The Insider Trader

Issue 73 April 2012

Markets at a glance

***Trendspotter Signals** (click on links to obtain up to-date signal)*

Dow Jones (DJ)

S&P 500 (SP)

FTSE 100 (X)

DAX (DY)

£/US$ (BP)

US Dollar Index (DX)

Crude Oil (CL)

Gold (GC)

Coffee (KC)

Orange Juice (OJ)

Sugar (SB)

Wheat

Cotton

Rough Rice

Cruel summer for the Euro

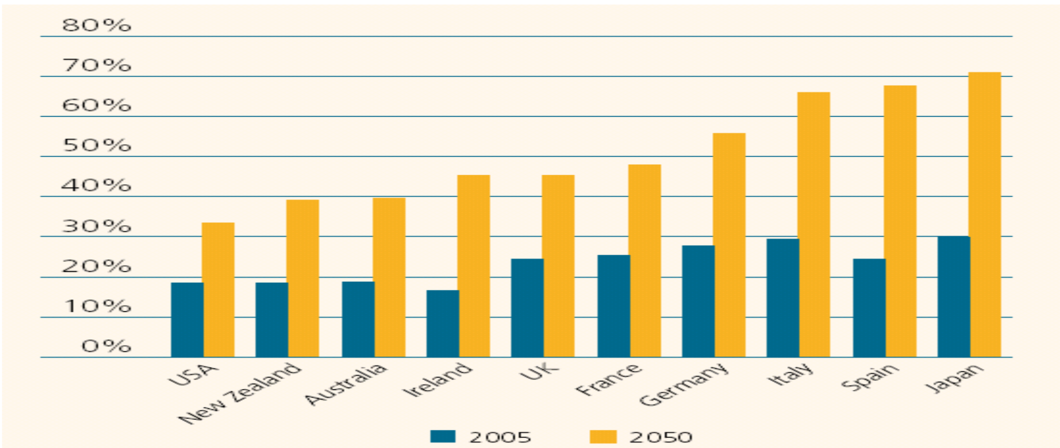
Regular readers will know that I am not a fan of any (FIAT) paper currency as history has always shown that eventually they all devalue. The term Fiat comes from the Latin term “Let it be done” and history shows that every fiat currency since the Romans first began the practice in the first century has ended in devaluation and eventual collapse.

Although Rome didn’t actually have paper money, it provided one of the first examples of true debasement of a currency. The denarius, Rome’s coinage of the time, was, essentially, pure silver at the beginning of the first century A.D. By A.D. 54, Emperor Nero had entered the scene, and the denarius was approximately 94% silver. By around A.D.100, the denarius’ silver content was down to 85% and eventually down to near zero Silver content.

Today all major currencies are paper based with governments able to print money at will, even the historically safe Swiss Franc has been pegged to the Euro. For the next 6 months I would say the US Dollar is the least ugly currency in a beauty contest. Remember when you are trading currencies that you are betting on one country against another so if the Euro is set to weaken then the US$ will strengthen.

I need not tell you the problems in the Eurozone as they have been well documented but what I have not read much about is the demographic time bomb which is especially prevalent in Southern Europe, simply put; people are living longer whilst families are having less children which

The Demographic Time Bomb. Forecast for Dependency Rates. As the baby boomer generation starts to retire (around 2016), the dependency ratio (number of people not working to number of people working) is forecast to rise. This ageing population is exacerbated by declining birth rates which is reducing the number of working age adults.

