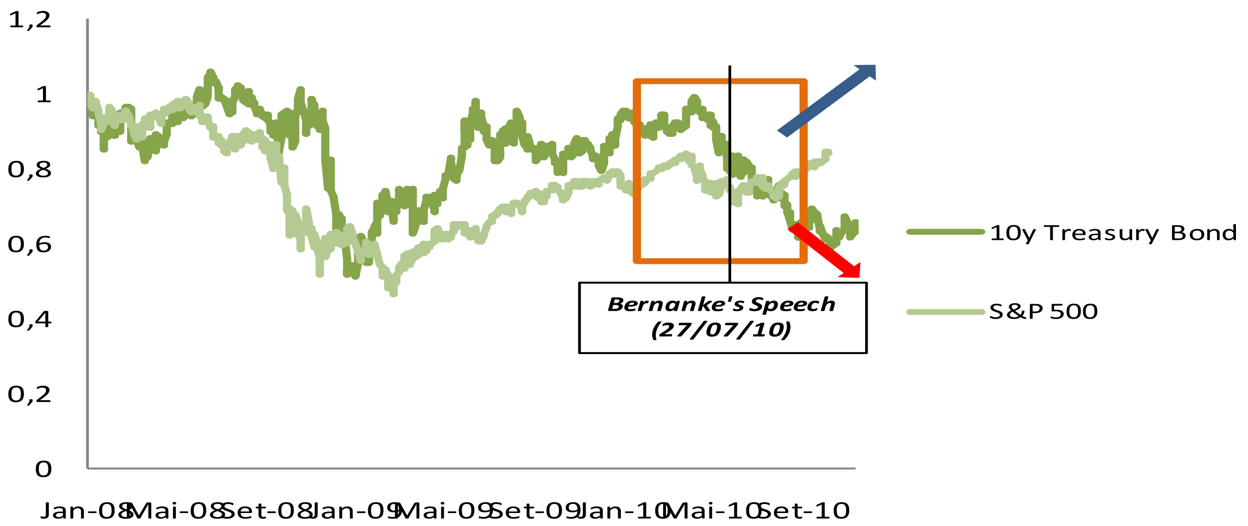
Based on this reasoning I the trade conceived is: I go long on the S&P 500 and I also buy the 10Y Treasury Bond.

Trade Summary

Asset Class: Equities & Fixed Income
Region: US & Portugal
Long-short

Positions

+ 100%: S&P 500
+ 100%: 10Y US Treasury Bond
- 100%: PSI20



Currency winners

Diogo Conceição

Last month the eyes of the world were focused on the American government and FED actions. QE II seems to be the new FED approach to foment and boost US economy.

Now that the Fed uncertainty has passed we can focus on what to buy and what to sell. The obvious impact of this QE policy of the FED is on currencies and this is why I am choosing currencies as the asset to bet on. As yields fall as a result of FED's measures and funds start selling Treasuries then surely they will rotate into Emerging markets. Thus I my strategy comprises:

Buy

RUB (Russian Ruble) - attractive valuation for being one the greatest beneficiaries of higher commodity and equity prices.

TRY (Turkish Lira) - improving growth/inflation mix makes it very attractive.

INR (Indian Rupee) - Widening interest rate differentials, easing inflation should drive further appreciation

Sell:

USD - The combined QE and reinvestment program is a massive liquidity injection, which should lower the value of the dollar.

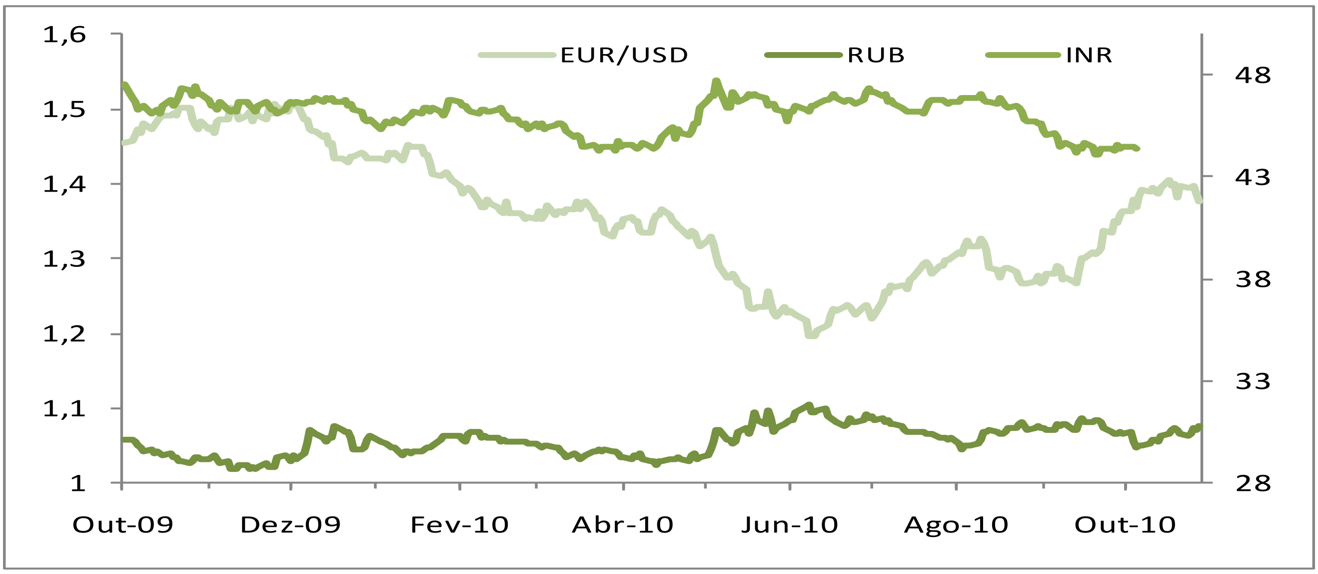
EUR - Peripheries are under pressure again, expect Ireland, Portugal and Greece to remain under scrutiny, making investors avoid investments in this zone and driving down the EUR.

