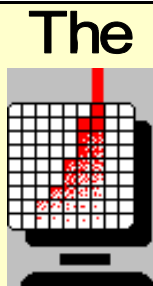


# The Insider Trader

Issue 10 August 2007



**Markets at a glance**

**Trendspotter Signals**

**Dow Jones (DJ)**  
Sell

**S&P 500 (SP)**  
Sell

**FTSE 100 (X)**  
Sell

**DAX (DY)**  
Sell

**£/US\$ (BP)**  
Buy

**US Dollar Index (DX)**  
Sell

**Crude Oil (CL)**  
Sell

**Gold (GC)**  
Buy

**Coffee (KC)**  
Buy

**Orange Juice (OJ)**  
Hold

**Sugar (SB)**  
Sell

**Dates to watch August 2007**

17th Aug- US options expire

31st - Start of Gold and Silver Long Seasonal Trade

## No need to Panic or maybe you should!

Readers can hardly say they weren't warned about the recent volatility. I made it clear in June that I was looking for lower prices and those nice calm trading days would not last for ever and I quote, *"The problem with markets that act this friendly is they tend to turn nasty on you with little or no warnings."* Welcome back to reality and it's going to be like this until at least November 07 so get used to it. The Warren Buffett classic quote that feels very timely right now is, "It's only when the tide goes out that you learn who's been swimming naked." In the coming months we will find out which banks and financial institutions have problems and not just the

Sub-prime issues which have been well documented but the use of other derivatives and highly leveraged funds which are masking many dodgy trading positions. Its all very well banks saying they don't have exposure to Sub-prime debts but what other derivatives or earning enhancing techniques do they have exposure to?

Its in times like these that skilled traders and investors who have a good plan and discipline will make massive profits and survive, whilst the quick buck merchants that have been carried by the recent bull market and rumours of private equity buying everything, will disappear. Lets get back to basics all trading strategies carry a risk, that's why we get paid higher returns, if we want little or no

**S&P500- Looking for the main fall to occur between September and mid November 2007**



pays 6% a year at present, if we want to make 30, 50 or 100% a year then we have to take more risk- sorry but theirs no such thing as a free lunch.

I dont normally follow financial news as I prefer to look at prices and charts. The only time I follow news and newspaper headlines is sometimes as a contra indicator, but when the president of the United States of America appears on the national news and states, "The world economy is strong." I have to become worried.

When ever Mr Bush or any president starts talking about the Stock market its normally the kiss of death. The last thing markets need are reassurances from the White House, because then you know its really bad. Since this speech we have seen the start of a global rescue plan with money being injected into the system by the US Treasury and the European Central Bank. You dont do this unless something really bad is going on in the background, so I am moving my view from this being a seasonal correction to something larger.

For now we are still in an uptrend for most major indices, we are still above the March 2007 lows so headlines of stock markets crashing are totally incorrect, whats happening so far is just a return back to normal market levels and returns to 200 day moving average levels. If we break below the **1370** level on the S&P500 and hold, then you can say the bull market is over. The 400 day moving average is also around this level. Although we mention the Dow Jones a lot remember its the S&P500 which gives a true reflection of the US markets and in turn the rest of the world. The Dow has

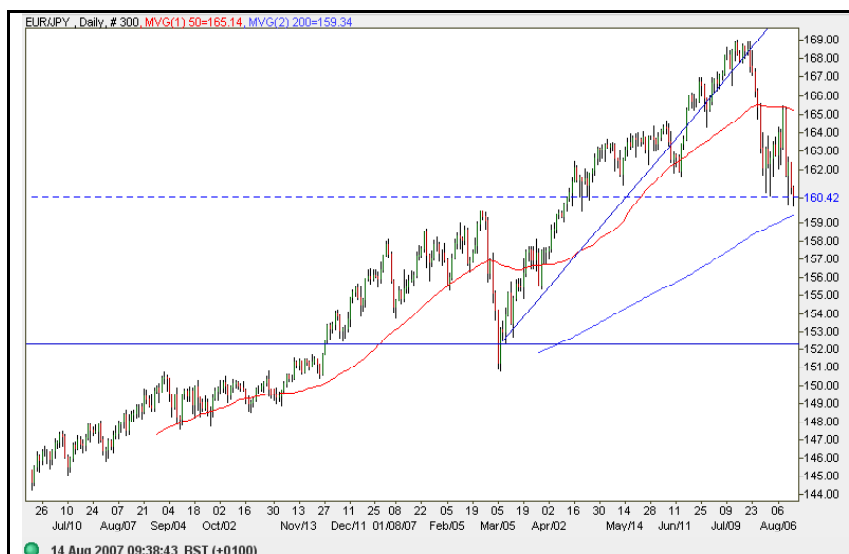
so far held up better as money has moved into big defensive companies which tend to be featured in the DOW. The Dow would have to fall below 12,000 for us to say that the uptrend is over. The FTSE100 has already crossed its 400 day moving average so this makes it a bit harder for me to read but 5500 looks like a base. The FTSE250 looks like its heading for 10,000, I would prefer to be short S&P, DAX, Hang Seng and maybe the FTSE250.

