The Insider Trader

Issue 82 February 2013

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)]

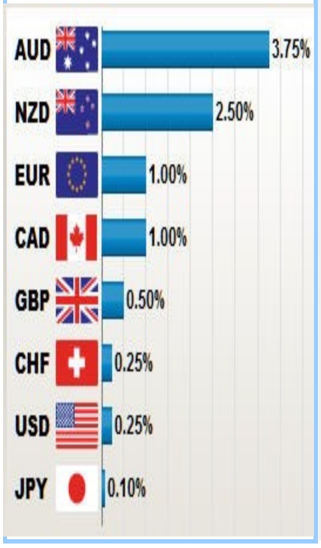
[Orange Juice (OJ)]

[Sugar (SB)]

Wheat

Cotton

Rough Rice



The US has won the Oil Lottery – Here's how to get your share

Just when the US was looking like it was in serious economic trouble with out of control deficits; an amazing act of god has given the country a massive global advantage that if managed correctly will propel the country to be the No. 1 oil producer in the world, eclipsing the output of Saudi Arabia, sounds unbelievable I agree, but it's happening.

North Dakota is now out producing OPEC -member Qatar, who would have every expected that just a few years ago? According to www.bls.gov North Dakota has the lowest unemployment rate in the US at only 3.2% thanks to the new oil boom.

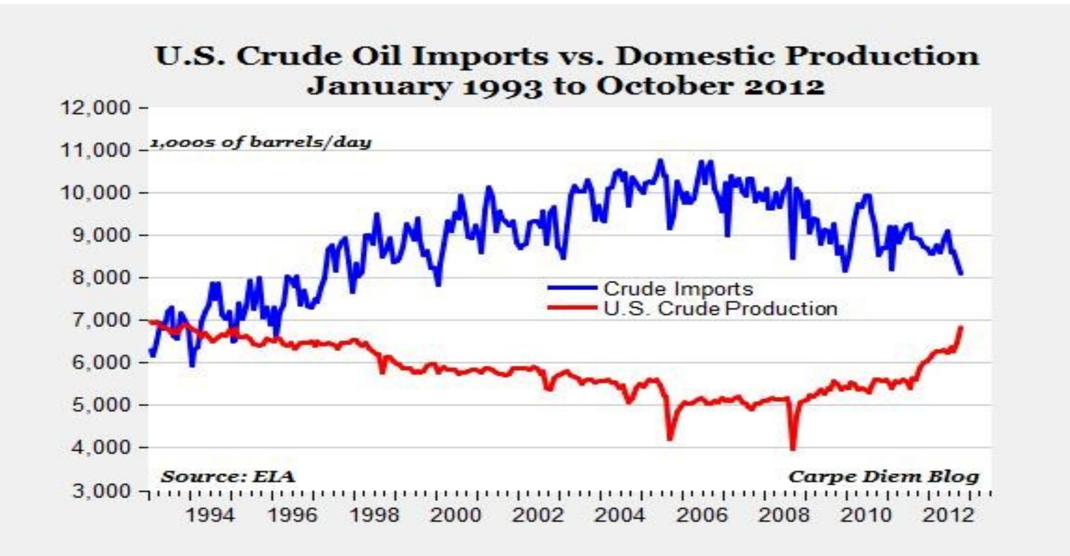
I see the US not only being self-sufficient in energy but it will also have some spare which it can export and start using that cash to reduce massive government deficits that have been accumulated over the last decade.

The US is now on its way to pumping 8 million barrels a day and I can see it moving up to 10 million a day in the next decade maybe even sooner which will mean the US produces more oil than Saudi Arabia. With the US having plenty of oil it will no longer be as motivated to get involved in geopolitical issues and be held hostage to Middle East affairs.

Many readers I'm sure will still remember the 1973-74 OPEC embargo which left the US and Europe with literally no oil and massive lines at petrol stations, something that will not be repeated when you have oil in your own back yard.

