The Insider Trader
Issue 93 April 2014

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)

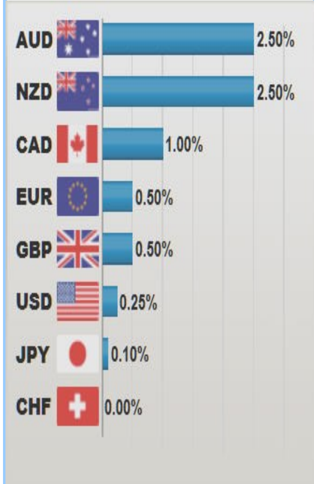
Orange Juice (OJ)

Sugar (SB)

Wheat

Cotton

Rough Rice



Getting ready for the seasonal sell signal – The power of switching

Those who have followed me for some years will know I am a fan of seasonality and as I have explained in previous updates, financial markets do not go up or down evenly throughout the year in a nice orderly straight line; that would be far too easy.

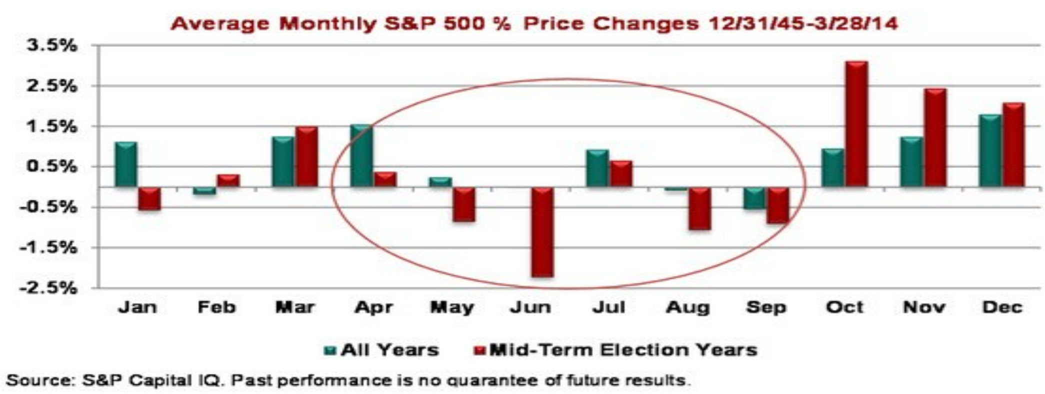
If we invested $10,000 in the Dow Jones during the period 1st November to April 30th from 1950 to date we would now have over **$950,000**. We would have been out of the market May until end of October each year missing a few crashes in the process. Now if we had done the opposite and only invested 1st May and sold out 1st November our $10,000 would now be worth **$8,700** so you can see a massive difference. If we had just invested $10,000 and left it invested the whole year without switching you would you would have $660,000.

The switching system as well as making an extra $290,000 compared to buying and holding also reduces our risk as we are out of the markets for 6 months of the year and it hardly takes much effort to switch in and out, commissions are not a big factor either.

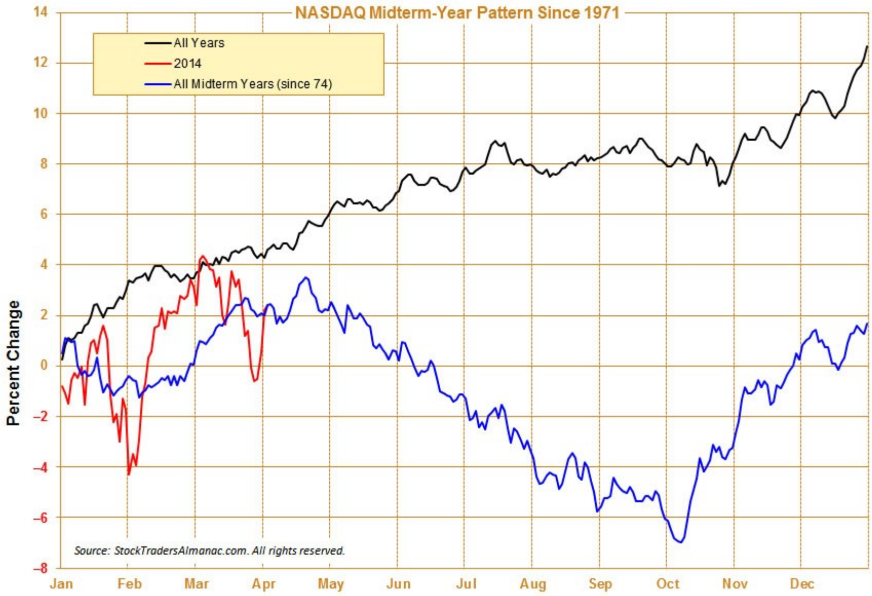
Back in the 1950's we did not have Exchange Traded Funds (ETFs)so tracking an index like the Dow Jones would have been far more cumbersome and costly, today we can do it in one trade with an ETF like the DIA. https://www.spdrs.com/product/fund.seam?ticker=DIA and note they only charge 0.17% management fee per annum.

