

Annual Issue Price £250

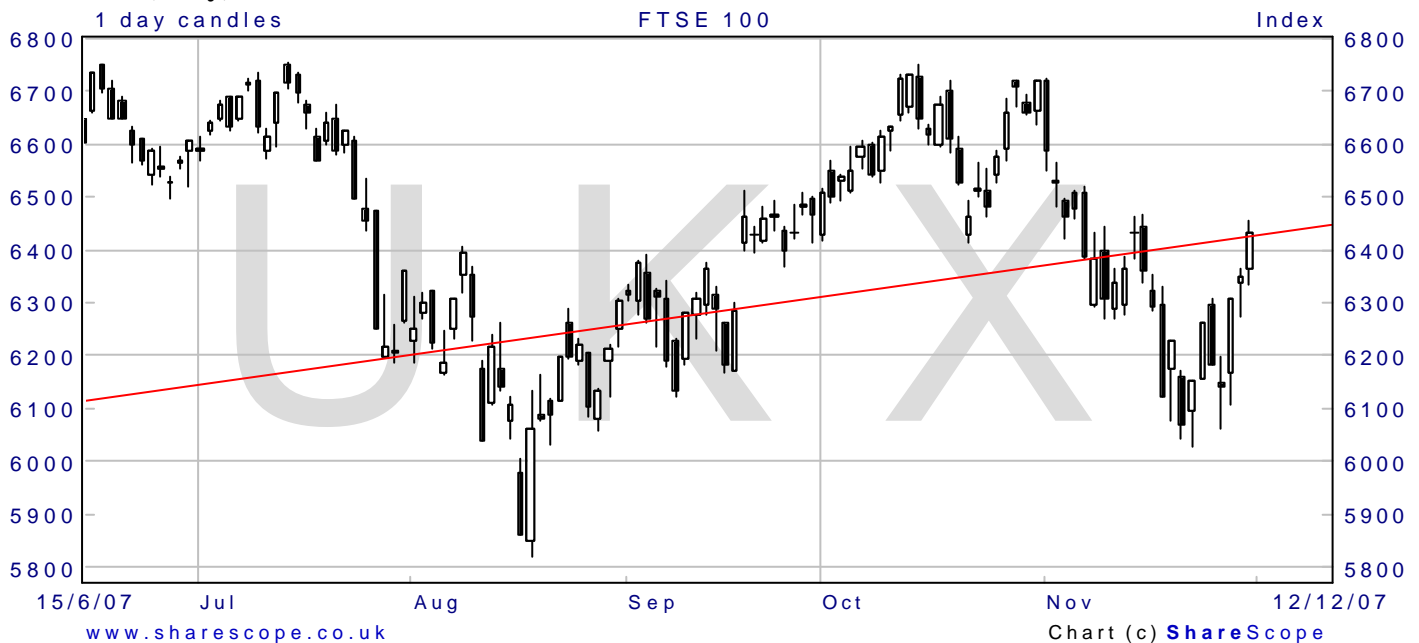
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## WHAT A MONTH NOVEMBER WAS! CAN SANTA NOW BRING A RALLY?

### MARKET & PORTFOLIO REVIEW

Since mid October we have witnessed wild gyrations in all the world equity markets as volatility has continued to dominate market action after the summer credit crunch. These gyrations have seen Ftse 100 rise to over 6700 by mid October then decline by over 300 points (-6%) to a brief low on the 22/10/07 and retouch 6730 (up 6%) by 31/10/07. That extreme of volatility has been followed by a dive down to 6030(-12%) by 22<sup>nd</sup> Nov and a rebound by month end to 6400 (up 5% from low). The chart below illustrates the roller coaster ride perfectly!

#### FTSE 100 (daily)



Perhaps the most significant element of the equity market behaviour over the past few months becomes apparent when we view the long-term chart below. As can clearly be seen the bull market trend from the March 2003 low has finally been challenged and breached. This implies that the “animal spirits” are leaving the

