The NIC Fund

Trading Strategies update for October

October
2010

Nova Investment Club

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September Overview

Diogo Lencastre

September was a month of poor performance for the NIC Fund. After a bright start lasting the first couple of weeks, things started decaying and we closed the month with an overall return of -3,73% against 0,22% for the benchmark, yielding an active return of -3,95%. This strong under performance leads us to think about what went wrong in depth, but also to look at the bright spots. The standard deviation of our portfolio for the period was 10,3%.

In the chapter of performance attribution we clearly understand the reasons for our underperformance. Although allocation accounted for a significant 1,82% positive and selection to 1,29%, return is heavily penalized by currency effects up to 6,31% (interaction is -0,75%). The conclusion we take from here is that our investment outlook was not far from true, we just forgot about the dangers of investing mostly through ETF's, which are denominated in US dollars. Most of all we believe that every single basis point lost in return, we gained in experience while trying to understand why we lost them, with immeasurable leverage.

October Prospects

Nuno Luis

It is a strange world we are living these days, one other major economic bloc (but the Eurozone) is willing to sacrifice future for current growth (as it should not be said, monetize the deficit...)

In the US, several members of the FOMC have been hinting for a new round of QE to take place in November, as households and financial institutions continue to deleverage, and the US economy fails to gain track. Exposed to the weakness of the USD, Japan and the UK are also pumping liquidity into the economy, albeit with different approaches. Having intervened to stop the appreciation of the JPY past the 82 level (buying over USD 23bn), the BoJ is engaging into its own "QE" by not sterilizing the intervention and setting interest rates to a range of 0% to 0.10%. As for the BoE, it has also been signaling in recent meetings that the current asset purchasing program may be expanded in the short term.

With markets already pricing a world with excess liquidity, this is a climate of risk-on, with major asset classes posting large gains in the past month. Gold is at all time highs, the Dollar Index has lost over 12% leading to a rally commodities, the SPX is testing the 1170 level and the Dow has breaken the important 11,000 technical.

What is in for the next month?

The US mid-term elections approaching, with the Republicans closer to gain majority in the senate, which may encompass a strong focus on cutting fiscal spending programs;

Earnings season in a corporate-led recovery;

A Eurozone running at two different gears: lagging countries undergoing fiscal tightening and Germany's industrial indicators having consistently come above market consensus;

The extent until which the ECB will allow the Euro to rise in consequence of beggar-thy-neighbor policies, after a meeting of the IMF where policymakers pledged to avoid currency wars/competitive devaluations;

Emerging markets eyeing inflation while needing to fight the appreciation of their own currencies (China, Korea, Thailand and Chile are expected to increase their rates in the next quarter);

The danger that the US QE comes smaller than expected, leading to a sharp rally in the USD and a selloff in bond markets.

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Continuity on sight

André Fernando

The effects of the deep economic downturn are still alive, not only the US but across the globe. Although there were some signs of recovery at the end of 2009, the fear of a double-dip and a deflation period is nowadays a reality. The desired recovery may be long, slow, and painful. Thus, an asset with a small beta like Gold should be seriously taken into account. World Equity Indices are underperforming in general, due to uncertainty regarding economic recovery. S&P has shyly started to trend upwards since August, nevertheless it is still below the levels it has shown before the 2008 crisis.

GDP growth seems to decelerate in the three biggest economic blocks in the world. After a period of sharp rise, inflation is again starting to trend downwards in the US whereas in Japan and the Euro Zone it is still in a positive move. It is important to mention that Japan has changed his monetary policy (weakened its currency by lowering the interest rates to an historical level) in order to enhance exports since US and China have relatively more depreciated currencies. Conversely, the Euro area is giving a positive answer to the suspicions about the block strength. Emerging markets are still growing incredibly fast; however, this tendency is likely to reverse in the medium-term. My recommendations are:

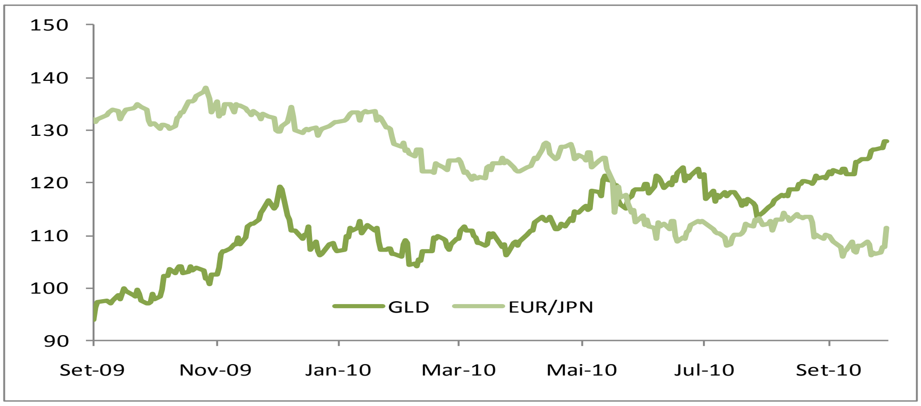
Buy Gold Shares ETF (30%)

Go Long in the SPDR S&P 500 ETF (30%)

Go Long in the EUR/JPN (20%)

Go Long MSCI Emerging Markets Index ETF (20%)

I see that the economic outlook is still underpinned with uncertainty; therefore, I think Gold is a safe bet. I think the S&P is a good bet since this index is undervalued in relation to its historical levels. Thanks to the unexpected intervention of Bank of Japan, I believe the fixed income market in Japan will face a down period. Particularly, due to the uncertainty surrounding the Japanese currency I think that it will depreciate against the Euro which is recovering after a series of austerity measures implemented in the peripheral countries (e.g. Greece, Portugal). Although China has slowed down, I strongly believe that, at least in the next months, India, South-East Asian countries (Indonesia, Philippines, etc.) and South-American countries (Brazil, Columbia, etc.) will keep an extremely high growth rate.



Trade Summary

Asset Class: Equity, Currency, Commodity
Region: Global
Instrument: ETF's

Positions

Gold Shares	+30%
SPDR S&P 500	+30%
EUR/ JPN	+20%
MSCI Emerging Markets	+20%

Coal and Copper, straightforward

Carolina Almeida (Alumnus)

Right now, the coal market is in the thick of a supply glut that's keeping prices on the low end. But few believe that this will be the case for long. Here are a few reasons to watch coal exchange traded funds in the coming months.