Trade Summary

Asset Class: Currencies
Region: Russia, Turkey, EU, US
Long-short

Positions

+50%: Russian Ruble
+50%: Turkish Lira
-50%: USD
-50%: EUR



Praying for (dis) agreement

Diogo Lencastre

This month I will opt for a strategy of long-short equity positions, reflecting the outcome I expect for major events some companies will face short. First I will make reference to a company that shown consistency and stability during the current economic crisis. Tesco, the famous global grocery and general merchandising retailer - the third-largest retailer in the world measured by revenues and the second-largest measured by profits - has been presenting a boosting trend since the crisis, which I consider that will preserve for a couple of months. Looking at fundamentals such the picture seems to confirm: P/E is currently 13,65 against an average of 27,45 for the sector; ROE is as high as 18% and Free Cash Flow has had an impressive evolution in recent years. Tesco is also in advanced discussions to buy 61 stores in south-east Asia from France's Carrefour supermarket chain for about $1bn. Acquiring Carrefour's stores would significantly expand Tesco's Asian operations, which include outlets in Thailand, South Korea, China, Japan and Malaysia. Tesco's biggest Asian market is South Korea, with sales of £4.2bn last year.

I perceive this phenomenon of seeking for the presence in the fast-growing Asian markets as crucial for boosting the retailer to the top. The retail Sector ETF also enhances my strategy, and the high prospects for this industry.

On the other hand, I am bearish on Human Genome Sciences, a biopharmaceutical corporation with a long record of growth. This month will be crucial for the company, since the Food and Drugs Administration, will meet next on the 16th with HGS to discuss and approve the benefits and production of Benlysta, a proposed lupus treatment from HGSI and GlaxoSmithKline (GSK). I believe the speculation surrounding the event will cause stock price to skyrocket on approval expectations, but probably the meeting will reflect a negative consensus, halting shares to all time lowers.

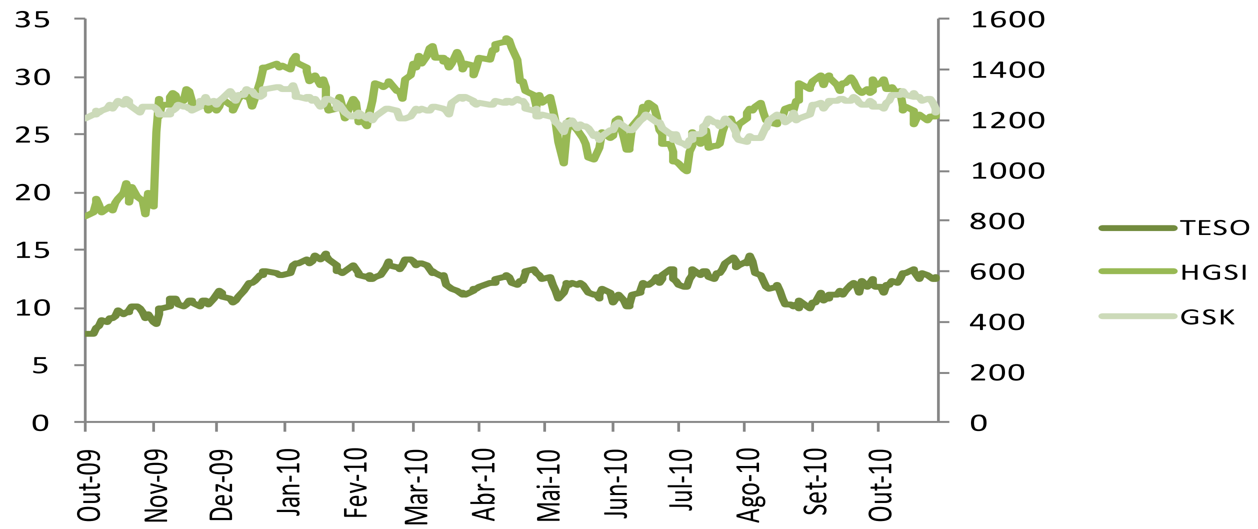
Finally, to reflect my feeling about QE2 in the USA, I decided to ran away from the obvious and short municipal bonds. The siatuation in many american states has been deteriorating, namely in big fat California, and I believe that the effect of this liquidity injection will wrosen it even further, making yields skyrocket and bringing down bond prices.

