

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 \(KC\)](#)

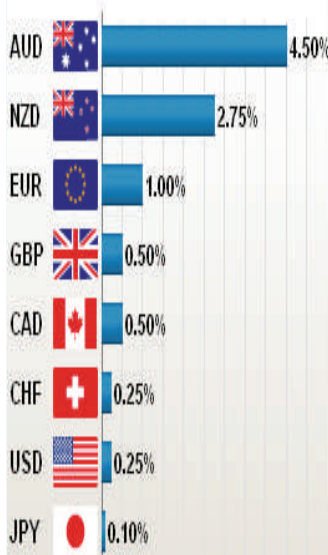
[Orange Juice \(OJ\)](#)

[Sugar \(SB\)](#)

[Wheat](#)

[Cotton](#)

[Rough Rice](#)



The Insider Trader

Issue 52

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Risk On – Risk Off



RISK ON

Lower US dollar, higher stocks and higher commodities. Of course no one wants a currency crisis or a currency crash otherwise this correlation will break but a weaker US\$ is great news for stocks as your devaluing your currency leading to inflation.

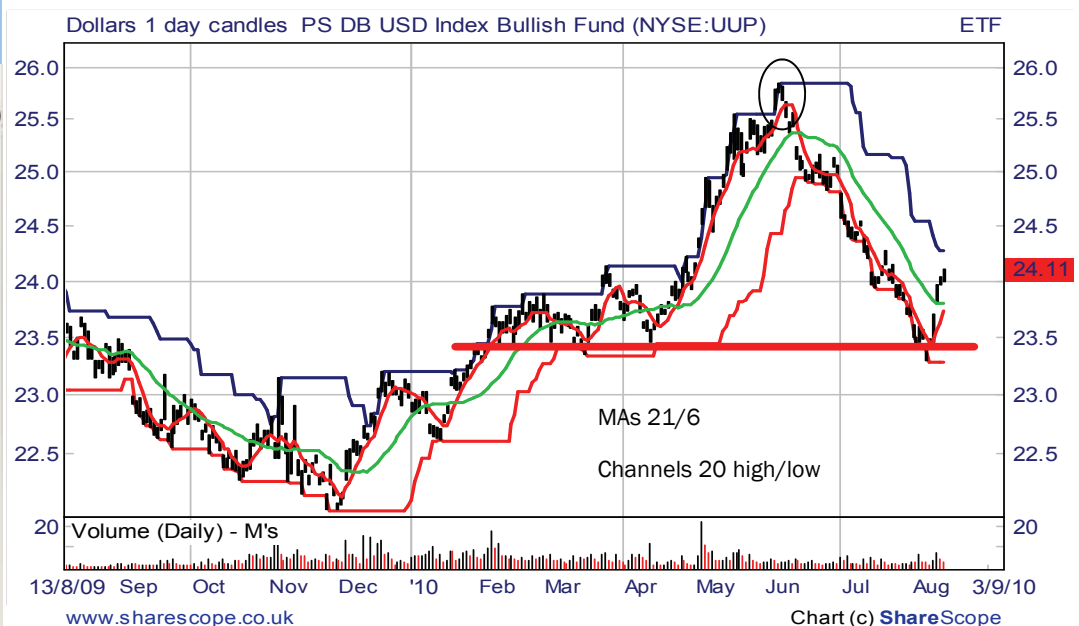
Remember some inflation is good but it's a very fine line between inflating your economy and having hyper inflation. Risk on also sees more use of leverage as traders are willing to make bigger bets and brokers are happy to let them. Also emerging markets and less liquid smaller cap stocks are traded. Currencies such as Australian \$, New Zealand \$ are bought. At my Trading Day in March 2010 (see DVD 3) will recall how Marc Faber talked about stocks in Mexico during the hyper inflation run and how buying the stockmarket protected you.

RISK OFF

At some stage equities top out, commodities top out and the US\$ then see money flooding back in as more exotic currencies are dumped for the safety of the US\$ and the Yen. Commodities with the exception of Gold are also sold as higher US\$ makes them more expensive and concerns about economic slowdowns hit Oil prices which in turn drags down other commodities.

Risk off also sees money flow from hot markets like China and Brazil and back in to more established liquid markets, smaller speculative shares are also sold. We also see money back to Government bonds and quality corporate bonds. So far the transition between risk On which was July and off which we are now entering has been ugly and fast which is what I expected. With so many Exchange Traded funds it is possible for anyone to go Long to Short and execute fairly sophisticated trades in seconds.

