## 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

**CENTRAL BANK RATES**

| | | | |
|---|---|---|---|
| NZD | 2.50% | AUD | 3.00% |
| GBP | 0.50% | USD | 0.25% |
| CAD | 0.25% | EUR | 1.00% |
| CHF | 0.25% | JPY | 0.10% |


# The Insider Trader

Issue 34 August 2009


# Calm before the storm?

Whilst no one can be 100% certain of what Global stock markets will do next we can look at historical patterns to get a good guide of what to expect next. We must remember that financial markets are made up of people and the effect of human psychology must always be factored in.

One such factor is daylight and how this affects moods. The rally which we have seen over the last few months in the stock market in my view has a lot to do with investors feeling slightly better or less bad as we entered summer time. I have read various studies that show that those that have exposure to natural daylight have lower stress levels and higher job satisfaction.

Seasonal Affective Disorder (SAD) and its symptoms which include depression, sadness, anxiety, irritability and loss of concentrating has not always been taken seriously by the medical profession but I am certain that there is some validity in this even if it's a short term effect as people then get accustomed to the lower amounts of daylight after a few months.

So what has this got to do with stock markets?

Well for Europe and the US our sunlight days are now steadily in decline and as we enter September and October we will be

The VIX Volatility Index has been steadily going down as fear is replaced by greed however I expect this to start moving back up again in September/October 09

exposed to less daylight, the effect on general moods will cause many to focus on the negatives rather than the positives. Historically September and October are weak months for the stock market with crashes or large down moves occurring in October 1929, 1987 and 1997. In case you have forgotten the S&P 500 dropped 24% in 2008 during the September to October period. History also shows that markets make a low towards the end of the year as we go into the Christmas and New Year period with more optimistic expectations.

So right now the focus should be on protecting profits from the recent month's rally and moving to a defensive position. It is not out of the question for a pull back in markets to occur of 20% to 25% which would see the S&P500 back at 830 then we can look for the next move. This is not the time to be brave and take large bullish positions in stocks especially those that have seen massive run ups over the last few months.

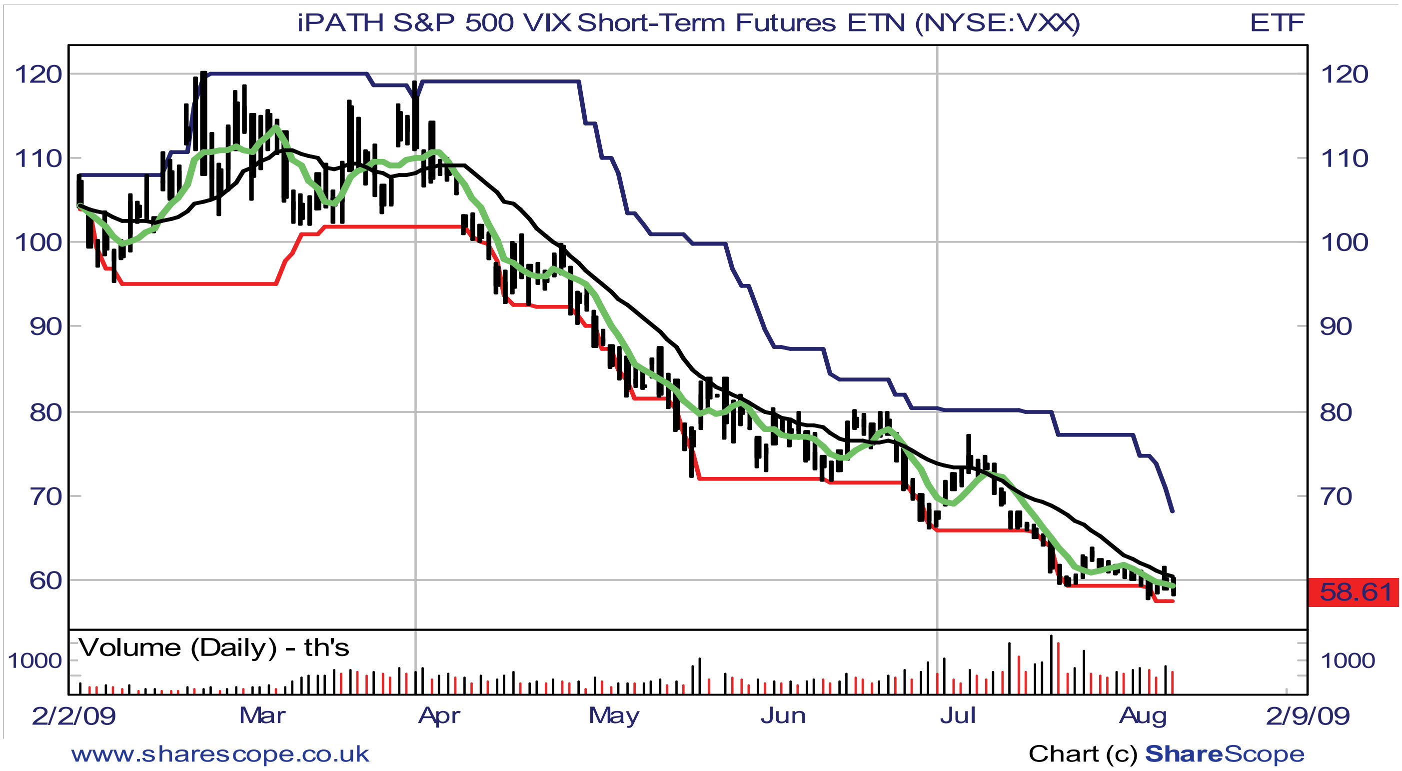
This is not the time to be brave and take large bullish positions in stocks especially those that have seen massive run ups over the last few months.