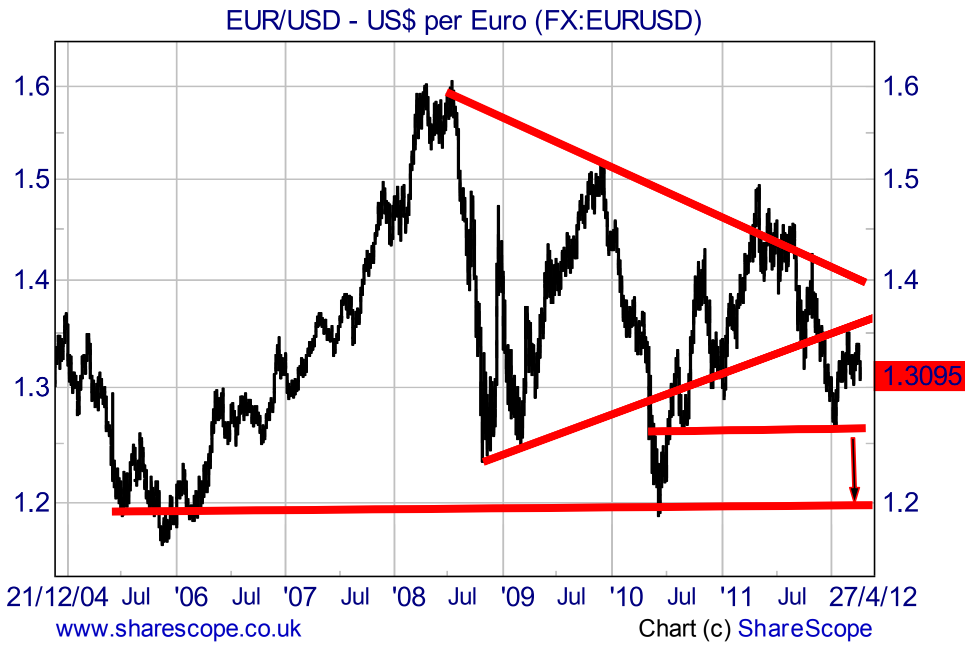


means that the Eurozone is heavily skewed to an aging population which is going to be a massive strain on governments (see on chart page 1). You also have a culture of black economies not just in Greece but also in Italy especially the southern half, Spain and Portugal where avoiding taxes and getting a bill with no tax or VAT is the normal, I know I live in Spain!

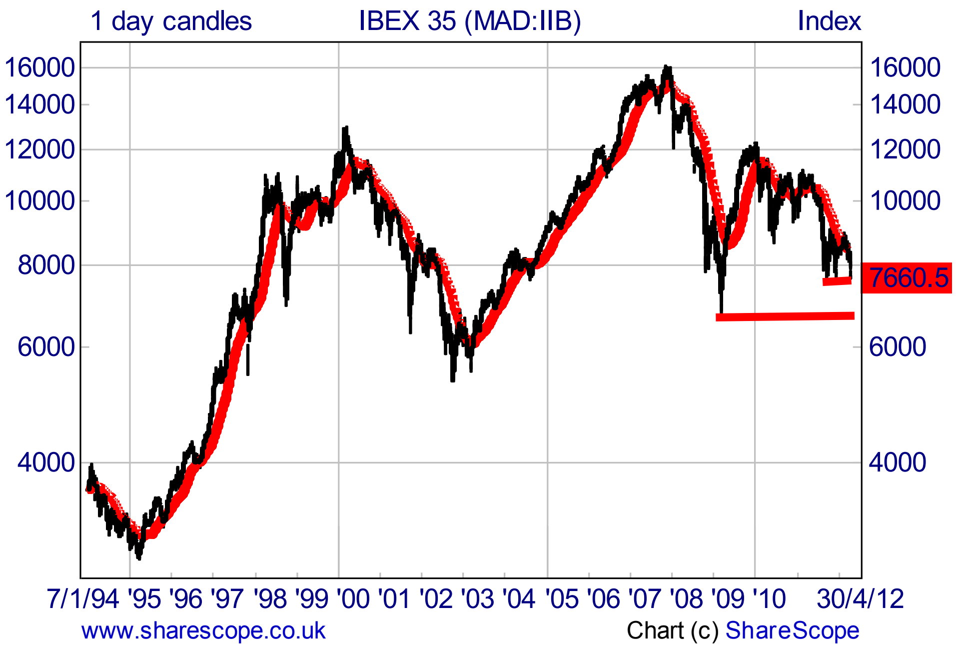
It's also very hard to start a business in Spain with most preferring to get jobs working for the government rather than start an enterprise, it's very sad. The prize job in Mallorca is to work for the Police, at the airport or other regional government jobs where you're guaranteed a job for life.

The Eurozone problems are not going to be resolved any time soon, yes we may get some temporary relief but I cannot see any other long term solution other than to break up the Eurozone and devalue the currency.

So far the Euro has held up fairly well but I believe this is going to be a 'cruel summer' for the Euro (remember Bananarama?) I am looking for a 10% adjustment (for currencies that's a big move) with money flowing back to the perceived safe haven US dollar. From the current rate of 1.32 that would see 1.19 levels reached for EUR/USD we could even go lower. As the chart shows we last saw this level in June 2010.



Above: Euro/USD I would look for the 1.19/1,20 level to be hit at some time in late 2012 early 2013. Below Spanish IBEX35 whilst US markets head closer to new all time highs the IBEX35 has had no such fortune and getting closer to the 2009 lows.



How to back a Euro fall?

You can look at a spread bet or via an FX broker, I would go with a December 2012 bet with a relatively small bet and a larger stop to allow for short term swings, say 1.42, this is not a short term bet. Another way to back a falling Euro would be a traded option which is what I prefer. Personally I am only using a

Personally I am only using a small amount of risk capital on this and I have used Put Options.

It is possible to buy a Put option on the Currencyshares Euro ETF (AMEX:FXE) you could look at a 1.25 strike for January 2013 which would give you plenty of time value. With a traded option your risk is strictly limited to the premium paid. We also have Inverse Exchange Traded Funds (ETF) which go up as the currency goes down such as the Proshares Ultrashort Euro (**AMEX:EUO**) which will move 200% inverse of the daily Euro moves.