Below : Bullish US Dollar ETF (NYSE:UPP) - S&P500 made a low and reversed in the first few days of June as the UPP topped out—now we see reserve—Lower S&P likely



Entering September

As we get closer to September the odds of higher volatility and lower financial markets increases, of course seasonality is a guide not a guarantee and September 09 was an up move and did not follow the normal pattern the **highest odds are for markets to fall in September and bottom around the 2nd to 3rd week of October** but I will update that nearer the time.

Ideas for the coming months.

Taking a lower risk view is sensible for at least the next two months. Treasury Bonds whilst not exciting and not my favoured long term investment do look attractive.

Buying an ETF such as TLT will also give you exposure to the US Dollar. Other possible trades include Corporate Bonds using an ETF such as LQD which buys Investment Grade (higher quality bonds)

The best two currencies to own are the US\$ and the Japanese Yen. Currencies to avoid are the Euro, Australian Dollar, New Zealand Dollar which are higher yielding but form part of the risk trade. The GBP I am fairly natural on and see it gaining against the Euro but staying steady to lower again the US\$. I stay with my view that the GBP will reach 1.25 to the Euro before Christmas. The recent rally in the Euro seems done for now and my best guess is we see the Euro/\$ back to **1.20 to 1.22 before November**. You can look to buy an inverse ETF such as **EUO or LSE:SEUR**. Another idea is buy warrants such as **SA36** which gives you a low risk way to profit.

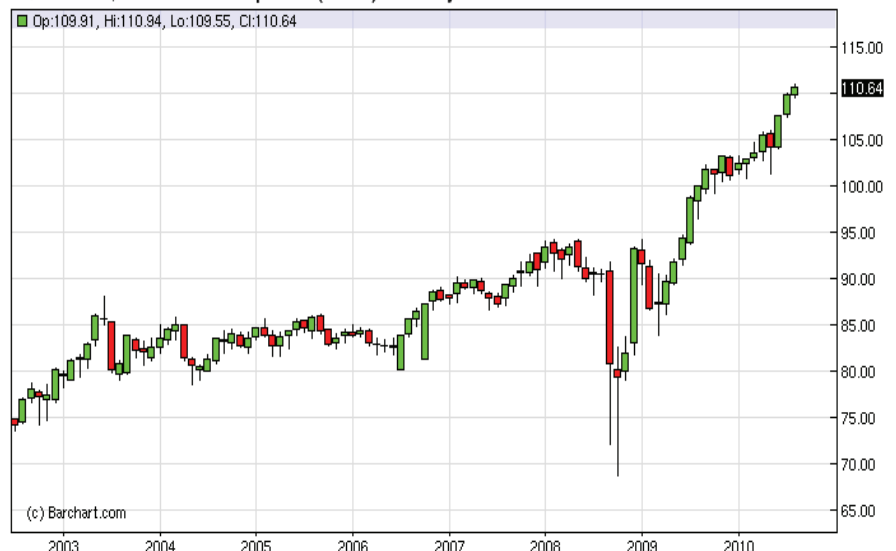


TLT - Barclays 20+ Year Treas Bond (AMEX) - Monthly Candlestick Chart



Ishares TLT—Treasury bonds which are really IOU as much as everyone talks the US government down Bonds have still been a great investment—far better than stocks. Below Corporate bonds. Remember you are also paid yield currently around 4.75% on corporate bonds and 3.81% on TLT

LQD - Iboxx \$ Invest Grade Corp Bond (AMEX) - Monthly Candlestick Chart



Family Dollar Stores (NYSE:FDO)

Last month I wrote about 99C Stores (NDN) another very well run discount retailer is FDO and is one of the few stocks making a 52 week high.

Billionaire Investor Nelson Peltz has just bought 6.5% of the company via his Trian Fund Management .

“Activist investor Nelson Peltz disclosed Wednesday that he has a 6.58% stake in Family Dollar Stores Inc., saying the deep discounter's shares are undervalued and will suggest ways for it to improve its performance.

Mr. Peltz's Trian Group has met with Family Dollar Chairman and Chief Executive Howard Levine and senior management to discuss strategies to improve the company's operating performance, such as raising sales per square foot to peer levels, improving its leverage and "optimizing" the number of new store openings.”

Risk Warning

All trading and investing involves risk and you should only invest what risk capital that you can afford to lose. These trading ideas are based on buying Exchange Trading Funds outright, should you decide to spread bet then other risks will be present. Only speculate with money you can afford to lose. Spread betting may not be suitable for all readers, therefore ensure you fully understand the risks involved. Past performance is not necessarily a guide to future performance. Ultimately all investment decisions are made by you. Insider Trader does not advise when to open or close a transaction. If you choose to open a transaction it is based on your own judgement and research and at your own risk. It is the responsibility of visitors to this Site to ascertain the terms of and comply with any local law or regulation to which they are subject.

