The Insider Trader

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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)

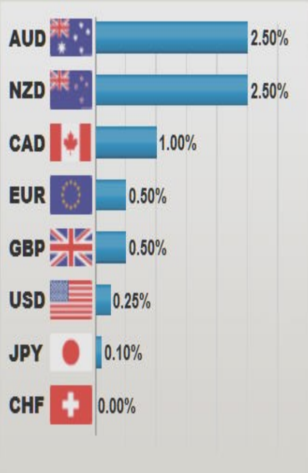
Orange Juice (OJ)

Sugar (SB)

Wheat

Cotton

Rough Rice

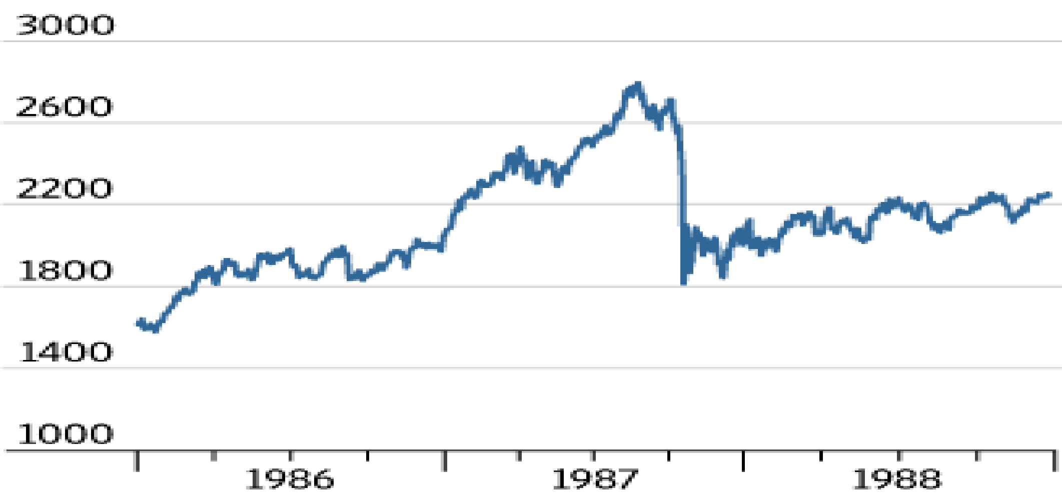


No sure thing – Even a one horse race can still lose you money!

This month I want to go back to basics; something that I learnt in a very harsh way back on 19th October 1987 (19th October is the birthday of my long-time friend investor, Jim Rogers) I guess that is why he is often bearish. Now for those youngsters who may have forgotten that was the October stock market crash that I just didn't see coming or rather did not want to see it coming; in fact I already knew on the Friday before that the S... was going to hit the fan as the US was already falling.

As many of you know whilst it was a bad crash the truth is that the markets recovered fairly quickly but my problem was that I did not have the cash to hold my positions. This was pre-spread betting days so I was using margin and T25 settlement which basically meant you could buy stock and not pay for it for 25 days, after 25 days you would close the position and re open; often called cash and bash. So it was not the crash that killed me financially it was my lack of ability to carry on trading, so a lesson to everyone - live to fight another day. When investing and trading we all love to think we have a sure fire investment or a certainty, however, that is just not the real world. Our business is built around uncertainties, what we can be certain of and what we can control is our risk, if you decide to buy $1000 of stock we know the worst that can happen is that the company goes broke and our $1000 disappears. For as long as many of you have known me and that is

Below: Dow Jones Industrials Below: 1987 crash whilst dramatic anyone buying 1986 and holding until 1988 would have still been in profit. It was being overleveraged that caused me problems.



over 15 years in some cases, you will see I have never gone all in on any stock, yes I have had some big positions such as KKD (all gone bar a few shares which I paid $4 for) and more recently KO is a fairly big position but also has quality and of course there is risk in everything but I think KO will be around long after you and I have passed away. Financials also still remain a fairly big position. My point is whilst yes I have had plenty of 100% plus gains - no one position is ever putting me at too much risk. Regardless if you're on a multimillion or a $10,000 account you are in control of the risk.

So how can you lose on a one horse race?

I was watching an interview with Mike Milken the junk bond king from the 80's and in fact the guy that funded Steve Wynn (WYNN) in the old days and they were talking about risk and they talked about a one horse race.

If I said you could bet on a one horse race the initial reaction likely is "I cannot lose - I should go all in?" Not so fast my friend, what happens if the horse goes lame and cannot finish running around the track or sees a good looking filly in the paddock and decides to run off into the sunset and mate? There goes your sure fire bet. Sometimes we look at the big picture and those minor details can throw us out. Sometimes it can be the safe bets that are in fact the risky ones and the horrible beaten up stocks that everyone knows is a dog turns out to be far less risky.