Trade Summary

Asset Class: Equity only
Strategy: Announcement related Long-short

Positions

+50%: Tesco
+50%: XRT
-50%: Human Genome Science
-50%: Barclays Municipal Bonds Index



Mr. Bernanke's QE2

Filipe Sodagar

The Federal Reserve's chief Ben Bernanke revealed an increase in terms of money injection in the US economy, also supported by the Central Bank's announcement of the new bond buying program. For Bernanke, the $600 billion bought in Treasurys are already proving to be efficient since the stock prices are rising and long-term interest rates fell, since investors realized that the Fed was launching a new Quantitative Easing (QE) program.

Fact is that as expected, with more money floating in the economy, at least in the short-term, one expects the stock market to perform well. In this case I would suggest a long position in the Power Shares QQQ Trust (QQQQ) since people feel prompted to invest in the stock market, and they usually go for tech stocks. In terms of particular stocks, I have cherry picked two companies that may profit for the QE policy in place:

Assured Guaranty (AGO): Insurance of mortgages and municipal bonds. They dominate the sector accounting for 97%, whereas the other 3% belong to Berkshire Hathaway. With more money injected there will be less municipal defaults, and since Treasury Yields are very close to zero, the demand for municipal bonds will increase.

Lender Processor Services (LPS): Provide technology and data to banks to process mortgages. QE should relate to more lending, and therefore increase of mortgages meaning that LPS will have an increase in the demand for their services.

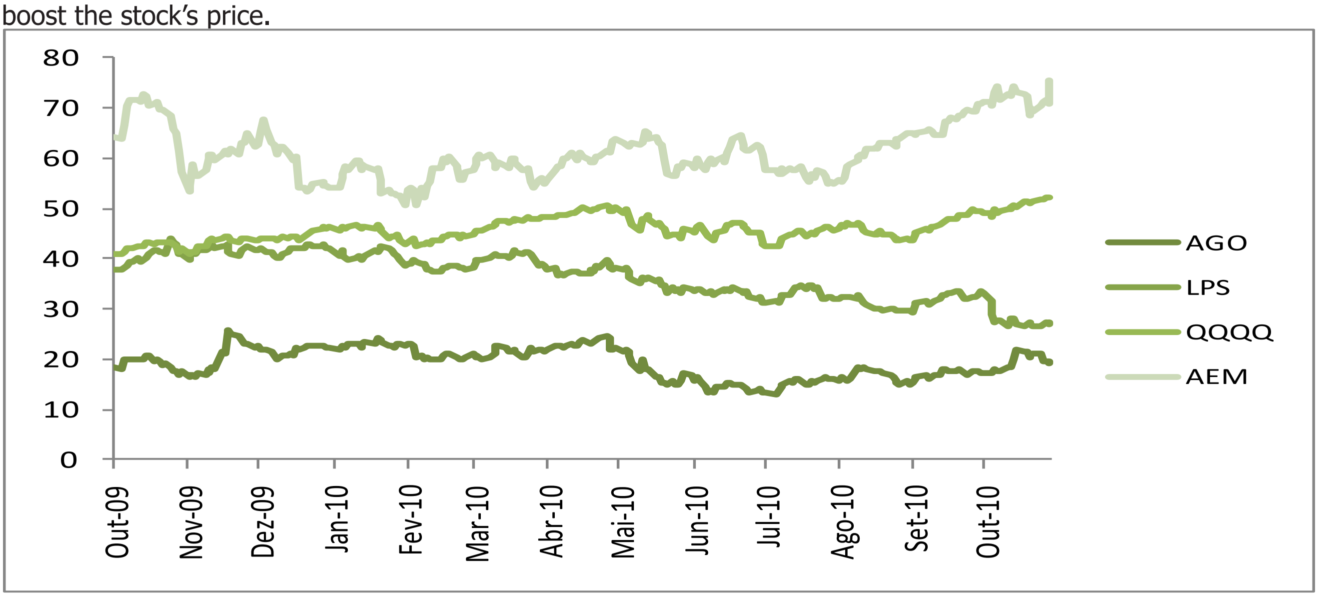
In addition, due to the QE one can expect the dollar to remain week, even though Bernanke does not admit it up front, it is a clear consequence that cannot be dodged. With this in mind, one can expect that gold will keep rising and that the speculated gold bubble will not burst in the upcoming month (time horizon for the Trade). Also taking a look at how much gold investors are holding in their portfolios, as opposed to looking solely at the price, one can see that gold accounts for less than 1%, and when it is near the 4% - 5% mark will it have reached a top. Therefore I recommend investing in the SPDR Gold Trust (GLD) and Agnico-Eagle Mines Limited (AEM) due to its recent record performance (due to high gold prices) and completion of several projects that should boost the stock's price.

