

The Insider Trader

Issue 7 May 2007



Markets at a glance

Trendspotter Signals

Dow Jones (DJ)
Buy

S&P 500 (SP)
Buy

FTSE 100 (X)
Buy

DAX (DY)
Buy

£/US\$ (BP)
Sell

US Dollar Index (DX)
Sell

Crude Oil (CL)
Sell

Gold (GC)
Buy

Coffee (KC)
Sell

Orange Juice (OJ)
Sell

Sugar (SB)
Sell

Dates to watch May 2007

18th May- US options expire

Should you Sell in May and go away?

With the Dow and FTSE250 at record highs and the Nasdaq, S&P 500 and Dax at six-year highs it may seem like a good time to cut and run, but before you sell and head for the beach you may want to hold on a bit longer.

The old stock market saying is, "Sell in May and go away," if you invest in stocks during the colder months and sit it out during the warmer months, you can do quite nicely, more or less. That's because stocks gain in November through April have typically been stronger than May through October for a wide variety of reasons.

The *Stock Trader's Almanac* has demonstrated this by tracking what would happen to a \$10,000 investment in the stocks that make up the Dow Jones industrial average.

Money invested in the Dow stocks in the "best six months" and then switched to safe cash deposit accounts in the "worst six months" over 56 years, grew to \$544,323. But money invested in the Dow in the "worst six months" and then switched to fixed income in the "best six months" compounded to a loss of \$272.

So far, if you had invested in November 2006 and you were still in this trade you would be up 8.5% which is just slightly higher than the historic average of 7.9%. So the winter months even with a few bumps along the way, have been

Dow Jones with 200 day Simple Moving Average. Trend remains up but May could see a top. A fall below 12,750 is possible over the next few months, however long term trend is UP.



profitable for the bulls.

If we look back at the Dow in 2006 it made a high on the 10th May and then fell sharply over the summer months.

Why does "sell in May" tend to work so well?

May itself is not really that bad according to the *Stocktraders Almanac* and sometimes the traditional end of year rally can start in mid-October. You need to watch from 28th May 2007 which is the US Memorial day holiday to the US Labour Day which is the 3rd September which tends to be the weakest time.

By late May tax refunds are over, so the flow of fresh funds into stocks ebbs, and analysts and investors who have been patient with companies struggling with weaker earnings or other issues tend to become less patient.

Then it's summer and we see lower trading volume. One of the big drivers so far this year has been M&A activity with private equity buying out whatever they can like a crazy monopoly player. I think summer could see a slow down of new deals which in turn will limit gains.

So to sum up, the best months of the year to be long equity markets are now over until November, however, I have no sell signal yet on the Dow, S&P, Dax, FTSE100 or FTSE250.

I suggest those that are long these markets continue to stay long but make sure you keep an eye on your stops. I do expect some sharp sell offs over the coming months but the long term trend remains up and I expect to see record highs to be

reached by the end of 2007 in the S&P500 as well as the DOW.

Beware that China could be due another big fall which could send markets down again over the next few months.

US\$ Dollar takes a beating

Well the US\$ dollar is not what it used to be. Many of you will know that I have been bullish on commodities and bearish on the US Dollar. Its interesting for years that most of the developing world would trust the US Dollar and if you were travelling, regardless of the local currency you would always carry dollars in Russian, India or the Far East and that is still the case, but the Euro is starting to be seen as a credible second currency.

Of course, commodities are still priced in Dollars and thats not going to change anytime soon, more central banks are starting to hold Euros and this trend will continue.

Its without doubt that the US is allowing the dollar to devalue. The recent move to two US\$ to the £ and the recent dollar lows against the Euro are the continuation of a long trend. Of course, short term the Dollar will bounce if everyone's so bearish on the Dollar you know its time to bet the other way but the dollar is going to continue its downwards term and the US federal reserve have no intentions in stopping it.

A weaker dollar is helping the US economy by making its exports cheaper as well as making US companies look cheaper. Short term expect a rally in the US\$ with a move back to £/\$ 1.85 and Euro/Dollar 1.29.

Soybean Oil

Soybean oil is used by the food industry in a variety of food products including salad dressings, sandwich spreads, margarine, bread, mayonnaise, non-dairy coffee creamers and snack foods. Soybean oil is not only used in food products but

US Dollar Index. The dollar has depreciated over 30% since 2001. the 80 level seems to be short term support and I am looking the US\$ to have a few months of upside maybe back to 85 put nothing changes my view that the US Dollar will continue to weaken.



it is also used as renewable raw material to produce a variety of non-food products including bio diesel, including inks, plasticizers, crayons, paints and candles.

I am bullish on soybean oil and looking for the uptrend to continue. The recent decision by fast food chains in the US to switch to using healthier soybean Oil should continue to support the price. KFC and Taco Bell have started frying using soybean oil and McDonalds could follow soon. IG Index offers a spread bet on July Soybean Oil. You can also buy Soybean Oil via an Exchange Traded fund which is traded on the LSE under the ticker: SOYO

July Soybean Oil futures are currently trading at 3550 and I am looking for these to top 4000 in the coming months.

