The
Insider Trader
Issue 28 February 2009

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	3.50%	AUD	3.25%
GBP	1.00%	USD	0.25%
CAD	1.00%	EUR	2.00%
CHF	0.50%	JPY	0.10%

Back to basics – Agriculture is still in a Bull Market

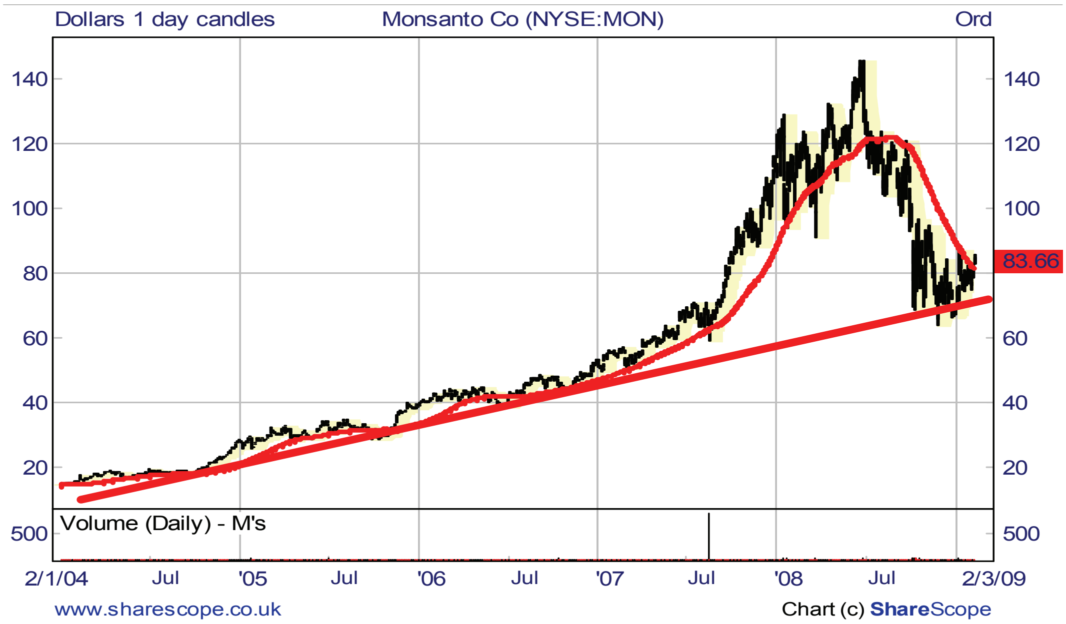
Those who follow my work will know that I have been bullish on commodities since 2002. In 2003 I held a seminar in London together with respected global investor Jim Rogers where I explained why I was allocating a large part of my wealth to commodities.

My view has not changed; this is still a commodity bull market and those that don't have an exposure to commodities are missing out. Before I address the current situation I was re reading 'Hot Commodities' by Jim Rogers where he states, "*Warning - there will be setbacks, I cannot promise a stairway to heaven. No bull market in any asset has ever gone straight up.*"

Many forget that all Bull markets have set backs, the stockmarket did not go up in a straight line between 1982 to 2000 it had many set backs, but it was a bull market. If we say this bull market started in 2000 and a typical bull market lasts 18 to 20 years then we still have some time to go.

The problem with traders and investors is they tend to have short memories and a tendency to focus on recent data. Let me give you an example: Monsanto (NYSE:MON) one the world's leading seed providers is up over 473% in the last 5 years, agreed it is down around 40% over the last 12 months – but the trend remains up.

Below: Monsanto (NYSE: MON) First highlighted at $15 (split adjusted) in 2003 at my seminars— It would be hard to imagine that they will be lower in 6 years time.



Most investors based in Europe and the USA forget how small a part of the world we are, and the true growth is coming from China, India and other developing economies. Let's face it, the UK, Europe and the USA have had their best years, they have had their years of growth and consumption, it's now time for other countries to lead.

Regardless of what your nationality is and where you live, everyone consumes agricultural and soft commodities and will continue to do so. As the global population continues to grow and living standards increase in developing economies, so does the amount of calories consumed. Forget about all the hype about more cars, TVs and fridges, I am talking about the developing economies trading up from just rice to maybe rice and pork or rice and chicken.