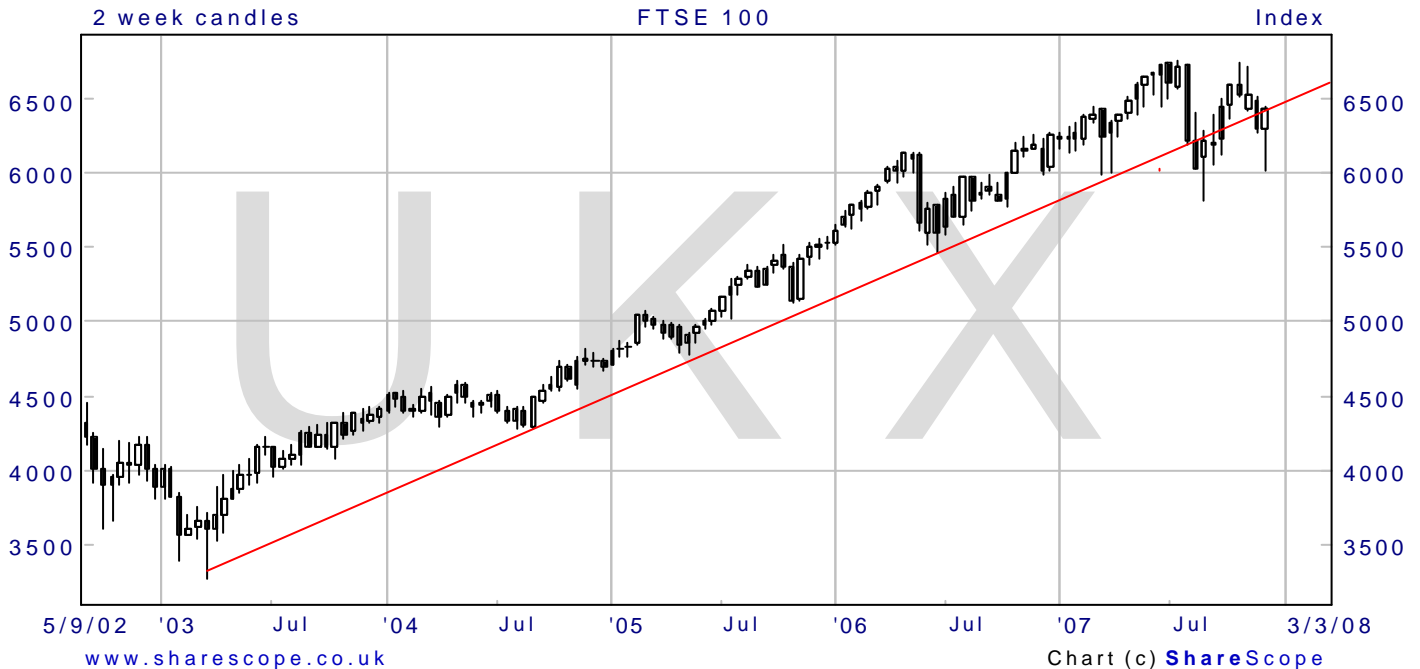
market as liquidity drains away due to the credit crunch. Although this trend line break is not fatal it is symptomatic of developments in other market segments. The declines seen in both the Ftse mid 250 and Ftse smallcap have proven to be far more sustained and much deeper than Ftse100 with both indices off as much as 20% from the summer highs with little or no participation in the September and October bounces. They have both fallen significantly below their August lows, unlike the Ftse 100.

This is significant as the two junior indices were previously market leaders throughout the four-year bull and their departure from the party is perhaps an indication that the “punch bowl” is dry. The Small and Mid cap markets are much more sensitive to changes in monetary conditions and the ongoing credit crunch is tightening money dramatically. The ongoing record highs in LIBOR and the near collapse in mortgage and credit advances during the autumn has led to the smaller domestically orientated companies suffer a severe reversal. However many large cap sectors have also been hurt with banks, retailers, builders and property companies down over 40% year to date. The only area of market strength has been concentrated in mining, oil and telcos. Thus we appear to have a highly fractured market with major sectors clearly in a major bear market along with mid and small cap so the question is can the Ftse defy the force of gravity and remain above the August lows and even breach the summer highs?