Other ways to profit would be to go long the US Dollar as I see money flowing back to safety , we would see weakness in the GBP, Australian Dollar, New Zealand dollar, Canadian Dollar, Swedish Kroner and the Euro. Most disagree with my bullishness on the US Dollar and to be honest that makes me even more bullish. Longer term I agree the US$ has problems but so do most other major currencies and as we have seen in the past in uncertain times and stock market weakness money flows back to the US Dollar.

The US Dollar remains undervalued, against the Euro and I see a 10 to 12% increase by the end of the year so looking for 1.25 Euro/$ or less. You may also want to look at buying the $/SEK (Swedish Kroner)

The US Treasury bond whilst not looking great long term, short term we will see new funds flowing in as greed turns to fear again and traders will start

Below VIX Exchange Traded Fund, if the VIX starts moving up then this ETF will a good way to play the return of volatility



dumping high risk stocks for government bonds.

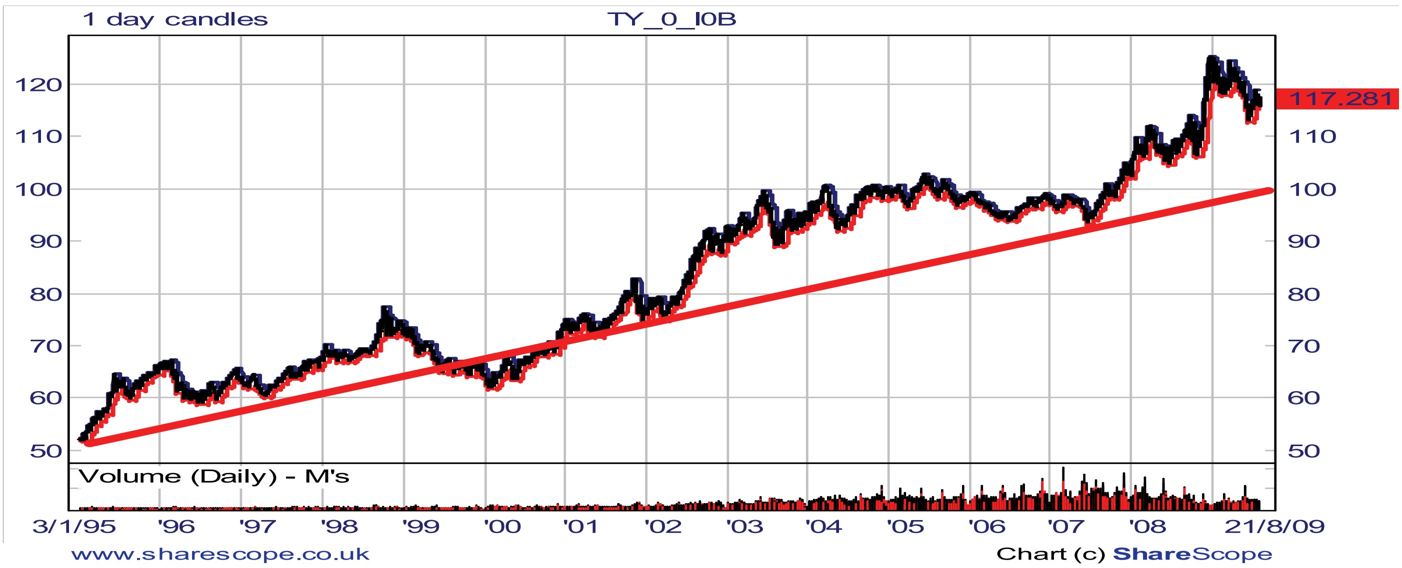
This ties in with my US Dollar strength as to buy T Bonds you're going to need to buy dollars. You can look to spread bet the US T Bond or buy the Exchange Traded Fund (NYSE:TLT) The recent lows at $90 will hold and I am looking for a move up to $105+ remember your also getting the yield currently not far off 5% a year.

