The
Insider Trader
Issue 57 — January 2011

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)]

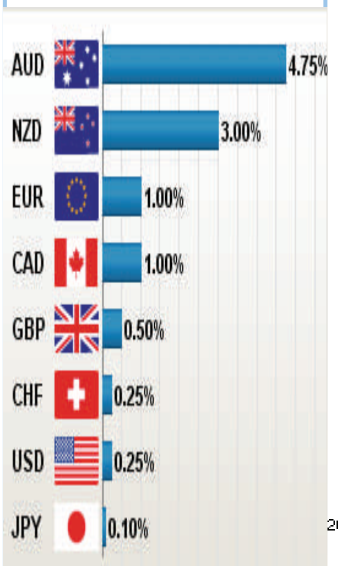
[Orange Juice (OJ)]

[Sugar (SB)]

[Wheat]

[Cotton]

[Rough Rice]



2011 market outlook: Mostly sunny with occasional thunderstorms

As outlined in my previous updates 2011 is the third year of the presidential cycle which historically is bullish for US and in turn global stock markets. We also have companies in fairly good financial health with many holding large cash reserves which is why I think 2011 will be a bumper year for mergers and acquisitions. Investment bank Goldman Sachs (NYSE:GS) stand to do very well from fees and is one of my top picks for this year.

The majority of private investors have stayed away from the stock market the last few years and continue to hold their wealth both in government and corporate bonds and I see some of this money flowing out of bonds and back into stocks which will also give markets a boost. Those exiting bonds will be looking for large safe companies paying dividends to replace bond income, stocks such as Dow Jones Industrials, heavyweights Verizon (VZ), AT&T (T), Pfizer (PFE), Merk (MRK), Kraft (KFT), Intel (INTC), Johnson & Johnson (JNJ), McDonalds (MCD), Dupont (DD) and Chevron (CVX) are all possible beneficiaries as they are the 10 highest yielding Dow stocks (also commonly known as the Dogs of the Dow.) Many of these stocks have already had some big run ups so pullbacks are possible but they will hold up better and the yield cushions any adverse price movements.

For the broader S&P500 the overall outlook is fairly sunny and I am looking for a

Below: Goldman Sachs stands to do very well from a bumper year of Mergers and Acquisitions. Looking for \$200 to \$210 to be reached in 2011 giving a 20% + upside

return of around 7% to 10% which would see the 1345 to 1385 level being reached but it would be wrong to think that the ride between now and December 2011 will be all smooth hence I state occasional thunderstorms.

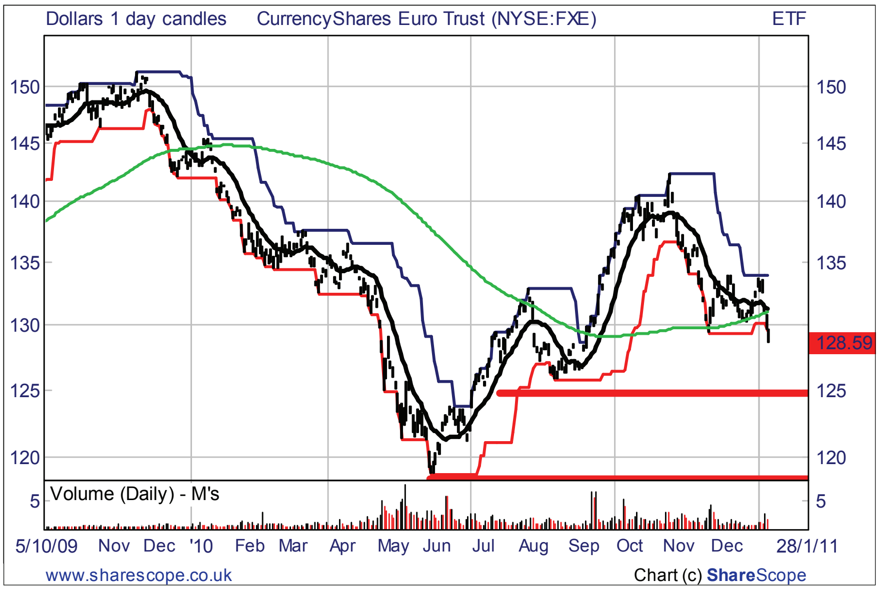
Some of these thunderstorms are most likely to come from the Eurozone and Commodities but we can profit from these setbacks. I continue to remain of the view that the Euro is overvalued against the US dollar. I expect to see better growth come out of the USA and as I have written before both currencies are ugly but the least ugly is the US$.

