

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](#)

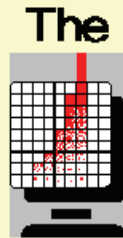
[Cotton](#)

[Rough Rice](#)

CENTRAL BANK RATES

 8.25%	 7.00%
 5.25%	 3.00%
 4.00%	 4.00%
 2.75%	 0.50%

The Insider Trader



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Time to Sell the Euro and take another look at the Greenback?

When everyone knows that the US Dollar is a bad bet then you really need to look at taking the opposite side of the trade and that's what I am doing. Over the last few months we have seen a continuous stream of bad news and commentary on how bad the American currency is. From Rappers, Super Models to the Taj Mahal everyone prefers the Euro. I even read that kidnappers now want ransoms paid in 500 Euro notes rather than dollars! As Mark Twain once wrote "The reports of my death are greatly exaggerated" after his obituary had been mistakenly published.

One indicator I like to use is the front cover indicator. I will not mention the magazines by name but I'm sure you can guess the ones I'm thinking of

economy. They are very well written and illustrated, however, in most cases by the time it's on the front cover then the smart money is getting out. One well respected magazine recently had a cover with the headline "the panic about the dollar".

Remember, when trading currencies you are always buying the strength of one country's currency and selling the weakness of the other. Whilst the US has many well documented economic problems let's not think for one minute that Euroland is some sort of perfect economy, it is far from it. I have often stated that its hard to find a decent currency and its been the case of buying the best

EUR/USD Monthly chart going back to 1984
(synthetic used pre Euro launch)



of a bad bunch.

Why the Euro is heading for a fall

The recent cuts by the Federal Reserve of over 1.25% in just over a week were historic moves. These cuts should have sent the dollar plunging and the Euro soaring, yet it did not, the Euro failed to make it over 1.50. As the chart shows we have been in a consolidation for some months. For now 1.43 seems to be the support, however, I see this giving way towards the end of 2008. My target for Euro/USD before the year end is 1.36 from the recent 1.48 levels. The dollar weakened 10.6 percent in 2007 and 11.4 percent in 2006 after strengthening 12.6 percent in 2005. 2008 could see a strengthening of around 10%. I also see the ECB finally giving into inflation concerns and start cutting interest rates. From the current 4.00% I see rates steadily falling to 3.25% by year end. The first cut from the ECB cut will come as soon as April.

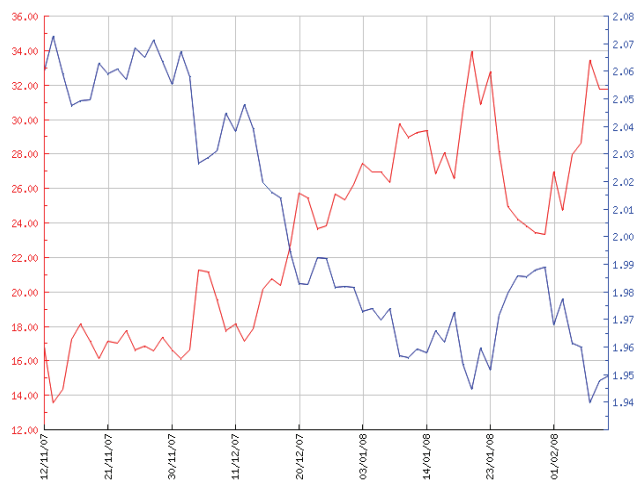
Just to be clear, I'm still no fan of the Dollar and I have been short the dollar for most of the last 5 years, however, nothing goes up or down in a straight line and this trade is based on a lot of bad news being factored into the US Dollar yet little being factored into the Euro and until recently the British Pound.

One of the easiest ways to short the Euro with a strictly limited risk is using a covered warrant. You could look at the **SG 1.40 Euro/USD Puts ticker code: SX55** currently trading at around 14p. The alternative is to short December 08 Euro/USD and make sure you have a very big stop, say 1.55 just to be safe. Just to recap - you purchase a covered warrant via a stockbroker and they are listed like shares on the LSE, no stamp duty is payable but you will pay your normal stockbrokers commission.

On the subject of currencies, the British Pound is looking bearish. After hitting the 2.10 level against the USD we have seen a sharp sell off with the psychological 2 dollars to the pound level being broken. Whilst we will see some attempt to regain the 2 to 1 level, I really don't see this holding and I am looking for a fall back to 1.90 and then down to 1.80 before the end of the year. You could look to trade this idea with a covered warrant as well. Use the 1.90 GBP/USD PUT which has a Dec 08 Expiration currently trading around 26p. Code SX63

Whilst we recently saw the Pound looking strong against the US dollar the Pound has been hitting new all time lows against the Euro. The Pound is also giving a sell signal against the Yen, Swiss Franc, Canadian \$ and Australian \$ to name a few.

