Lance Spicer's

# Trident Confidential - Weekly Report

Consistent High Returns - Capital Protection - Integrity

**Wednesday, 11th January 2012**

Dear Subscriber, Welcome Back! I hope you and your family had a great Holiday Season break. I am hoping, no, expecting a good year this year and when you read my Outlook for 2012, you'll see there are compelling reasons why, although there are risks, which I'll also point out and discuss. **Also, please read my article on Long Term Investing on page 7, I think many investors make a "financially fatal" mistake – this may help.**

## Outlook for 2012 – A better year, maybe even a great one.

It seems my prediction of the Santa Rally coming late this year was out by about a week or two, but did come in January, not during December as everyone had hoped and 2011 went out with a whimper. All in all 2011 was a terrible year with US indices finishing flat or slightly down and everywhere else getting smashed, especially the second half of the year. It was right up there with 2008:

Australia lost 12% (down 15% for the year) , UK lost 7% , France lost 22%, Germany lost 21%, China lost 20% Japan lost 14%,  Hong Kong lost 18%, all in all a bad year.

Well, this year has started better, and as they say,"as January goes, so does the year". Last January, was deceiving because we took off in January (in the US), but were flat in Australia. However, a good start is rarely bad for stocks.

Unfortunately, I do have some bad news before we get to the outlook for 2012, the Australian market will continue to lag the US market due mainly to poor economic management and putting all our eggs in the "commodity basket", which of course, the unions, the Greens and the government have done their level best to strangle with the Carbon Tax, Mining Rent Tax and anti-business policies… oh well, you can only play with the cards you are dealt, so we will bypass these problems and find promising Australian stocks either in niche markets, small companies innovating or where a company is of such quality that it will make more money in 2012 regardless of politicians. Now, I know my statement here may sound critical of the government and I suppose it is, but I can assure you a Liberal-National government would also "get it in the neck" from your's truly if they were enacting policies that stopped the stock market (and our profits) rising. After all, the scope of this newsletter is all about one thing and one thing only – making money on the stock market.

To get a feel for the Australian market's under-performance look at this chart that compares the ASX to the S&P 500. It shows that over the last 2 years the Australian market has legged the US market by over 25%.

This will be third year in a row that I have predicted the Australian market to lag and I'm sorry to say it will be because of weaker commodity price growth, low productivity due to workplace over-regulation and the Carbon Tax, all conspiring to let the Australian market down. However, that doesn't mean the Australian market won't go up in 2012, just not by as much as the US market, that's all.

So, on with our detailed Outlook for 2012.

## Outlook for 2012

Well, here we are ready to start a New Year and I hope your holiday season and New Year celebrations were fabulous. Last year in my outlook, I said that I felt the US economy would strengthen and that there would be no double dip recession. I also said that the US market would outperform the Australian market, despite the "mining boom", and we now know what happened. I just didn't realise how right I would be, with the ASX having a terrible year, second only to 2008 in recent times. What I didn't predict was the seriousness of the EU debt crisis and though I did predict an Australian recession, luckily I was wrong and we only had one quarter of negative growth, not the two necessary to be actually called a recession.

Of course, nobody could have predicted the war in Libya that upset oil prices and slowed growth, or the devastating tsunami in Japan and the floods in Thailand that have temporarily made a mess of many of our technology stocks. 2011 is certainly not a year I want to repeat and as most fund managers and investors will tell you, it was more difficult to navigate than 2008 due to its extreme volatility, often in both directions and with counterproductive currency swings. An estimated 87% of fund managers lagged the market due to this volatility.

However, we must look ahead and try to get an idea of what 2012 might bring. I have spent much of my break reading the thoughts of analysts, economists, commentators and fund managers and I have to tell you sentiment is mixed, ranging from a replay of 2011, to the start of a multi-year bull market. The sentiment of most retail investors is pretty appalling with the majority feeling that being out of the market is safest. I have never seen so many people negative about the markets – just about everyone I talk to (excluding investment professionals) is gloomy about the stock market – and justifiably so. But as you well know, the crowd is often wrong and when things are at their gloomiest (sentiment wise) things often turn. However, before that can happen there has to be justifiable reason for it to do so.

So, let's consider all the risks we may face going into 2012. The number one issue is the European Debt Crisis. Firstly, the debt these countries have accumulated is high. It has taken years to accumulate and it will take years for the debt to reduce to manageable levels, we know that. We also know that for the next 1 or 2 years, European growth will be slower than the long-term average with possibly a shallow recession at the start of 2012. These are known factors. The fears are that it could get worse. That's what is holding back the markets right now. It is the same fear that held back markets after the Lehmann Brothers crash in 2008. As we know, Lehmann was *it* and a few months later the markets recovered.

I expect the write off of Greek debt was the big event and while I still think that maybe another bailout of Greece is possible (probable?) in the near future, I don't think there will be any contagion to other countries, with the slight chance of Portugal needing some assistance from the IMF and the ESM (the EU bailout fund), but this is only a slight chance. Greece and Portugal do not worry the markets - they are too small. It's Spain and Italy that worries the markets and I think, as many do, that this fear is totally overblown. The secondary "concerns" are a slowing of China and the US economy, but these fears are also "overdone", as there is more evidence supporting improvement than otherwise, particularly in relation to the US economy.

So, let's get to it and see how I see the year panning out.

- **US Economy**

Most people declared the US would fall into recession in 2011, I did not agree with that at all, even though at times I seemed like the only person that had my point of view. I stuck to my guns and at times wondered whether I was reading different data to everyone else. It turned out they had been "bamboozled" by sentiment and emotion and there was no recession – not even close.

In 2012, my prediction is the same - No US recession and growth higher than many expect, edging close to 3% over the year (I expect global growth at an over trend rate of 4%, which is inline with the IMF expectations). Housing will stabilise and start showing signs of growth, but nothing to get excited about - just not worse. Unemployment will continue its current trend and by year-end will be under 8% - possibly well under. US corporate profits will continue to rise to new all-time record highs.

There is some speculation that US corporate profits will be harmed by any EU recession. The facts is US exports to the Europe amount to an estimated $240b for 2012. Of this 40% relates to aerospace and motor vehicles, 25% to chemicals, food additives and fertilisers, 20% to manufactured goods and technology and the other 15% made up of miscellaneous goods and services. A recession in Europe may cut this figure by say, 7% to 8% for around half the year. At which point the other half of the year, would probably show imports over trend, leaving the net exports situation down maybe 6%. On the basis the first two categories are unlikely to feel much reduction due to long order lead times, and the fact that chemicals, food and fertilisers don't suffer in even bad recessions, there is limited damage that can be felt from Europe in terms of earnings. The GDP of the US is 14 Trillion, which is 14,000 Billion, so this puts the EU exports in perspective keeping mind the net fall may be around $14B, one thousandth of the US economy. However, this does not factor in negative sentiment that any EU recession may cause domestically in the US, which could be more wide-ranging or strains on US banks who provide significant loans to EU business.
IT (Information Technology) spending in the US alone is tipped to rise to $1.8 Trillion (not a typo) according to a survey by Nucleus Research. This is a substantial increase over 2011. They found that over 50% of US companies plan to increase their IT spending to higher levels than 2011. Only 10% said their spend would be lower.

*"We are bullish on tech spending based on these survey results. While there is a temptation to cut IT budgets right now, our survey shows that companies view technology investments as a means to drive efficiencies and make existing employees more productive," said Rebecca Wettemann, VP of research, Nucleus Research.*

Another survey determined that over 50% of medium to small companies were planning large scale IT investment in the first half of 2012. These surveys covered thousands of US corporations from huge to small, so it's not a skewed result at all. It's also backed up by what I'm hearing from CEOs in IT companies and their growth plans for 2012. It looks like 2012 could be the biggest IT spending year in history by a long shot. The surveys uncovered that the biggest sectors for investment were mobile communications, data storage and security, social networking, analytics, and corporate efficiency. Every technology company we hold is sitting in the box seat.

There is a mountain of evidence that by the end of 2012, the US economy will again be the leading light in the world economy. I also expect a big "come back" by US financial institutions in the second half of the year as lending frees up further and US home sales increase with higher consumer confidence. Boring old industrials will also start to come back as US manufacturing continues to gain strength. However, it will be the technology companies like Apple, Intel and the like that will be the "stars" of 2012.