BlackRock's Dan Rice recently suggested that as the world grows we would consume more commodities and the prices for coal could rise from its current $60-$65 per ton to $85 per ton, along with a 300% spike in aggregate share prices of many coal producers, writes Jeff Saut for Minyanville. Gregory Boyce, CEO of Peabody Energy's (NYSE: BTU), also observed that coal is the world's fastest-growing fuel on demand. This greater demand should coincide with the growing middle class of emerging markets and their demand for more electricity.

La Nina is here, which means that it may well be a winter of extreme temperatures, says AOL News. This may mean unseasonably cold or hot weather around the country – both opportunities for people to fire up the heaters and the air conditioning, stoking coal demand.Coking coal, or metallurgical coal, may remain at elevated levels for the time being, but an abundance of steel is starting to emerge, reports Greg Hoffman for The Sydney Morning Herald. Coal producers are also becoming more efficient, generating more coal and overcoming infrastructure problems.

Forget gold for a moment and let's focus on copper instead. It'll be well worth the time…

Earlier this year, copper prices fell 25% from its 2009 rally on fears of a double-dip recession. Those fears have eased enough at least to let the commodity bound back up to $7,700 a ton on the London Metals Exchange (LME). That puts it only 3% from a 2-year high and not far from its all-time peak. Sometimes called "Doctor Copper," you could say it has a PhD in economics as it oftentimes signals strong growth trends. When countries start buying it up, they usually do so to advance national power grids, plumbing for new buildings and mass production of electronic goods.

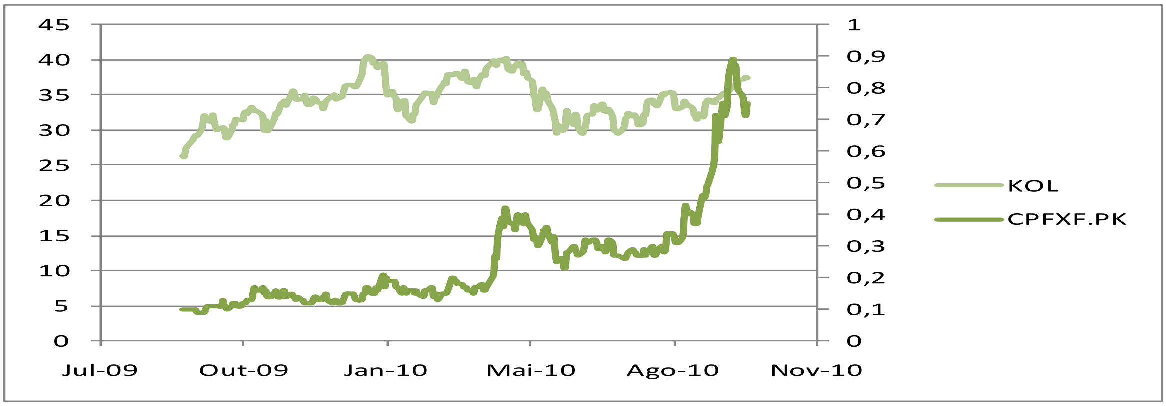
Just look at the sectors that bought the most copper last year. Construction firms used 48%, manufacturers of electrical and electronic appliances used 20%, transportation 10% and the power sector 5%. In other words, economies that can't get enough of copper are growing. And considering who's buying it up these days, copper prices should keep going up as well.

Trade Summary

Asset Class: Commodity, Equity
Sub-class: Energy and Metals
Instrument: ETF's
Source: www.seekingalpha.com

Positions

Coal	+50%
Copper Fox Metals	+50%



Oil and synergies

Diogo Conceição

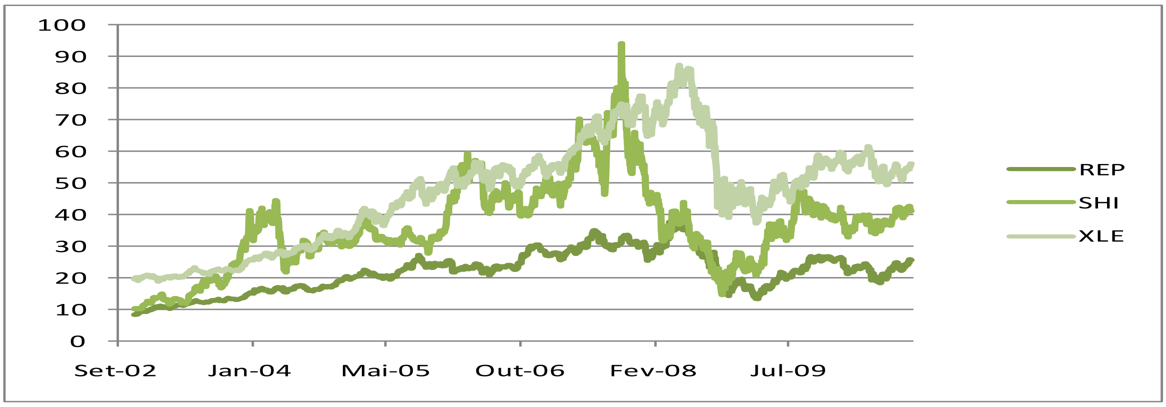
After a dearth of M&A for much of the past two years, the first half of 2010 has seen a series of start-ups of hedge funds looking to profit from higher levels of takeover activity. Companies have built up larger cash balances and the economy is still not looking particularly strong, so earnings growth will have to come through synergies. The month of August and September had already proven that this is an actual tendency, which makes us believe that October will follow a similar trend. This is why we recommend the investment in the MNA, an ETF which tracks an index designed to profit from the spread between an acquisition target's current stock value and the higher takeover price. Risks include the price being lowered in negotiations or the deal falling apart. It is a fund designed to diversify portfolios and dampen overall volatility because the strategy tends to not move in lockstep with major stock indexes.

The ETF was introduced in November 2009 and its assets are below $30 million. Additionally, my recommendation falls over the IQ Merger Fund (MERFX), which has been around for more than 16 years now, and tries to capture the same spread as MNA. For stock based acquisitions, the index strategy will typically purchase the target company and short-sell an equivalent value of the acquiring company. For cash acquisitions, the strategy can be implemented by simply buying the stock of the target company.

In subsequence of my keen interest in the M&A business, I also want to express my belief in the good prospects of two petroleum companies that just joined forces in Brazil, the new oil-world darling: Sinopec's deal on last Friday to acquire 40 per cent of Repsol's Brazilian assets. This transaction prospects very good opportunities for both companies.

Moreover, Sinopec is often rumoured as a partner for OGX, another Brazilian oil producer that may be open to such a new deal. For the Spanish group, it has now a 60% stake on a company worth $18bn. Repsol's shares are up nearly one-third since early May. If they can leverage the Brazil deal into further Chinese co-operation in Argentina and Venezuela, Repsol should be able to maintain that momentum.

