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 Insider Trader

Issue 70 *January 2012*

Why Equities are the best place to be in 2012 and beyond

From where I sit the majority of investors have given up on the stock market both the professionals and small investors seem to have had just enough of stocks, my experience shows that when sentiment is so negative we are normally close to a turning point. I am not talking about the next few months I am talking about the next decade or even two.

The last few years the Flavour du Jour has been the FX currency market with most private investors being sucked into thinking that currency trading offers some great easy way to make money, sadly many have been misled and the easy access to leverage has caused many to lose large amounts of savings very quickly. I receive many emails with questions about wanting to be an FX trader but hardly any about making money in the stock market.

Commodities have also for most been a bad place to invest over the last few years (with the exception of some precious metals where the physical commodity can be held). The big problem with commodities is the volatility and the slippage from **contango** (click here for full explanation) or backwardation which is suffered as commodity futures roll from one contract to the other which is not suffered in stocks. For example the March contract on crude oil closes at $95 and but the June contact is trading at $88, over time Commodities also cost money to hold including storage fees and insurance whereas most quality stocks pay a dividend giving you

Below CRB Index its been hard work making money buying and holding commodities. The Roger Raw Materials Index ETF (RJI) looks very similar and is down 13% since launching in 2007.

custody fees are nominal.

Anyone that thinks holding commodities has been a good investment should look at the chart of any ETF based on an widely quoted commodities index and you will see that you would have lost money over the last few years.

So against this backdrop I argue that for anyone with a few years' time horizon, investing in stocks is really the only game in town and I would say the US market is the best place to trade, of course you have access to global stocks via the US market. The US market has no stamp duty, commissions are near 0 and you should not pay much more than $9 per trade regardless of the deal size, spreads are extremely tight and competition is fierce in the US.   Buying and more importantly selling stocks is easy especially in big named companies, you will always find a buyer.

Now don't think that I have taken some happy pill and everything is rosy in the stock market, we will still have plenty of companies that will fail and we will have some spectacular booms and busts in individual stocks but we can also profit from these moves and with some basic stock picking, risk management and analysis skills, the opportunities far outweigh the risks. Over the last few years the majority of my profits have come from stocks and ETFs both long and short.

So why are most traders ignoring the stock market?

Investors have yet to regain their confidence after a brutal secular bear market that lasted from March 2000 to March 2009 - a cycle that began with the bursting of the tech-stock bubble, and ended with the nastiest plunge in stock prices since the Great Depression with many companies on the verge of going under.

<u>Enthusiasm for any asset class grows after-the-fact.</u> Investors will gradually become more bullish to stocks as the Dow Jones Industrial Average climbs to 14,500 during the next few years and makes a new all-time high, while widespread enthusiasm is not likely to grip the masses until the Dow closes in on 20,000 near the end of the decade which by that time the smart money will be selling to the dumb money and the cycle starts all over again!

Right now many investors prefer to earn 1% or less in cash or Treasury bonds rather than take any risk in stocks and this shows how unloved stocks are.

<u>Growth and innovation will make those that invest in stocks wealthy over the next decade</u> and as crazy as this may sound, just remember that less than 3 years ago no one knew what an Ipad was and much of the technology you use every day was non-existent just 15 years ago and back then the few that had home internet were surfing at the blazingly fast speeds of 28.8K.

In the next decade or two we will see some mind boggling advances in technology, medical procedures, health care and in energy. I believe we will see cars and trucks running on new fuels and the average family car will do the equivalent to over 150 miles to the gallon in today's fuel. Car safety will also improve dramatically with advances in sensors. If the US finally gets its act together and starts using its natural resources effectively including Coal, Natural Gas, Oil and Nuclear it could become a net exporter of energy and would have a massive competitive advantage.

We already see Natural Gas at historic low prices and falling. The whole peak oil/energy theory in my opinion is a myth and we have been told oil is running out for years and even if oil did run out the alternatives are plentiful and much closer to being perfected.

Whether you agree or not one factor which is undeniable is that Technology, Healthcare and Energy are all going to see massive innovations in the next 20 years and whilst it's easy to get caught up in the day to day doom and gloom, we should not forget how talented and innovative humans can be which is why we are not still using a horse and cart, travelling by steam trains or why I am not sending you this update via a telex machine or by carrier pigeon!

I also hear that the US has lost its competitive advantage and the Far East is where the power has shifted to, yet many US listed companies are multinationals such as IBM, GE, McDonalds and already have a firm footing with dominant positions in emerging markets, so the better emerging markets do the better US listed companies will do.

To summarise, the investing world is not all fluffy clouds, we have plenty of challenges in the next decade and having a stake in those companies however small, will pay off better than any other investment class, now is the time to embrace opportunities in the equity markets and invest with the few and not the mass.