- **European Debt Crisis**

One trader on the floor of the US stock exchange said just after Christmas that he thought the market would be "out of the gate in 2012" when we all got tired of hearing about Europe. He said it happened in relation to Japan and Libya and it will happen with Europe too. I agree. Once we see that the Euro won't fall over and no major bailouts are necessary, the whole thing will fade.

The ECB has injected hundreds of billions of Euros (E600B) into the banking system at 1% interest to increase liquidity and give EU banks an opportunity to strengthen their balance sheets and they have taken up the offer with both arms. The first thing they did was use 50% of the money to pay off their short-term debts (3 to 6 months) to the ECB thus turning higher-interest, short-term loans into 1% 3 year loans. This will increase their lending capacity and profits. It's expected the rest of the money will be put to use being lent out into the retail market and to also (as I predicted last year) buy bonds, such as Italian and Spanish bonds at much higher yields and again make money and repair balance sheets through this "structured and arranged carry trade". While the ECB couldn't provide Quantitative Easing, they could arrange for the banks to do it for them.

Once the bailout fund, the ESM, is fully operational and funded to the required level, it will then provide the banking system with the assurance that any further sovereign debt problems will be met by the IMF and the ESM and not be worn by the banks, as they did when Greek debt was cut in half. While it seem the EU banks are getting profits on a platter, I suspect it was part of the deal when they all agreed to accept the Greek "haircut" and quite frankly, Europe needed QE and this was the only legal way of doing it without the "argy bargy" of getting all EU members to agree to a treaty change in relation to the ECB.

So, I think after the first quarter of 2012, the European Debt Crisis will fade as bond yields slide in the wake of the "EU carry trade". One problem that still needs to be addressed however, is in relation to Italian bonds, in particular 10-year bonds that will mature in the first quarter of 2012. The bond yields as at the end of 2011 were stubbornly stuck around the 7% level, yet shorter-term bonds, up to 3 years were trading at between 3% and 5%. The reason? The 1% ECB loans to banks are 3-year loans and they are being used to purchase similar aged sovereign bonds, bringing down the shorter term yields. If the ECB wants the 10-year Italian bond yields to fall, they need to make some 10-year loans available at favourable rates for this purpose or step in themselves and buy the longer term bonds.

We will still hear of problems in Portugal and Greece and possibly Ireland, but as the problem will be contained to these countries most investors will simply "move on". These countries, despite having what may be devastating recessions, will have little to no effect on the US corporations. Growth in "Northern Europe" will be surprisingly strong. However, not so strong, that I would be compelled to invest there, just yet.

- **China**

  China will continue to grow strongly in 2012, but not without a couple of minor scares. The property boom in China is heading for a "hardish" landing but not a crash - the Chinese would never allow a crash of any kind. The banks who had lent so prolifically will pull back their property lending even more than they already have and this will have a negative effect on growth. I expect Chinese growth to pull back to around 7.5% to 8%. This is a drop of around 1% from many forecasts. There will also be some slower growth in manufacturing due to their single biggest market, the EU, slowing. Although many Chinese goods are at the "lower end" of the market and will be less affected than the "mid-range" goods that will be subjected to household budget constraint. The "upper end" won't be touched at all – it rarely is.

  This will have some effect on commodities (and Australia) but not devastatingly so. The Chinese middle class will continue to grow and consumerism will flourish and this will benefit companies like Apple greatly where US branded goods are seen a status symbols. Don't underestimate the importance of status symbols in Chinese culture and how they perceive the value of things we take for granted. While our desire for the latest iPhone or iPad is high, theirs is out of control and keep in mind there are more middle class Chinese than there are Americans, Canadians and Australians combined.

- **Gold and Commodities**

  Gold and commodities won't collapse in 2012, nor will they boom either. We may have seen the near-term peak in gold. Gold is a hedge for worrying times and also a hedge for inflation. Worries and inflation are dissipating and so is the price of gold. As the market improves throughout 2012, you will see gold soften a little further. The gold price is still being supported by the Indians and Chinese however. They love the stuff and as they become wealthier, their desire to hold gold (as a status symbol) grows. These two countries alone will keep the price of gold above $1200-$1300 for the medium term.

  As regards other commodities we have several forces at work here. We have increased production from Australia, Africa, Asia and the Americas keeping a lid on price increases. On the flipside we have continued expansion of emerging nations requiring ever-greater quantities to continue development. On the downside we have the EU being a temporary drag, as well as western governments around the world having to think long and hard about their budgets and which infrastructure projects to commit to. On the upside we have the US economy starting to strengthen and use more commodities. At the end of the day, weighing it all up, don't expect commodity prices to shoot up in 2012, with the possible exception of copper, which has dropped more than it should have. Commodities will remain pretty much in equilibrium.

  Oil will remain elevated due to tensions with Iran. If these tensions ease expect oil at $80-$90, if not they'll stay around the $100 mark for most of the year. This level of oil price won't be too much of a drag on economies, but any move above $110 will cause consumer confidence issues in the US. Let's hope the Iranians can remain calm (and "sane")

- **Australian Economy**

  First the good news, there will be no recession in Australia in 2012 (not a bad one anyway). The mining "boom" will continue to support virtually the whole economy, but things won't be quite as rosy as we might hope. The lack of

rising commodity prices will keep a lid on some projects and investment may fall a little short as "borderline" mining investment may be shelved due to not only flat commodity prices but also due to government created uncertainty with the Mining Rent Tax, Carbon Tax and anti-business industrial relations policies as well as hard-line Green anti-mining interjections.

We will, however, have further interest rate cuts as consumer spending shrinks further due to lack of business and consumer confidence. This may pick up a little early in the year as the EU debt crisis exits the headlines. However, it will be the introduction of the Carbon Tax that will be on the minds of most Australians and just like when the GST was introduced, we stopped spending for a while, however, it soon returned to normal, as it will in 2013 with the Carbon Tax. I think it will affect household budgets more than the government is letting on and it will have an even worse effect on business, which could see growth in Australia fall to around 2%-3% instead of the expected 4%. The really bad news will come in 2015 when, even the "compensated" will be affected by the removal of Carbon Tax industry subsidies, which will allow the full affect of the tax to flow through to us all, but that is 3 years away yet.

To be honest, outside of mining and mining services, there are few Australian companies that have solid earnings growth catalysts. We have very little technology, almost no manufacturing, a few companies involved in healthcare and quite a number involved in financial services such as insurance and banks. Take the banks as an example - where are catalysts for earnings growth? Housing is struggling and interest rates are dropping, squeezing margins as they are bullied into passing on the full RBA cuts. The banks aren't lying - passing on the full cut means a drop in rate margin profit for them. Usually, a rate cut means more loans being taken up - meaning they cut margins but increase volume, but that's just not happening, as Australians are still de-leveraging debt. The banks can only profit by sacking people, raising fees and utilising ever greater levels of technology – all of which they are doing to keep earnings momentum going, albeit at a reduced pace. Companies right round the world are using technology to reduce staff. The banks are no different and this remains part of our investment strategy to invest in technology, rather than the users of technology - following the "picks and shovels" concept. Elsewhere, I see opportunities within the smaller cap sector, where innovation may drive earnings, so keeping a lookout there may provide some opportunity.

Overall, despite Canberra pointing out how well we are doing, most Australians just can't see it and don't believe it. I think we will look back at the mining boom and feel it was wasted, due to a government that struggled to balance socialist ideology against capitalist opportunity and the best they could come up with was two new taxes and restrictive and anti-business work practices that appear to be a knee-jerk over-reaction to the former government's policies. No regard was, or is given to "nation building" through productivity gains, workplace reform, industry assistance, government regulation and "red-tape" reduction, innovation or widening the "economic base" beyond hard and soft commodities. For this reason, I feel the Australian economy will be in a slightly worse condition a year from now. In much the same way President Obama missed an opportunity to be a champion of reform and recovery, the Gillard government has missed an opportunity to build on Australia's good fortune of having China as our major trading partner. With such favourable trading terms, exports at record levels, we are still running trade and budget deficits – when will Australia ever run a surplus one must ask? Which brings me to debt - as trade deficits as well as budget deficits are funded by debt, most of it foreign. We have accumulated $848 billion in debt (and rising), which represents 60% of GDP. This is a figure the government keeps a lid on. Most Australians don't realise we are right up there with the UK, Spain and Germany when it comes to debt load. Our bureaucrats just account for it in a different way so it doesn't seem so bad, but it exists and it's growing. Things aren't as rosy as Mr Swan and Ms Gillard would have us believe.

