

## 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 \(KC\)](#)

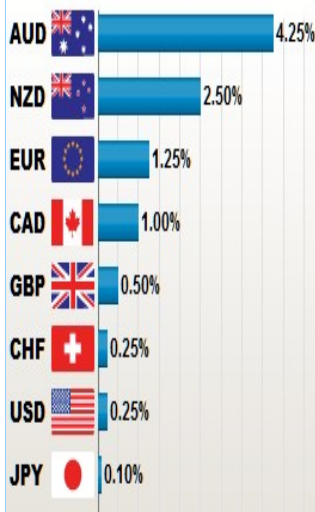
[Orange Juice \(OJ\)](#)

[Sugar \(SB\)](#)


[Wheat](#)

[Cotton](#)

[Rough Rice](#)



# The Insider Trader

Issue 68  December 2011

## The Real Santa Rally – Making Money From The Year End Stock Market Rally



The Santa Claus Rally is often misquoted and any rally in December seems to be classed as the Santa rally which is not correct.

Before we look at this year's Santa Rally let me recap market seasonality. Market Seasonality is the study using historical data to find patterns which may repeat based on the time of the year (calendar effect). For example historically the stock market has seen most of its gains between 1st November and 30th April hence the old saying "Sell in May and go away" – The May to October period tends to be the weakest with September being a very weak month for stocks.

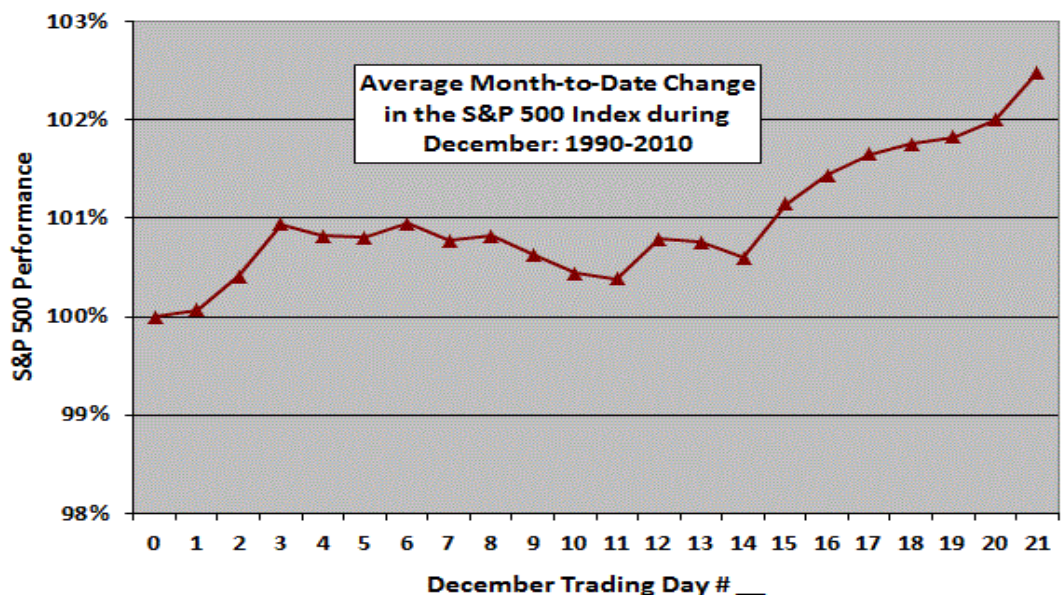
**Seasonality is a guide it's not a guarantee** but in my 26 years of trading and investing I have found seasonal

patterns do repeat and can give you a good guide. Seasonality of course is not just in the stock market, sales of bagged salad and BBQ foods have a direct correlation to outside temperatures and supermarkets monitor temperatures on an hourly basis to anticipate demand, at the same time sales of soup go up on colder days. Car sales tend to go up on sunny days.

The Real Santa Rally is in fact a very short window and starts the last 5 trading days of the year and the first 2 trading days of the New Year.

So for December 2011/ January 2012 that would be buying before the close Thursday 22nd of December and Selling around the 4th January. This could be done with a

The majority of the December gain comes in the last week of the month normally on light trading volume with many senior traders being away.



Financial Spread Bet (Jan 12 contract), Buying an Index Exchange Traded Fund (DIA or SPY) or an option on one.

Whilst nothing is guaranteed during those seven trading day the typical gains have been 1.5 - 1.7% over the last 50 years on the S&P and the Dow Jones. Whilst seasonal factors do also play into the UK FTSE100 I have done most of my research on the US markets so more confident in staying with the DOW and S&P500.