### How to play the markets over the coming months

Based on my work, including seasonal studies we are heading lower. Markets with the most to fall are Dow Jones, S&P500, German Dax and Hang Seng. I am looking for a sharp fall between now and the end October which will take us back to 1250 on the S&P500, 12000 on the Dow, 6,500 on the Dax and 18000 on the Hang Seng. So these are happy days for short sellers but before you get too excited, let me warn you about the swings.

Although the direction between now and October is lower I also see some massive rallies before arriving at our final destination. I am certain that markets in the US will have a degree of intervention; the US does not want a total crash a year before an election, people vote with their pockets. The US government has various plans in place to help keep the financial markets from falling too quickly. Have you ever noticed in the last 30 to 60 minutes of trading when US sharemarkets are having a big down day how out of nowhere a miracle rally appears that helps the market stable? Well maybe its just a coincidence but it sure looks like an intervention to me. Incase you dont know, the brains at the US Treasury is Henry Paulson not Ben Bernanke. Hernry Paulson is ex chief executive of Goldman Sachs and is a multi millionaire he is very market savvy not just some government suit. The US government, Financial Markets and major investment banks are very connected.

### EURO/YEN- Watch the Euro/Yen - As stockmarkets go down the Yen strenegths (yen carry trade) If we go back to March 07 lows on the S&P then we could see the Euro/Yen back to 152 -155



Back to the theme, we have a good idea that markets will fall, we also have a good idea that we will see some large rallies, so how do we trade these markets without being stopped out and without having a nervous breakdown?

The first step is to watch your trade size, bet smaller than normal, better to have a small trade with a big stop rather than being stopped out only to see the market continue to fall. I would look to have stops at or around the July 07 highs, so my stop on the S&P September futures would be at least 1570.

The other option is a **PUT option**. I would look at either an October or November PUT which you can spread bet. Those that have studied my course will know that I spread bet index options especially when I expect large moves. You will find the ins and outs of betting options in "Making Money from Financial Spread Trading," in brief the PUT option has no stop to worry about and is time based. Buying a 1350 PUT means that the most you could lose is the price you pay for the option, where as your profits are unlimited.

### IG Index allows long and short Commodity ETFs

As you know I am a fan of commodities and have been since 2002 and still find it disappointing that most small traders are still not participating in commodities. Its now been around a year since you could buy Exchange Traded Funds on many commodities such as Natural Gas, Wheat and Coffee yet volumes are still very low. IG Index has recently allowed clients to go long and short on Commodity ETFs.

Staying with commodities, Natural Gas continues to be one of my favourites to be long on. This can be traded via a futures spread bet or now and ETF spread bet. Whilst Crude Oil has had a sharp rise over the last few months Natural Gas has been lagging, looking for a return to the \$8.50 level.

### Gold

I have mentioned gold in my previous editions and yes we have not seen a sharp rise yet, however, I do see higher prices between now and December 2007. A way you could back Gold is via a covered Warrant. You bet covered warrants just as you do shares, so any online broker will cover warrants, theres no stamp duty and they are easy to deal. If you have never dealt warrants then you may have to fill in a risk disclaimer before you can deal. A covered warrant is like a PUT or Call option, the worse that can happen is that your option expires worthless and you lose your premium so you

are not taking an unknown risk. Profits are unlimited. SG warrants have a December 2008 800 Call Option which looks interesting. Its currently trading at 19p. Taking the view that gold is trading at around \$710 by mid December 07 this option would be worth 45p giving you a 138% profit. The code to look up the warrant is SK72.

### JC Penney JCP (US Retail)(SHORT)

Its common sense if consumers have less disposable income retailers will start finding it harder. JC Penny is a major US department store with over 1,000 stores in the US and Puerto Rico, with a focus on clothing and homewear. JCP has had a great run going from \$25 to over \$85, however, since the March highs we have slowly been breaking down and the share is below its 200 and 400 day moving average. Whilst a bounce back could come the trend is now lower. Currently trading at \$65.00 we could see this back to \$50.00

**Gold Weekly - Still looking strong. September tends to be a good month for Gold. Chart is bullish and we could see a breakout to the \$720 level**



before November 2007. The company will issue sales updates on the 6th September and the 11th October which will be key. Unless these are great then we are going lower.

**Galleon Holdings AIM 26.5p**

This is a very small company but has potential and the chart/volume backs it up. The company has two core areas, incentives/premiums, such as a free toy you may find in a cereal box, this comes under [www.crocoworldwide.com](http://www.crocoworldwide.com) and the second area is entertainment mainly cartoons the most famous currently showing on BBC is Skunkfu. [www.skinkfu.tv](http://www.skinkfu.tv) The recent deal signed with Pepsi and Warner demonstrates that these characters have profit potential.

Its too small to spread bet but you can buy via an online stockbroker. I am really looking for higher prices between now and then end of the year - at least 100% return, so its worth a small investment.

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



**Above: JCP - Strong run but has started to breakdown as US consumers finally slow down their spending. Below: Small company Galleon Holdings, making a nice saucer pattern - upside target 50p+**