Trade Summary

Asset Class: Equities & Commodity
Region: USA
Strongly Bullish

Positions

+30%: Power Shares QQQ
+20%:Assured Guaranty
+5%:Lender Processor Services
+30%: SPDR Gold Trust
+15%: Agnico-Eagle Mines Limited



Commodities take the bigger picture

Inês Serra

Commodities outlook seems to be bright for the next month. To take advantage of numerous price targets above the ones that are being traded now, a simple strategy with ETFs can be made.

As we know Copper can be used in several electronic appliances, wiring of buildings and piping. China consumption of this metal has been increasing since its population is above 1 billion and the persistent growth of their industries requires copper not only for production but also for their construction needs.

Since last August when QE2 started to be a reality, oil has been reaching past highs. There might be a good perspective for this commodity so the PowerShares ETF is a great option to go long on oil.

Another commodity that has seen a great demand increase not only from China but also from India is Coal. This is an extremely important resource used to power generation and to produce steel. The demand is expected to grow in order to achieve the levels of industrialization aimed by these countries. I intend to apprehend this demand increase with the Market Vectors Coal ETF.

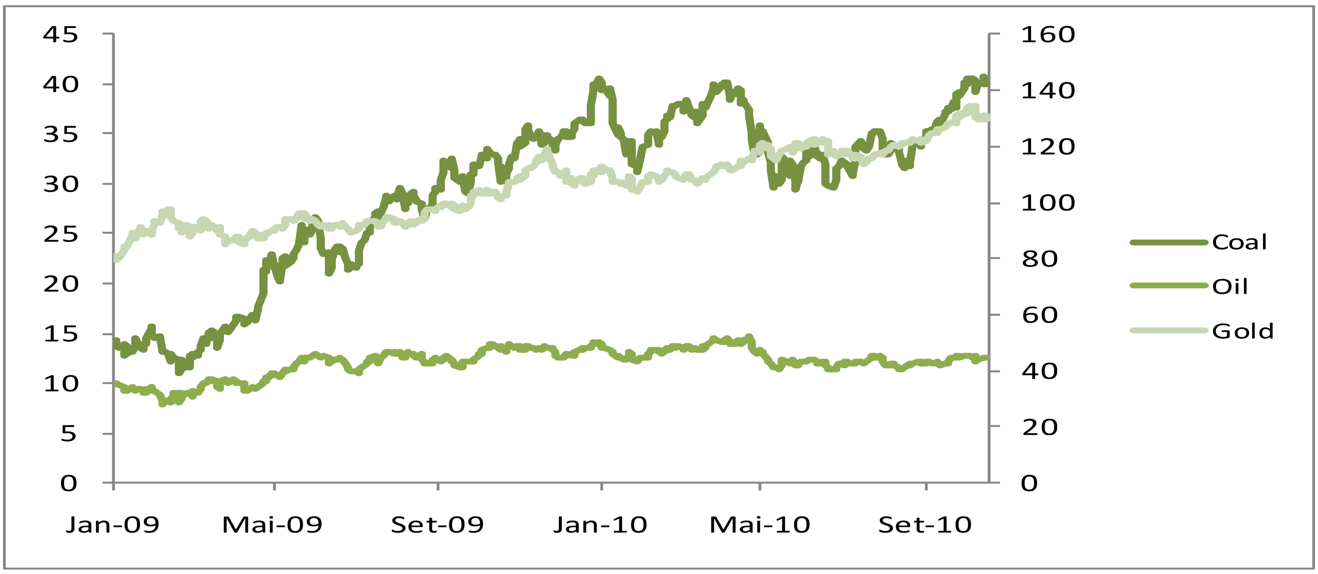
There are some investment banks who advocate that Gold is likely to rise to roughly $1.600 in the close future. Since the price is now around $1.400 there is potential grow and return. Opting by the very first and extremely popular SPDR Gold Trust ETF I expect to capture this growth.

Trade Summary

Asset Class: Commodities
Region: Global
Sub-class: Metals & Energy

Positions

+20%: Market Vectors Coal ETF
+20%: PowerShares DB Crude Oil
+20%: First Trust ISE Global Copper Index ETF
+40%: SPDR Gold Trust ETF



