WILLIAMS DE BROË
SINCE 1869

Weekly Digest

The Professional Advisers' weekly insight into world stock markets

30th January 2012

The Draghi Artist

With our annual Vision road shows having concluded in London last Friday I wanted to use today's Weekly Digest to summarize our messages for all those who were unable to attend any of the past three weeks' seminars. Our starting point is that we are possibly surprisingly optimistic about this year's prospects. Having been resoundingly bearish in the first year of Vision in 2008, bullish in 2009 and firmly undecided about each of the past two years, 2012 has every chance of shaping up to be a year in which portfolios produce soundly positive returns instead of having to struggle just to break even.

Central to our cheerier disposition is a remarkable turnaround in the European Central Bank (ECB). We argue that Jean-Claude Trichet's retirement and his succession as president of the ECB by Mario Draghi is the most important event for markets since Hank Paulson's 'TARP' bailed out the American banks in 2009. Draghi has done precisely what Trichet failed to; he has faced straight up the markets' greatest fear and given this a sharp jab in the eye with his finger. The monster of course has been that the disintegration of the euro would cause a collapse of European banking, giving us a repeat of Lehmans, but maybe 50 or 100 times over. In its pre-Christmas Long Term Refinancing Operation (LTRO) Draghi's ECB said not only does it realize that this is the greatest fear and risk in global finance, but also that it is prepared to bring out the heavy artillery to deal with it. No-one is pretending that this is in any shape or form a solution to the Eurozone's problems, instead what it does is to buy time. It means that the European banking system has liquidity and solvency for the next three years, during which time the problem governments have a window of opportunity to prove to the world that they have credible plans to put their houses in order. The LTRO is increasingly being referred to as a 'game changer', a description with which we agree.

For the first time since the middle of last year markets have a scenario for Europe that does not necessitate a massive crisis. It is unlikely that Greece or Portugal will last the course this year, but the new glass half full mood means that markets are now looking to this as the trigger that will prove that the Eurozone will stand stronger as a 15 or 16 member entity than it does in its current incarnation. And if we take the European meltdown out of the equation just for a moment we are left with the rest of the world (with the exception of the UK), looking in really quite sound health. The American recovery is showing every sign of having real traction at last, with higher levels of construction activity starting to feed through to job creation. Inflation is peaking globally and the two major emerging markets of China and India are starting to ease monetary policy in response to this.

Now we need to overlay record low bond yields, resolute corporate profitability, many cash rich balance sheets and healthy dividend growth. The excessive pessimism of the past six or seven months has driven valuations to levels whereby it will take (and is taking) only a small change in sentiment for the better to make a recovery in equity markets appear to be remarkably soundly underpinned. This is despite an increasingly bleak outlook for the United Kingdom. The pressure on the banks to build higher capital ratios and their willingness so to do is resulting in a shrinking money supply; if we combine this with every other headwind in the economy then we are not in the least surprised that the domestic economy appears to be in recession again. Unless something happens to change the behaviour of the high street banks to mortgage and commercial credit then we fear that the recession will deepen and our trophy AAA status will go the same way as America, France and Austria.

We have therefore a picture whereby financial markets are set for a much better year despite the worsening outlook for the domestic economy. And for this we have to thank an Italian banker named Mario Draghi.

Finally, the term 'podcast' was coined in 2004 by a journalist writing in the Guardian. Today, what is the name of the largest lake in Sweden?

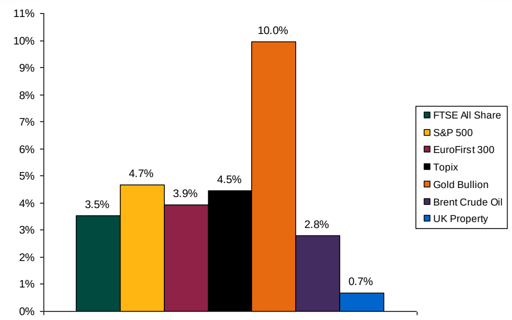
FTSE 100 Weekly Winners

Essar Energy	9.7%
Vedanta	7.0%
Evraz	6.6%
International Airlines Group	6.6%
Fresnillo	4.4%
Schroder	4.1%
SAB Miller	3.9%