Now I use a slightly different version of sell in May with my signal coming a few weeks

Below: Mid Term election years are traditionally weaker than non years however year ends tends to be strong.



before and I will update you on this via update page.

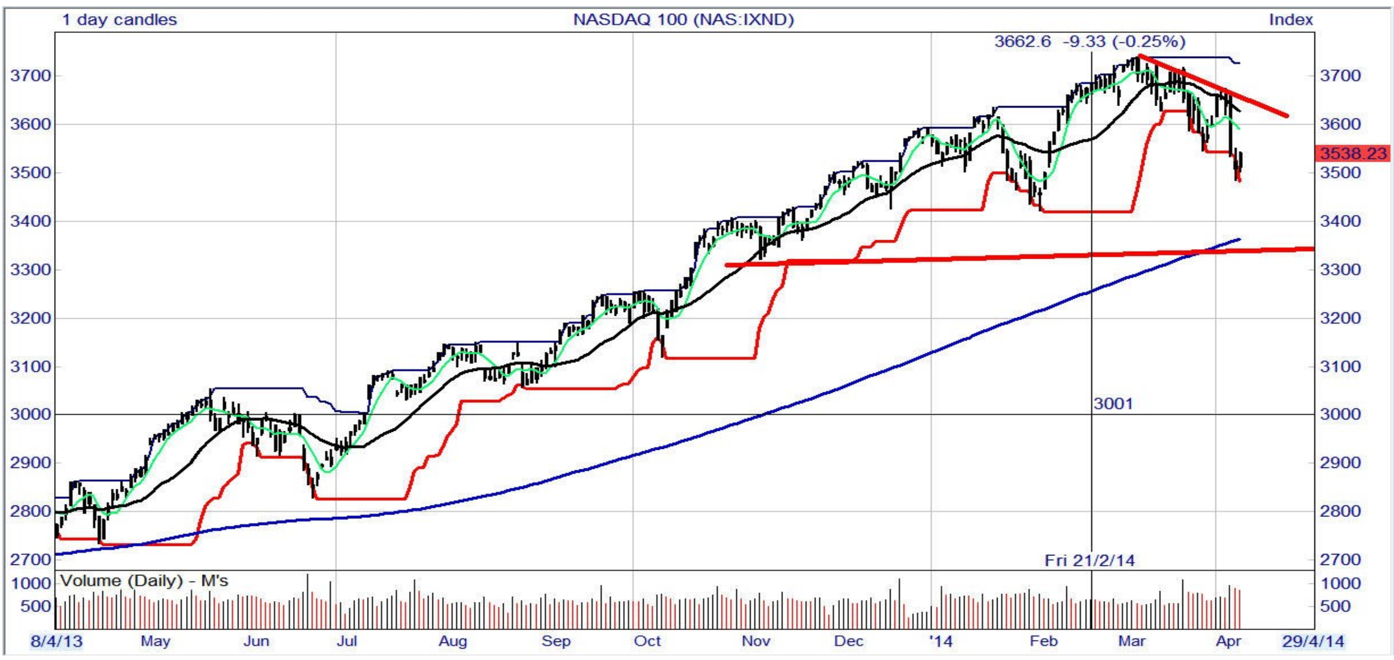


Above: NASDAQ tends to be weak May to October in Mid Term election years before a good bounce starting in October and carrying on into the New Year.

This year we also have an extra element to be aware of and that is the US mid-term elections. (Chart on page 1) A quick way to remember is that election and mid-term election years are held in even ending years and odd years we don't have elections. The mid-term elections will be held 4th November 2014 and granted a mid-term is not as important as a full election though it still does weigh on markets. Overall markets do better in odd ending years than even ones. Of course just like seasonality the election year indicator is a guide not a guarantee but already 2014 is turning out to be a weaker year than many had anticipated, however, if you recall back in January I did say I was not looking for a big year for the stock markets and you should not expect another 30% in the S&P500. Back then I said it would be a "pick and mix year" and so far that has been the case.

I now expect financial markets to enter a choppy, sideways to lower period which will likely last until October and then I would look for the traditional year-end rally.