MGM Resorts (NYSE: MGM) – A Bet on Las Vegas making a comeback in 2012

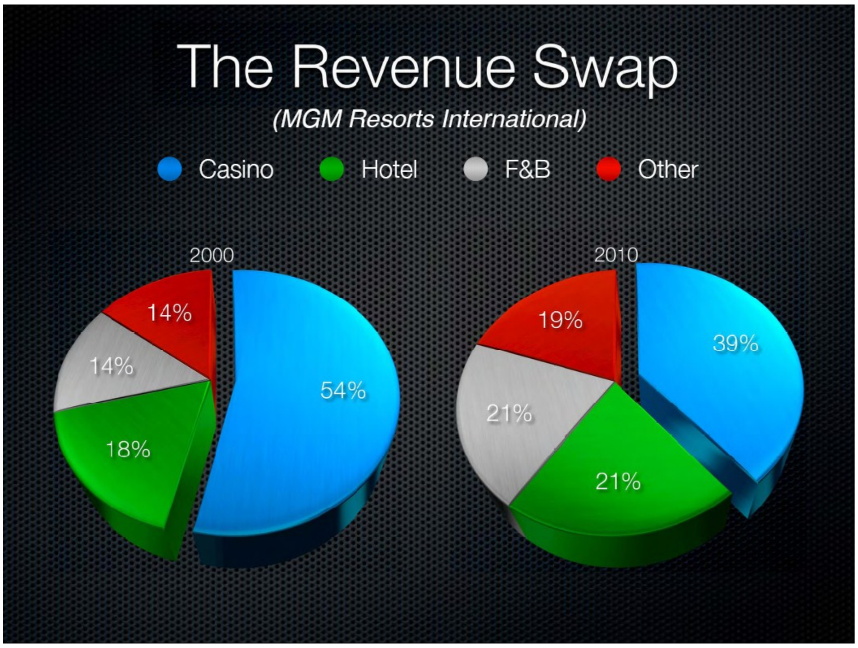
MGM Resorts is a leading Casino and resort operator with the majority of its focus on the US. MGM operates the Bellagio, MGM Grand Las Vegas, The Mirage, Mandalay Bay, Luxor, New York-New York, Monte Carlo, Excalibur, and Circus Circus Las Vegas.

If you image looking at the Las Vegas Strip from the airport down to the Stratosphere tower then nearly everything on the left hand side is MGM owned with different properties catering at different client price points. As well as Vegas MGM have some regional casinos including Tunica, Biloxi, Jean and Detroit.

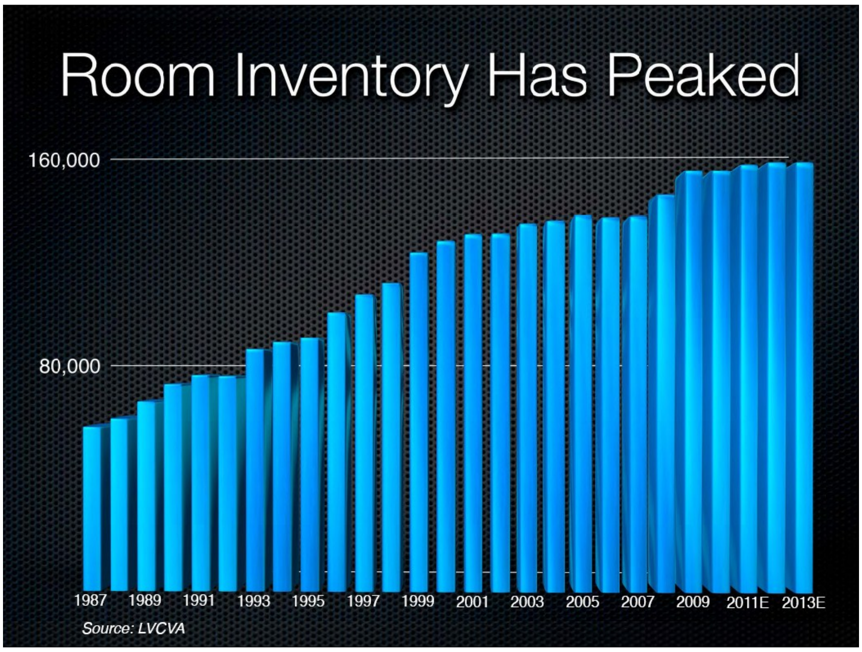
The company also has a 50% interest in the City Centre project which is home of the ARIA casino and resort. In Macau the currently have one property the MGM which the own 51%.

MGM made the classic mistake of over expanding right at the top of the Vegas market and share price crashed from a peak of $100 in 2007 to a bottom of $2 and the verge of bankruptcy in 2009. Since 2010 the stock has ranged between $9 and $16, currently sitting around the middle of the range.

