

TOP TEN THEMES FOR 2012:

- 1. Investors should avoid stepping into the risk-on trap set by the ECB.** There will be sustained risk aversion. The European troika embarked on the European version of quantitative easing (QE) when it authorized the ECB to lend up to EUR 500bn at 1% to qualifying banks. This massive liquidity infusion makes investments in equities and European peripheral sovereign debt look safe again (yields on Italian 12-month paper dropped to 2.7%, down from 5.9%), even though the debt levels have not been addressed. Just because you cannot see their fins, the sharks have not left the bay...
- 2. Contrary to point one, traders could try to benefit from the short-term tailwinds in PIIGS debt.** While this may provide investors with early gains, we would strongly recommend to sell these positions before the summer. Once the stimulus fades, these assets will get sold off again.
- 3. Greece will not survive 2012 as a full member of the EU, let alone as a member of the Euro.** Banks will have to write down a lot of Greek debt, which will cause another leg down in the European debt crisis.
- 4. There will be continued pressure on the euro – and on the Swiss Franc's Euro peg.** To protect against a run on the Swiss franc (which the SNB will not be able to defend), we suggest to set a stop loss just below 1.20.
- 5. Investors should reduce their equity levels before the summer** because the main problems in Europe will not be solved in the next few quarters. During the first few months of the new year, equities may benefit from the perceived fading of risk, but it will not last. Equities in Japan and China are more attractive than their European and U.S. counterparts.
- 6. Avoid index managers and ETFs.** Stay away from a “buy and hold” strategy and select equity managers with specific themes, regions and styles. Stay with the risk aversion theme and pick managers who focus on dividend and growth stocks. In a recovery after a correction, SME's usually outperform large caps. We also like luxury, Asian consumption and commodity stocks.
- 7. Fixed income remains binary.** Investors are not getting compensated for holding high grade government debt (Germany sold six-month debt at a negative interest rate of 0.0122%, the first time in history). We will also stay away from high yielding European peripheral debt. We prefer high yield and high grade corporate debt as well as emerging market corporate and government debt.
- 8. Precious metals have a place in every portfolio.** Not only does gold provide asset protection in an inflationary and deflationary environment, it also provides safety in light of currency debasements and during times of political unrest.
- 9. Turmoil in the Middle East could culminate in large civil unrest and even war.** Oil could provide investors with strong returns in 2012. A supply shock will drive prices up in a market where inventory levels are already low in expectation of a recession.
- 10. Invest with distressed hedge fund managers.** The expiration of ECB's QE program and the tighter Basle III capital requirements will force European banks to sell enormous amounts of assets at fire-sale prices. Their misfortune will provide distressed hedge fund managers with attractively priced investment opportunities.