If we follow a typical mid-term election year May, June, August and September will be weak months. Only July has recorded a small 0.5% typical gain. The good news for the bulls is that once the weaker period is over we can look for a strong year-end rally with October, November and December being strong. Now please do not take this as having gone bearish on financial markets, I have not and still see higher prices especially for US stocks towards the year end and in the coming years equities still remain the best investment. But over the next 6 months I doubt (and I may be wrong) we will go any higher than the recent highs. On the down side I am looking for both the NASDAQ100 (chart below) and the S&P500 to go down to their 200 day moving averages before October. The Dow Jones may also go down to its 200 day moving average however could hold up better.



Rotation to defensive stocks

Now rather than just close down and take the summer off we still have opportunities to make money on the long and short side.

I believe Utilities are going to be a good place to be over the next few months. Whilst you're not going to get rich from this trade the stability and the dividends will be an attractive place to park cash. You can look at an ETF such as (XLU) factsheet and details here: http://www.sectorspdr.com/sectorspdr/sector/xlu

This ETF gives you exposure to 30 stocks the biggest holding being **Duke Energy (NYSE:DUK).** The ETF pays a 3.5% yield. If you want to look at some individual stocks have a look at **NextEra Energy (NEE), Southern Company (NYSE:SO) and Exelon (NYSE:EXC)**

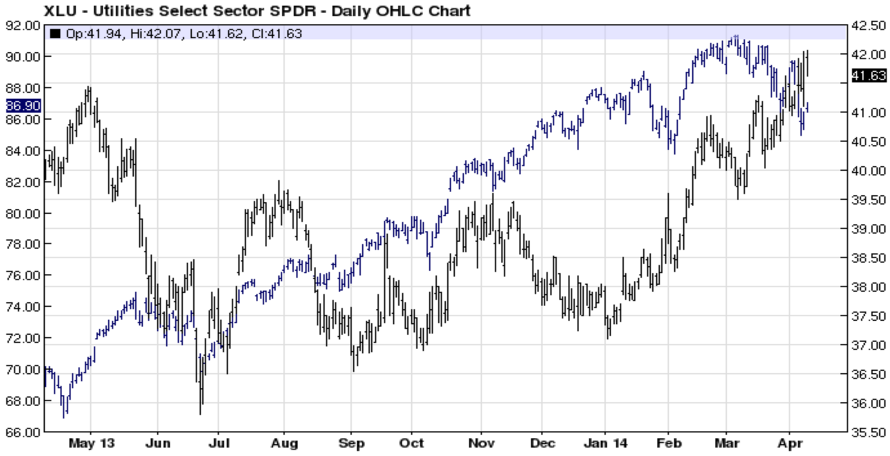
The other sector which should also hold up well in the next 6 months are Consumer Staples (XLP) http://www.sectorspdr.com/sectorspdr/sector/xlp/holdings with heavy weights such as Proctor & Gamble, Coca Cola and Phillip Morris being the top 3 holdings this ETF will benefit from funds looking for a safe heaven.

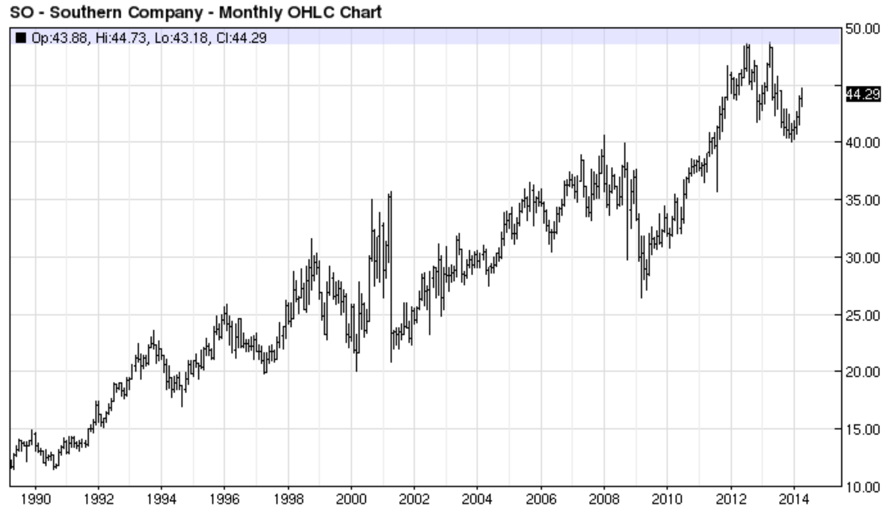
Symbol	Company Name	Index Weight
PG	Procter & Gamble	13.52%
KO	Coca-Cola Co	9.06%
PM	Philip Morris International	8.14%
WMT	Wal-Mart Stores	7.65%
CVS	CVS Caremark Corp.	5.46%
PEP	PepsiCo Inc	4.49%
MO	Altria Group Inc	4.19%
CL	Colgate-Palmolive Co	3.66%