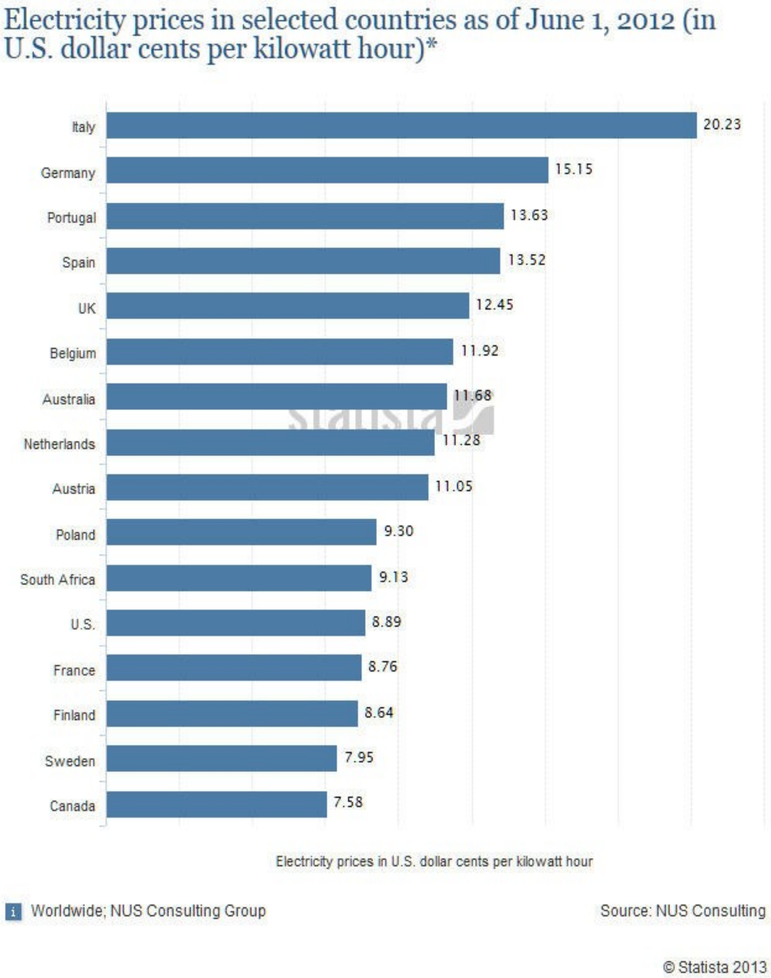
Technology in hydrofracturing commonly known as fracking, vertical drilling and continued efficiencies in oil exploration and extraction makes many previously

US importing less oil and producing more. US is already slashing its imports from Nigeria and other African nations.



abandoned projects viable again.

But this is more than just a US energy advantage, having stable energy resources will help a whole host of industries and expect to see “Made in America” make a comeback. Industries such as chemicals, agriculture and manufacturing will all benefit from the new US oil and gas; this will in turn bring down unemployment, which leads to more spending on other items such as housing – the whole economy will be boosted. The US already has very cheap Natural Gas prices compared to other countries which in turn can be used for low cost electricity and this gives you a fantastic advantage and head start. As the graph shows Canada currently has the lowest kilowatt per hour however the US could be heading to this level if not cheaper.



Of course this is not some overnight event yet it is happening. Whilst stocks have already come a long way with the Dow near a new all-time high, **I believe the US is entering into a very prosperous 10 to 20 years and I disagree with the doom and gloom merchants that say the US is past its prime and the US$ is just going to be printed into obscurity.**

There will always be plenty of unknowns when investing but if I had to say where the Dow sits in 2023 I would bet nearer to 22,000 than 12,000.

So how do you benefit?

At most basic levels you have exposure to the US economy and stock market. Traditionally smaller companies have more of their focus in their home market rather than the big international companies so investing in a low cost index tracker fund gives you a wide exposure at low annual fees. Also buying an ETF means you don’t have to worry about short term swings. The **ishares Russell 2000 (IWM)** is such an example. Homebuilders & Construction also tend to benefit from a reviving economy. We already see US house prices are starting to stabilise and the Construction ETF (ITB) is making a very strong comeback.