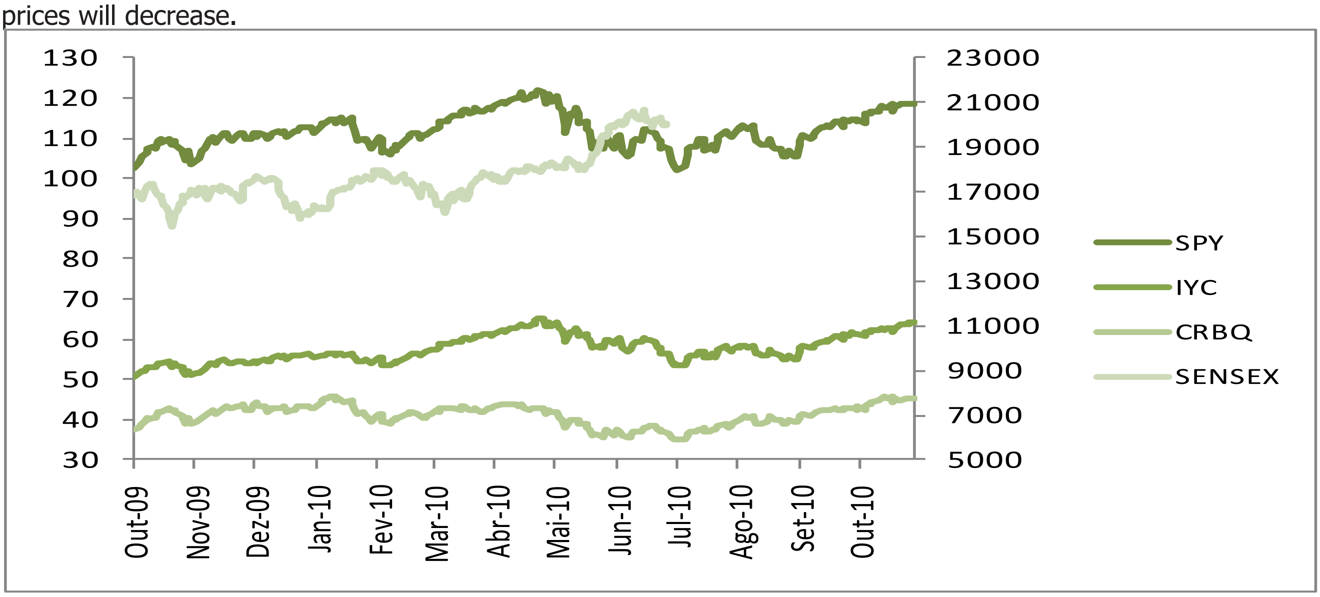
US - a safe place to land?

John Valente

Today, I heard that employment in the U.S. rose in October for the first time in five months, a sign that businesses may be starting to gain confidence in the prospects for a faster pace of growth. We also assisted to gains in labor hours which can boost the household spending. Federal Reserve policy makers announced this week a second round of large-scale asset purchases in a bid to boost growth. I believe that the profits of the American companies will continue to increase and any type of correction from the markets will be very short.The S&P performance in the previous month has performed far from its status. I strongly believe in the recovery of the world's largest economy and that's why I am going to take a long position in some ETF's such as SPRD S&P500, ishares Dow Jones US Consumer Services Sector Index Fund and Nasdaq composite Index

Furthermore, I would like to emphasize India's situation. Coal India, the world's number one producer of the fuel, surged 34 percent after selling $3.4 billion of shares at the top of the marketed price range. Investors are cheering the Coal India IPO and this will have a positive impact on the Bombay Stock Exchange's Sensitive Index (Sensex). Also, investor's feelings became bullish on expectations of continued inflows following the US Federal Reserve's decisions in QE II. According to several analysts, foreign inflows will continue to accelerate and economic growth will continue to look "robust". This year, the Sensex have registered a 20% rally, which makes it the best performer among the world's 10 biggest stock markets and I am confident that Indian stocks will continue to have sustain gains due to the positive macro-economic environment.

Finally, I would like to make a long position in the Thomson Reuters/Jefferies CRB Index (TR/J CRB Index), which comprises 19 commodities (Aluminum, Cocoa, Coffee, Copper, Corn, Cotton, Crude Oil, Gold, Heating Oil, Lean Hogs, Live Cattle, Natural Gas, Nickel, Orange Juice, Silver, Soybeans, Sugar, Unleaded Gas and Wheat). In the last few months, analysts started to make reference to the implementation of QEII by the FED, and the implication of such policy in the world economy. Commodities would be certainly a good hint, since this policy will deeply influence dollar depreciation and consequently spark commodity prices to a sky walking trend. I truly believe Gold prices will continue to rise until Fed policy is normalized, although I think that in few months the prices will decrease.



Trade Summary

Asset Class: Equities & Commodities
Region: USA, Global
Strongly Bullish

Positions

+50%: Reuters/Jefferies CRB Index
+25%: Sensex
+25%: CCMP, IYC, SPY

Betting on default

Jorge de Mello

For the forthcoming month I propose a long short equity only strategy. The first tranche seems quite obvious, and consists in shorting the main Portuguese stock index PSI 20 through an ETF (PPP.LS). The reasons for this view are:

- Political instability;

- Higher than ever debt interest spreads;

- Increasingly low levels of HDI;

- The feeling that an intervention by the IMF will not happen, at least for now.

The second tranche is to buy shares of Nedbank, one of the major South African Banks. To better explain the reasoning behind this trade I will give some evidence.