Over the coming year we should see the Australian dollar weaken further, as not only will our terms of trade weaken, but also the carry trade related to our higher relative interest rates should see investors exit Australian dollars to some extent. I expect to see the Australian dollar finish 2012 at around the $0.96-$1.00 range. Although, according to the IMF the Australian dollar should be around $0.66-$0.70 range to be correctly valued. The continued strong demand for Australian commodities will keep the AUD$ elevated through the first half of 2012, maintaining some of the current pressure felt by domestic retailers, exporters and tourism and hospitality operators. The second half of 2012 should see weaker commodity prices, a weaker AUD$ to compensate to a degree, but lower earnings growth. It may be time prepare for the Post-Mining Boom period, when mining no longer provides the growth the Australian economy has become so used to.

However, while I remain a little bearish on the Australian economy, there will still be plenty of opportunities to profit and there is a chance that above expectation growth in the US and China might just save us from what could be a mediocre year.

- **The Markets**

The first quarter may feel a little like a continuation of 2011, as the possible solutions to the EU debt crisis are muddled through. However, I think by the end of the first quarter fears of a complete meltdown will have disappeared and concerns over China and the US will be to a great extent placated. This should see steady gains through the second quarter as investors return to equities.

There are a number of factors pointing to 2012 being a stronger year for equities:

1. US corporate earnings will again further increase the record earnings level. This will further compress PE ratios to historically low levels. Currently, forward PE ratios (for the total US market) are at 12, whereas for several decades the level has been between 15 and 16. This indicates that equities could be 40% undervalued - a statistic that doesn't remain out of kilter for too long once near-term fears ease.
2. The S&P 500 valuation is at a current PE ratio of 13.3, this is exactly the same PE and market valuation the market reached in March 2009, before that amazing rally into 2010.
3. In 2011, S&P 500 profits reached a record $97 per share, which based on the long-term average PE ratio of 15.5 should have seen the S&P 500 achieve a year-end of around 1503 – it finished at 1260, about 20% undervalued. Next year, the estimate for S&P 500 profits is around $105 depending who you listen to. Goldman Sachs are the most bearish and they say $100. So based on the consensus (and they were too low last year) the S&P 500 should finish 2012 around 1650 to be fairly valued. That's a 31% lift from here – unlikely, yes I know, but what is far more unlikely is a fall from current levels.
4. Rarely does the dividend yield on the S&P 500 exceed the 10-year US Treasury bond yield as it does now. Whenever this has occurred, there has been a violent snap back by equities in the near-term.
5. Since the 1960's the Dow Jones Industrial Average has reacted inversely to the Initial Jobless claims issued by the US Department of Labor weekly. The steady trend downwards in jobless claims would indicate that a significant rally on the Dow was overdue.
6. Economic fundamentals in the US continue to improve monthly. In addition, consumer and business confidence is approaching pre-GFC levels.
7. US home sales and housing starts have shown signs of recovery and many US homebuilders expect to increase employment in 2012, thus further reducing unemployment concerns.
8. The US are reducing their involvement in foreign wars with the withdrawal from Iraq. This will be beneficial to the US economy, as they have already spent over $1 Trillion dollars on Iraq. History has shown, since the First World War that the US stock market goes sideways during times of large-scale war and then heads steadily up in times of peace. The current sideways movement began with the War on Terror. The last time the US market had such a long-term "sideways" movement was during the Vietnam War (1965 to 1975).
9. Periods of low interest rates are normally associated with bull markets due lower returns being offered by non-equity investments. With lower interest rates around the world being with us for at least another 18 months to 2 years, we can expect once fears ease that equities will offer the best returns.
10. As pointed out earlier, technology spending in 2012 is set to be the highest in history.
11. I would like to add to the list the predictions of hedge fund legend Doug Kass, who last year picked the market almost precisely, as he often does (although, he did get the price of gold wrong and he missed on Microsoft taking over Yahoo), but everything else was very close. Whilst I completed my analysis and had written this report before his ideas were available, I thought you might like to see what his major predictions for 2012 are:
    - For the US market to hit an all-time high August or September.
    - Growth in the US economy to accelerate
    - Mitt Romney to defeat Barack Obama in the presidential elections
    - There to be a brief scare over the EU debt crisis in early 2012 due to Greece running off the rails with riots and the Greek PM weakening on austerity. He is quickly brought back into line.
    - The EU suffers a very mild recession and the ECB continues to flood the market with cheap money. The EU recovers rapidly.
    - German and French stock markets rally strongly.
    - Apple's share price to hit $550 and introduces a dividend. iPads and iPhones completely dominate their rivals.
    - We'll see merger mania fuelling markets
    - Financial stocks to make a big comeback
    - Retail investors' flock back to the market – Mutual funds have the best year since 2007.
    - China has a soft landing
    - Israel attacks Iran – The US stays out of it and tries to broker peace.

Now, these are the predictions of Doug Kass, who has a very good record at being very close to the mark every year. However, I must say I agree with much of what he's predicted.

**So, what could undo a rally in 2012?**

Simply something not on the current horizon – known as a black swan event e.g. a war with North Korea or Iran for example or possibly an earthquake in a major city in Asia or the US – something along those lines. A black swan event could happen at any time and you shouldn't base your investment strategy on something that may or may not happen.

The only known concern that could cause trouble would be an unwinding of the EU and a breakdown of the Euro.

However, if that was going to happen, it would have happened by now, as many steps have already been taken that have eased that possibility, such as: Strengthening the banking system with injections of cheap money by the ECB; Strengthening the fiscal responsibility and accountability of member countries for future budgets unanimously; Also strengthening and increasing the size of emergency bailout funds and instigating a process whereby central banks around the world co-operate in providing liquidity, such as the process of reducing the margins charged on US$ loans. Lastly, it's in Germany's (and Frances's) best interest to keep the Euro and all the countries (except maybe Greece) in the Eurozone, and quite frankly they have enough economic might and reserves to ensure that it remains workable.

Potential sovereign downgrades by ratings agencies will have a very short-term effect on markets, as we saw when the US was downgraded, but then recovered in literally weeks. I expect any EU downgrades to have an equal or lesser effect.

**Conclusion**

The weight of economic evidence points towards much higher equity markets in 2012, in particular the US and Germany. Australia will rise to a lesser degree on the back of the US market.

The only major risks seem to relate almost exclusively to a very unlikely unravelling of Europe, which as each day passes looks less likely. It seems we are in a fortunate position right now, fear and concern is still very high keeping markets low, yet fundamentals are telling a very different story. Often opportunity comes wrapped in a problem, 2012 could be a year to start unwrapping.

## Last Night's Action on Wall St

**I made it clear that you should not be selling your stocks in our last edition, as I felt the pessimism would soon fade. As it turns out, holding was the right decision, as this week the Trident Confidential portfolio kicks off 2012 with a 10% gain since the year began. Please read my article on Long Term Investing where I reveal the most important lesson Warren Buffett could ever teach you is revealed.**

In our last edition of 2011 I predicted the traditional year end rally would arrive late, and that prediction turned out about right with January now well into positive territory with a rally based on US economic optimism and hopes that the EU is slowly moving in the right direction.

Also, the market was encouraged by several predictions that China would intervene in its slowing economy by easing monetary and fiscal policy to ensure a "soft landing" as their economy slows to more sustainable levels of growth.

Last night's rally favoured growth stocks, particularly tech shares.