So as we close another record year; a year I have so much to be grateful for and I hope you can say the same let's just remember that however good it's been we still need to stay focused on risk, reward and at some stage we will have some terrible investments, it's part of the business but as long as we manage it, we will be fine.

A few Biotech- Pharmaceutical Ideas for 2014

Here we go again.... Bullish Biotech, well yes and no, yes I still like biotech but it's not going to be the case of just buying anything and it will go up as it has done in the last few years. In 2014 we will have to be selective and tame expectations but here are a few ideas. I will also be sharing some new drug companies in 2014 and a few old bust ones that may get a second life.

Forest Laboratories Inc (NYSE:FX) $56

About: Forest Laboratories, Inc. develops, manufactures and sells branded forms of ethical drug products primarily in the United States and Europe. It principally offers Namenda for the treatment of moderate and severe Alzheimer's disease; Bystolic for the treatment of hypertension; Savella for the management of fibromyalgia; Teflaro for the treatment of adults with skin and skin structure infections, and community-acquired bacterial pneumonia; Daliresp to reduce the risk of chronic obstructive pulmonary disease (COPD) exacerbations in patients with severe COPD; and Viibryd for the treatment of adults with major depressive disorder (MDD). The company has products under new drug application review by Food and Drug Administration comprising Aclidinium for the maintenance treatment of COPD; and Linaclotide for the treatment of constipation-predominant irritable bowel syndrome and chronic constipation. You can find out more about the company at http://www.frx.com

FRX has had a good year up 60% in 2013 and has been a regular on our 100% buy list but I still like it. The company does not make money but will do in 2014 and has sales of 3.23Billion on a market cap of 15 billion (it is S&P500 and easy to spread bet)

Even after the good year I think the market is pricing the company too low and it can surprise to the upside in 2014; I doubt another 60% but I think we could see 30% return on this stock over the next 12 months and that would give you a share price of around $75. Based projections we see a 33 P/E not super cheap but not bad for the possible growth. Next page shows chart and the main drugs owned by FRX

Brand Name	Clinical Name	MOA	Indication	Approval Date
Namenda	memantine	NMDA antagonist	Moderate to severe dementia of Alzheimer's type	October 2003
Bystolic	**nebivolol**	**Selective, vasodilating beta blocker**	**Treatment of Hypertension**	**December 2007**
Savella	milnacipran	SNRI	Management of Fibromyalgia	January 2009
Namenda XR	**memantine**	**NMDA antagonist**	**Moderate to severe dementia of Alzheimer's type**	**June 2010**
Teflaro	ceftaroline	Broad spectrum cephalosporin antibiotic	Community-Acquired Bacterial Pneumonia (CABP) & Acute Bacterial Skin and Skin Structure Infections (ABSSSI)	October 2010
Viibryd	**vilazodone**	**Novel SSRI and $5\text{-}HT_{1A}$ partial agonist**	**Treatment of Major Depressive Disorder (MDD)**	**January 2011**
Daliresp	roflumilast	Selective PDE4 inhibitor	Treatment to reduce the risk of exacerbations associated with severe COPD	February 2011
Tudorza	**aclidinium**	**Long-acting bronchodilator (anticholinergic)**	**Maintenance treatment of bronchospasm associated with COPD**	**July 2012**
Linzess	linaclotide	Guanylate cyclase-C agonist	Irritable Bowel Syndrome with Constipation (IBS-C) and Chronic Idiopathic Constipation (CIC)	August 2012
TBD	**levomilnacipran**	**SNRI**	**Treatment of Major Depressive Disorder (MDD)***	**July 2013 (estimate)**
TBD	cariprazine	D3/D2 partial agonist	Treatment of schizophrenia and bipolar mania*	November 2013 (estimate)

** Pending approval*

Above: Forest Laboratories main drugs which are approved. Below Monthly chart going back to 1989 and looking for us to get back to $75 in 2014.

OPKO Health (NYSE:OPK) $11

This stock has featured regularly in my updates and on the 100% buy list and its one I still like. The shares have come off a little and this gives the new members a chance to buy in now at around $10.50 - $11. The sock is still up over 110% even after the pullback. You can find out more about what they do here: http://www.opko.com/ Not everyone likes this company 15% of the company is sold short and one hedge fund thinks it's worth nothing, but that makes the market. One hedge fund said Herberlife was worth nothing and so far has lost around 500 million from being short and wrong.