To hedge the exposure to these two single picked equities, I also propose the investment in an index which tracks petroleum and natural-gas US companies (XLE). Petroleum's price rise last month, contrarily to the other sources of energy, supports my belief in this industry.



Trade Summary

Asset Class: Equity
Instrument: Stocks, ETF's
Geographical: Global
Sector: Oil + M&A

Positions

IQ Merger Arbitrage	+20%
IQ Merger Fund	+20%
Repsol	+25%
Sinopec	+25%
SPDR Energy Select	+10%

The tiger and its karma

Diogo Lencastre

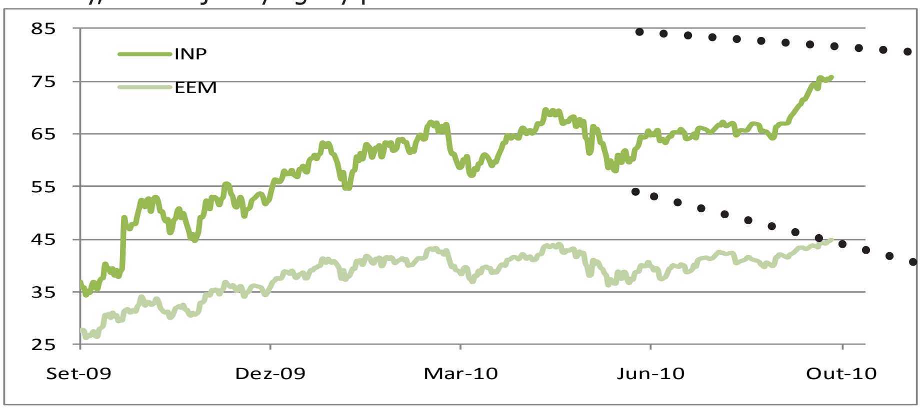
The economic trilogy developed by the US, EU and JPN is facing growing competition from the future world leaders, the emerging markets. International investors have heard their appeal, and massive capital movements have been putting into evidence the growing importance of developing economies. This shift has been abundantly fueled by the pessimism surrounding the recovery of the west, in contrasts with the still very attractive growth rates observed in countries like the BRIC. Furthermore, there has been an indirect effect strengthening these economies caused by increased demand in commodities.

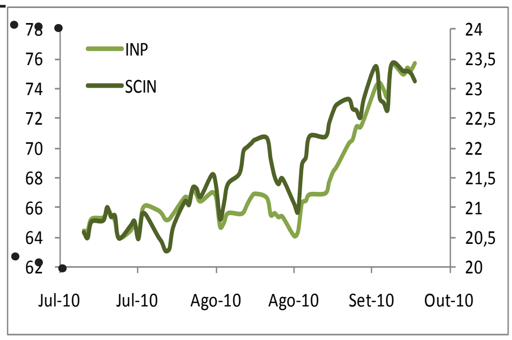
Nevertheless, evidence points to the fact that some of the emerging markets, especially Latin American ones, may face a hard time in the near future. It is argued that these countries have not yet been able to jump "from copper to hardware, from cotton to textile, and from precious metals to jewelry", meaning that they are stuck with the exploitation of natural resources.

There is one country however that has been able to jump to a higher ground in this concern, and sooner than later will overcome the expectations - India. Indians are internationally recognized for their talent and high skills, and as the government gradually stops the brain emigration, more and more companies surge with state-of-the-art high added value businesses. Furthermore, population growth in this region has been surpassing China's by large lately, and if that was not enough, the country shows no signs of demographical aging.

The strategy I propose is based on the belief that this Indian karma will be incorporated in investors' expectations during the coming months, driving equities up and probably dragging them to an extended rally. I opt for a general equity fund (INP), and a small-cap one (SCIN), hoping that they will complement each other and reduce risk through sector diversification. I perceive higher profitability coming from the latter, but its inherent higher risk and fairly short track record lead me to choosing both. I pair these long positions with a short one on Emerging Markets in general, through EEM. This way, I am partially hedging my strongly concentrated exposure to high risk equity, while taking advantage of the higher potential that I believe India has over the others.

Finally, to add-in some diversification to this strategy, I opt for a position in fixed income. What I propose is to short-sell US treasuries, at the 10 year maturity, under the rationale that rates cannot go lower than they are now. I also acknowledge that the yield curve shape is slightly low in the 10 to 15 years maturity, further justifying my position.





Trade Summary

Asset Class: Equity, Fixed Income
Geographical: India, USA
Instruments: ETF's, US Govt Bonds
Positions: Long-short (zero cost)

Positions

iPath MSCI India	+100%
EGA Emerging Global Shares	+50%
iSHares Emergging Markets	-75%
10 year US Treasury Bonds	-75%

Merger Arbitrage

Filipe Sodagar

In uncertain and volatile market conditions, it is quite common to see large and overall stable companies buying other smaller companies that are struggling in these turbulent times. It is also common to observe certain alliances and mergers between companies searching market opportunities that may arise from synergies due to the merger. It is common sense that during M&A activities (generalized cases and note specific opportunities generated by the financial crisis) we see the acquiring company paying a high premium in order to close the deal, these targeted companies will see their shares rise up to the premium level allowing for investors to buy in at a slight discount. This discount is possible due to the low probability of the acquisition failure, and if the deal goes through we see the share price converge to the offered price thus creating an "M&A arbitrage".

In 2010's first semester, the M&A activity increased around 10% when compared to the same period on 2009 and private equity firms have seen more exits in the first semester of 2010 than in the entire year of 2009. These are indicators that M&A activity is increasing and one can take advantage of that. Therefore I recommend investing in 2 ETFs, that seek M&A Arbitrage and the weights of each are based on past performance:

IQ Merger Arbitrage ETF (MNA) is designed to profit from the spread between an acquisition target's current stock value and the higher buying price: Long 80%