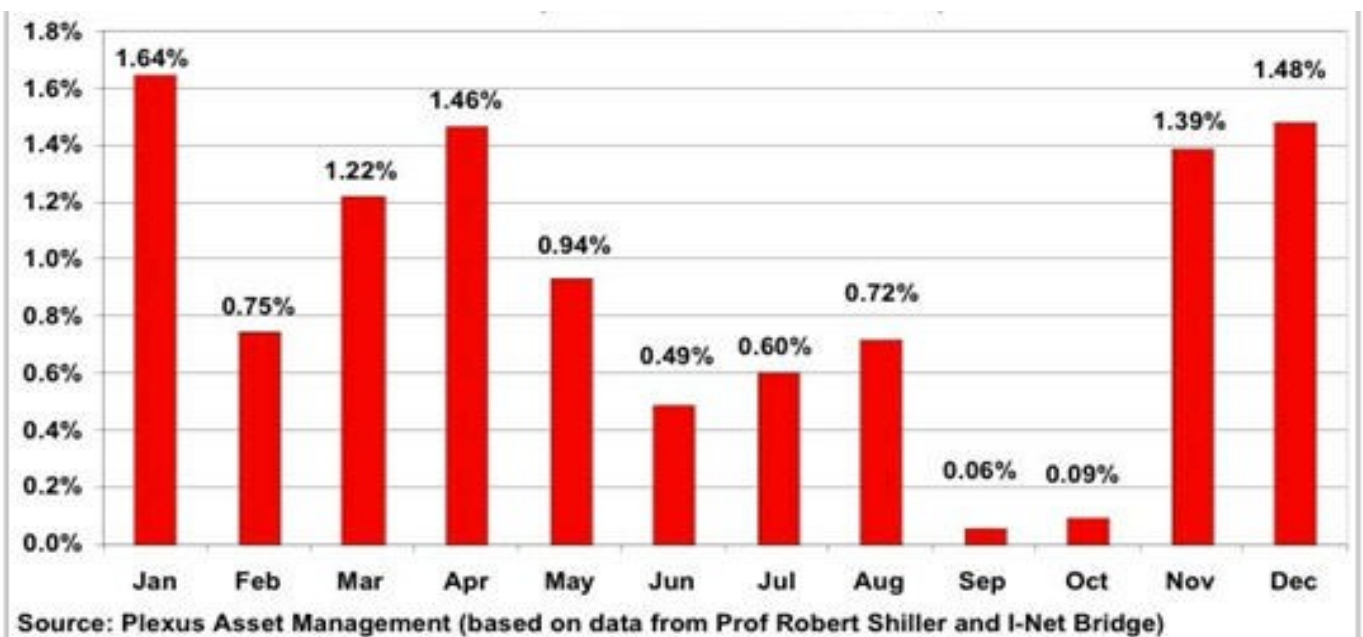
The exact reasons for the gain at not always clear but I think it's a combination of feel good sentiment, lower volumes as many senior traders take the end of the year off, tax related buying and selling, general year end window dressing with the combination of an end of month and year.

**Juicing the gain**

Using a 300% leveraged ETF you can look to increase the gain but of course your also increasing the risk. You could look at **(BGU)** which gives you 300% daily moves of the Russell 1000, or **(TNA)** which is 300% daily moves on the Small Cap index.

In options you can look at January 12 calls on DIA or SPY and just buy at the money (or near enough) what ever the level is on the 22nd December so if the Dow is at 12100 you would by the Jan 121.00 DIA Calls and then sell them on the 4th Jan.

**Below 50 years of Seasonality on the S&P 500**



**Summary**

The real Santa Claus rally is fairly short and whilst nothing is guaranteed the last 5 trading days and first 2 trading days of the New Year have a very strong track record.

**KRAFT Foods (NYSE:KFT) – Global Growth, defensive qualities, good value**



Kraft Foods Inc. (NYSE: KFT)

is a global snacks powerhouse in the biscuits, confectionery, beverages, cheese, grocery products and convenient meals in approximately 170 countries, Kraft Foods had 2010 revenue of \$49.2 billion. Twelve of the company's iconic brands – Cadbury, Jacobs, Kraft, LU, Maxwell House, Milka, Nabisco, Oreo, Oscar Mayer, Philadelphia, Tang and Trident – generate revenue of more than \$1 billion annually. On Aug. 4, 2011, Kraft Foods announced plans to divide and create two independent public companies: a high-growth global snacks business and a high-margin North American grocery business.

Those that have been with me for some year's and fellow Philip Morris shareholders (the old MO – now Altria) will recall we were given these shares when it spun off and has really been a dead stock the last 7 years.

