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Cairo 1/4/2014,

"Plus ça change, plus c'est la même chose..", Jean-Baptiste Alphonse Karr
Translation: "The more it changes, the more it's the same thing"

Dear Valued Investor,

"Irrational Exuberance" is a term coined by Alan Greenspan, former Federal Reserve Chairman, to describe the dot.com bubble of the 1990s. Although he first used this expression in a speech in 1996, it wasn't until the year 2000 that the NASDAQ started one of the strongest freefalls in history. Whoever exited the NASDAQ by December 1996, lost the opportunity to see his holdings appreciate from 821.36 to a top of 5132.52 in March 2000, an increase of more than six folds. The NASDAQ later dropped to below 800 by 2002.

The moral of the story is: There is a time for investment logic and there is a time for trader instinct. The combination of both gives the astounding results we are seeing in our portfolios today.

Earlier, this month, the EGX30 gave us a false signal that it might be forming a top. This prompted us to start unloading some of our EGX30 holdings. By the end of the trading day, we realized that the signal was erroneous (which is a common occurrence). Again, demonstrating a distinctive combination of investment prowess and trader instinct, we saw this as an opportunity to reshuffle our holdings. We consolidated our buying into one stock: Arab Cotton Ginning ACGC. One of the best performing stocks of the EGX30 for the month of March (if not the best).

In our previous newsletter, we expected full liquidation during the first quarter of 2014. Nevertheless, in the investment world, time frames are rarely set in stone. Our trader instinct instigated us to "stick around" for this quarter which saw a rally of more than 25% in the EGX30.

So what's next?

A report released mid February 2014 by Fitch Ratings stated: "Egypt's ratings have stabilized on tentative political and economic improvements, but rapid

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upgrades are unlikely. By the end of FY15, the economy will “still be much weaker” than in FY10 even after the expected improvement, the ratings agency said, adding that the country’s ‘B-’ rating reflects “substantial risks,” and that the clampdown on the Muslim Brotherhood brings a greater risk of radicalization than before FY11. The aid won’t be enough to end FX rationing, the report added. Forecast for budget deficit/GDP will be close to double digits and debt/GDP more than 90% in FY14/15, while the expected “modest strengthening” of growth will not be enough to prevent rise in unemployment”. Takes from the report can be found on both Bloomberg and Reuters.

We can very clearly see the economy slowing and consequently the stock market weakening. Like we have repeatedly confirmed, our aim is not to catch a top. We are very satisfied with our performance thus far and we believe we will be able to re-buy into the market at much lower levels than the current ones. We are currently looking for an exit point. We have upward targets (set by indicators not market value) and downward targets (a trailing stop). Whichever we hit first will be our exit point. Again, there is a very strong probability that we would execute, at least, a partial exit in this coming quarter.

As I have assured you before, I will be in contact with you individually as soon as we execute our market exit to discuss the next phase of your long term investment plan.

Finally, I remain, as usual, personally at your disposal to answer any questions/comments.

Thank you and best regards,
Mohamed Hawary



Managing Director
Andalucia Financial Consultancy and Investment