EURUSD - Euro Fx/U.S. Dollar (FOREX) - Daily OHLC Chart



Above: Euro/\$ after the big drop from 1.50 to \$1.20 we saw a nice bounce but the down move seems to be back with the Euro Bears coming back from holidays and the 1.22 to 1.20 level looks very likely.

FDO - Family Dollar Stores Inc. (NYSE) - Monthly OHLC Chart



Beginning with one store in 1959 in Charlotte, North Carolina, the Company currently operates more than 6,700 stores in 44 states. Family Dollar Stores, Inc., a Fortune 500 company, is based in Matthews, North Carolina, just outside of Charlotte and is a publicly held company with common stock traded on the New York Stock Exchange under the symbol FDO. For more information, please visit www.familydollar.com.

I would not rush in to buy this stock but its one I am interested in picking up on a pull back and holding. The next earnings are out the 2nd September. With some help from the Nelson Peltz team we can look for this stock to move up to \$50+ in the next 12 months and possible increases in dividends and cash back to shareholders.

CME Group Inc (SHORT)

CME Group Inc. offers access to all asset classes for futures products from a single electronic trading platform, and on trading floors in Chicago and New York City. The Company offers markets in futures and options on futures contracts based on the United States interest rate yield curve, equity indexes, foreign exchange, agricultural commodities, energy, metals and alternative investment products. Its products are traded through the CME Globex electronic trading platform, its open outcry auction markets in Chicago and New York City or through privately negotiated transactions that the Company clears.

The problem with **CME** is that trading volume is dropping and whilst they offer some of the top futures and options products. Lower futures and trading volume can also give you an idea of where financial markets are heading. Over at the **ICE** exchange which best know for trading Oil and energy we see the same pattern.

For Profit Education (SELL)

This sector includes ITT Education (ESI), DeVRY (DV) Apollo Group (APOL)

In brief these companies offer college and university degrees and further education. The courses offered have been called into question for some years—Short seller Jim Chanos has highlighted his concerns many times. The US government is now investigating.

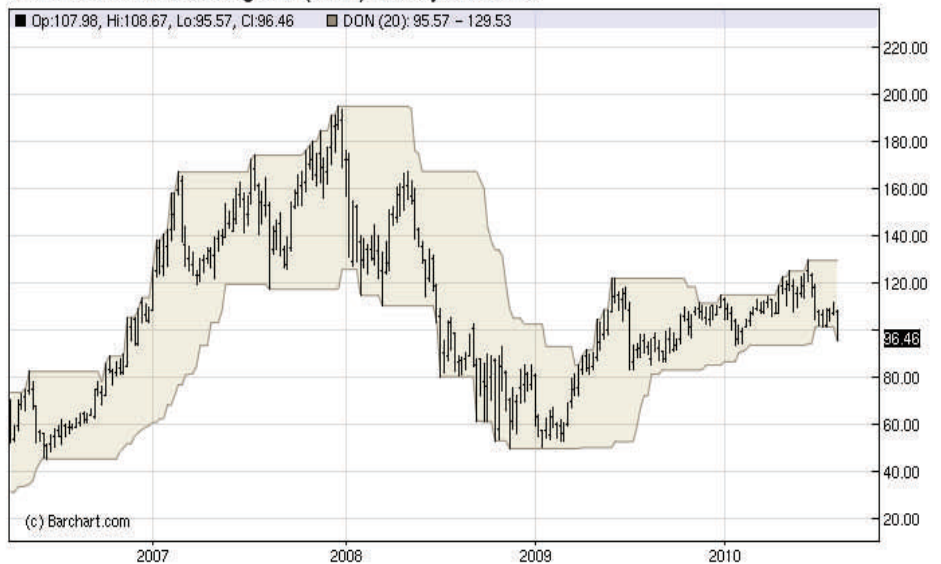
Most students get grants or loans from the government and it is now emerging that a large scale fraud has occurred.

Without government funding its questionable how this industry can continue. Anyway the charts tell you everything you need to know.

CME - Cme Group Inc. (NASDAQ) - Weekly OHLC Chart



ICE - Intercontinentalexchange Inc. (NYSE) - Weekly OHLC Chart



ESI - Itt Educational Services Inc. (NYSE) - Monthly OHLC Chart