There are also some very smart holders in the stock including Soros and GAMCO run by Mario Gabelli. Charles Frost the CEO is also a fairly large holder and is still buying stock. Now this is a high risk stock and I don't have a massive position but I still see a lot of potential and with some good news those shorts can be squeezed out. It's more of buy a few, hold and let's see where we are this time next year. Where I think we could have some upside is a drug they have in phase III development called Rayaldy which is a new treatment for patients with stage 3 or 4 chronic kidney disease. OPKO expects to announce the topline clinical results for the pivotal phase 3 Rayaldy trials in mid-2014. The NDA (new drug application) will be filed (accepted for review) by the FDA in the first half of 2015.

On a side note a stock I am up 150% on is Ligand **Pharmaceuticals (LGND)** and I know many readers own it. After a parabolic rise it's up (only...) 20% the last few months but this slower pace is actually healthy. LGND has a great pipeline, you can see it here http://www.ligand.com/pipeline and great partners. Agreed

Agreed the current P/E at 150 is very high but that comes down to 44 or lower in the next 12 months. $55 at the moment and not far off a 52 week high but can go up to the all-time high of around $80 by this time next year.

Citigroup and AIG - the comeback kids still offer value

Regular readers will know whilst deep down I am a trend follower I will also take a contrarian view and also look for signs of beaten up stocks that are making a turnaround. Two stocks both mentioned here before which have done extremely well for me and anyone brave enough to follow me are Citigroup (C) and AIG (AIG) yes both stocks would have gone broke had the US government not bailed them out, but that is the distant past and the government are out of both and made money out of saving both companies.

Above Citigroup chart is horrific over the long term but those that have bought the last few years have done very well and up 80% in the last 2 years.

So as we head into 2014 is there any value left in these two stocks?

Citigroup (NYSE:C)

Citigroup is a true global financial power house with 4,008 branches in 39 countries including North America, Latin America, Europe, the Middle East and Africa, and Asia Pacific. Citi offers everything from banking and credit, corporate and investment banking, securities brokerage and wealth management. So far in 2013 it's up a very respectable 35% beating the S&P500, however, even after this big move I still see value. The forward P/E is under 10 and the book per share is nearer $65 against the current share price of $52. Wall Street of course does not forget that easily and the scares of 2008/2009 are not going to heal overnight, but todays Citi with a clean balance sheet remains a good value stock and even pays a very small dividend which should be increased in 2014. Overall I like Citi and we could see the stock nearer $65 by this time next year giving you a 25% upside.

Worth a mention here also is **Bank Of America (BAC)** which I still like. BAC has made a great turn around, currently trading around $15 we could see $20 within 12 months. I first started buying this stock last year at the $7 mark, 150/16 MA cross system has been on a buy signal since September 2012.

AIG (NYSE:AIG)

Much of what I said for Citi goes for AIG. American International Group, Inc. provides insurance products and services for the commercial, institutional, and individual customers in the United States and internationally. The company operates in two segments: AIG Property Casualty, and AIG Life and Retirement. The company was left for dead and bailed out, but todays AIG is in great shape and the stock is up 35% so far in 2013. The Book value here at $67 against $49 for the stock also looks attractive. 2013 was a fairly stable year for insurance companies and overall the hurricane season was kind with few major disasters in the US. The forward P/E is around 11 so not that demanding and we should see another good year for AIG up maybe 20%. I first bought AIG at $24 so sitting on 100% profit.

Both stocks are S&P500 members (as is BAC) and it's easy to buy the shares via a broker or you can place a Financial Spread Bet with any major firm and for newcomers even though the shares are traded in US$ you can bet in Pounds or Euros per point if you prefer, so if you place a £1 a point bet on AIG and the stock goes from 49.00 to 49.05 that would be a £5 gain.

Now another way to take a view on the whole financial sector is via Exchange Traded Funds (ETF) the best known being the XLF, again those wishing to spread bet can easily place a trade. XLF will trade the SPDR Financial Sector, so this gives you exposure to a basket of insurance and banking stocks, the biggest holding is currently JP Morgan Chase (JPM) click to see top holdings: https://www.spdrs.com/product/fund.seam?ticker=XLF

Bank Of America (BAC) Now up 100% since I first bought but still well below the $20 book value, I really think we can move up to $20 by this time next year.

A stock featured in my updates which has done well in a similar area is **Hartford Financial Group** (NYSE:HIG) up 63% this year. This is the one that hedge fund Billionaire John Paulson has been involved in I featured it at $15 back in 2012 and currently sitting at $36. Now don't expect too much more from HIG but its still turning around and trending higher so I will stay with mine.

Finally..... may I wish you a wonderful Christmas wherever you are in the world and here's to a healthy, happy and prosperous 2014. I will be away from the 23rd December to 6th January so please do not expect many updates or support during this period.

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 or stocks 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.