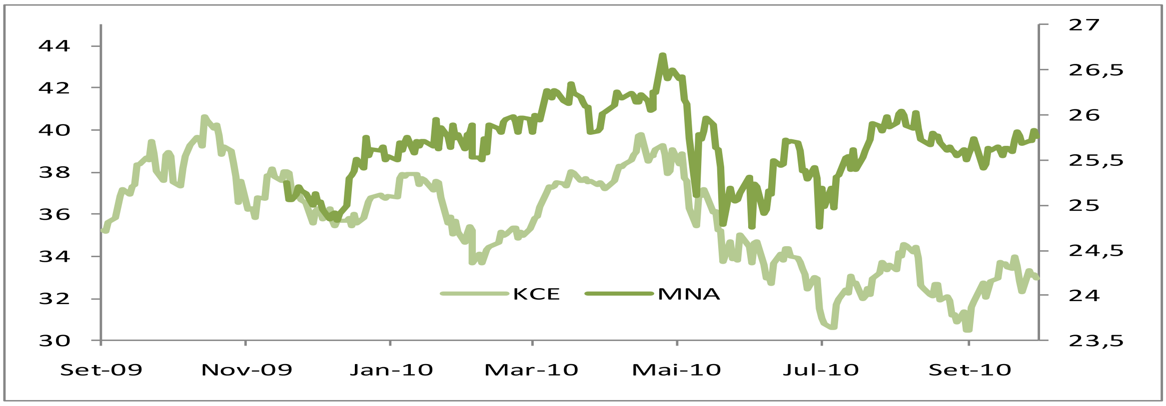
SPDR KBW Capital Markets ETF (KCE) which comprises a portfolio of stocks that gain from increased M&A activity: Long 20%

Trade Summary

Asset Class: Equity
Instrument: ETF's
Arbitrage: M&A activity

Positions

IQ Merger Arbitrage	+80%
SPDR KBW Capital Markets	+20%



Small-cap Brazil

Inês Serra

For several different reasons, I chose this combination of ETFs as my preferred strategy for the coming month of October. I believe we should go:

50% long on Market vectors Brazil Small-Cap ETF (BRF)

50% long on SPDR S&P Metals and Mining (XME)

The rationale for Brazilian Small-cap companies relies on their prospected outperformance, since they are domestically oriented and therefore not captive to the negative external shocks currently affecting the international markets.

Furthermore, focusing on the political environment, even though we are at elections context, the most probable successor of President Lula da Silva will be Dilma Rousseff, which means the continuity of the regime perceived as stability for international financial players

There is also a feeling that the real Brazil economy is at all time high, Brazil becomes the alternative to US stock mutual funds investors that fear the double dip fear of the US economy. This may afect larger cap companies even in Brazil, so betting on small cap might be the best option for this month.

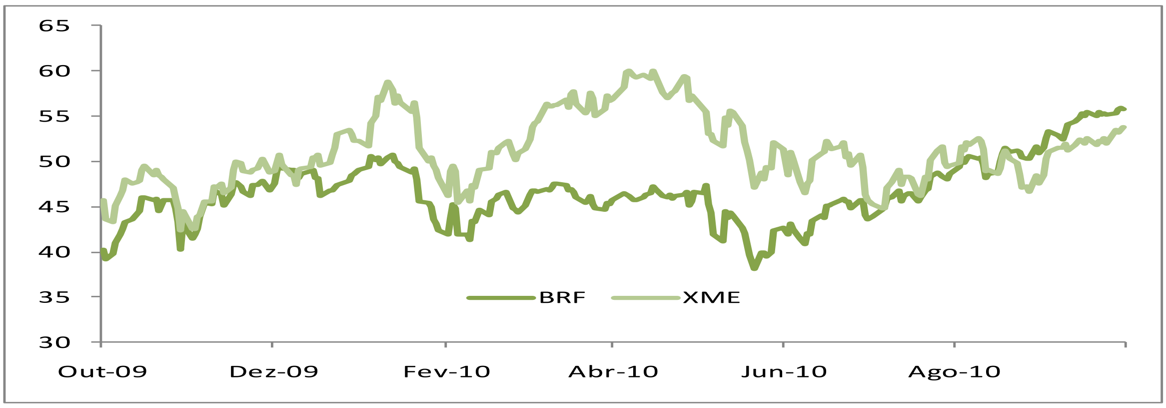
Regarding mining stocks, my belief is that they are not reflecting the underlying value of the commodities extracted due to lagging effects. This is clearly an inefficiency of the market that can be capitalized by owning the fund now, and expecting that it will reflect in the medium term the trend portrayed by commodities as the leading indicator.

Trade Summary

Asset Class: Equity, Commodity
Instrument: ETF's
Geographical: Brazill, Global

Positions

Mkt V. Brazil Small Cap	+50%
SPDR Metals & Mining	+50%



Commodities Mezzanine

John Valente

The trading strategy I propose for this upcoming month consists of a bullish bet on four distinct commodities. The slight overturn observed last month in this asset class in general, reflecting the highly extended rally it had experienced since late May, is a warning for the need of more selection criteria within the class. I

Despite the all time high levels that the golden metal has already reached, I believe that the speculative bubble inflating around it will not burst, at least for now. Given the uncertainty still faced today by world economies, I believe investors will keep recurring to gold as safe haven given their increased risk-aversion since the events of late 2008. We must also consider the fact that the USD has been losing value towards other main reference currencies, with fears that the Federal Reserve might be forced to intervene again, which again might influence positively the demand for the commodity.

The next commodity worth noticing in my opinion is oil. I believe oil prices shall observe a peek in price this month, being the main supporting reason the recent announcement by OPEC that a reduction in production is to be implemented with immediate effects. Oil extracting companies also seem a good instrument for medium-term capital gains, namely the Brazilian Petrobras, given the positive market reaction expected for its latest announcement of a capital increase.

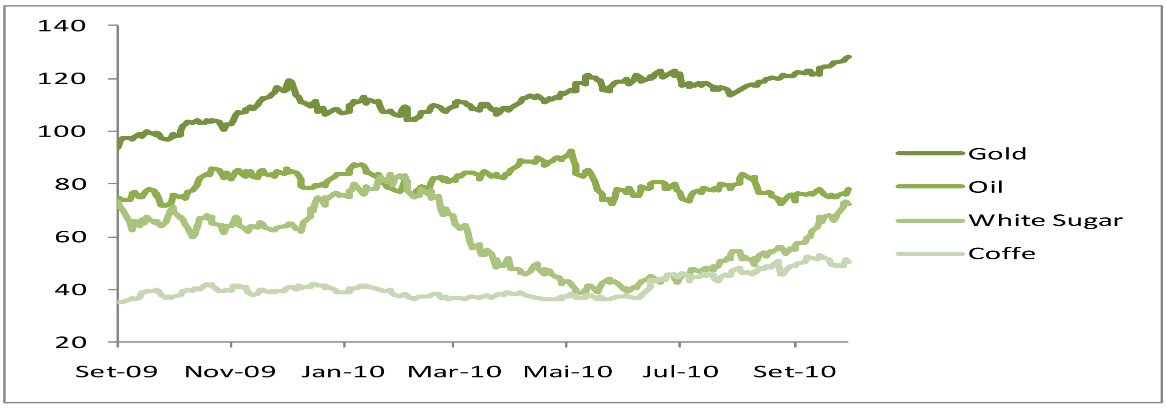
Finally, given the recent tragic floods that tormented Brazil and Colombia, speculative movements point in the sense of a likely world supply scarcity of white sugar and coffee. Therefore, I believe this is the right time to own these commodities.