In august this year, HSBC announced its intention to acquire a stake of 70% in this bank. From these stake, 52% would be bought to a South African company named Old Mutual, which is currently struggling against a financial hole circa €2,9 million which it has to solve. The problem is that this week HSBC announced the retreat of its proposal, saying it is no longer interest in this acquisition.

In my opinion however, Nedbank will have to find another interested buyer, under the risk of serious financial distress or even bankruptcy. And when this happens and the acquisition takes form, share will obviously climb considerably in value.

Trade Summary

Asset Class: Equity only
Region: Europe & Africa
Strategy: Pair-trade

Positions

+100%: Nedbank
-100%: PSI-20

Getting the "easing" out of oil

Mariana Marques

With the Fed's decision to inject liquidity in the financial markets with the goal of stimulating the economy, last week rally in the oil price was an evidence of investors' enthusiasm for oil. While a boost in lending and in the business activity is expected, the USD is likely to weaken with the influx of USD. In the current scenario of fear of inflation, investors are driving their attention to commodities as a way to store value.

Crude futures have been progressively trending upward, which enhances the general belief that oil prices would climb by the end of the year, further increasing retail gasoline prices. The main driver of oil prices will be financial speculation, rather than the economic fundamentals of supply and demand. Still, stronger-than-expected growth in demand for oil has been one of the causes of the upward trend.

Companies exposed to crude and coal are also expected to have a good next quarter. Moreover, the foreseen economic recovery is likely to trigger an increase in oil prices as consumption increases. Therefore, an appropriate strategy would be to go 50% long on the Energy Select Sector SPDR ETF, which includes S&P companies involved in the oil sector.

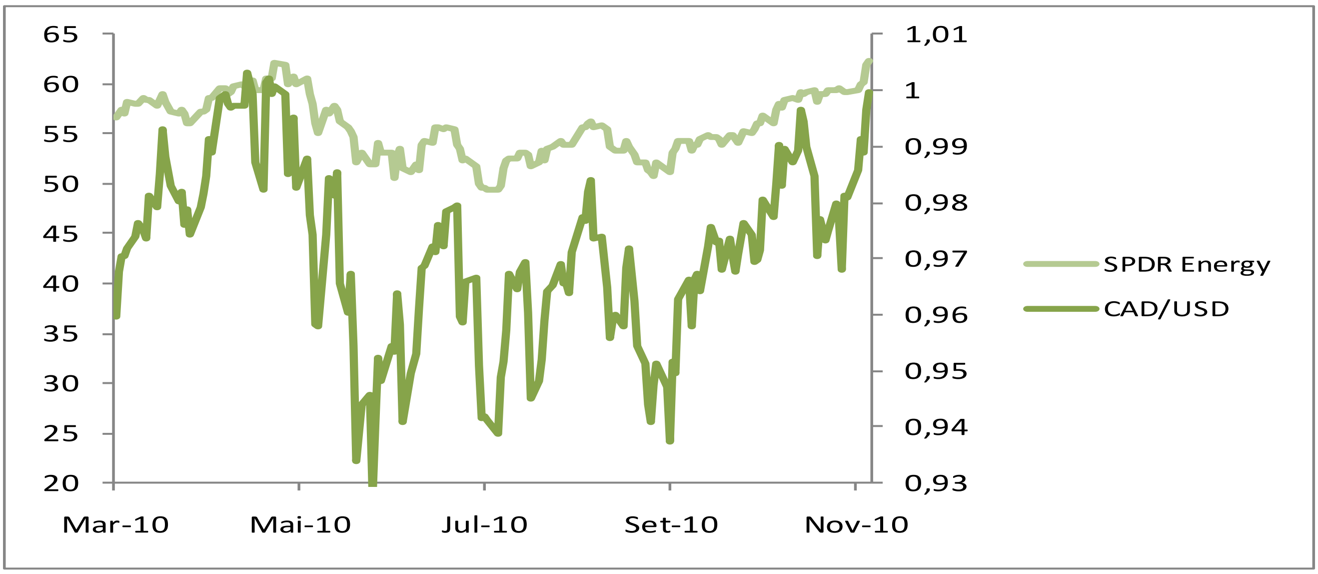
Canada, one of the world largest producers of crude oil, can indeed benefit from this upward trend in the oil sector. In fact, there is evidence of a high correlation between CAD oil prices. Besides servicing US demand for oil, Canada's vast oil resources are servicing part of China demand. Since predicting the next market move is the key to make money, I suggest a further bet in the oil sector, by going 50% long in CAD/USD.

Trade Summary

Asset Class: Currency and Commodities
Region: USA & Canada

Positions

+50%: Energy Select Sector SPDR ETF
+50%: CAD/ USD



Scandinavia in the sun light

Nuno Luís

When central banks are pumping money into the economy, it is a world of semi-predictable returns we are living in.

