



Andalucia

Cairo 1/1/2011,

Dear Valued Investor,

As 2010 comes to an end, we look forward to a new and exciting year 2011. The reason why we find 2011 exciting is that for the first time since 2008, we have a 100% full portfolio. Confident of the prospects of the New Year, we believe we are best positioned to take advantage of the New Year's trends.

With a second round of quantitative easing package "QE2" in place by the Federal Reserve, the trend for most of 2011 will be inflation. Although we believe this decade to be mostly a deflationary decade, huge injections of cash such as this one will have the effect of boosting prices of riskier asset classes (such as equities and commodities) for temporary periods of time (months to years). This policy we believe is mainly aimed at avoiding a 1930's-style depression and instead inducing a 1970's-style long recession or what the economists called at the time stagflation which is stagnation coupled with inflation (U.S.A real growth rate for 2009 was -2.6% and for 2008 was 0% coming down from 1.9% in 2007)*.

We have positioned our portfolios to benefit from this situation perfectly with several significant very well planned commodity plays. We chose undervalued companies with commodity exposure which promises even more reward potential. We are banking on natural gas through EGAS, wheat through Upper Egypt Flour Mills, steel through Acrow Misr, copper through Egyptian Electrical Cables and finally agriculturals in general through Kafr El Zayat Pesticides (as agricultural chemicals lag but follow commodities in rallies).

* Source: CIA World Factbook: <https://www.cia.gov/library/publications/the-world-factbook/geos/us.html>



Andalucia

The other trend we saw coming in 2010 were the republicans gaining control of the house. Our study of history shows that this political climate in the U.S. is healthy for the stock market in general but also, that it is especially healthy for non-banking financial stocks and consumer staples stocks. We have found that the most undervalued stocks in these categories and the best positioned for growth are Cairo Pharmaceuticals and Hermes. We have built adequately significant positions in these companies as well.

The rest of the portfolio is mostly stocks we have found to be undervalued that were chosen to provide one or a combination of these general purposes:

- 1- Stability to the portfolio in terms of quality, yield, liquidity or currency exposure.
- 2- Growth potential for the portfolio.
- 3- In a very limited percentage we added a speculative component to the portfolio but we made sure to buy them at very distressed prices to reduce risk.

Looking back at 2010 which was a very volatile year in the local stock market, we need to evaluate it in light of our strategy. As we have explained in previous newsletters, we use a value investment methodology as the cornerstone of our strategy. This means that we typically pick stocks that are undervalued according to their intrinsic value. Usually a stock is undervalued because for a period of time, investor interest in this company or stock has faded for some reason or another. It is indeed a waiting game, as we wait to get the stock at as much an attractive price as we can; we then have to wait until the market eventually realizes the true value/potential of the company in question. Throughout the years we have found value investment, which is the investment methodology used by Warren Buffet, to be the most efficient as it reduces risk and when ultimately the market realizes the true value/potential of the stock, the rewards are staggering.

We expect 2011 to be the culmination of our efforts that started in 2008 to locate the best value picks in the market.

Andalucia

Beyond 2011, we believe that the negative forces in play in the world's economy will be too overwhelming that we will eventually see another longer term drop in stock values and commodity prices. We expect that well before this next market slump happens, we will be out of the equity market, most likely 100% out some time in 2011. Well before that happens, we will be contacting you to setup a meeting to reflect on the previous period and to plan with you your investment strategy in what we believe will be the hard years for investment worldwide (end of 2011 to 2017/18). Our target during those years will be to navigate you to increasing your total net worth and ultimately position you for exponential growth with the next wave of worldwide growth that will be similar to the years 1982 to 2000.

For now we wish you a great year ahead and we look forward to making you wealthier in 2011.

Thank you and best regards,

Mohamed El Hawary

Managing Director

Andalucia Financial Consultancy and Investment



Address: 15 El Messaha St. - Dokki - Giza - Egypt - Postal Code 12311

Tel: +20 2 3337 2728

+20 18 210 7789

Fax: +20 2 3336 1349

email: mohamed.hawary@andaluciafinacial.com

website: www.andaluciafinacial.com