MARKET VALUE TOTAL RETURNS - MONTH END as of 03/31/2014

						ANNUALIZED			
Symbol	Select Sector SPDR Fund	1 Month	Latest Quarter	Year To Date	1 Year	3 Year	5 Year	10 Year	Since Inception*
XLY	Consumer Discretionary	-2.77%	-2.83%	-2.83%	+23.82%	+20.15%	+28.94%	+8.81%	+7.75%
XLP	Consumer Staples	+2.21%	+0.74%	+0.74%	+11.05%	+16.07%	+18.70%	+9.17%	+5.52%
XLE	Energy	+2.13%	+1.17%	+1.17%	+14.45%	+5.61%	+18.06%	+13.49%	+10.87%
XLF	Financials	+3.29%	+2.62%	+2.62%	+24.71%	+12.79%	+22.25%	-0.58%	+2.09%
XLV	Health Care	-1.24%	+5.83%	+5.83%	+29.26%	+23.19%	+21.52%	+8.79%	+7.43%
XLI	Industrials	+0.87%	+0.58%	+0.58%	+27.75%	+13.96%	+25.76%	+9.17%	+7.50%
XLB	Materials	+0.81%	+2.82%	+2.82%	+23.35%	+8.15%	+19.23%	+8.65%	+8.09%
XLK	Technology	+0.74%	+2.09%	+2.09%	+22.40%	+13.66%	+20.37%	+7.55%	+2.24%
XLU	Utilities	+3.38%	+10.02%	+10.02%	+10.17%	+13.52%	+14.65%	+9.40%	+6.14%

The table above shows the 9 major US Sectors all of which can be traded via an ETF or a Traded Option and Utilities so far in 2014 are the clear leaders. BELOW: the XLU v QQQ as Tech shares have been dropping the utilities have been doing well.





ABOVE: The Southern Company, together with its subsidiaries, operates as a public electric utility company. The company is involved in the generation, transmission, and distribution of electricity through coal, nuclear, oil and gas, and hydro resources in the states of Alabama, Georgia, Florida, and Mississippi. The current yield is 4.54% and with $21 per share of cash on the books its fairly safe. YTD the stock is up 10% its not a racehorse more of a workhorse and should give a slow and steady return over the rest of the year.

British American Tobacco (LSE:BATS) (NYSE:BTI)

About: British American Tobacco p.l.c., through its subsidiaries, manufactures tobacco and nicotine products. It provides cigarettes, roll-your-own and make-your-own tobacco, cigars, cigarillos, pipe tobacco, and snus, as well as nicotine inhalation, heat-not-burn devices, and electronic cigarettes. The company offers its products under the Dunhill, Kent, Rothmans, Lucky Strike, Pall Mall, State Express 555, Vogue, Viceroy, Kool, Peter Stuyvesant, Craven A,

Benson & Hedges, and John Player Gold Leaf brands. British American Tobacco p.l.c. sells its products in the Asia-Pacific, the Americas, Eastern and Western Europe, Africa, and the Middle East. The company was founded in 1902 and is headquartered in London, the United Kingdom. The company also owns the Vype electronic cigarette brand.

Despite the risks and headwinds that all tobacco companies face, BTI is a top-notch income stock to buy in the tobacco space, offering reliable dividends, global diversification, and lower volatility than the broader market. **BAT also owns 42% of Reynolds America (RAI) and 31% of Indian tobacco company ITC.** If we are heading for a weaker and choppy 6 months which I believe we are then this is the sort of stock you will be happy to hold.

With $2.5 billion in cash on its balance sheet and $3.7 billion of annual free cash flow, BTI is safe bet to remain a great dividend payer with yields 5.75%.

trading for 14 times next year's projected earnings of $7.66 a share The shares offer reasonable value.

Those in the UK with some new tax free 2014/2015 ISA allowance to start using should look at buying shares in BATS. Don't forget the 2014/15 allowance is £11,880 and then gets boosted to £15,000 from 1st July 2014.

Reynolds America (NYSE:RAI) possible taken over target for BAT?

As just stated BAT owns 42% of Reynolds America, this stake came around when BAT merged its US business Brown & Williamson back in 2003. Part of the deal was that BAT would not buyout the rest of RAI until at least July 2014 which is now around the corner. I think this would make a good deal and BAT could finance the remaining 58% and could pay a premium to the current level, I would say up to $65 a share.

Of course BAT don't have to rush to do anything but I think it would make sense to consolidate the two companies. RAI pays a 5% dividend and current up 9% so far this year beating the S&P500 and Dow. Even without a BAT take over RAI should continue to give a steady return for the rest of the year.