If I had to name one large company which has a good exposure to various sectors that is trading at a reasonable valuation that is **General Electric (GE)**

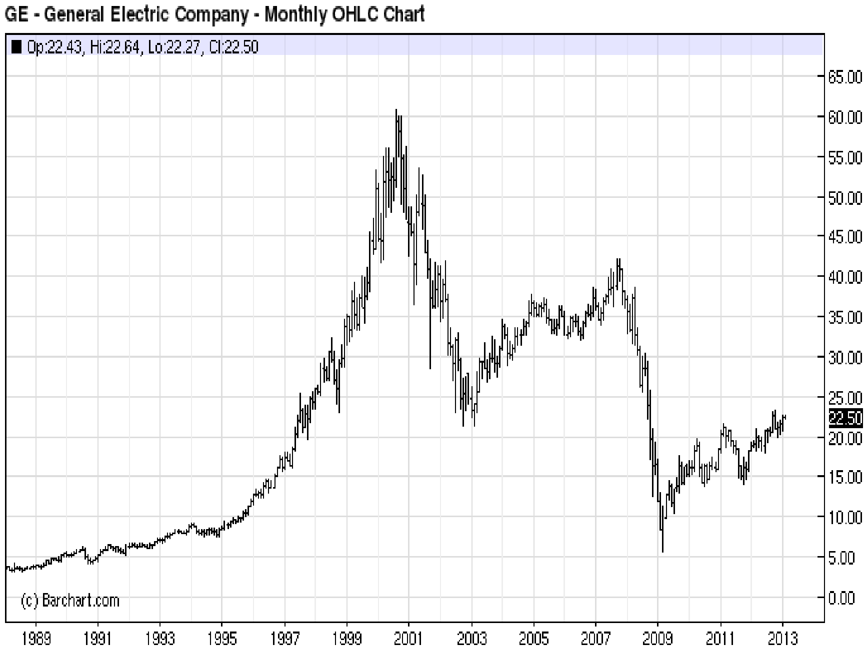
About:

General Electric Company (GE) is a diversified technology and financial services company. The products and services of the Company range from aircraft engines, power generation, water processing, and household appliances to medical imaging, business and consumer financing and industrial products. It serves customers in more than 100 countries. Its segments include Energy Infrastructure, Aviation, Healthcare, Transportation, Home & Business Solutions and GE Capital. Effective January 1, 2011, it reorganized the Technology Infrastructure segment into three segments: Aviation, Healthcare and Transportation. In April 2012, GE Healthcare acquired SeqWright, Inc. In May 2012, GE Healthcare, the healthcare business of GE, acquired Xcellerex, Inc., a supplier of manufacturing technologies for the biopharmaceutical industry. In June 2012, GE Healthcare acquired XPRO. In August 2012, it acquired PRESENS. In December 2012, the Company acquired 19% interest in Morpho Detection Inc.

GE was hit badly in the last recession with the shares dropping from over $40 to under $5 in the darkest days in 2009. Since then the turnaround is underway and the shares are back over $20, however, I could see a 100% upside from this level in the next 10 years with the stock also paying a dividend with a yield of 3.35% and on a P/E of 12.

Of course what many could say is the “obvious” sector to invest in is Oil & Gas services, after all if there is an exploration boom then the firms that sell the picks and shovels in the gold rush are normally the guaranteed winners.

Below GE share price, after being left for near dead in the 2009 crisis the share price is made a strong comeback but is still way off the 2007 peak but I see a 100% return potential from here. We could also see spin offs as the old GE breaks up in to separately listed divisions.



It may be some years away before you actually see it translate in to higher share prices for these companies. You could look at two ETFs that cover this sector which is IEO (AMEX:IEO) Ishares Dow Jones Oil & Gas Exploration and PXJ PS Dynamic Oil Services Portfolio. Both are currently in the best ETFs so far this year.

Leaders & Laggards ETFs so far this year

Still early days but year to date energy ETFs are showing a good start. Solar which has had a terrible run and a sector I don’t like is finding support and bouncing back so far in 2013 but you have to put it in context. The TAN was down 50% in 2012 and since inception is down around 90%.

On the weak side the Yen has been a good short and generally Gold & Silver mining stocks have done badly.

Year-To-Date Performance Leaders		2013 Return
VNM	Market Vectors Vietnam	+27.6%
PXE	PowerShares Intellidex Energy E&P	+16.6%
PXJ	PowerShares Dynamic Oil & Gas Services	+16.5%
XES	SPDR S&P Oil & Gas Equipment & Services	+15.7%
PXI	PowerShares Intellidex Energy Sector	+15.2%
IEO	iShares DJ U.S. Oil-Gas Exploration & Prod	+15.0%
KWT	Market Vectors Solar Energy	+14.9%
TAN	Guggenheim MAC Global Solar Energy	+14.9%
IEZ	iShares DJ U.S. Oil Equipment & Services	+14.3%
FXN	First Trust AlphaDEX Energy	+13.5%