Whilst Macau has the best growth levels going forward and Vegas is a mature market it still has potential and MGM at this price offers good value. Key metrics such as hotel occupancy, airport traffic, gaming revenues for Vegas are all starting to move higher. MICE business (Meetings, Incentives, Conferences, and Exhibitions) which is very tied to the economic cycle are also starting to pick up. Navada Gaming revenue was up in November 2011 (latest numbers available) and from my own December/ New Years visit I expect December 2011 to continue with the same trend with Vegas having one of its business New Years since the downturn started.

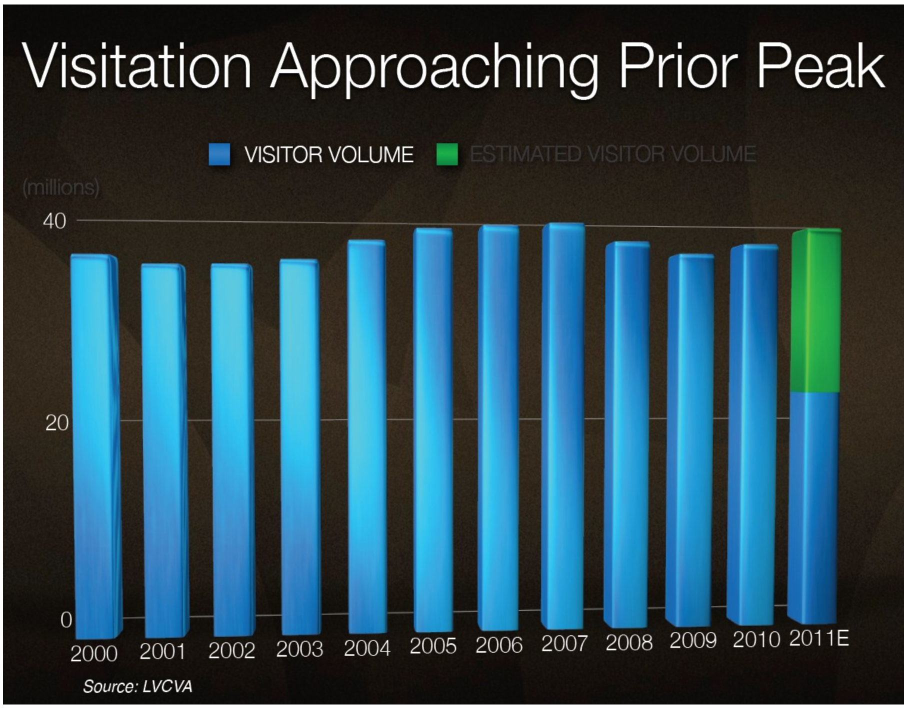


Above: A better spread of revenue and less reliant on just Casino (F&B = Food and Beverage). Other includes night clubs, shows, licensing. Below the Vegas room overhang—over expansion and a glut of rooms is now starting to level off with no major casino planned to open in the next few years. Great news for existing operators as nightly room rates can been moved up and margins improved. Room occupancy can move up in to the 90%+ rate in 2012 for most MGM properties.



Unlike Macau which is really all about gaming revenue Las Vegas is more spread out with and reliance on Casino revenue has reduced. You can still make big margins on Food and Beverages and some of the Vegas nightclubs which are owned by MGM have massive profit margins.

MGM RESORTS INTERNATIONAL™



Lets talk money....

At the current $11 a share I see MGM moving back to $15 to $16 within the next 12 months giving a very respectable 40%+ return.

We will look for better news to come out of the company within the next few months also we look for more news on Macau expansion, other international opportunities and how MGM plan to capitalize on the legalisation of online gambling in the US. I am fairly certain that online Poker will be made legal in 2012 allowing this business to be regulated and taxed by the US, this is actually good news for MGM and they can use their client base and bricks and mortar casinos to promote online, who you going trust to play online poker MGM, Mirage, Bellagio brands or some unknown poker outfit?

You can either look at buying stock, spread betting (December 12 contract) or looking at a **January 2013 Call options.** A $12.50 call is currently trading at $2.00 giving you over 1 years worth of time value, no worries about stops and strictly know risk with unlimited up side. If we get to $16 the option would have $3.50 worth of intrinsic value giving you a ROI of 75%.

MGM pays no dividend and I don't see one coming so dividend drag is not a worry about.

Summary

This is really a cyclical play on the US economy getting better in 2012 and the consumer having a little more disposable income to spend on entertainment, if we don't see that pick up then this is going to be a poor investment.

Other players that also stand to do well from the Vegas comeback are Las Vegas Sands (NYSE:LVS) which already own and Wynn (WYNN) however MGM has more exposure to the US than the others.

Who said Las Vegas was dead? A strong 2012 could see LV visitor's breach the past all time highs. Las Vegas Airport Terminal 3 is scheduled to open mid 2012 which will increase international flights and capacity and we should see more visitors also the US is slowly easing international visa requirements for tourists which will help non EU visitors get through immigration.

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 Traded Funds or shares 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.