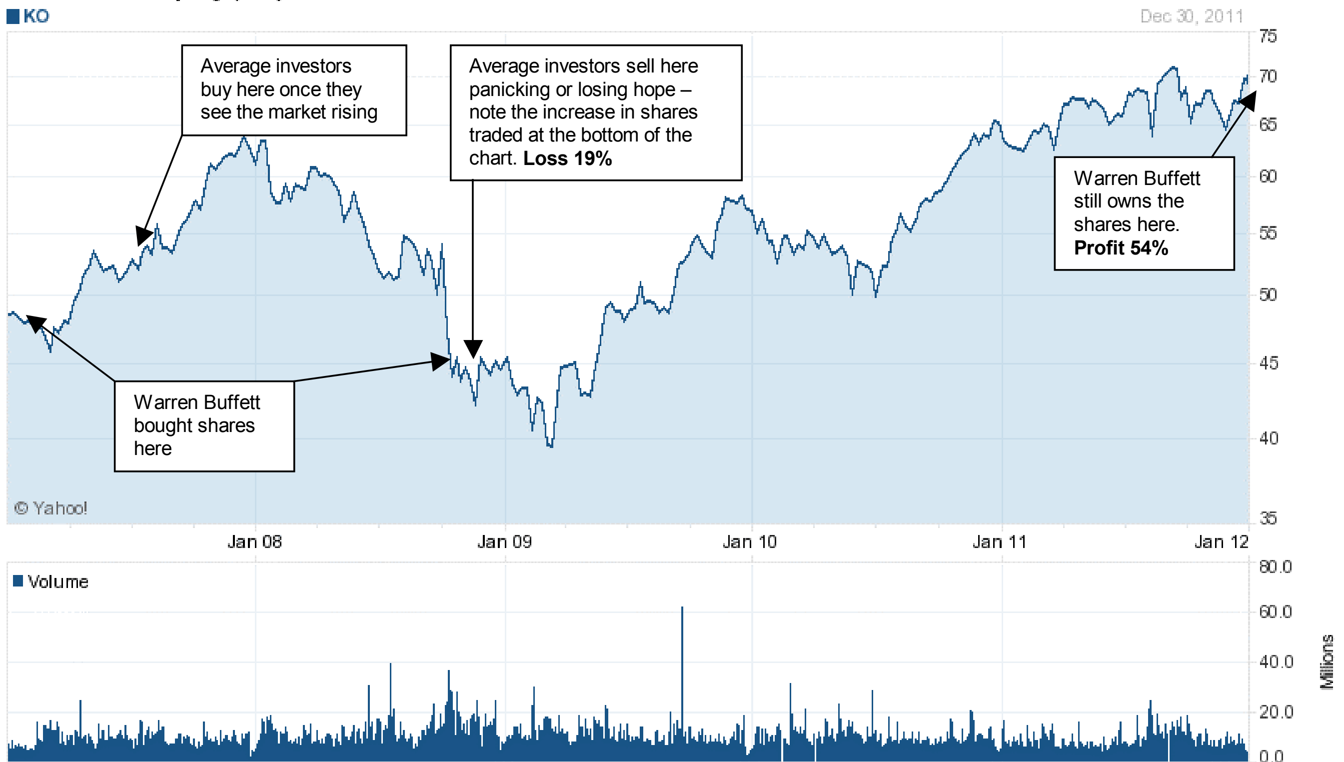
## Understanding Long-term Investing

Most investors would want to be just like Warren Buffett, but few, when given the chance will invest like him. Most invest in exactly the opposite way – they then lose money and constitute the majority of investors who rarely do overly well in stocks. Investing just like Warren Buffett is easy, but very few people can do it. They lack one vital thing – patience.

The average investor is not an investor at all – they are "speculators". They judge their investments based on daily, weekly or monthly movements. They make decisions to buy or sell based not on the long-term outlook of a business,

but what happened yesterday, or become caught up in the fear of what might happen tomorrow – this is speculation, not investing. Most investors are guilty of it and due to the pressure of quick returns, investment professionals (who should know better) also get caught up with it, as they feel that if they don't follow the bad habits of their customers they will be subject of criticism or redemptions if the results aren't there in the short-term. This is a major mistake and one that many fund managers make today. It turns most fund managers into "mediocrity-seeking, index-huggers" that would rather be wrong and average, rather than be right and above average because the time frame of the average investor is so short that wrong and average is "safer".

It's best to illustrate this by looking at a Warren Buffett favourite – Coca Cola. As we well know, Warren is famous for saying his holding period of a stock is forever and nothing shows and explains his success and the failure of the average investor better than this chart.




Warren and average investors both invested in exactly the same stock and at similar entry points, and even if Warren had bought when everyone else did, he still would be up 34%. The difference was the holding period. The average investor sold a perfectly good company – ignoring all fundamentals, exactly the same fundamentals they relied on so much to buy the stock in the first place – and sold at 19% loss. This is the story of their investment lives. Warren on the other hand is up 54% in exactly the same stock. It's pointless doing all the research and finding a great investment for the long-term, if at the first sign of trouble, you dump the lot, take a loss and go to cash. It seems to me that most investors forget what they have invested in and have disregarded common sense totally.

Let me give you one more example of less than sensible behaviour. Just say you own a coffee shop, it's profitable, it has it's bad days and good days – but over a given period, the business is good. Now, you buy the newspaper and you read that economic conditions *could* get worse next year, do you immediately put up a for sale sign? Only to take it down a week later when you realise the journalist overstated the issue. No, of course you don't – so why do it with the other businesses you own - your shares?

**The Warren Buffett Investing Secret? He buys when everyone is selling. He buys the <u>right</u> companies, then holds them for a very long time. The "average investor" does not do this – the average investor wants profits right now and has no patience. The reason? They don't understand the companies they have invested in, so therefore buy them in ignorance, and sell them the same way. The "average investors" are the first to become "greedy", and the first to become "panicked" – they are not equipped emotionally and therefore the market moves against them everytime. Successful investors are often contrarian – they go against the "crowd".**

# Using TC on your devices – by Monika Ruoff

If like me you got some new Apple goodies for Christmas, you may wish to now access your TC issues using these. I have played around and thought I would point out some cool features you may not be aware of. You can set up TC to be like an App button on your iPhone and iPad, so you can just click the Icon.

**How to do it? iPhone**

Use your browser (Safari) to find the TC website, then down the bottom you'll see navigation icons – left and right arrow, then a box with big arrow going right, an open book and a box with a numbered square over it. Click the box with the big arrow going right icon and you will get a list of options. Select 3rd one down – Add to Home Screen and voila! You'll get a little App icon on your home page.

**On Your iPad**

Exactly the same as above but the navigation icons are at the top left of the screen.
Hope you find this useful!

# Economic News

## US Consumer Credit Grows the Most in 10 Years!

As another sign that the US economy and consumer are back, the Federal Reserve reported figures on Monday that showed Americans were again borrowing money. Credit to consumers jumped $20.4 billion, to $2.48 Trillion – the highest level since November 2001. Dropping unemployment is returning confidence to US consumers and the deleveraging that Americans have undertaken in the last 3 years has allowed them to start borrowing again. This good news has prompted my decision to buy into the US Financial sector for the first time since 2008 this week with one of our new recommendations.

## US Construction Market Growing Again.

In November, construction spending gained 1.2%, significantly higher than the 0.5% forecast by economists. This also represents a substantial lift from October. Private housing helped fuel the increase, with a 2.6% gain in home improvement spending and a 1.5% on new building. This all points to US GDP growth to surprise to the upside and I'm expecting 3% in the 4th quarter.

## US Factory Orders Rise

Overall US factory orders rose 1.8% in November, coming in slightly below the 2.6% consensus estimate. Nonetheless, this represents the largest increase since July as well as a reversal from the prior month, where orders fell 0.2%. The increase was led by demand for durable goods, which leapt ahead 3.7% last month.

## US Initial Claims for Unemployment Fall as does the US Unemployment Rate

Last week, the US Labor Department released more good news on the US employment front. Initial jobless claims fell from 387,000 to 372,000. This was more than expected as economists expected 375,000 initial jobless claims. This week's decrease has brought the four-week moving average, a more stable measure, down to its lowest level since June 2008.

In December, the US unemployment rate fell to 8.5% from a revised 8.7% the prior month. This represents the lowest rate in three years and was a stronger finish than economists expected, who predicted an 8.7% rate. The private sector also added 219,000 jobs, beating out estimates of a 165,000 gain. The average workweek also gained some ground, rising from 34.3 in November to 34.4 in December.

The falling unemployment rate is now definitely a trend and I expect further falls in 2012 as US businesses gain greater confidence in the US economy's recovery. More employed people lift consumption and this in turn provides more jobs. This is what they call the "virtuous cycle".

## The Week Ahead

We now know, you can never second guess what the Europeans will come up with next, so the markets keep a skeptical eye on events there and tend to over-react, but leaving them aside, I think the market will start looking towards the forthcoming earnings season. I expect this to be another record breaking season with forward guidance being slightly more positive.