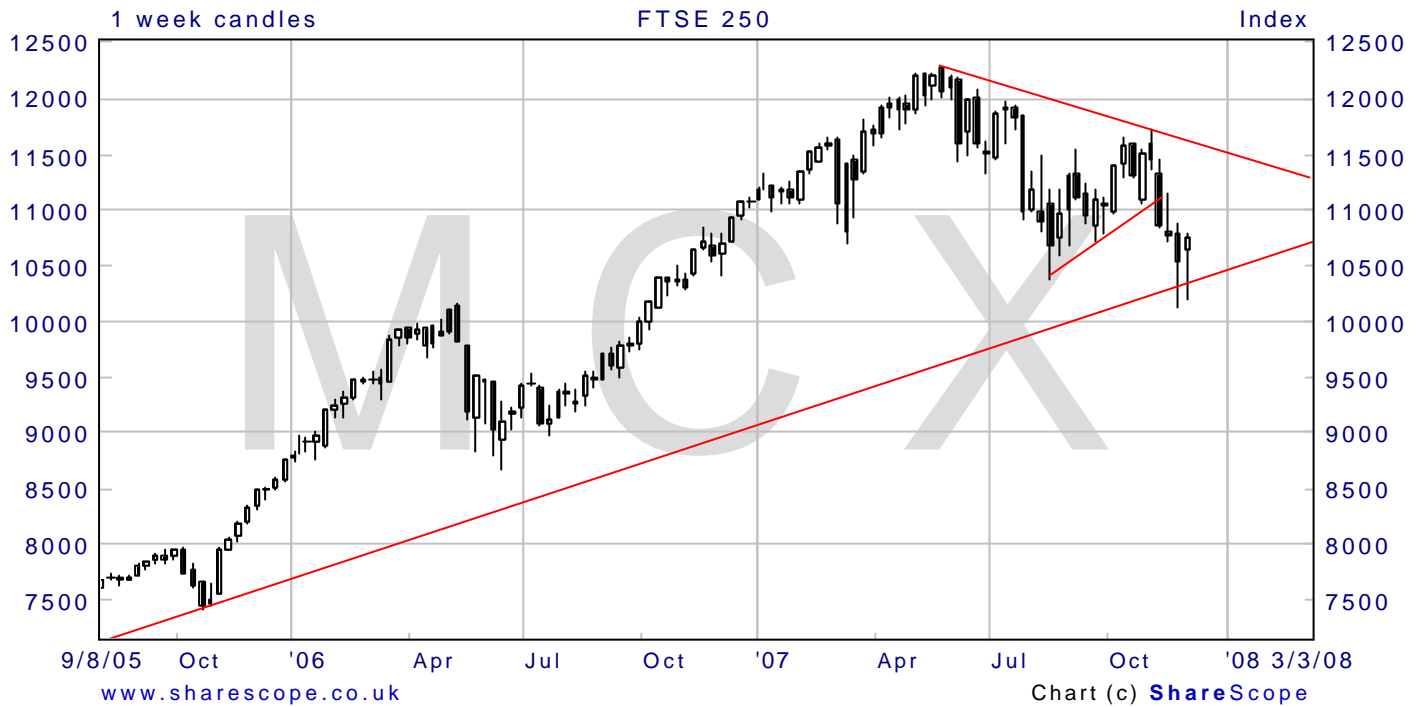
We suspect that the premier index will hold the former but fail to achieve the latter with a broadly sideways action likely to follow over the next few weeks. The seasonals are positive at present so the index will probably trend higher through December but we would not expect 6750 to be breached whilst the mid and small cap markets remain below their August lows. Both the B of E and the Fed are likely to cut rates by up to 150 bips over the next six months but we will have to watch the charts to see if this can propel equities substantially higher. Massive rate cuts in 2001/2 did not.

Support on Footsy remains at 6000 but a move over 6750 could signal a new bull leg especially if confirmed by strong action on the mid and small cap indices. Be very wary of a move below 6000.

### FTSE 100 (long term - showing trend line break)



**The Mid 250 (below)** has fallen below the August lows and now looks locked in a downtrend confirmed by the smallcap index. The mid 250 is now down 1700 points or 15% from the summer high and is now down on the year 6%, with a high to low fall of 12% during November alone. Only a very strong upward dynamic or a move over 11500 to break the sequence of lower highs and lower lows would change the outlook for this market as it looks set to drift at best over the coming months.



**Ftse SmallCap with BARMAC Indicator in lower panel**



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As can be seen from the above chart **the smallcap index** has now fallen from 4220 to 3400 since the summer, a decline of over 20%. The index is now down on the year approx 10% and fell in November by 11%.

The smallcap index is having a torrid time at present with no sign of any significant rally currently on the horizon. **The BARMAC Indicator** is firmly in sell after a brief but aborted “buy” signal in early October. We remain convinced that the UK will suffer recession next year with a clear signal coming from the predominantly UK orientated Mid and Small cap indices breaking to new lows for the year during Nov. We would advise avoidance of this segment at present.

One thing we would like to comment upon is the current frequency of Barmac “sell” signals. We have had four so far this year (late Feb, early June, July and November), which is unprecedented. Last year we had only one and two is the norm. Clearly market conditions are changing and we suspect that increase in volatility is signalling either a bear market of some nature or a prolonged pause in the advance from the 2003 lows. We watch the closely how markets unfold but suspect that the recent volatility in the Barmac Indicator is implying a change of trend for equities.

### **Portfolio update including The Castleton Growth Fund**

On November 5<sup>th</sup> we had a Barmac sell signal and moved or hedged all our portfolios to cash. Unfortunately due to the early October buy signal we had ventured back into the market and as such suffered a small percentage reversal on all our funds during the first week of the fund.

The current unit price for the CGF is 103.1 down 3% for November (our accepted tolerance for stop loss is 3-4%) but the FT100 fell over 300 points or 5% and was down over 10% at one stage. The mid 250 fell 900 points (over 8%) and the small cap fell over 420 points (12%) so all in all the CGf withstood the severe adverse conditions experienced throughout the month.

### **Summary**

We will remain in cash on all portfolios until we have a buy signal on the Barmac Indicator

Best Regards  
Andy McCarthy  
Andrew Bartles.