SX63 1.90 GBP/USD Put warrant. (increases zoom to see larger) Blue line is Exchange rate, Red line is Warrant price. Warrant is up over 130% in the last 3 months.



FTSE 250 in big trouble

Last month I mentioned that the FTSE250 was looking very weak. A major sell signal has now been confirmed and I can safely say that the FTSE250 has entered a bear market. Whilst many brand the term bear market around loosely, I don't and the last time I had a major sell signal on the FTSE250 was in 2001. I do not class the Dow, SP500, FTSE100, Dax as being in a bear market yet, however, if these indecies do not stage a considerable bounce in the next 60 days then they are likely to fall into bear

bear markets. FTSE250, French CAC40 and Japanese Nikki 225 are now all in bear markets.

Stay away from smaller companies

Whilst you will always find the odd special situation I warn you to stay away from smaller to medium cap companies for the foreseeable future. I am sure at some stage there will be fantastic value in smaller companies, however, it is not time yet.

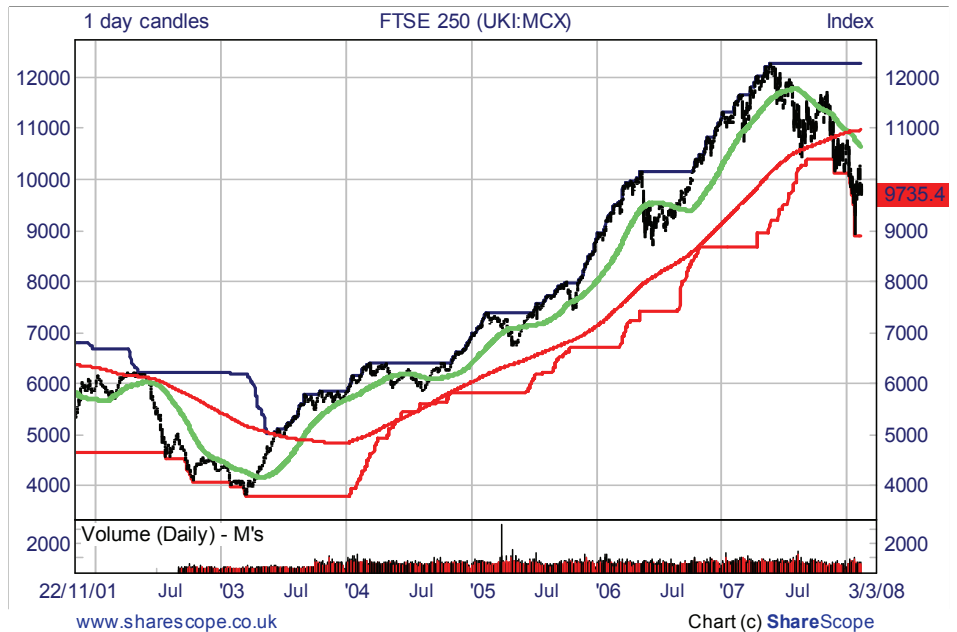
New SG Warrants issue

SG has just announced new covered warrants on FTSE250 and many other markets. See www.sgwarrants.co.uk

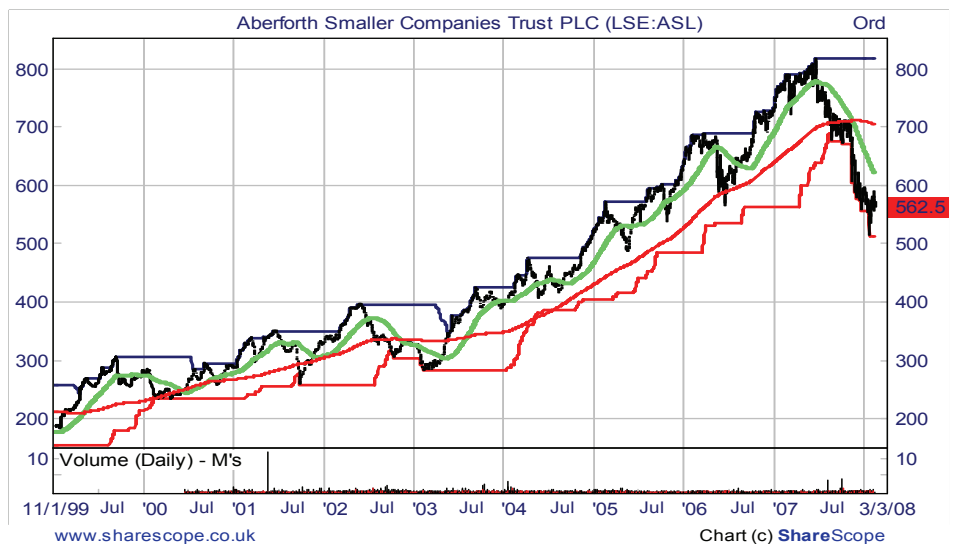
Gold

As stated earlier, I am looking for the Euro to start weakening against the US Dollar, whilst this is traditionally a bad sign for Gold I do think that Far East buying will help to support Gold. As I write, we have made a new push up to the \$950 level with many calling for \$1000 any day now. Calm down is my answer to this! Yes, we will see Gold hit \$1000 but not all in a straight line. I am looking for Gold to take a pause and consolidate around the \$830 to \$930 levels for a few months, before pushing up for the big break to \$1000.