I would guess that 95% of those reading this do not own any agricultural commodities, I see 1000's of financial advisors and fund managers investing their clients money in the stockmarket, property and bonds but when it comes to commodities bar a few specialised funds, its unheard of to have a holding in commodities. I often hear commodities are "risky" these are the same people that invest in shares which may I remind you are far riskier than commodities, shares go to zero, no commodity has ever gone to zero.

Not many people have left to go into farming but that could now change. I see the service sector declining for the next 10 to 15 years; we don't need so many banks, insurance companies, travel companies, restaurants or retailers. These businesses certainly in Europe and USA will have a decade of contraction where as farming will be in expansion mode.

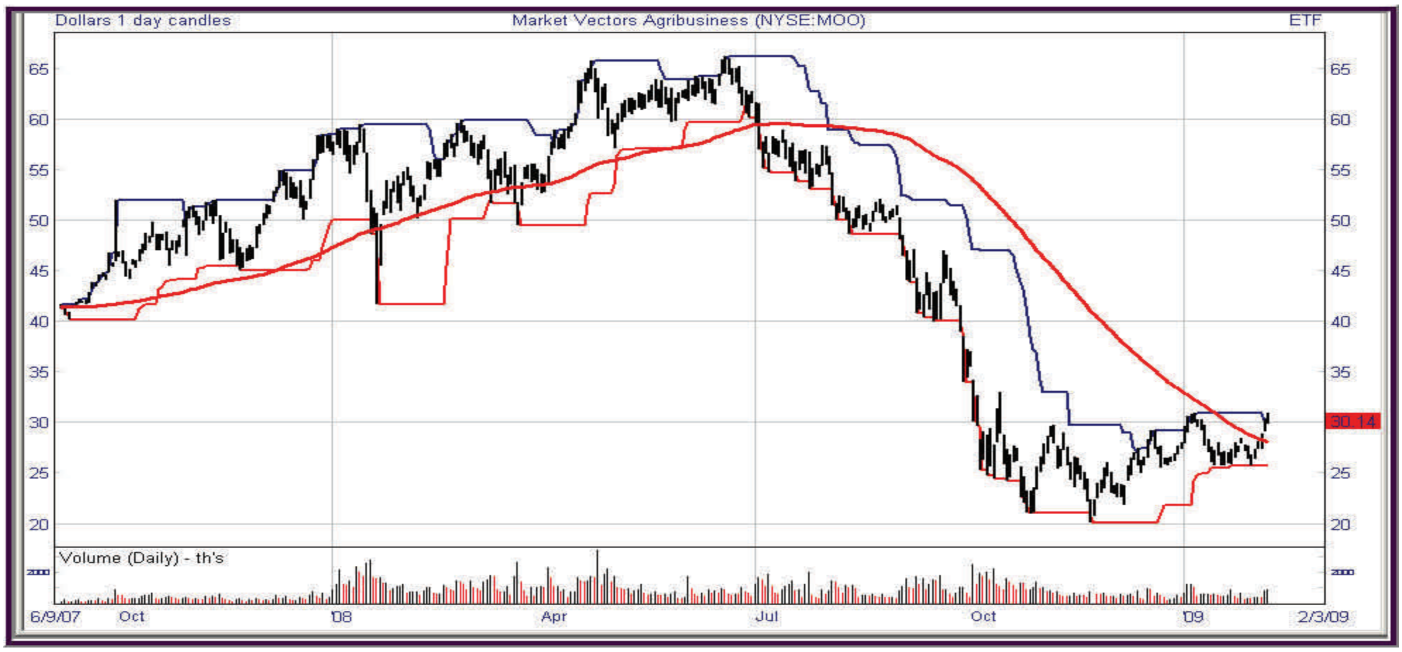
So how do you get an exposure?

The easiest way is still exchange traded funds, you can buy these via a stockbroker and they can be placed in a pension/SIPP or held in a normal account. Owning the ETFS outright means your not subject to margin calls or leverage. **ETFS Agriculture (LSE:AGAP) and ETFS Softs (LSE:AIGS)** would give you a good exposure. Livestock over the longer term should also benefit ETFS Livestock (LSE:AIGL)

If you're willing to take a little more risk, then investing in agricultural based companies is another angle. I suggest the **EFT Market Vectors Agribusiness (NYSE:MOO)** which has a good range of companies involved in fertilizer, including Potash Corp, Syngenta, Archer Daniels Midland, Deere, Monsanto and Yara Intl. A similar ETF is now offered in the UK called the **ETFS S Net ITG Global Agri Business (LSE:AGRP)**