So far in 2011 Kraft is up 15% as the restructuring which has been going on for some years is starting to come to fruition together with the integration of the purchase of Cadbury. The spin off into two new companies is scheduled to occur towards the end of 2012 with the Global Snacks Side which will include Cadbury being separated and run by Irene Rosenfeld and then the American Grocery Business will be a separate listed company and run by Tony Vernon.

At the current \$36 a share the company trades on a 2012 P/E of 14 which I think for the higher margin snack business remains very good value and paying a yield of 3% you have defensive consumer staples qualities together with some real growth especially in Kraft India which you are not paying a crazy premium for.

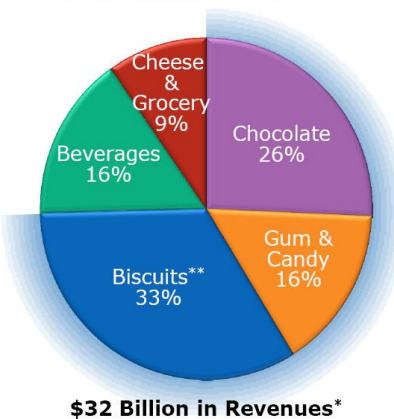
Hedge Fund Pershing Square which is run by Bill Ackman remains a major shareholder in Kraft with 15% of his fund in Kraft. You may recall our recent successful investment in Fortune Brands is also held by Pershing.

I look for the 2 new companies to trading north of an equivalent \$45 within 14 months with the new snacks company being the part I am most interested with a great exposure to developing markets. Unless something changes in the next few weeks Kraft will also be a 2012 Dog of the Dow (see page 4)

**Top 50 Stocks YTD – Healthcare top sector**

We still have a few more weeks of the year to go but it's clear that 2011 has been a great year for healthcare stocks. As you can see from the top 50 (next page) 40% of them are in healthcare. VRUS as you know has recently agreed to be taken over so that's a done deal and I am sure we will see more M&A in 2012 in this sector. Every stock here has appeared (and many still are) on the 100% buy lists. Of course it remains a high risk sector as we saw earlier in the year with MNKD with a 30% drop in one day on a negative FDA decision; you need to money manage

**Global Snacks will be the pre-eminent player in snacking worldwide**

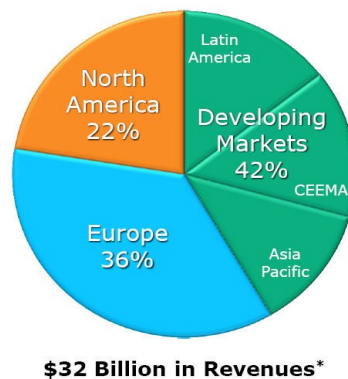


- #1 player in global snacks
  - #1 in Biscuits
  - #1 in Chocolate
  - #2 in Gum
- Strong stable of global and local icons
  - Eight \$1B+ brands ... *Cadbury, Jacobs, LU, Milka, Nabisco, Oreo, Tang, Trident*
  - Six \$500MM-\$1B brands
  - Nearly 40 \$100MM-\$500MM brands
- Beverages to drive strong growth with high margins



21 \* Based on 2010 reported net revenues adjusted for accounting calendar changes and divestitures.  
\*\* Includes salted snacks

**Global Snacks' geographic profile is unique within consumer products**



- Well-balanced Developing Markets presence
  - Scale and profitable growth in key developing markets
- Strong presence, prospects in Europe
  - Significant synergies, whitespace opportunities
- Lower-than-average exposure to North America
  - Instant Consumption Channel expansion



carefully with these stocks especially the smaller ones and only use risk capital. In many cases after a large move I tend to cash out part of the holdings to at least get my initial investment back. Take **Jazz Pharma (JAZZ)** I have taken all my investment back plus some over the last few years, so the shares I have left are technically FREE.

**Too late to buy?**

If a stock is still in an uptrend then no, take DPZ we bought that in January at \$16 it's now up over 100% but who says it does not go up another 30,50 or 100% next year? It's back to psychology, most find it hard to buy a stock at a new 52 week high – then again most don't make.

## 2012 Dogs of the Dow

Still a few weeks to go but the likely 10 Dogs of the Dow will be: **T, VZ, MRK, PFE, GE, JNJ, DD, INTC, PG and KFT.**

The small Dogs will be T, MRK, GE, INTC, PFE as they are the lower priced shares.

You can learn more at: <http://www.dogsofthedow.com/>

The Dogs of the Dow strategy was popularised in 1991 by Michael O'Higgins, in his book, "Beating the Dow."