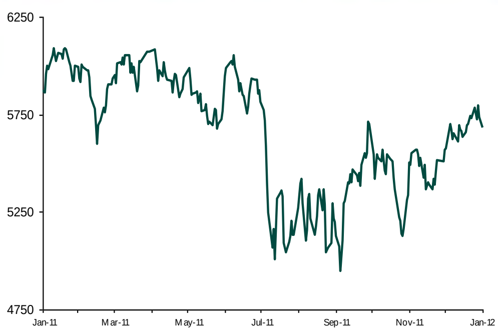
FTSE 100 Weekly Losers

Hargreaves Lansdown	-6.4%
Pearson	-5.1%
CRH	-4.0%
Compass Group	-3.5%
Carnival	-3.5%
Sage	-3.5%
Scottish & Southern	-3.3%

Year To Date Market Performance



FTSE 100 Index, Past 12 Months



Presented by Jim Wood-Smith, Head of Research Tel: 01392 208534 Email: jim.woodsmith@wdebroe.com

WILLIAMS DE BROË
SINCE 1869

Selected stock comments

Intercontinental Hotels – BUY 1313p (TP 1540p) Intercontinental has good exposure to improving US consumer sentiment and levels of business activity. 60% of operating earnings are currently derived in the US, 20% in more troubled Europe/ Middle East/Africa with 20% from Asia where the company has a strong foothold in the burgeoning Chinese tourism market. Latest figures from STR, the hotel industry consultant, point to strong demand in the US. Occupancy rates are up 4.9% during the week to 14 January against 2011 figures and room rates are up 6%. REVPAR (revenue per available room) is up10.8% on the same period last year. A positive start to 2012. Full year earnings for 2011 are out on 14 February.

Marston's – BUY - 99p (TP 122p) Strong trading during the 16 weeks to 21 January is reported. Like-for-like sales are up 5% for the managed pubs and 7% over the last 8 weeks (although December 2010 experienced very bad weather). Operating margins are in line with last year. The company is on track to build around 25 pub-restaurants in the current year. In the leased, tenanted and franchised pubs, profits continue to improve, estimated to be ahead by some 3% for the 16 week period. In brewing, own-brewed volumes are up 2% and outperforming the market. Marston's is a well managed company offering good value. September 2012 p/e 8.5x and a yield of 6% (cover 1.98x).

Dignity – ADD 805p (TP 900p) It is a valuable thing for an investor to be able to tap into very high levels of surety of income, and there is nothing so certain as death and taxes. Dignity Group is one of the largest providers of funerals in the UK performing more than 10% of all burials and cremations. It has very high quality earnings and is hugely cash generative, these are factors we feel make the shares deserving of a premium not fully factored in by the market. Consequently we rate Dignity as an ADD with a 900p price target.

Misys – downgrade to REDUCE 325p (TP 275p) Misys's interim results missed expectations and it warned that customers are taking longer in their decision making. In response it has put in place plans to reduce costs. With 50% of its business in Europe and 100% exposure to financial services it could get worse. The share price has risen 37% over the last month, fuelled by the revival of takeover rumours. We cannot legislate for potential takeover activity but on fundamentals the shares look expensive; our target price of 275p is equivalent to a May 2012 P/E of 14.3.

This Week's Forthcoming Events

UK	Dec Mortgage approvals
UK	Jan CIPS manufacturing PMI
UK	Jan Nationwide house prices
UK	Jan CIPS services PMI
US	Jan Consumer confidence
US	Jan ISM manufacturing
US	Jan Non-farm payrolls
US	Dec Factory orders
Emu	Jan Consumer sentiment
Emu	Jan Manufacturing PMI
Emu	Jan Services PMI

Last Week's Highlights

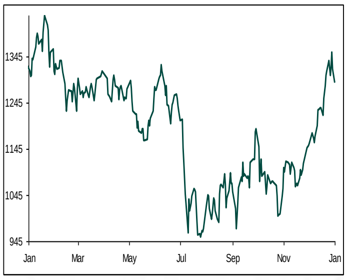
Experian - Downgrade to HOLD

Rexam - Downgrade to HOLD

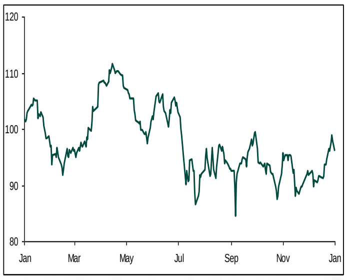
Sage - Downgrade to ADD

Standard Chartered - Downgrade to ADD

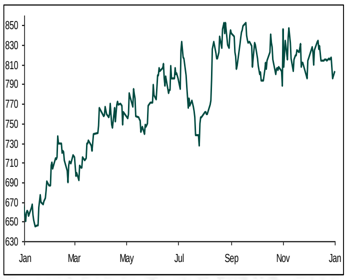
Intercontinental Hotels Group



Marston's



Dignity



Misys