Trade Summary

Asset Class: Commodity
Sub-class: Energy, Metals and Softs
Geographical: Emerging Markets, Global

Positions

Gold	20%
Oil	20%
White Sugar	30%
Coffee	30%



Delaware Emerging Markets Fund

Jorge de Mello

Emerging markets have been on a rally for several months in a row now. Some skeptical investors are turning away from these highly profitable developing economies, fearing a speculative bubble. My belief is contrary to that, I expect more growth ahead for developing markets. Those countries have been recovering much faster from the economic downturn, and since recovery is not nearly over yet, their leading position shall keep giving these countries a boost. Different data sources support this reasoning, for instance the IMF expects that developing countries will grow 7.1% in 2010 while developed countries will only grow by 2.7%. Moreover, developing countries appear less propitious to enter in default and look much stronger than developed economies.

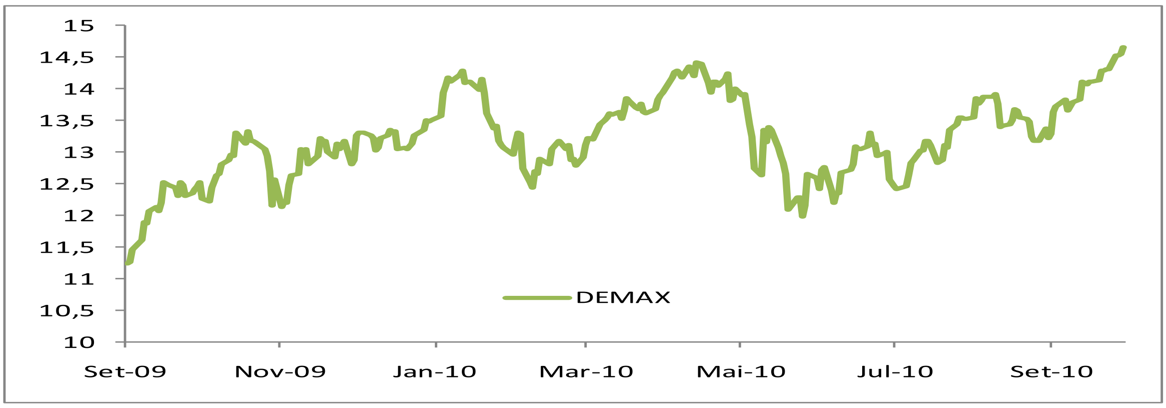
My choice in terms of securities falls over a single one, Delaware Emerging Market Fund (DEMAX). This fund has a long history of out-performing management, since it has been beating the market for the last 10 years since it has returned an annualized 17 percent. The current major stakes it holds are concentrated in Brazil (14 percent) and China (11 percent), and in terms of sectors it overweighs Telecommunications by more than 6% in comparison with the benchmark.

Trade Summary

Asset Class: Equity
Instrument: ETF
Geographical: Emerging Markets

Positions

Delaware Emerging Market Fund +100%



African plains - A saf(ari) haven?

Leonor Pereira dos Santos

The economic potential of the African continent is no longer topic of discussion. Everybody seems to have accepted that despite their incomparable richness in natural resources and cheap labor, the land extension from Morocco to South Africa is meaningless for international financial markets. This reality has become even more evident since the BRIC countries came into the spotlight, throwing sand to the eyes of many investors.

The trading strategy I propose this month aims at contradicting that general feeling. I propose a simple bullish investment on the three main worldwide recognized investment funds covering this geographical area, with the strong belief that this just might be the right time to bet on their rise given the current international economic context. Here is why.

First of all, investors seem to have been finding refugee for their savings mostly in commodities and emerging markets. The African countries, being both developing economies and highly focused on commodities exploitation, have been surprisingly ignored.

Furthermore, the highly concentrated capital movement towards these mentioned havens, as pushed their valuations up to a point it is not predictably sustainable for much longer. This means that similar, but cheaper alternatives may come to the spot soon.

Finally, some major western companies have been focusing efforts on penetrating the African continent recently, for example Wal-Mart through its attempted acquisition of Massmart in South Africa.

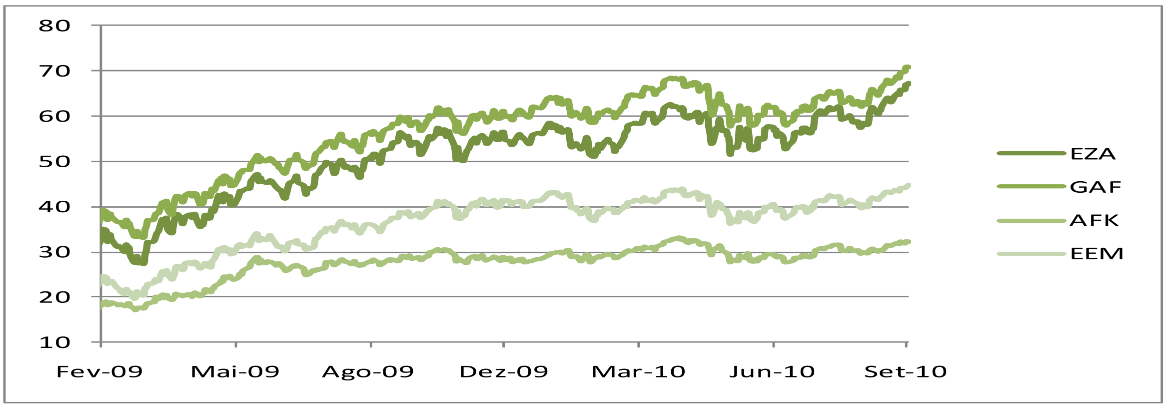
Based on these three major reasons, I attribute different weights to AFK, EZA and PMNA. The first one aims at capturing the potential gains of the Dow Jones Africa Titans 50 Index, mainly through its banking sector. This is currently the most undervalued fund, and therefore shall have the largest overweight. Next, EZA focuses on South Africa, the most developed of these countries. And the last chosen fund focuses on the Maghreb region, with Morocco and Jordan making up to one quarter of total holdings.

Trade Summary

Asset Class: Equity
Instrument: ETF's
Geographical: Africa

Positions

AFK (African Titans 50)	+50%
EZA (South Africa)	+20%
GAF (Maghreb)	+30%



Canada - the land of opportunity

Mariana Marques

Some regions' economic performance has been suggesting that there is no significant contagious effect...