Those calling for inflation may be correct longer term but certainly for the next 6 to 8 months I see deflation not inflation. Other than some food prices I just don't see prices going up for anything therefore T Bonds remain a great buy. Also interest rates globally need to go up but every central bank is scared of increasing rates too soon and in fact they will raise rates too late but my guess is no rate rises before the end of 2010.

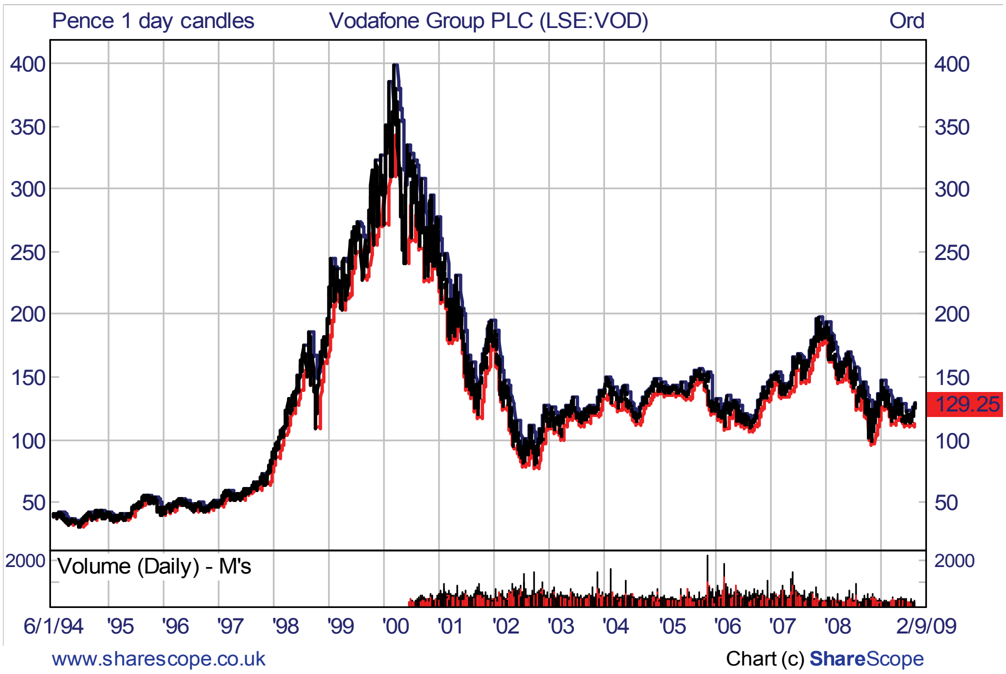
Do also remember that <u>Treasury Bonds are still in an uptrend; yes they are down over the last few months but since 2000 T Bonds are up 85%, the S&P 500 is down 45%.</u> Many may be concerned about the massive US spending plans and flooding the market with new bonds, however so far the US government has no problems in selling these and with all the rumours about China and other central banks not buying the truth is they are because they have no other choice.

## Gold

Whilst I like Gold and I have held physical gold since 2003 I am short term bearish on Gold and am concerned that the $1000 an ounce is proving hard to break. September to December are normally bullish months for Gold however as we saw in last years stock market sell off Gold whilst holding up did not act as the safe haven hedge. For me to start turning bullish I need to see a close over $1000 for at least a few days. If we see gold at less than $800 then I may become interested as value play but in between $800 to $1000 it's a range trade.

## Vodafone




Vodafone needs few introductions it's the worlds leading mobile telecom company with activities in Europe, Middle East, Africa, Asia Pacific and US. Whilst European growth may be slowing the voice and data markets still have worldwide growth.

The recent stock market bounce has not really done much for Vodafone, the shares at around £1.20 are standing at a P/E ratio of 7 and they are yielding over 6% a year and I see that dividend as being fairly safe. Just buying it for the dividend is not a bad investment plus you have some upside potential on the share price.

Below US Dollar Index (IG Index call is US Dollar Basket) Yes a long term down trend but 3 to 6 months I am looking for a stronger US dollar.