Remember, you can check the New York futures each day here: **http://money.cnn.com/data/premarket/index.html**
**Make sure you have your stops in place**

## Last Edition's New Buys:

| | | | |
|---|---|---|---|
| **XXXX** | **– Medium Risk** | **Bought at** | **$8.58** |
| **XXXX** | **– Medium Risk** | **Bought at** | **$18.38** |
| **XXXX** | **– Medium to High Risk** | **Bought at** | **$36.19** |
| **XXXX** | **– Very High Risk** | **Bought at** | **$11.34** |
| **XXXX** | **– Low to Medium Risk** | **Bought at** | **$32.96** |
| **XXXX** | **– High Risk** | **Bought at** | **$32.34** |
| **XXXX** | **– Low Risk** | **Bought at** | **$58.80** |

## This Edition's Sells:

**XXXX**
**XXXX**
**XXXX**

Unfortunately, **XXXX** is a very volatile stock, and while I think the company has a great future, it is just too volatile for this portfolio. I will keep an eye of the stock and if the volatility calms somewhat, I will consider re-introducing it.

**XXXX** was stopped out on the 22nd December and while the stock has started to recover, I feel the upside in the short term may be limited so we will look elsewhere for the time being, but it is still suited to long term investors.

**XXXX**, well, I can't count the number of times we have been in and out of XXXX, overall it's been very profitable over the years, but right now, as much as I see a good future for the company and great demand for their product, sentiment is awful, with lower REE prices and perceived problems with their plant license in Malaysia, it's hard to see a strong bounce in coming weeks, so we'll put XXXX on hold for the time being.

## This Week's New Buys:

Last year I said we would consider US banks as an investment option, if the US economy was strengthening, which it is, but the really encouraging news is that the housing market is strengthening and US consumers are again borrowing. Well, when it came down to looking at the banks, there was only two banks that impressed me, XXXX and XXXX. XXXX got the nod for one simple reason – Since 1995, they have hardly missed a year when they haven't increased book value per share – the only exception being 2007 and this was only by 10%, and then they resumed their steady book value increases – even right through 2008 and 2009 when the US banking system was falling to pieces. What's more, the only slip they had with earnings was in 2008 when they took over Wachovia, then in 2009, they resumed their profit growth to the point where 2011 will be all-time record profit year for WFC. They have excellent management as well and the reason why Warren Buffett's Berkshire Hathaway is the largest shareholder.

Our other picks this week, include a company involved in IT – providing information technology services to mainly the US government. This is one area, which budget cutbacks will probably not effect as it improves the efficiency and

ultimately saves costs. We also have two Australian companies that should do well regardless of the Australian economy.

| | | |
|---|---|---|
| **XXXX** | **Buying up to** | **$30.00** |
| **XXXX** | **Buying up to** | **$57.00** |
| **XXXX** | **Buying up to** | **$50.00** |
| **XXXX** | **Buying up to** | **$3.20** |

**My buy up to prices are very tight, as I don't want to get caught up in chasing stocks after such a good rally in 2012, so please try and buy at under my Buy up to prices or as per my suggested trade prices.**

**Stock tickers in Blue are all new stocks.**

# XXXX – XXXX

## Buying up to US$30.00

**Price Appreciation Potential: 55%+**

**Risk: Low - Medium**

XXXX & Company is a diversified financial services company providing banking, insurance, investments, mortgage, and consumer and commercial finance through more than 9,000 stores and 12,000 ATMs and the Internet (wellsfargo.com and wachovia.com) across North America and internationally.

One in three households in America does business with XXXX. XXXX has $1.3 trillion in assets and more than 270,000 team members across 80+ businesses.

Of all US banks, they have among the best rated credit quality. Also, they are the leader in the US with loan modifications – renegotiating lower rate mortgages with customers resulting in not only goodwill with the community, but also avoiding costly and hurtful repossessions.

Net loans are now increasing after dropping since 2008. They estimate net loans will increase 2% in 2011 and 4% in 2012. All bad loans inherited from the Wachovia takeover are now off the balance sheet and the company's financial position is now as good as it ever was.

**Last time they were in the Trident Confidential portfolio in 2008 we made a quick 40% on our money.**

**Latest Results**

XXXX & Company reported record net income of $4.1 billion, or $0.72 per diluted common share, for third quarter 2011, up from $3.3 billion, or $0.60 per share, for third quarter 2010, and up from $3.9 billion, or $0.70 per share, for second quarter 2011. Revenue was $19.6 billion, compared with $20.4 billion in second quarter 2011.

"The economic recovery has been more sluggish and uneven than anyone anticipated," said Chairman and CEO xxxx xxxxx. "We can't change the economic environment, yet we have worked hard to control the variables we can – making our products and services more relevant to individuals and businesses, focusing on the customer, making as many loans as possible and growing new relationships – as well as fostering longtime ones. We see the results of this focus in growing cross-sell, deposits, and loans. Customers need a trusted financial partner, especially in challenging economic times. XXXX has proven to be that partner over and over again.

"We are nearing the completion of our three-year Wachovia integration process. To date, Regional Banking has now completed its store conversions and our retail stores are XXXX coast-to-coast on a single platform. Thank you to every single team member who has been involved in this remarkable effort."

"This was a strong quarter for XXXX, with solid growth in loans, deposits, investment securities and capital, along with improved credit quality and lower expenses," said Chief Financial Officer xxx xxxxx. "While our industry continued to face challenges due to economic conditions during this quarter, XXXX's diversified model was again able to produce solid results for our shareholders."

**Valuation**

Americans are borrowing again, the US economy is recovering and housing construction is showing signs of life – it all adds up to better days for US banks. XXXX has always been regarded as one of the better-run banks and is not well-known for taking risks. Over the long-term, the banks has nomally been valued at 14 times earnings or higher, but currently sits at just under 9 forward earnings. Based on next year's earnings of $3.24 and applying the normal PE ratio of 14, you end up with a share price around $45. This is a 55% lift from its current price.

| Valuation Measures | |
|---|---|
| Market Cap (intraday) | 152.62B |
| Enterprise Value (Jan 9, 2012) | 172.71B |
| Trailing P/E (ttm, intraday): | 10.72 |
| Forward P/E (fye Dec 31, 2012) | 8.93 |
| PEG Ratio (5 yr expected) | 0.77 |
| **Profitability** | |
| Profit Margin (ttm): | 20.83% |
| Operating Margin (ttm): | 35.65% |
| **Management Effectiveness** | |
| Return on Assets (ttm): | 1.23% |
| Return on Equity (ttm): | 11.74% |

| Earnings Est | Current Qtr. Dec 11 | Next Qtr. Mar 12 | Current Year Dec 11 | Next Year Dec 12 |
|---|---|---|---|---|
| Avg. Estimate | 0.72 | 0.73 | 2.82 | 3.24 |
| Year Ago EPS | 0.61 | 0.67 | 2.21 | 2.82 |

| Revenue Est | Current Qtr. Dec 11 | Next Qtr. Mar 12 | Current Year Dec 11 | Next Year Dec 12 |
|---|---|---|---|---|
| Avg. Estimate | 20.08B | 19.75B | 80.62B | 80.52B |
| Year Ago Sales | 21.49B | 20.33B | 85.21B | 80.62B |
| Sales Growth (year/est) | -6.60% | -2.80% | -5.40% | -0.10% |

| Earnings History | Dec 10 | Mar 11 | Jun 11 | Sep 11 |
|---|---|---|---|---|
| EPS Est | 0.61 | 0.66 | 0.68 | 0.73 |
| EPS Actual | 0.61 | 0.67 | 0.70 | 0.72 |
| Difference | 0.00 | 0.01 | 0.02 | -0.01 |
| Surprise % | 0.00% | 1.50% | 2.90% | -1.40% |

Graph

# XXXX – XXXX

## Buying up to US$57.00

**Price Appreciation Potential: 50%+**
**Risk: Low**

XXXX International Inc is a professional services and information technology (IT) company headquartered in Arlington, Virginia. XXXX is a member of the Fortune 1000 Largest Companies and the Russell 2000 index. The company has approximately 13,700 employees in over 120 offices in the U.S. and Europe.

Basically, this company provides XXXX services to the US military and other security agencies as well as provide services to other governments around the world. They are enormously profitable, incomes and order books are at record levels, which make this a good investment. If, however, you are uncomfortable investing in military, anti-terrorsist or government "security" stocks, then this may not be for you. I have chosen it as a good reliable investment, as regards everything else – I leave that to you, it is not for me to make judgements on your behalf.