Canada, for example, does not have a damaged housing market and is not exposed to the sluggish consumer purchasing power of the US. On the other hand, it is benefiting from growth, being exposed to Asian markets, given that it is a strong player in the high tech industry. Since the Federal Reserve expressed its intention to ease monetary policy further to boost the US economy, the demand for assets that benefit from global growth is being stimulated. The economic growth in Canada is benefiting from a two-year, C$47 billion stimulus package that is due to expire in March 2011.

Link between manufacturing sector and emerging markets

The frustration felt after the misperceived economic recovery of developed markets has been inducing investors to diversify. Developing nations are expected to be at the forefront of economic growth and will likely be the drivers of increased demand for industrial metals since as economies grow, they demand more of these metals. In fact, they have a crucial role in developing and expanding the manufacturing sector.

Strategy

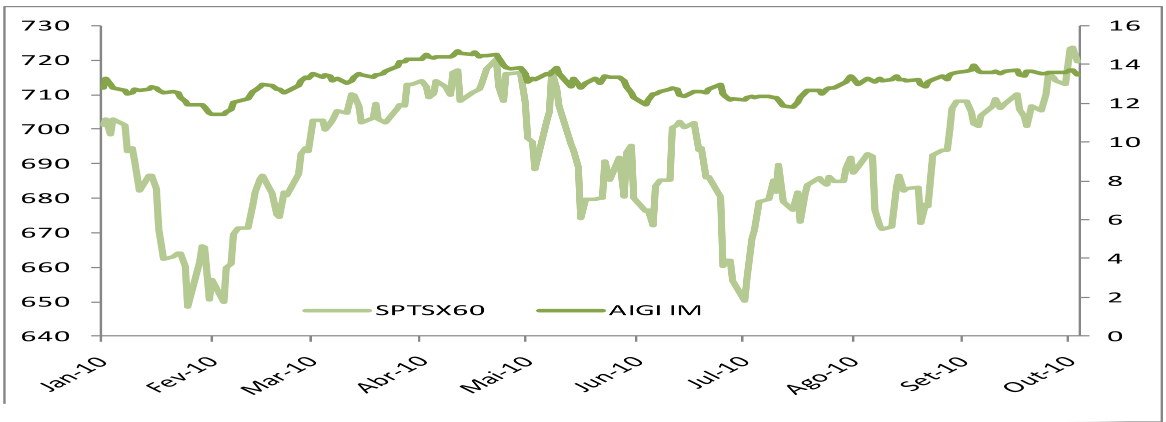
We can always find ways to seek value and diversify in an apparent negative market. According to the opportunities mentioned above, a consistent strategy would be to think outside the box by going long on the Canada Equity Index - S&P/TSX 60 index (20%). In order to capture the growth in emerging markets and to diversify, I propose a long position on ETFS Industrial Metals - AIGI (20%) and on MSCI EM (30%). In addition, there is potential in FX, namely in CAD (15%) and AUD (15%), given the forecasted low interest rates in the US and Japan.

Trade Summary

Asset Class: Equity, Currency, Commodity
Instrument: ETF's, FX Futures
Geographical: Global

Positions

S&P TSX 60	+20%
AIGI Industrial Metals	+20%
MSCI Emerging Markets	+30%
CAD/ USD	+15%
AUD/ USD	+15%



Helenic-Saxon sovereign debt

Nuno Ibérico

As signals of an EU bailout to Greece increase, the Greek sovereign debt premium will have to fall back to previous levels. The EU fears the impact of the Greek default upon the Euro Area, and is therefore most unlikely to let it happen. Given the fact that Germany is the main financier of the EU, we naturally expect it to be the country to support most of the associated costs, leading to a slight increase of its own sovereign risk, therefore, I propose the following trade:

Long Greek GVT Bonds 10-year

Short German Bund 10-year

Trade Summary

Asset Class: Fixed Income
Instrument: Govt Bonds
Positions: Long-short (zero-cost)

Positions

Greek Bonds 10-year	+100%
German Bund 10-year	-100%

The Natural Gas leak

Nuno Luís

The consequence of the monetary policies and fiscal policies that the US is underwenting to stimulate its own economy in the US is a weak USD for the rest of the world.

With over 80% of the assets in circulation being dollar-denominated, the debasement of the currency is leading to a rally with in global equity markets, peripherical currencies and commodities, as investors search for diversification and returns elsewhere.

I will focus on the last one: commodities. After having gained over 12% in September, the GS Commodities Index is already up more than 6% this month: trend is your friend! so everyone is joining aboard. I will not try to time the market for a large than expected QE.

Instead, I will turn my attention to natural gas. Being the most abundant fuel, and one that usually does not cross currency borders, it is not as exposed to the weakness in the USD as other commodities. Moreover, it is very exposed to an overall slowdown of US Industrial Production and to the deleverage of US citizens via cuts in electricity expenditure.On a technical level, nat-gas is trading on perhaps too wide contango, with the front future having a 3% premium against the July one.

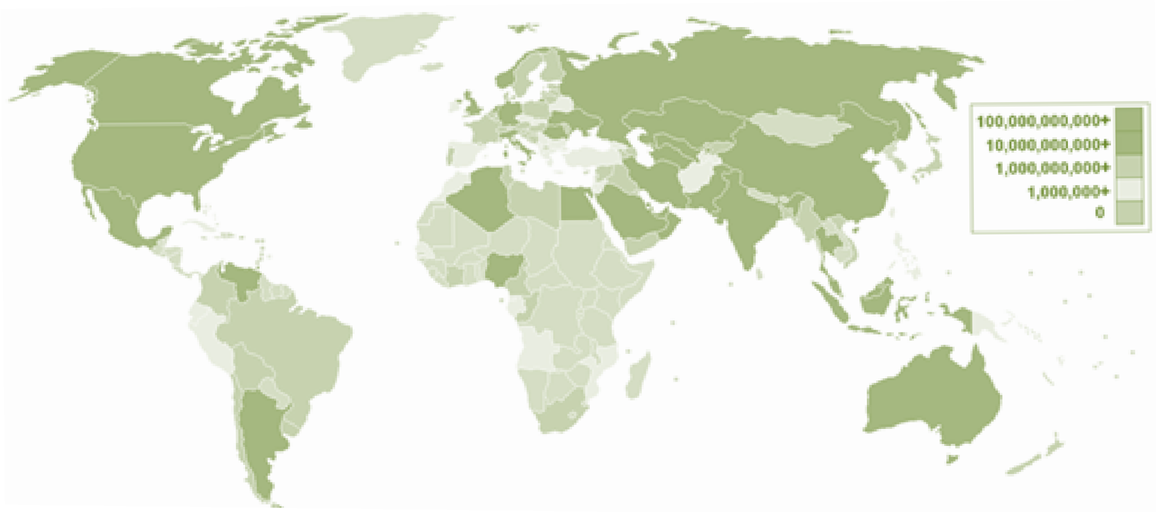
Being so, my trade for this month is to short the nat-gas front future (NG: NYMEX) and hedge the exposure being long on a broad commodities index (GSCI).