The strategy is based on the idea that the 30 stocks within the Dow Jones Average are generally strong companies with profitable operations. Therefore, investors using this strategy believe the highest-yielding stocks still have strong businesses, but have simply been sold off (hence the term "dog"). With their higher yields and undervalued share prices, these stocks should rise in price faster than other members of the Dow.

The small dogs strategy is the same but you take the 5 stocks with the highest yields but lowest share price.

Dogs of the Dow was very popular from 2000 to 2007 but became less popular after the 2008 stock market sell off and as the public lost interest in stock investing but still has some merit. The 2011 Dogs so far have beat the Dow by 100% [see this link](#)

*Wishing you a Fantastic Christmas and health, happiness and prosperity in the coming New Year.*



## 50 Best Performing Russell 3,000 Stocks YTD (%)

Stock	Company	Sector	Price	YTD % Chg
INHX	Inhibitex Inc	Health Care	15.58	498.47
VRUS	Pharmasset Inc	Health Care	128.25	490.22
MDVN	Medivation Inc	Health Care	47.90	215.95
QCOR	Questcor Pharmaceuticals	Health Care	43.19	192.67
GLNG	Golar LNG Ltd	Energy	43.68	191.76
MDW	Midway Gold Corp	Materials	2.43	189.39
AMPE	Ampio Pharmaceuticals	Health Care	6.93	188.33
PCYC	Pharmacyclis Inc	Health Care	15.58	157.07
CONN	Conn's Inc	Cons. Discret.	11.96	155.56
PKT	Procera Networks Inc	Technology	15.78	154.60
LQDT	Liquidity Services Inc	Technology	34.27	143.99
ARIA	Ariad Pharmaceuticals	Health Care	11.91	133.73
VICL	Vical Inc	Health Care	4.66	132.18
COG	Cabot Oil & Gas Corp	Energy	86.41	128.51
ULTA	Ulta Salon Cosmetics & Frag.	Cons. Discret.	73.99	117.76
SCSS	Select Comfort Corp	Cons. Discret.	19.73	116.65
DPZ	Domino's Pizza Inc	Cons. Discret.	33.55	110.56
ONTY	Oncothyreon Inc	Health Care	6.85	110.43
HSTM	HealthStream Inc	Health Care	16.90	110.07
BTH	Blyth Inc	Cons. Discret.	69.87	107.69
ABMD	ABIOMED Inc	Health Care	19.78	106.45
HS	Healthspring Inc	Health Care	54.50	105.39
SPPI	Spectrum Pharmaceuticals	Health Care	14.04	104.66
TSRX	Trius Therapeutics	Health Care	7.47	101.62
STMP	Stamps.com Inc	Technology	26.61	101.28
JAZZ	Jazz Pharmaceuticals	Health Care	38.98	98.17
RGR	Sturm Ruger & Co Inc	Cons. Discret.	30.04	96.86
LTS	Ladenburg Thalmann Financial	Financials	2.28	94.87
WCG	WellCare Health Plans Inc	Health Care	57.91	91.73
MAKO	MAKO Surgical Corp	Health Care	28.86	90.21
NATR	Nature's Sunshine Products	Cons. Staples	16.68	85.75
ATRO	Astronics Corp	Industrials	35.12	85.14
CRIS	Curis Inc	Health Care	3.65	84.34
EP	El Paso Corp	Energy	25.29	83.58
RNOW	RightNow Technologies	Technology	42.92	81.35
PSMT	Pricesmart Inc	Cons. Staples	68.27	79.56
HANS	Hansen Natural Corp	Cons. Staples	93.65	79.21
GTLS	Chart Industries Inc	Industrials	60.29	78.86
AKRX	Akorn Inc	Health Care	10.84	78.75
CLUB	Town Sports International	Cons. Discret.	7.25	78.57
GLUU	Glu Mobile Inc	Technology	3.68	78.50
CBST	Cubist Pharmaceuticals Inc	Health Care	38.19	78.46
FTK	Flotek Industries Inc	Materials	9.70	78.35
PCO	Pendrell Corp	Industrials	2.68	78.00
LNG	Cheniere Energy Inc	Energy	9.82	77.90
REGN	Regeneron Pharmaceuticals	Health Care	58.28	77.52
CRD/B	Crawford & Co	Financials	5.99	76.47
MG	Mistras Group Inc	Industrials	23.68	75.67
CVLT	CommVault Systems Inc	Technology	49.70	73.97
SUG	Southern Union Co	Energy	41.58	72.75

### 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 Traded Funds or shares 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.