The last quarter of 2010 does not seem to pose big risks, either to up or downside, with investors eyeing nothing structural but a mild deceleration of the world economy for the end of the year. The surge of USD flooding the market with the QE2 is expected to sustain prices inflated across major asset classes, also benefiting from a reversal from flight-to-quality to return seeking trades

The weakness of the USD together with the necessity to look for returns elsewhere is expected to benefit equities, credit markets and high-yielding currencies, which tend to rally together when the risk appetite is high.

In my trade for this month I will look for the last of the asset classes mentioned: the low yielding USD (remember the 2yr at 0.35 and the 10yr slightly above 2.50) is expected to continue as currency to fund carry trades, at least as long as the Fed keeps assessing "softening economic conditions" and keeps in place the 75bn / month plan to intervene in the market and abide for its growth mandate.

In this context, I expect the Nordic currencies (SEK, NOK, DEK) to post sizeable gains in the forecoming months, driven not only by the weak USD but also as a result of a structural trade on the resilience of these economies. The trade is also fueled by a climate of risk-on, which usually benefits these crosses.

Other than going for the directional trade, I want to sell vol. on these currencies, as i expect the underlying to rally in a consistent fashion. To do this I want to sell a 5% otm (out of the money) call and a 5% otm put in each of the crosses against the greenback (a strategy known as a 95-105 strangle).

This is to be true as long as the USD value is being debased (for the EURUSD, Eurozone problems will be much of a burden for the euro to keep trading around current levels and thus I look for a figure on the range of 1.30 to 1.35 by 2Q11). Then, the structural adjustments to be made make be nothing less than strongly bullish on vol., but this is up to another issue.

Trade Summary

Asset Class: Currencies
Region: Europe & USA
Strategy: Volatility "95-105 strangle"

Positions

Sell:
5% OTM call on Nordics against USD
Buy:
5% OTM put on Nordics agains USD

PT and US - different fates

Tiago Lourenço

My monthly trade suggestion is based on two different ideas. First, I'm bullish on equities in general, with a particular focus on the US. QE2 coming out $100bn above the consensus and strong unemployment drive my enthusiasm. Also, I want to be exposed to the USD (and not only on my margin deposit on S&P futures), thus I split my trade 50/50 on US equities and USD. I believe this week's summit will be highly beneficial for the weak dollar of the past months.

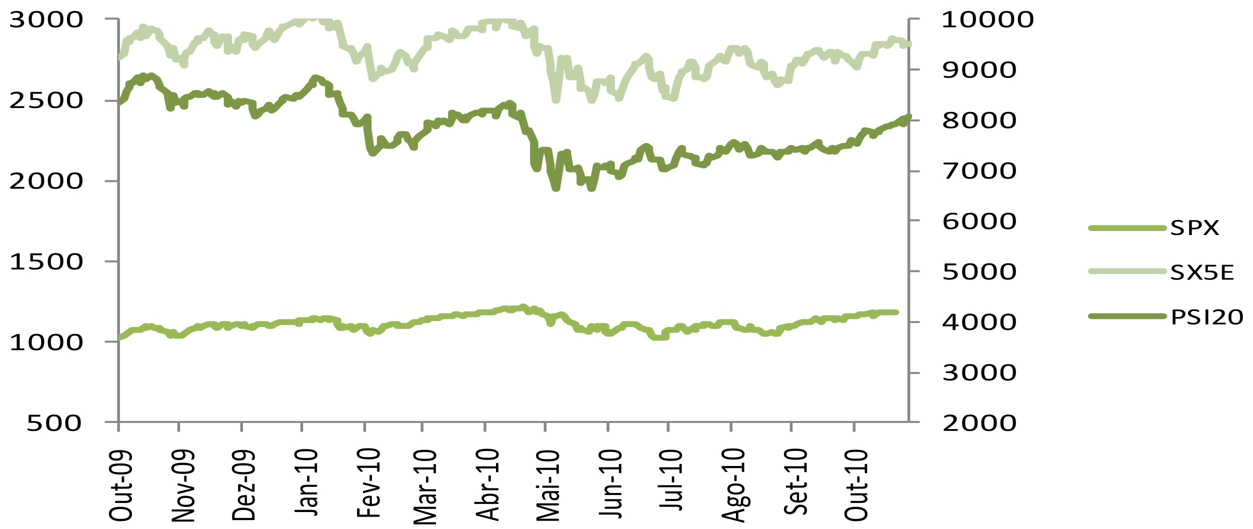
Meanwhile, the reality in Europe is slightly different. Strong Germany seems to be driving the continent, although peripherals such as Portugal are not in the same shape economicwise. I am Long Stoxx 50 and Short PSI-20 as I believe the spread will make some money in the following months. Increasing uncertainty in our country and clear incapability of the government to bring confidence to the financial markets (most IBs consider our deficit targets unachievable by 2011, under the current circumstances) drive me on this one. Our financial sector is also not in the best shape, with Fitch hitting our major banks today. Thus, I add a Yield Spread to my trade, betting that our record-high debt cost will no longer be a record by the end of the month.