<u>I am looking for the Euro/$ to go back down to 117 at some stage in 2011 and make an ultimate move to parity, yes 1:1 before 2013.</u> The Euro will continue to slide against the Yen and I am looking for 100 to be hit before the end of 2011. The Australian Dollar which has been a very hot currency will find it hard to continue higher and the A$/US$ 1:1 will act as a top for the rest of the year and I see the A$ drift back to 85.

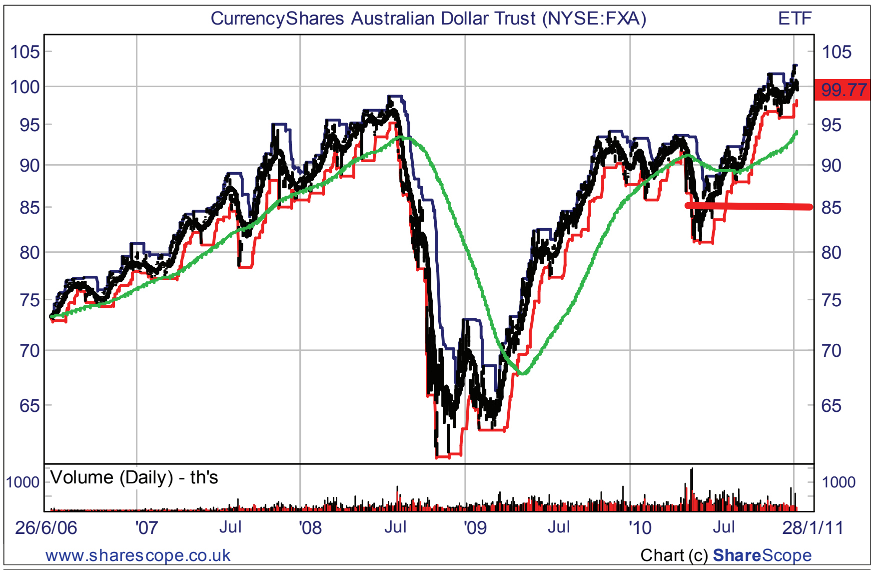
Whilst we will see the usual swings, overall the US Dollar will be the best major currency to hold in 2011 and I am looking for the Dollar Index to gain at least 10%, the best way to get exposure would be buying the **Powershares DB USD Index Bullish Fund UUP ETF**—click here for factsheet You can also look at call options to increase potential returns and minimise risk. See options chain

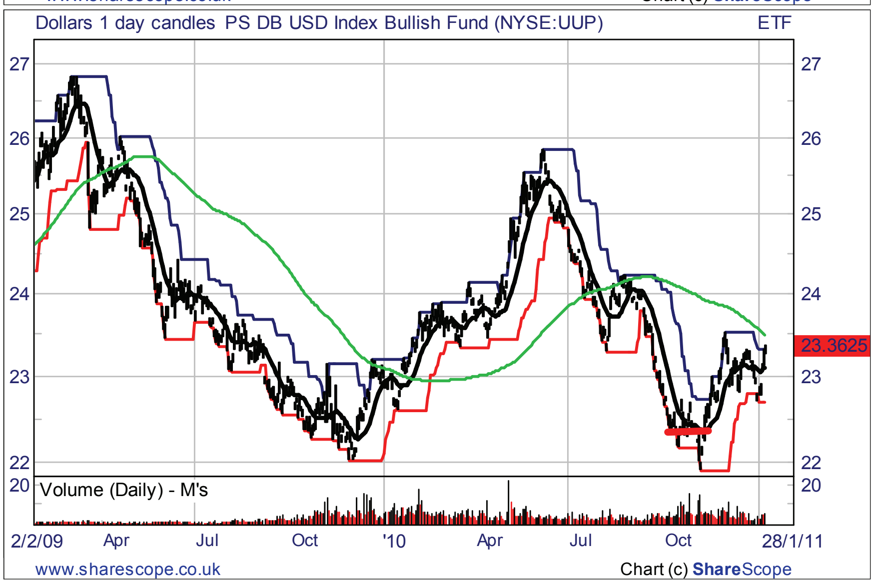
Great expectations for commodities may disappoint in 2011