The launch of the Shangahi Gold futures back in January is good news for Gold, however, the contract sizes are large which means that most small Chinese investors will not be able to take part in this market. If we see a way that retail Chinese investors can trade gold then we really are heading for an amazing run on gold.



FTSE250 in serious trouble, 9000 holding for now, however looking for a test back to 8000 before the end of this down move.



Aberforth Smaller Companies trust. Now breaking down as its holdings in smaller companies are being hit. This could be a good short trade for the rest of 2008, look for a move down to £4.50. You can spread bet ASL with most spread betting companies.

As a longer term trader it would be a good idea to look at adding to Gold trades on bad days, anywhere near the lower \$850 mark will prove a good buying level. As for as seasonality goes Gold is now going in to a slightly weaker few months, this could tie in with my trading range/pause scenario before the next big move up.

On the subject of metals, I still remain Long of both Silver and Platinum. The recent run in Platinum has been amazing and shows what can happen in a when a commodity is thinly traded. For now I continue to use trailing stops. Obviously at some stage Platinum is going to sell off hard, for now enjoy the ride.



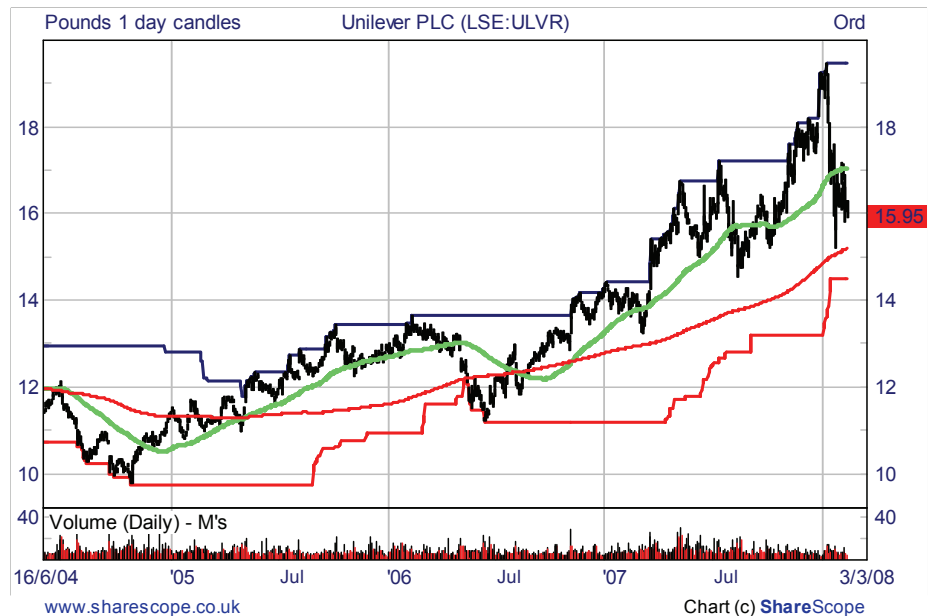
What I am buying on bad days?

My recent trip to China brought home the scale of the growth in food products and personal goods. What we class as every day items such as shampoo, ice cream, chocolate, washing up liquid, tooth paste, fruit juice, soft drinks and breakfast cereal are luxury items to most in China.

Whilst shares such as Unilever, Nestle, General Mills and Kraft foods are often seen as low growth safety stocks, the opportunities in China are still in their early stages. It's true that growth in the US and Europe is slow, however, Asia and Africa is growing at over 10% a year.

One stock I have been buying on bad days is Unilever. The company is a world leader in food and household products with brands including Lipton Tea, Slim fast slimming foods, Flora margarine, Signal toothpaste, Carte D'or ice cream, Bertolli sauces and Surf detergent to name a few. Higher raw material costs and energy costs do put pressure on margins however, I see Unilever passing these costs on. Also Unilever is slashing its own costs.

My 2 year projection for Unilever is over £25 a share with



relatively low risk. Unilever is currently trading around £16 and I will be buying on any dips down near the £15 to £15.50 level. I also like **Pepsi co inc (PEP)** and **Coca Cola (KO)** for similar reasons. Pepsi recently was hit with the general market sell off, however its still in a great up trend as is Coke.