Trade Summary

Asset Class: Mixed
Region: USA & Europe
Strong diversification

Positions

+50%: S&P 500
+50%:USD, against the EUR
+50%:Eurostoxx 50
-50%:PSI-20
+50%: Ger10y
-50%:PT10y



BHP soaring for success

Tomás Gorgulho

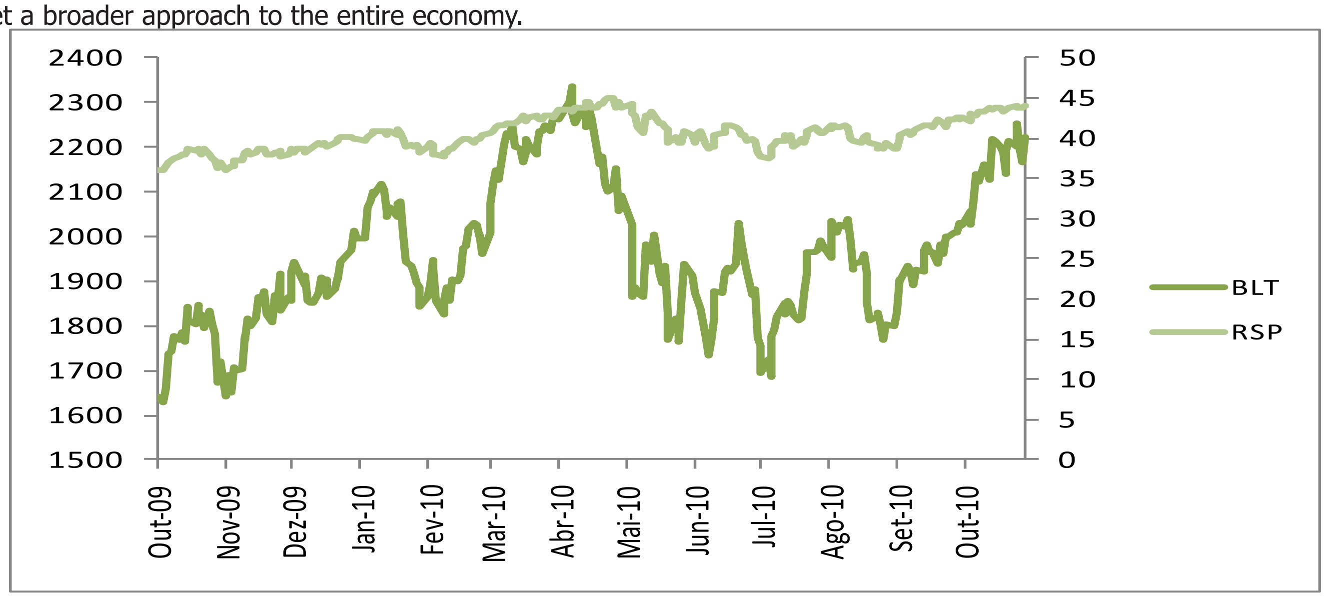
This month I will opt for a less intellectually leveraged strategy, but equally profitable I hope. I believe that the equity market will keep tracking a soaring path, since more investors/managers are now starting to invest a little heavier in the equity market. The ones that invested heavily in emerging/frontier markets and commodities in the first two quarters of 2010; in the third quarter have begun to overweight domestic equities.

I perceive that the market players continue to see strength in international equities - specifically emerging and frontier markets - as well as domestic equities, as I quoted before - specifically, the small and mid-cap sectors with an emphasis on commodities, energy and transportation. Therefore I will buy BHP BILLITON PLC (ticker: BLT LN). BHP BILLITON is an international diversified company that produces coal, petroleum, gold, titanium, ferroalloys and also nickel.I believe the share price will rise relative to the country index over the next 60 days.

This is because the stock has traded off recently, making short term valuation much more compelling. The BHP Billiton proposed acquisition of Potash Corp has been initially rejected by the Canadian Government. I think it is unlikely the deal will be allowed to proceed. BHPB has 30 days to convince the Canadian Government to change its decision – which I think is unlikely. Pressure is now on BHPB Billiton management to return excess cash to shareholders. Annalists think this could be as much as 10% in addition to the dividend.

They estimate that there is about an 80%+ or "highly likely" probability for the scenario.Estimated probabilities are illustrative and assigned subjectively based on my assessment of the likelihood of the scenario. In the U.S. I'm also bullish on the mid-cap space. The ETF that I would choose to best capture that would be the Rydex S&P Equal Weight Index Fund (Ticker: RSP)(Buy).

The Rydex Equal Weight Index fits perfectly into the overall investment approach; it allows me to invest in the S&P 500 Index with a twist: Instead of directly investing in the S&P 500 Index, which is capital-weighted, RSP is equal-weighted. This equal-weighted phenomenon can be seen as a hedge or controlled exposure, since the investor can avoid specific sector concentration and get a broader approach to the entire economy.



Trade Summary

Asset Class: Equity only
Region: USA & Canada
Strategy: Announcement related

Positions

+50%: BHP Billiton
+50%: Rydex S&P Equal Wiegth Fund