2011 could to be the year of buy the rumour and sell the fact for commodities. Whilst no one can deny the increasing



Euro continues to look weak against the US$ - look for 125 and then 117 to be reached in 2011 as the US economy does better than Europe. Below: A$ has been a wonder currency thanks to strong commodities and higher intrest rates however the 1:1 level is factoring a lot of good news. Look for a drift back to 85.





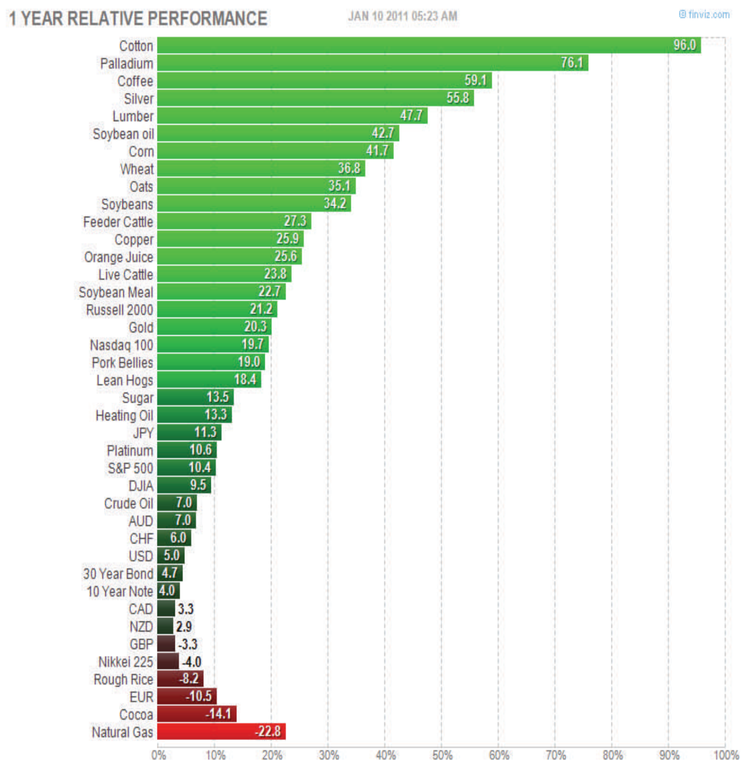
global demand for commodities and especially agriculture we also have to remember that markets look forward and tend to adjust to events in advance.

This time last year I could find good value in commodities such as Cotton and Coffee, however, at the current prices and after 100%+ increase in Cotton and 60% in Coffee it's hard to be bullish.

Also if I am correct that the US Dollar does have a strong year and fears of rampant inflation will start to subside then I look for most commodities to correct by 15% to 20% as some of the hot hedge fund and ETF money makes a quick exit.