Short term

When I say shorter term I mean within the next 6 to 9 months. I see the possibilities of a bad harvest and a squeeze on agricultural prices, so far global weather patterns around the world have not been favourable and we could see some big moves in agriculture over the summer months. A way to get some speculative exposure would be buying warrants on GS Agriculture Index, SG offer a **September $ 70 call, currently trading at 23p.** (SF31)



Gold to S&P 500 ratio

When ever you look at the level of an index say the Dow Jones or S&P500 you have to look at it in nominal and relative terms. Let's say the Dow moved from 8,000 to 12,000, good gain, but if your currency has been devalued then what have you really made?

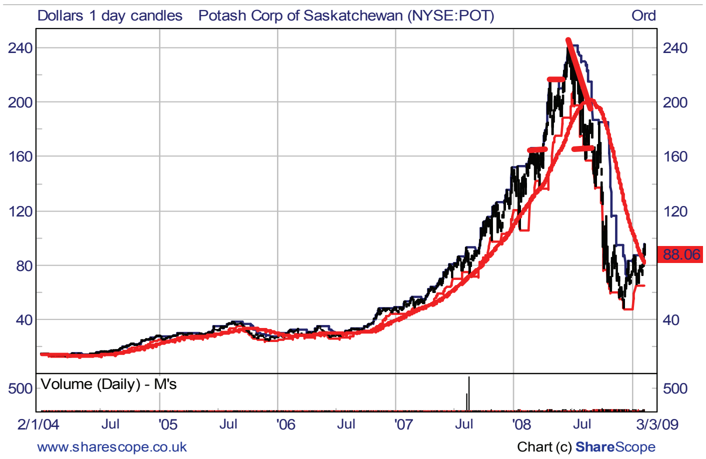
Whilst by no means perfect using an ounce of Gold as a measure can give you a true picture. You may have noticed that an ounce of Gold has recently been trading higher than the S&P500. At present you need 9 ounces of Gold to buy the Dow $910/8200. If we take the UK FTSE100 and Gold in £ this ratio stands at under 7, 4200/620

It could be possible at some stage to see the Dow Jones and the FTSE100 also trade at 1:1 priced in Gold and if you think this cannot happen then go back and check 1979/1980 when it did happen.

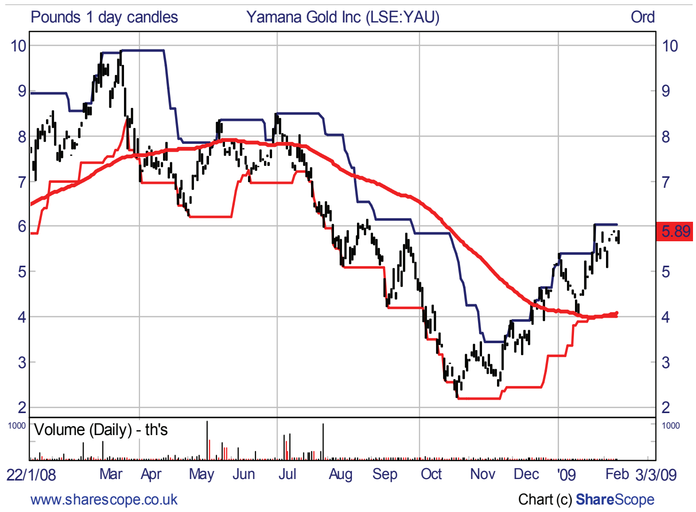
The peak for Dow/Gold was 43.7 which was the time of the Dot com boom and when no one wanted to touch Gold or commodities.

My point here is not to say what's cheap or expensive it's to get you thinking about nominal paper prices relative to something else.

<u>Inflation could make share prices look higher in nominal values but lower in real spending power</u>. At a time when Governments around the global print large amounts of money and get further and further into debt looking for some real measure of money becomes more and more significant.



Above Potash Corp (POT) After the big rise and fall which I profited from stating to see some buying again at this level. Below Yamana Gold listed in UK and US one of the better looking charts and could be heading back to £8.00



Below **Bunge (NYSE:BG)** Again after the big fall started to move back up. Bunge is the Fertilizer and Agribusiness. Back above the 100 dma and looking for a move to $80 within the next 12 months.