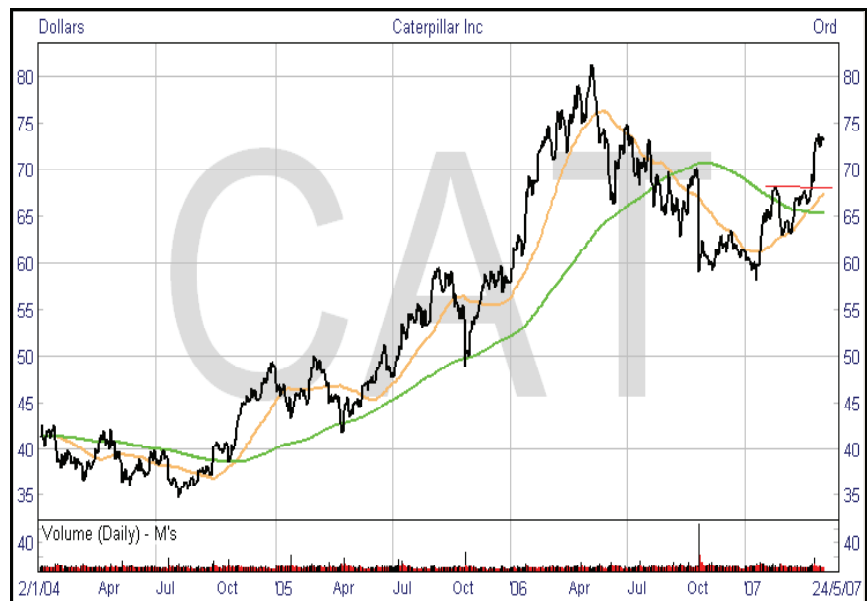
Soybean Oil. Good uptrend. Small consolidation and then looking for a break out of 3400 which was the 2004 all time high.



Caterpillar Inc NYSE: CAT. The Chart is long term bullish, they have run up already in 2007 and I would expect a pullback to \$68 which would be a good buying price. Looking out over the next 12 months we should see the price at \$81 and over \$100 a share.

Caterpillar Inc NYSE: CAT

World construction continues at an amazing pace. Although the US may have a housing slowdown China and India continue to build infrastructure at record levels. Also, we now see more money being spent in exploration and mining. All of this is great news for Caterpillar the worlds leading manufacturer of construction and mining equipment. The company also make diesel and natural gas engines and industrial gas turbines.



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Its easy to spread bet Caterpillar through most major financial bookmakers.

Uranium

Uranium prices continue to hit new highs and the latest price has touched \$113. The run up in uranium is set to continue as world demand for more power continues. At present no futures market is available in Uranium, however, you can get exposure by investing in Uranium based companies.

One of the major players is Cameco listed in the US under (CCJ) IG Index offer a spread bet on the share and its currently trading around \$50 a share.

Another way to get exposure is Geiger Counter (GCL) which is a listed Investment trust. The company invests in smaller mining companies with

Uranium exposure. The shares are currently trading at £1.16 and have had a strong run from the 50p placing price back in July 2006.

Commodities

Whilst the media has been focusing on the new highs in the Dow Jones very little attention has been paid to commodities. The CRB index which measures a basket of commodities is also at a new high. I strongly recommend that you have exposure to commodities and this can easily be done with an Exchange Traded Fund. ETFS All commodities is a good way to get a broad exposure. Listed on the LSE in £ under: AIGC

Brazil

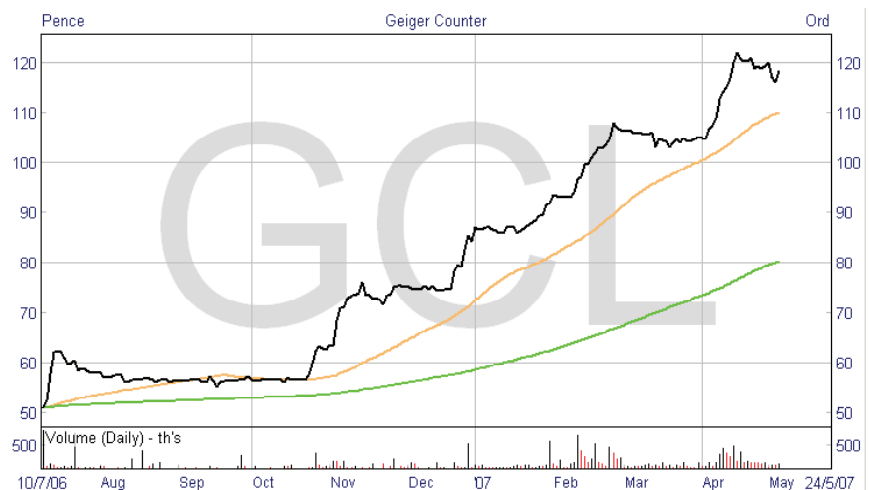
Brazil continues to look strong and the Ishares Brazil is near a new high. The Ishares tracker share is priced in £ and trades on the LSE under ticker: IBZL

The index has a heavy weighting towards energy and materials. You can find the full list at www.ishares.net

Thats it for this month, wishing you a successful trading month.



Above: Cameco listed in the US under (CCJ) IG Index offer a spread bet on the share and its currently trading around \$50 a share.



Below: Ishares Brazil, easy to trade via most online stockbrokers