Trade Summary

Asset Class: Commodity
Instrument: ETF, Future
Positions: Long-short (zero-cost)

Positions

Natural Gas Front Future: -100%
GSCI Commodity Index: +100%



Fast Recovery and High Yields

Ricardo Barahona

We are currently experiencing decreasing inflation expectations in the US. I believe that one of the main causes for this is the high household debt in the US which is believed to affect consumption. A view I would like to adopt is that there are some sectors that already managed to achieve gains despite falling prices. Technology and Retailing prices fell in the last 10 years; however, they have managed to yield positive earnings per share growth in that period. Summing up, going long on these last 2 sectors would be a good way to keep on top facing low American inflation (or even deflation).

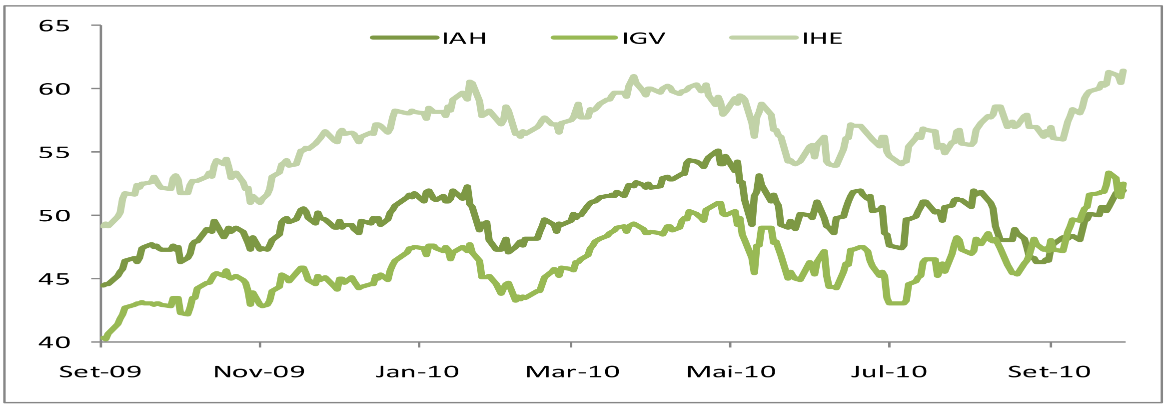
Adding to deflation expectations, we should also focus on sectors with low leveraged capital structures and high cash flow releasing operations, since with the deflation scenario materializing, real rates are expected to increase. In this case, high dividend yield equities have also been known to over perform, assuming the role of safe havens for investors.. These would be sectors like pharmaceutical and tobacco, which additionally have been experiencing concentration transactions lately, in an attempt to capture synergies mainly in the form of cost savings.

Trade Summary

Asset Class: Equity
Instrument: ETF's
Geographical: US
Sector: Hardware, SOftware, Pharamceuticals and Tobacco

Positions

Hardware	+25%
Software	+25%
Pharmaceuticals	+25%
Tobacco	+25%



MIDAS Volatility estimation

Tiago Lourenço

During the course of 2010 I underwent an empirical study on volatility estimation. The goal was to compare different models (GARCH & variants, Mixed Data Sampling) and their accuracy in forecasting next month's volatility, as measured by the VIX. I was able to conclude that MIDAS is clearly the most accurate forecaster of the S&P volatility when extracted from 1-month options, beating all variants of GARCH models at large. Using a simulation technique, I also concluded that MIDAS was in fact a more accurate forecast than realized volatility, as measured by the sample standard deviation.

Thus, my trade is based on the MIDAS forecast for October. Today (October 1st) I updated the study and I have a target volatility of 19.79% for the month of October. The VIX is currently at 22.5%. My suggestion is to short the VIX, using iPath S&P 500 VIX Mid-Term Futures ETN (VXZ) as an instrument.

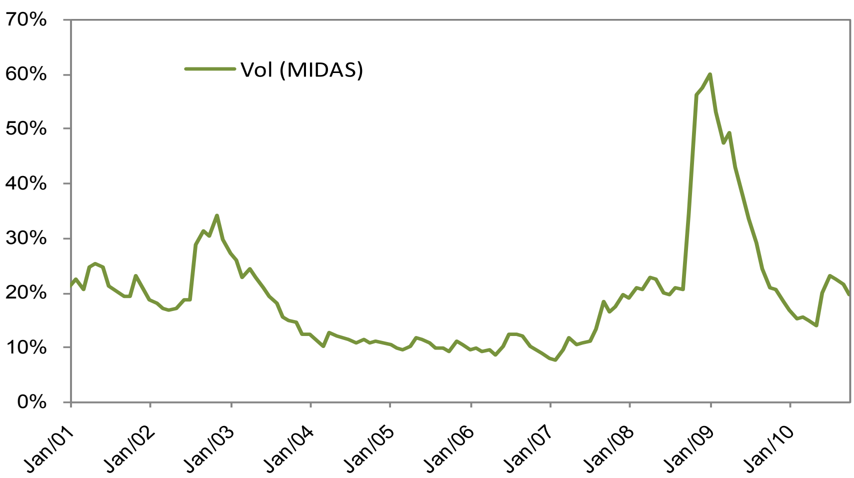
To further support my argument, the S&P is seen by technical analysts as being trending upwards (price 2.5% above the 200-day MA), and volatility spikes tend to occur more frequently when in a downward trend. My recommendation is to stop the short-sell if the S&P closes below the 200-day MA for three consecutive days.

Trade Summary

Asset Class: Equity
Instrument: ETN
Arbitrage: Volatility

Positions

iPath S&P 500 Mid-Term Futures -100%



Life beyond $1350/oz

Tiago Paixão

After reaching historic high values, the gold is now the flight to quality that investors are actually making nowadays. With the fear of a double dip until the end of the year I believe this is the asset to invest. News coming out point in this direction, namely the "IMF warned on the fragility of the global recovery".

It can also happen that we are entering in a bubble in the gold market. However, for a 1 month investment horizon, as long as the uncertainty about the stock and the bond market remains at current levels, I think this a safe bet, and it is not yet clear whether this new austerity plans in the European countries are enough neither if the US economy is in a real recovery.