Year-To-Date Performance Laggards		2013 Return
GLDX	Global X Solactive Global Gold Explorers	-12.8%
GDX	Market Vectors Gold Miners Equity Index	-8.8%
SGG	iPath DJ-UBS Sugar Commodity ETN	-7.3%
PSAU	PowerShares Global Gold & Precious Metals	-7.3%
HDGE	AdvisorShares Active Bear ETF	-7.2%
SIL	Global X Solactive Global Silver Miners	-6.8%
FXY	Japanese Yen CurrencyShares	-6.5%
GDXJ	Market Vectors Junior Gold Miners	-6.5%
EWY	iShares MSCI South Korea Index Fund	-6.0%
ZROZ	PIMCO 25+Yr Zero Coup US Tsy (25+yr)	-5.4%

Consumer Staples hit New all-time high

Consumer staples are basically boring stocks in household brands that have been around for years, stock like **Kellogg (K), Heinz (HNZ), Coca Cola (KO), Unilever (UN), Nestle** to name a few. The difference between a consumer staple and a high flying technology stock is really the story of the hare and the tortoise. On a side note if your stock has a one or two letter symbol, like K, T or M it normally means the company had first pick and has been listed a long time!

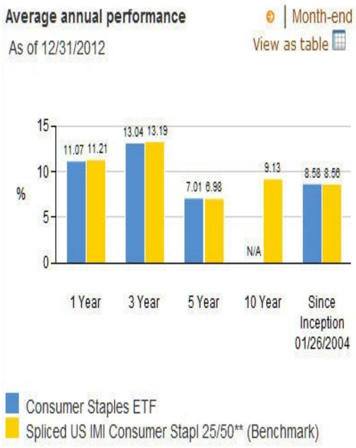
If you're looking for big and fast gains then consumer staples are not for you, but if you're looking for a slow and steady return plus dividend then staples offer a stable place to invest. The XLP pays just under 3% at present which is about the same as a 30 year Treasury bond then.

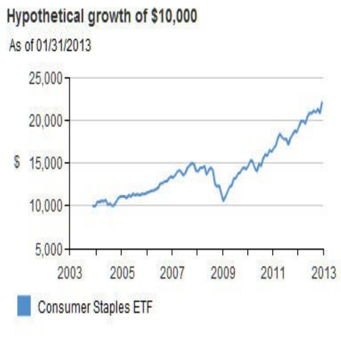
Staples are not going to double over night (just like a tortoise will not beat a greyhound in a race) at the same time they will not half either. I believe you should expect 10 to 12% gain per annum including the dividend in other words double you money in the next 8 to 10 years. If you are in the UK you can look at using an ISA to buy shares/ETFs and give you the extra tax free advantage. In the US a 401K

This keeps you a head of inflation and gives some equity upside. Since 2004 through thick and thin the XLP has delivered 10% plus a year including the dividend. People smoke, eat and drink regardless.

XLP is the best know however Vanguard also has a consumer staples ETF under VDC with a low management fee of just 0.14%

Consumer staples are global companies so you are also getting exposure to emerging market growth which helps to offset any slowdown in mature markets. The advantage of the ETF is you get exposure to





Fund Top Holdings

As of 02/06/2013

NAME	WEIGHT	SHARES HELD
Procter & Gamble Co	14.33%	11,017,781
Coca Cola Co	10.17%	15,543,016
Philip Morris Intl Inc	10.08%	6,731,574
Wal-Mart Stores Inc	8.21%	6,739,931
Cvs Caremark Corporation	4.52%	5,166,474
Pepsico Inc	4.44%	3,573,758
Altria Group Inc	4.30%	7,377,085
Colgate Palmolive Co	3.47%	1,851,587
Mondelez Intl Inc	3.23%	6,752,399
Costco Whsl Corp New	3.16%	1,816,469

a basket of stocks- the VDC has 108 in total but the biggest holdings make up around 70% which are shown in the table above

Philip Morris International (PM) and the former spinoff Altria (MO) remain large holdings in the ETF.

Summary

Right now you're losing money holding cash, at best you're getting around 2.5% and the time you factor inflation (real) the purchasing power is going down. An investment in quality staple stocks via an ETF with low management fees makes sense. If you can also manage your tax liabilities with an ISA then you can invest £11240 (current allowance) a year and the gains will be tax free.