**Latest Results**

"We are pleased to report record first quarter Fiscal Year 2012 (FY12) revenue of $924.4 million, an increase of 10.8 percent from the first quarter of Fiscal Year 2011 (FY11). The revenue increase was driven primarily by organic revenue growth of 8.3 percent."
-Pro forma diluted EPS increased 47.5 percent
-Pro forma operating income increased 40.3 percent
-Revenue increased 10.8 percent; organic revenue increased 8.3 percent
-Record funding orders and contract awards
"In 13 out of the last 15 quarters, we have delivered on our financial goals of mid- to high-single-digit organic revenue growth and double-digit earnings growth. This quarter we again achieved our financial goals with record results in revenue, operating income, and EPS, and received $1.6 billion in contract funding orders in the quarter -- the highest in XXXX's history. We also generated record operating cash flow in the quarter. Our over $2 billion of contract awards included $635 million of S3 awards focused primarily in the C4ISR-related area, and approximately $350 million in intelligence contracts."
Mr. xxxxxx added, "Our mergers and acquisition program is accelerating our momentum in the high-growth cyber arena, with our recent strategic acquisitions of xxxx technologies and xxx Holdings. xxxx and xxx expand XXXX's capabilities for cyber forensics and secure network operations, providing our clients with unique capabilities to respond to national security threats. We also completed the acquisition of Advanced Programs Group, a leading provider of Oracle e-Business services, significantly expanding our capabilities in the business systems and government transformation market.

**Latest Guidance**

XXXX International, Inc (XXXX) said it expects 2012 earnings of $5.55 to $5.80 per share on revenue of $3.85 billion to $4.05 billion. The company's previous guidance was earnings of $4.70 to $4.90 per share and continues to expect revenue of $3.75 billion to $3.95 billion and the current consensus earnings estimate is $5.16 per share on revenue of $3.86 billion for the year ending June 30, 2012.
"We are raising our guidance for Fiscal Year 2012 based on continued strength in our operating performance; the addition of acquisitions in the cyber and business systems areas; and a large commercial product sale. Our record performance in this first quarter of our 50th year in business provides a solid foundation and strong momentum for the rest of this fiscal year and beyond."

**Valuation**

The latest estimates for next year are $5.93 EPS and at their long term low end PE of 14, we should expect a share price of $83 by the end of the year giving us a 50% return, although keep in mind this company has a long record of beating guidance and the long-term average PE is closer to 20.

| Valuation Measures | |
|---|---|
| Market Cap (intraday) | 1.47B |
| Enterprise Value (Jan 9, 2012) | 1.98B |
| Trailing P/E (ttm, intraday): | 10.94 |
| Forward P/E (fye Jun 30, 2013) | 9.39 |
| PEG Ratio (5 yr expected) | 0.70 |
| **Profitability** | |
| Profit Margin (ttm): | 4.30% |
| Operating Margin (ttm): | 7.50% |
| **Management Effectiveness** | |
| Return on Assets (ttm): | 7.77% |
| Return on Equity (ttm): | 13.59% |

| Earnings Est | Current Qtr. Dec 11 | Next Qtr. Mar 12 | Current Year Jun 12 | Next Year Jun 13 |
|---|---|---|---|---|
| Avg. Estimate | 1.30 | 1.43 | 5.67 | 5.93 |
| Year Ago EPS | 1.08 | 1.16 | 4.61 | 5.67 |

| Revenue Est | Current Qtr. Dec 11 | Next Qtr. Mar 12 | Current Year Jun 12 | Next Year Jun 13 |
|---|---|---|---|---|
| Avg. Estimate | 952.05M | 998.45M | 3.92B | 4.14B |
| Year Ago Sales | 867.28M | 913.37M | 3.58B | 3.92B |
| Sales Growth (year/est) | 9.80% | 9.30% | 9.50% | 5.70% |

| Earnings History | Dec 10 | Mar 11 | Jun 11 | Sep 11 |
|---|---|---|---|---|
| EPS Est | 0.97 | 1.03 | 1.17 | 1.11 |
| EPS Actual | 1.08 | 1.16 | 1.44 | 1.41 |
| Difference | 0.11 | 0.13 | 0.27 | 0.30 |
| Surprise % | 11.30% | 12.60% | 23.10% | 27.00% |

Graph

# XXXX – XXXX

## Buying up to AUD$50.00

**Price Appreciation Potential: 50%+**

**Risk: Medium**

XXXX engages in the provision of analytical testing services, and hospitality wares and distribution services. It provides assaying and analytical testing services, and metallurgical services for mining and mineral exploration companies; and analytical testing data to assist consulting and engineering firms, industry, and governments worldwide in making informed decisions about their environmental projects.

The company also offers services to the coal industry, such as coal sampling, and analysis and certification of export cargoes, as well as provides analysis of lubricating oil from a range of mechanical equipment for preventative maintenance purposes. In addition, it provides testing, inspection, and asset care services to the energy, resources, and infrastructure sectors; and engages in the distribution of non-food consumables to the hospitality, health and aged care, education, catering, and contract cleaning industries. The company has operations in Australia, New Zealand, Asia, North and South America, and Africa. XXXX Limited was founded in 1863 and is headquartered in Australia.

They have made some very good acquisitions in recent times, Ammtec, Stewart Group, Austpower Engineering and Columbia Analytical Services all being positive for the group in the current period.

**Latest Results**

The Group achieved a record interim net profit after tax of $102.3 million in the half year to September 2011, in line with recent guidance provided to the market. The result was up 54% on the previous corresponding period and was generated from revenue of $667.5 million (up 22% on the September 2010 half).

All divisions within the xxxxxxx business recorded increased profit contributions and margins over the previous corresponding period. In particular, strong growth in global mineral exploration activity lifted demand for the analytical testing services provided by xxxx xxxx division. Increased sample flow, combined with earnings generated by xxxxxxx (acquired November 2010) and xxxxxxxx (acquired July 2011) served to deliver a 79% increase in segment profit contribution over the September 2010 half-year. xxxxxxxxx division delivered strong gains in revenue and profit contribution, particularly within the Australian and North American regions.

xxxxx Coal, Tribology and Industrial divisions all recorded solid growth in earnings compared with the previous corresponding period and the Reward Distribution hospitality supplies division returned to profitability during the September 2011 half.

**Valuation**

The dividend yield will be a very healthy 4% in 2012, shifting up to 4.7% in 2013 based on estimates.

Long term growth is estimated to be around 20% per annum over the next 5 years and with a forward PE of under 14 makes these shares great value considering that their long term average is closer to 19-20. Analyst estimates have been rising recently with earnings estimates jumping over 10% in recent months. While there remains some concerns about Australian growth and a slowdown in China, it will have little affect as they have now diversified into the US and these operations will make up any softening that may be felt in Australia, although indications are that business for XXX in Australia is booming.

For next year, I estimate that earnings will be around $3.65 and at an average PE of 20, should see a share price of around $69.35 – a 50% increase from here.

| Valuation Measures | |
|---|---|
| Market Cap (intraday)[5]: | 3.32B |
| Enterprise Value (Jan 9, 2012)[3]: | 3.73B |
| Trailing P/E (ttm, intraday): | 19.63 |
| Forward P/E (fye Mar 31, 2013)[1]: | 13.72 |
| PEG Ratio (5 yr expected)[1]: | 0.81 |
| **Profitability** | |
| Profit Margin (ttm): | 13.71% |
| Operating Margin (ttm): | 20.07% |
| **Management Effectiveness** | |
| Return on Assets (ttm): | 12.27% |
| Return on Equity (ttm): | 21.89% |

| Earnings Est | Current Qtr. 0-00-31 | Next Qtr. 0-03-31 | Current Year Mar 12 | Next Year Mar 13 |
|---|---|---|---|---|
| Avg. Estimate | N/A | N/A | 3.10 | 3.58 |
| No. of Analysts | N/A | N/A | 13.00 | 13.00 |
| Low Estimate | N/A | N/A | 2.74 | 3.14 |
| High Estimate | N/A | N/A | 3.26 | 3.98 |
| Year Ago EPS | N/A | N/A | 2.02 | 3.10 |

| Revenue Est | Current Qtr. 0-00-31 | Next Qtr. 0-03-31 | Current Year Mar 12 | Next Year Mar 13 |
|---|---|---|---|---|
| Avg. Estimate | 1.41B | 1.41B | 1.41B | 1.62B |
| No. of Analysts | 13 | 13 | 13 | 13 |
| Low Estimate | 1.30B | 1.30B | 1.30B | 1.45B |
| High Estimate | 1.44B | 1.44B | 1.44B | 1.70B |
| Year Ago Sales | 1.11B | 1.11B | 1.11B | 1.41B |
| Sales Growth (year/est) | 26.90% | 26.90% | 26.90% | 15.10% |

Graph

# XXXX – XXXX

## Buying up to AUD$3.20

**Price Appreciation Potential: 30%**

**Risk: Low - Medium**

XXXX Group Ltd ("XXXX") is Australia's largest network independent provider of the full suite of fixed line, mobile and data telecommunications services.