Along with the flight to quality in gold is the idea of diversification among fixed income investors. My suggestion here is that we go long on the WisdomTree Emerging Market Local Debt Fund (ELD), an ETF that tracks the currency denominated debt in different emerging markets such as Brazil, Chile, Colombia, Hungary, Indonesia, Malaysia, Mexico, Peru, Philippines, Poland, Russia, South Africa, South Korea, Thailand and Turkey. As we can see in table1 the leverage of these countries is way lower than the developed countries. This indicators show us that if there is uncertainty about the default risk in south European countries, the emerging debt can be a good asset to diversify and we can catch the mood of the fixed income investors for the next month.

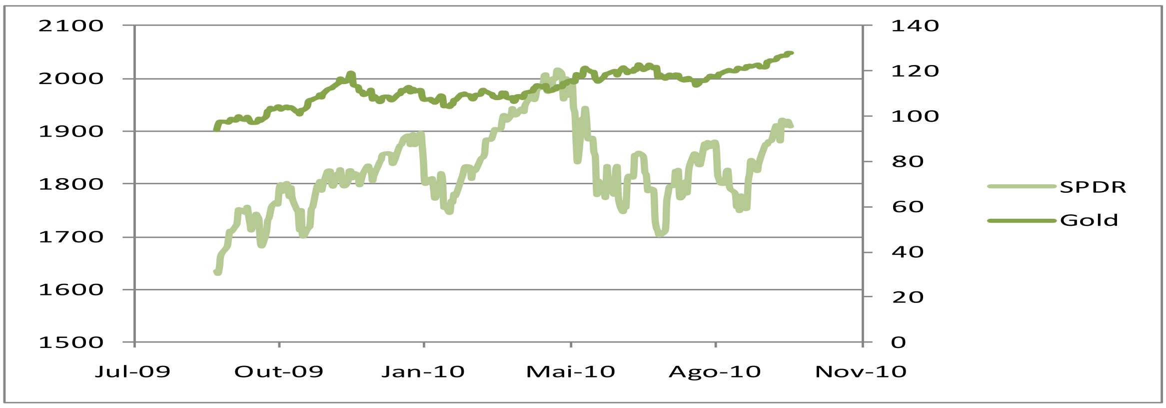
Finnaly in order to hedge these positions I added a small long position on the S&P500 for the case that there is an unexpected equity market bullish in the next month.

Trade Summary

Asset Class: Equity, Fixed Income, Commodity
Instrument: ETF's
Geographical: Emerging Markets

Positions

SPDR Gold	+60%
SPDR S&P 500	+10%
Wisdom Trees Emerging Market Local-Debt Fund	+30%



Portuguese Sovereign Debt

Tomás Gorgulho

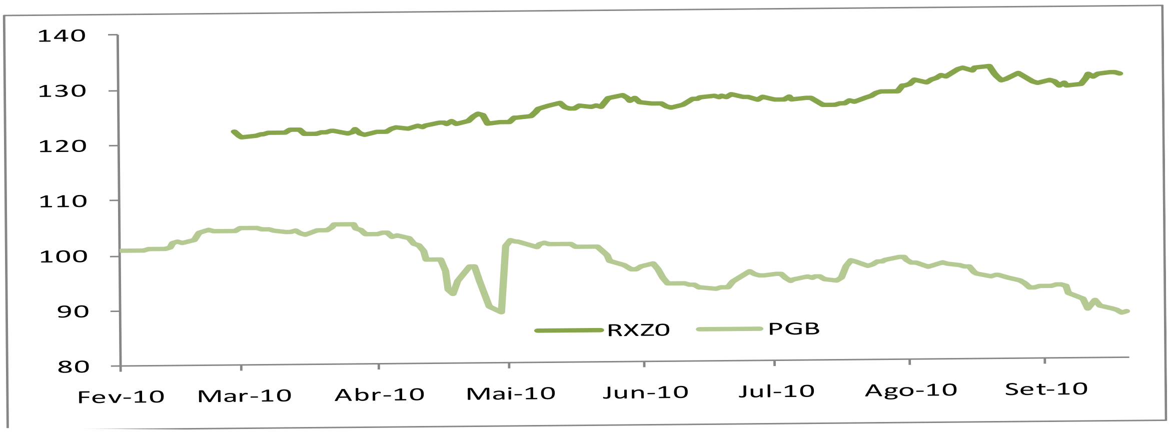
The grounds that built and edified the trade that I will suggest are mainly related to the announcement made last week by the Portuguese government. ortugal announced a new package of austerity measures designed to reassure markets that will meet ambitious deficit-reduction targets and not seek emergency funding in a Greek-style crisis. Portugal has seen its cost of borrowing rise to record levels last week, reinforcing market concerns that Portugal could be forced to seek bail-out loans from the international community. These new austerity measures are primarily focused in the shrink of wages in the public sector, pension cuts and higher taxes, mainly on consumption.

The spread on Portuguese 10-year government bonds above equivalent German securities reached a record of 450 basis points on Tuesday, before narrowing to 437 basis points on Wednesday. In this context I decided to propose a trade based on the convergence of the German and Portuguese yield spreads. I truly believe that these new policies will definitely lead to market changes and healthier expectations about Portugal's economy. As S&P quoted this week "Portugal is unlikely to default on its debt even if the economy fails to grow over the next two years".

According to what was stated before I think that betting in the convergence of the spreads between the German and Portuguese yields can turn out in a very good profit (good timing-spreads close to maximums). It could be a very good arbitrage strategy because I won't be exposed to exchange rate risk and interest rate risk (parallel changes).

Relevant Information S&P: "Portugal's budget gap was 9.3 percent of GDP in 2009, the highest in the 16-country euro region after Ireland, Greece and Spain. The government aims to narrow the shortfall to 7.3 percent this year, 4.6 percent next year, and intends to meet the EU limit of 3 percent in 2012."

I also thought about another arbitrage strategy that doesn't have costs associated and that could give me a very good return. In this case I will exploit options. I will bet in the increasing of the eurostock 50 index (SX5E INDEX, P-2747,9). I believe that the new government adjustments will help to improve the European economy and re-establish the confidence in the market. I also expect that the equity market will rise and the volatility of the markets will decrease.



Trade Summary

Assets: Fixed Income, Options
Geographical: Europe
Positions: Long-short (zero-cost)

Positions

Euro Bund 10y	-100%
Portuguese Govt Bond 10y	+100%
Buy Call	prize -6,77%
Sell Call	prize 1,08%
Sell Put	prize 5,75%

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