KMI EXCLUSIVE NEWSLETTER

1st May 2013

Dear Clients and Investors

Overview

April 2013 was dominated by an extraordinary fall in the gold price, and heavy losses for other commodities, ending with the yellow metal staging a fight back, while oil and copper took divergent paths. Analysts highlighted that gold's steep fall had severely tarnished the metal's reputation as a refuge in times of turbulence.

Global equities also adopted a firmer tone after see-sawing through the month, as disappointing economic data from the US, China and Europe – plus a downgrade by the International Monetary Fund to its 2013 global growth forecast – heightened a sense of foreboding about the outlook for the world economy.

The turbulence in global equities had only limited impact on demand for the perceived safety of US and German government bonds. The yield on the 10-year US Treasury was down a relatively modest 2 basis points over the week at 1.70 per cent, while that on the German Bund dipped 1bp to 1.25 per cent. Corporate bonds continue to be in demand.

Included in this newsletter

1) **Shares to retire on (see attached)**
2) **A new EFG Structured Note giving 9.3% per annum (see attached)**
3) **Cyprus, who's next**
4) **The Darwin Fund - Centre Parcs competitor**
5) **More Corporate bond offerings**

Shares to retire on!

Shares in Unilever plc (LON: ULVR), Diageo (LON: DGE) and British American Tobacco plc (LON: BATS) are similar to bonds.

It's been called the Great Rotation, the switching of investors' appetite from government bonds into equities. Investors have been losing faith in the safety of government bonds, as Quantitative easing has pushed interest rates to unprecedented lows and stoked fears of future inflation. At the same time the newly minted money has found a home in equities, especially since Mario Draghi reduced tail-risk by saying the ECB would do whatever it took to save the euro.

A significant feature is the preference of investors for shares in defensive sectors that are paying decent yields. They enable shareholders to enjoy the income and relative safety associated with bonds in more normal times. That has chased the price of such stocks to exceptional highs. Fortunately, the growth opportunities for defensive sectors in emerging markets mean investors don't need to be unduly concerned about valuations.

Diageo - Diageo (LSE: DGE) (NYSE: DEO.US) is a perfect example. Its shares are trading on a trailing price-to-earnings (P/E) ratio of 27, nearly double the FTSE 100 average P/E. According to my data, which shows the historic year-end P/Es, the shares are as highly rated as they ever have been this century.

Applying its global distribution to new emerging markets has powered much of Diageo's growth. Yielding 2.2% and with a prospective P/E a more palatable 20 times, a recent fall of 6% from last month's all-time high might present an opportunity to pick up this stock.

Unilever - There has been a more modest pull-back of just 2% in **Unilever**'s (LSE: ULVR) (NYSE: UL.US) all-time high after the company revealed sluggish growth in Europe this month. Its trailing P/E is 23, above the range it has traded in for the last 10 years, whilst also dropping to 20 on prospective earnings. With strong global brands that have a defensive nature in developed markets and appeal to emerging market consumers. It's stock also has bond-like qualities.

BATS - That's a market characteristic shared in spades by **British American Tobacco** (LSE: BATS). Western consumers are stuck on the product, and emerging market populations are acquiring a taste for global brands. Its shares are just a tad off their all-time high and at the top end of their historic rating, though a trailing P/E of 17 is nearer the market average.

A prospective yield of 4.2% makes BATS an appealing income stock.

A core of safe, income-generating stocks make sense in any portfolio, even if they are expensive. That's why The Motley Fool has produced a new report: "Five Shares to Retire On". It details five companies that have dominant market positions, healthy balance sheets and robust cash flows: qualities that underpin their reliability and future dividends. Whether you're saving for retirement or for any other purpose, I recommend you have a look at these five shares. You can download the report -- it's attached.

(Thanks to Motley Fool for this article)

A New Structured note from EFG (see attached)

KMI have exclusivity to this note which has a number of leading oil companies as the connected assets; these include Exxon. A dividend of 9.3% is available providing these notes do not fall to less that 80% of their initial value at outset. Maximum term is just 18 months.

The new Darwin Fund

The Fund invests in a portfolio of UK Holiday Parks which provide Tenting, Touring Caravans, Static Caravans or Lodge facilities for both rental and/or owner occupancy, which generate income
Returns for the fund are through sales of static caravans and pitches to new owners and upgrade sales to existing owners. Also holiday rentals of lodges, (shades of Centre Parks but more reasonable prices.) Speak to your KMI consultant or Mike Towning in Prague.

Stock Markets, good or bad?

There is much discussion regarding buying stocks verses bonds (all types), it's interesting to see just how Stock Markets have performed since the year 2000, just facts, they tell the truth.

UK (FTSE) Over the last 13 years from 2000 the UK stock market has lost 7%. Over the last five years it is about 1% down. Had you been able to invest in the huge troughs of 2003 and 2007, then profits could have been made. However, as can be seen here, investing over the longer term guarantees no return at all. If you had taken 4-5% income over the longer period your capital would have halved. Currently 6459

USA market (DJ ind) Since 2000 (11500) the US market has been positive giving a 2% per annum return, to-date. In October 2007 it peaked at just under 14000. By February 2009 it halved in value to 7000. It now stands at 14839.

Remember the above two markets have been relatively stable compared with others such as The **Chinese Shanghai index** which is still some 62% below its high of 6000 in 2007/8. Currently 2279, which prompts the question, "Is China the power house its advocates believe?"

Cyprus

On 13 March 2012, Moody's slashed Cyprus's credit rating to junk status, warning that the Cyprus government would have to inject more fresh capital into its banks to cover losses incurred through Greece's debt swap. On 25 June 2012, the day when Fitch downgraded bonds issued by Cyprus to BB+, which disqualified them from being accepted as collateral by the European Central Bank, the Cypriot government requested a bailout from the European Financial Stability Facility or the European Stability Mechanism.

It's extremely difficult to justify the actions taken by banks in Cyprus recently. At best you could argue its illegal, at worst pure theft.

It's simply not good enough to imply is doesn't matter because the money in Cyprus banks all belongs to billionaire Russian oligarchs. It's also not true. Many Europeans have retired there and have all their life savings tucked away in these Cyprus banks. The fact that our European leaders have condoned such action makes the matters all the worse, we wonder where next?

Some recent € Corporate bonds

INSTITUTION NAME	ISIN	COUPON %	DATED	YIELD
SRLEV N.V.	XS0616936372	9	15/04/2041	9.69
Royal Bank Of Scotland	XS0223009894	7.54	29/06/2035	9.48
Royal Bank Of Scotland	XS0219990248	7.472	09/06/2025	7.93
ABN AMRO Bank	NL0000116796	6	16/03/2035	7.69

Happy investing

Lee R.J. Green *Cert.PFS*

New site http://corporatebonds.kmiconsultants.com/
Web site www.kmiconsultants.com
Head Office: Vladislavova 46/3, 110 00 Praha 1, Czech Republic,
Tel: +420 224 942 421 Fax: +420 224 942 426