Established in 1999, XXXX is a network independent provider of retail fixed-line, mobile and data telecommunications services, specifically tailored towards Small to Medium Businesses (SMBs) in Australia and New Zealand.

XXXX's unique fixed-line membership programs, including their Phone & Fly program and Capricorn Society affiliation, have been key drivers to our success in becoming one of the premium business telecommunications brands in Australia. Their unique business model means that they can develop customised telecommunications programs for any membership based organisation.

Key brands include xxxxxx . XXXX is the largest fixed line customer of Telstra. The retail division accounts for 78% of EBITDA, with the remainder captured with the wholesale division. XXXX employs over 450 people in offices through major Australian cities & NZ.

**This company has solid growth prospects for 2012 and 2013, but growth is slowing from the pace of 2009-2011. However, this company is ideal for those looking for an excellent dividend yield. Dividends have been growing each year and while the current yield is around 6%, it is estimated to increase to over 9% by 2014.**

**Latest Results**

XXXX delivered a strong FY11 result that was largely in line with expectations. EBITDA grew by 51.0% to $47.5m while NPAT grew by 69.6% to $27.9m.

A key strategic change was outlined with the result. Xxxxx Xxxxx will step aside as CEO after 12 years with xxxx xxxx (COO) assuming the position.

- Revenue of $426.8m, up 5.1% (PSL $465.0m)
- EBITDA of $47.5m, up 51.0% (PSL $49.1m)
- Reported NPAT of $27.9m, up 69.6% (PSL $27.7m)
- Underlying NPAT of $31.3m, up 69.1%
- DPS of 16.0 cps, up 60.0%

**Latest Guidance**

Management provided FY12 guidance of midpoint EBITDA $60m (+24%), including $5m-$10m worth of re-investment into reforming the sales channels, costs efficiencies and price competition. All three initiatives are funded by the wholesale price benefit and will likely lead to incremental market share gains and EPS accretion from FY13.

The guidance indicates EPS of between 24c and 28c per share for FY 2012.

**Valuation**

Based on the guidance midpoint for FY 2012 of say $0.26c and applying an average long term PE of 12, we should see XXXX trading at around $3.50 now, but it's still under $3.00. Looking further out than less than 6 months, I expect Eps to be around $0.35 in 2013 (as I feel the 2012 result will prove to be conservative) and based on a lowered PE of around 11 (to account for slowing growth) we should see a share price closer to $3.85 – indicating a 28% lift from here. This isn't a huge lift and normally this wouldn't catch my attention, but **this is more a solid yield play and as I say, by 2014, you could be earning over 9% fully franked (tax paid) on an investment made today**.

| Valuation Measures | |
|---|---|
| Market Cap (intraday)[5]: | 369.96M |
| Enterprise Value (Jan 9, 2012)[3]: | 384.68M |
| Trailing P/E (ttm, intraday): | 13.47 |
| Forward P/E (fye Jun 30, 2013)[1]: | 8.79 |
| PEG Ratio (5 yr expected)[1]: | N/A |
| Price/Sales (ttm): | 0.87 |
| Price/Book (mrq): | 3.94 |
| **Profitability** | |
| Profit Margin (ttm): | 6.49% |
| Operating Margin (ttm): | 9.67% |
| **Management Effectiveness** | |
| Return on Assets (ttm): | 14.30% |
| Return on Equity (ttm): | 32.36% |

| **Earnings Est** | Current Qtr. 0-00-31 | Next Qtr. 0-03-31 | Current Year Jun 12 | Next Year Jun 13 |
|---|---|---|---|---|
| Avg. Estimate | N/A | N/A | 0.29 | 0.34 |
| No. of Analysts | N/A | N/A | 3.00 | 3.00 |
| Low Estimate | N/A | N/A | 0.27 | 0.33 |
| High Estimate | N/A | N/A | 0.30 | 0.36 |
| Year Ago EPS | N/A | N/A | 0.25 | 0.29 |

| **Revenue Est** | Current Qtr. 0-00-31 | Next Qtr. 0-03-31 | Current Year Jun 12 | Next Year Jun 13 |
|---|---|---|---|---|
| Avg. Estimate | N/A | N/A | 405.97M | 438.23M |
| Year Ago Sales | N/A | N/A | 426.08M | 405.97M |
| Sales Growth (year/est) | N/A | N/A | -4.70% | 7.90% |

Graph

## Stocks in Range and Limit Buy Orders based on 2 Allocations – Indicative Prices only and subject to change

For a larger portfolio, a 3rd allocation can be made at 8% below Buy Up To Prices. Average prices and stops should be adjusted accordingly. I place my stops AFTER I have filled all my positions and usually the following trading day (or at the latest, the end of the week regardless of allocations). Stocks in **Blue** are this week's New Buys. The prices shown are Indicative and are based on recent market prices**. Actual buy prices can vary plus or minus 2% depending on market conditions.**

| Ticker | Company | Buy up to Price* | First buy Allocation | Second Buy Allocation | Avge Price based on two allocations |
|---|---|---|---|---|---|
| XXXX | XXXX | $11.40 | $ 11.17 | $ 10.83 | $ 11.00 |
| XXXX | XXXX | $425.00 | $ 416.50 | $ 403.75 | $ 410.13 |
| XXXX | XXXX | $100.00 | $ 98.00 | $ 95.00 | $ 96.50 |
| XXXX | XXXX | $85.00 | $ 83.30 | $ 80.75 | $ 82.03 |
| XXXX | XXXX | $638.00 | $ 625.24 | $ 606.10 | $ 615.67 |
| XXXX | XXXX | $26.25 | $ 25.73 | $ 24.94 | $ 25.33 |
| XXXX | XXXX | $36.50 | $ 35.77 | $ 34.68 | $ 35.22 |
| XXXX | XXXX | $30.00 | $ 29.40 | $ 28.50 | $ 28.95 |
| XXXX | XXXX | $57.00 | $ 55.86 | $ 54.15 | $ 55.01 |
| XXXX | XXXX | $50.00 | $ 49.00 | $ 47.50 | $ 48.25 |
| XXXX | XXXX | $3.06 | $ 3.00 | $ 2.91 | $ 2.95 |

**This week buy up to prices are kept very tight due to this morning's enormous rally. I don't want sound bearish, but just one little piece of bad news will have this market having another temporary retreat or even without bad news there may be a few sellers taking profits tomorrow. That is our opportunity, so please while you can lift your entry points all the way up to my buy up to price, it may be prudent to at least wait a day just in case the prices come back a little.**

**Stock in Blue are this week's new buys.**

*Note: Some Buy Up To prices are adjusted lower to better reflect the current market prices, rather than my "Official" Buy Up To prices. Always check official buy up to prices in the portfolio table.

Now, please don't race out and buy stocks and pay over the limit prices, always try and be patient and wait for the market to drive the prices down to your price. Place your stops after all your allocations are made – I do this the next day as I usually use 3 part allocations where possible.

To work out how I get good prices and place trades, refer to the User's Guide on the website.

## My Favourite 5 Stocks

These are my favourite stocks at the moment that have **true medium to long-range potential (2-5 years)** - in no particular order. However, only buy these stocks if they are below my buy up to price.

✓ XXXX
✓ XXXX
✓ XXXX
✓ XXXX
✓ XXXX

This list can change at any time and it only represents the stocks I would have in my portfolio if I could only choose from 5. It will only be updated for each new issue, not at any other time.

## My Bargain Basement Stocks

These are the stocks that I feel the market has under priced. I expect a short-term upside correction (next 3 to 6 months) - in no particular order. However, only buy these stocks if they are below my buy up to price.

- ✓ XXXX
- ✓ XXXX
- ✓ XXXX
- ✓ XXXX
- ✓ XXXX

This list can change at any time and it only represents the stocks that I think the market has most dramatically under priced in our buy list at the present time. It will only be updated for each new issue, not at any other time.