So to summarise; whilst I don't like the US Dollar long term, out of the EUR/USD I will take the side of the US$ for the rest of 2012 as money flows back to the safe haven currency and whilst the US economy is still in a fragile state and far from booming compared to Europe it's like comparing your grandma and a supermodel! Any notation that the Euro is an alternative reserve currency should be abandoned.

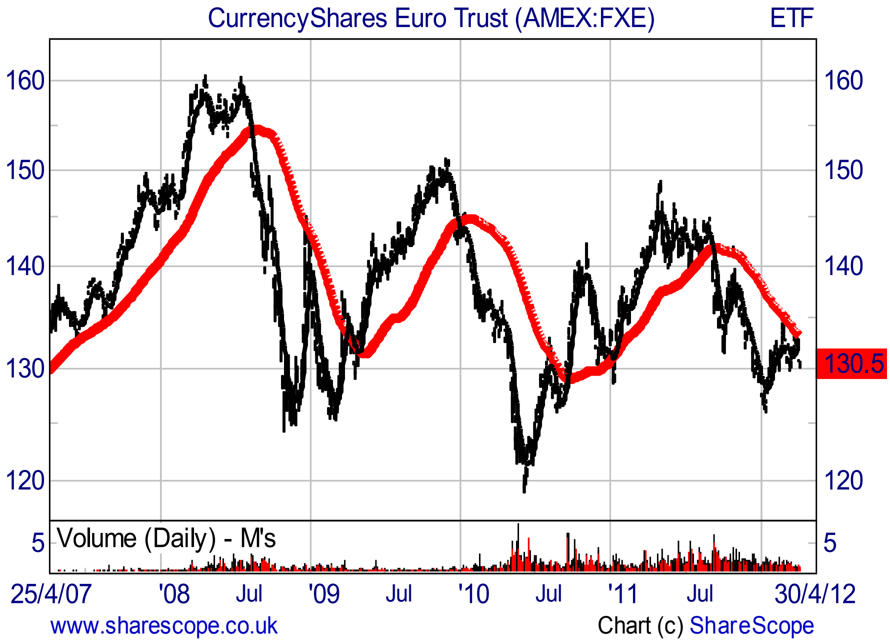
Order Verification

Symbol	Action	Quantity	Order Type	Timing
FXE 01/19/2013 125.00 P PUT CURRENCY SHRES EURO$125 EXP 01/19/13 Quote: **$3.90 Ask** As of 4:00 PM ET, 04/05/2012	**Buy Puts to Open**	**1** Contract	**Market**	**Day Only** Expires at the end of the trading day if not filled.
Individual	Estimated Commission: **$9.70** Estimated Exchange Fee: **$0.00** Estimated Total Amount: **$399.70**			

Above: Put option example, the minimum is 1 contract which controls 100 shares or in this case ETFs. The put option is out of the money and the premium is made up of the time value only.

Seasonal Sell signal is here

I am travelling the next few days but the Seasonal sell signal will kick in Monday the 16th April 2012. The reason being the MACD is on a sell and that is the first day that a sell signal can occur. So this means the seasonal buy signal opened on the 17/10/11 comes to a close with an estimated 13% return, not bad for 6 months, interesting the buy/sell dates are almost identical to 2010/11.



So what now?

The seasonal system takes the summer off and we will look for the next signal in mid-October of this year and confirm with the MACD, it is a mistake to think that you now go instantly short, you do not, the most likely scenario is we are now into a few months of range trading where you would not make much being short or long.

Of course the financial world does not stop over the summer months but it certainly slows down and you tend to see less corporate activity between May and September each year. The opportunities over the next few months will be individual shares and especially smaller cap (US) shares which move more on specific news stories I.e. FDA drug approval, take over or other stock specific news.

For my own investing I am happy to take a slower pace over the coming months, enjoy the recent good fortune and stay more defensive. The sectors I will stay in are high dividend paying stocks where even if the stocks don't move I still collect the dividends, **Tobacco, Consumer Staples, Healthcare, Utilities, Telecom** all fit that bill and whilst not very exciting, I am not looking for exciting over the summer months.

The Dogs of the Dow will make ideal summer holdings, good dividends and many did not join in the recent up moves.

So that is my plan for the next few months, each investor has their own risk/reward tolerances and should invest accordingly but personally I would sell out higher risk investments, close any leveraged ETFs such as BGU, close XIV and close or part close any investment which you do not feel comfortable with.

My own views are well documented and I believe we are heading to a new all-time high on the Dow of course the path is never a straight one and a 7% or even a 10% pullback is nothing I have not seen before. Pullbacks shake out the weak holders but serious investors stay in.

Stocks I think will hold up better over the next 6 months include:

PM, MO, LO, KMB, T, VZ, GIS, HSY, MJN, ABT, PFE, LVS, KO, KFT