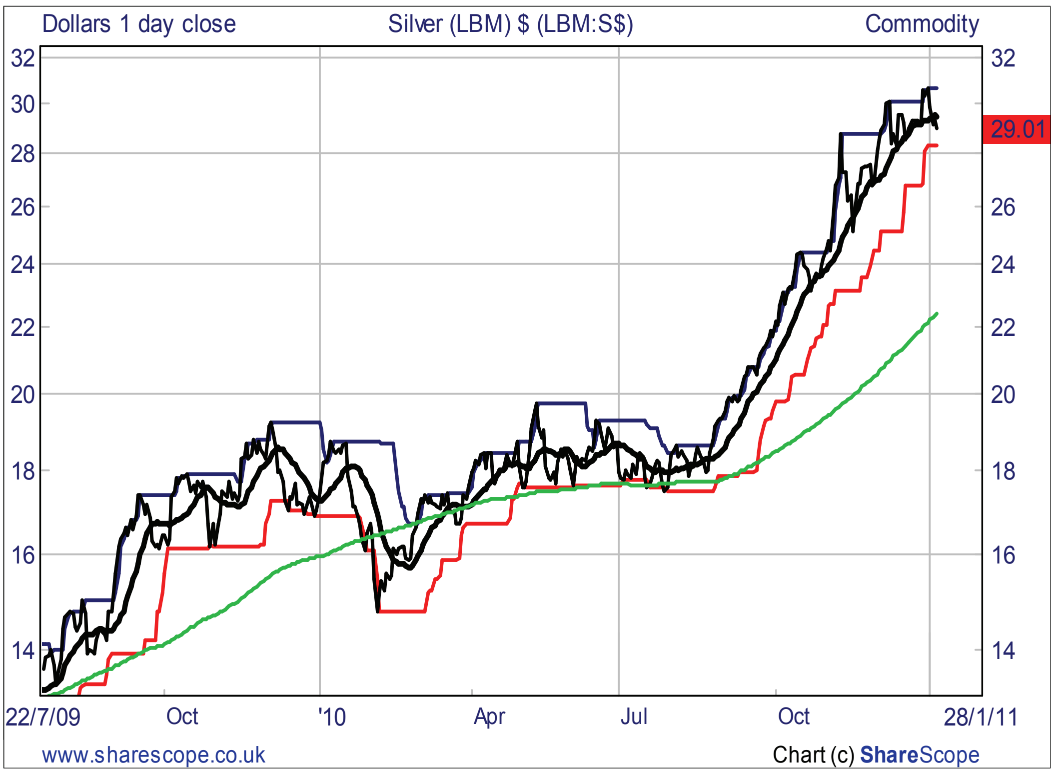
Remember many commodity markets are still relatively small and can easily make large moves and one of the side effects of the ease of buying and selling Commodity Exchange Traded Funds with a simple click of the mouse is how quickly a market can freeze up.

If we look at, for example, Silver which has made a massive move up since August 2010 of 65% moving up from $18.50 to $30.00 it should hardly come as a surprise if it was to correct 20 to 25% and the overall trend would still be up, obviously the Johnny come latelies are likely to be cleaned out by such a pullback but longer term investors will hardly be affected. You can look to take a short trade on silver with a spread bet or buying an inverse ETF such as **LSE:SSIL** which goes up as the price of silver goes down.



12 months in commodities. The top movers over the last 12 months have been Cotton, Palladium, Coffee and Silver but doubt they will have another year of such big gains.

Below: I am long term bullish on Silver but the move the last few months is parabolic and I have been around long enough to know that these moves never end in an orderly fashion. Back down to 20 to 22$ would be a good place to look at coming back to Silver.



Fair Values for Metals

These are the levels where I think metals could be heading in the next few months, even if they were to fall to these levels they would still be in long term up trends so they may sound like big falls but remember how far we have come.

Palladium $600

Silver $20-$22

Gold – $1250-$1280

Platinum – $1600 – has less to fall as not gone up as much

Above Palladium. I first started buying Palladium at the $200 level and the long term trend remains up but short term this market needs to correct and $600 seems a fair place to move down to.

Below Gold, My expected pull back level would be $1250 to $1280. The more bearish scenario (I am not saying this will happen) is that Gold moves all the way back to $1000 which would be back to the long term trend .

Whilst a move down to $1000 is a fairly extreme move it would still mean the uptrend is intact. This is a bit of an outside chance but as already stated fast ETF liquidations can really lead to extreme moves. Those wishing to speculate a small amount of money on this outcome should look at a PUT option on GLD, a September 11 100 put (equivalent to $1000) can be bought for around 0.80 cents.