## Portfolio as at Tuesday 10th January 2012
## Open Positions Only

| Ticker | Company | Bought in | Recent Price | Price Paid | Profit | My Buy Up To Price | Earnings Based Valuation |
|---|---|---|---|---|---|---|---|
| XXXX | XXXX | Dec-11 | $ 62.61 | $ 58.80 | 6.48% | $ 60.00 | $ 77.00 |
| XXXX | XXXX | Dec-11 | $ 21.19 | $ 18.38 | 15.29% | $ 18.75 | $ 27.60 |
| XXXX | XXXX | Dec-11 | $ 9.86 | $ 8.58 | 14.92% | $ 8.75 | $ 13.50 |
| XXXX | XXXX | Dec-11 | $ 36.30 | $ 32.96 | 10.13% | $ 33.00 | $ 61.00 |
| XXXX | XXXX | Dec-11 | $ 38.85 | $ 36.19 | 7.35% | $ 37.50 | $ 60.00 |
| XXXX | XXXX | Dec-11 | $ 37.50 | $ 32.34 | 15.94% | $ 33.00 | $ 65.00 |
| XXXX | XXXX | Nov-11 | $ 66.35 | $ 48.42 | 37.03% | $ 49.20 | $ 90.00 |
| XXXX | XXXX | Nov-11 | $ 49.42 | $ 36.48 | 35.47% | $ 40.00 | $ 75.00 |
| XXXX | XXXX | Nov-11 | $ 11.17 | $ 10.81 | 3.33% | $ 11.40 | $ 18.00 |
| XXXX | XXXX | Oct-11 | $ 44.99 | $ 35.91 | 25.29% | $ 40.00 | $ 55.00 |
| XXXX | XXXX | Oct-11 | $ 99.75 | $ 81.34 | 22.63% | $ 100.00 | $ 152.00 |
| XXXX | XXXX | Oct-11 | $ 83.57 | $ 63.56 | 31.48% | $ 85.00 | $ 125.00 |
| XXXX | XXXX | Oct-11 | $ 34.46 | $ 26.99 | 27.68% | $ 28.50 | $ 48.75 |
| XXXX | XXXX | Sep-11 | $ 36.90 | $ 34.06 | 8.34% | $ 37.00 | $ 49.45 |
| XXXX | XXXX | Sep-11 | $ 15.61 | $ 13.03 | 19.80% | $ 13.00 | $ 18.00 |
| XXXX | XXXX | Sep-11 | $ 27.96 | $ 25.91 | 7.91% | $ 27.00 | $ 36.85 |
| XXXX | XXXX | Aug-11 | $ 62.57 | $ 49.96 | 25.24% | $ 55.00 | $ 89.50 |
| XXXX | XXXX | Aug-11 | $ 98.48 | $ 83.85 | 17.45% | $ 86.00 | $ 145.00 |
| XXXX | XXXX | Aug-11 | $ 625.75 | $ 499.65 | 25.24% | $ 640.00 | $1,035.00 |
| XXXX | XXXX | Aug-11 | $ 25.84 | $ 20.57 | 25.62% | $ 22.00 | $ 35.50 |
| XXXX | XXXX | Aug-11 | $ 25.63 | $ 20.13 | 27.30% | $ 27.00 | $ 52.50 |
| XXXX | XXXX | Aug-11 | $ 35.66 | $ 35.10 | 1.60% | $ 38.00 | $ 50.00 |
| XXXX | XXXX | Aug-11 | $ 8.43 | $ 6.89 | 22.35% | $ 7.00 | $ 12.75 |
| XXXX | XXXX | Nov-10 | $ 450.25 | $ 253.02 | 77.95% | $ 450.00 | $ 615.00 |
| XXXX | XXXX | Feb-10 | $ 423.20 | $ 192.67 | 119.65% | $ 425.00 | $ 625.00 |
| | **Open positions average return** | | | | 25.26% | | |

"Recent Price" is not necessarily the closing price. The price shown is an intra day price as this report has been prepared prior to the close in New York this morning.

Stocks **within my buying range** marked in **purple** in the Buy Up To column

**Earnings Based Valuation** is calculated by using the forward earnings estimate multiplied by the average historical PE after removing abnormal peaks and troughs and taking into account sector averages or changes to the business model and taking into account long-term growth profile. ETF's are calculated using the estimated earnings of the

underlying 10 largest positions then multiplying by the gearing ratio. EBV is updated when year forward estimates change materially. Prices shown are potential prices over the next 12 months.

**NA** in the Trailing Stop Loss Column means that the 8% stop loss is still force. It changes to a TSL when the profit exceeds 22% (the actual TSL will be 25% from the intra-day high) at any point in the time we have held the stock.

## 2011 Results

The Final Result for 2011 was a profit of 37.30% and after allowing for brokerage costs, our estimate for the average portfolio was 21.63%. Not a fabulous year, but I'm more confident we'll do better this year.

## 2012 Results

**The portfolio increased 10.17% in the last week –** Based on the return methodology we are using (see end of the newsletter), taking into account closed (losing and profitable) positions and allowing for new open positions bought. Based on an evenly weighted portfolio.

### Total Portfolio Return for 2012 is +10.17% (11 days)

**The Australian Market (All Ordinaries) rose 2.31% this week. +2.31% year to date**
**The US Market (S&P 500) was up 2.78% this week. +2.78% year to date**
**The TC Portfolio moved up 10.17% this week. +10.17% year to date**

Our first reported return for 2012 was helped greatly by our new buys that provided average returns of nearly 12% each, which was very pleasing.

### How Calculating the Returns Works

Every newsletter in the world seems to have a different way of calculating their returns. However, these days, more and more seem to not indulge in this practice anymore due to ridicule, accusations of dodgy numbers and also because people who do the most accusing are generally those who have the least skill in doing arithmetic. So, for those who would like to know exactly how our returns are calculated, I will present a very simple example of how it's done at Trident Confidential.

Let's look at a 10 stock portfolio, all have the same amount of money in them at time of purchase, say $1,000 in each position.

| | Price Purchased | Current Price | Price Change for reporting period | % Change during reporting period |
|---|---|---|---|---|
| Stock 1 | $ 22.25 | $ 25.62 | $ 3.37 | 15.15% |
| Stock 2 | $ 1.75 | $ 1.85 | $ 0.10 | 5.71% |
| Stock 3 | $ 16.50 | $ 16.23 | -$ 0.27 | -1.64% |
| Stock 4 | $ 18.00 | $ 18.92 | $ 0.92 | 5.11% |
| Stock 5 | $ 29.23 | $ 36.78 | $ 7.55 | 25.83% |
| Stock 6 | $ 45.15 | $ 68.23 | $ 23.08 | 51.12% |
| Stock 7 | $ 32.33 | $ 33.98 | $ 1.65 | 5.10% |
| Stock 8 | $ 14.00 | $ 16.95 | $ 2.95 | 21.07% |
| Stock 9 | $ 68.75 | $ 72.98 | $ 4.23 | 6.15% |
| Stock 10 | $ 11.23 | $ 23.62 | $ 12.39 | 110.33% |
| | | Over the period the Portfolio Increased by 24.39%. This is the average amount each stock increased and therefore, the portfolio | | 24.39% |

Also, during the period, it could be a week, or month or a year, there could have been a sale and a new buy.

These transactions are included in the reported return as part of the period's return as either a loss or a profit depending on the purchase price and price the stock was sold for or the current price of the new stock. This profit or loss effect to the portfolio is apportioned in terms of its size and effect to the portfolio over all. In the case of a ten stock portfolio as above, the effect of one loss on a sold stock, of say 8%, will have an effect of 0.8% negative return over the whole portfolio due to it being only a tenth of the portfolio. Therefore in the example above, the return for the period would be 23.59% (in simple terms).The same would apply to a profit on a stock bought between reporting periods, it would be added on.

The effect on the portfolio, as a percentage, affects the portfolio and how many stocks are in the portfolio at the time the transaction occurs. All stocks in the Trident Confidential portfolio are of equal purchase size (evenly weighted), so as to keep it as simple as possible.

The returns shown are indicative and will vary from subscriber to subscriber due to the amount of money invested in each position and the number of positions invested in.

Obviously, the portfolio return can only be used as a guideline as it would be unusual, one would think, that a subscribers portfolio would be equally weighted and purchases and sales would take place on exactly the same day and at the same price as the portfolio records the transaction. The Portfolio Table shown above is indicative only and is based on an evenly weighted portfolio with stock movements recorded based on recommended and achievable buy and sell prices.

**The returns do not take into account dividends received or re-invested, brokerage or foreign exchange fluctuations between the Australian dollar and the US dollar whether favourable or not. Foreign exchange fluctuations also carry a degree of risk.**

**Until Next Time…**
**Kind Regards**
***Lance Spicer***
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