The Insider Trader

Issue 21 July 2008

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	8.25%	AUD	7.25%
GBP	5.00%	USD	2.00%
CAD	3.00%	EUR	4.25%
CHF	2.75%	JPY	0.50%

Are you profiting from the Bear Market?

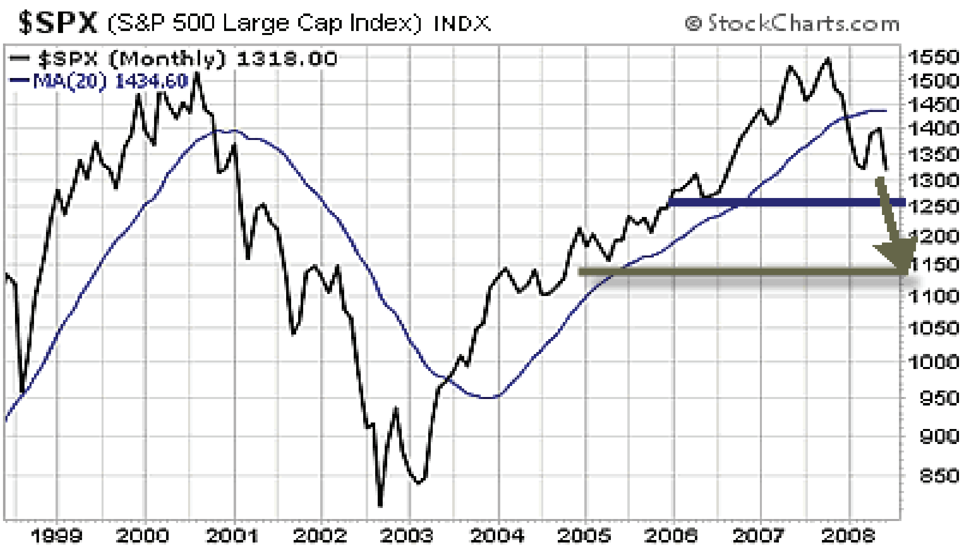
When people find out that I am a professional trader/investor the next question tends to be, “what’s a good share to buy?” nobody ever says “what’s a good share to SELL short”.

Millionaire Traders sell short. They make money in down markets. The best traders make money going up and going down. Selling short seems to always get a bad press. To make money in a down market is supposedly unethical to many. Nonsense, the market rules say you can go long and go short. Why would you not want to use all the tools at your disposal? What I don’t believe is ethical is shorting small cap companies, in most cases Spread Betting companies will not let you short sell anything less than a 50 million cap. In my own trading I really don’t start shorting anything with a market cap of at least £500 million. Of course by the time I look to get out of a short trade the market cap may be way lower.

It seems that the public are conditioned just to buy and hold, which is fine if we are in a long term bull market but at present we are not and I honestly don’t see a bottom in site. It seems that the financial world wants to get this bear market over as quickly as possible but you cannot force markets to repair themselves quickly, it takes time and in most cases years not months.

On the whole markets and shares go down quicker than they go up, if you look at the UK house builders they had a great up move from 2000 to 2007, but if you look at the fall in the last 12

Chart:: June was an excellent month for the Bears as the S&P500 went exactly as planned. We could now see a few weeks (maximum) of slightly higher to sideways action before the next big move which to me is DOWN, taking us to S&P500 1150 before Oct08.



months you will see the fall has been faster than the rise. On the same subject, I had a few emails asking if I would buy the House builders as they are so "cheap" at present. We all love bargains but "cheap" shares in many cases get cheaper.

Of course, when you short sell at some stage you have to buy back and cover, as the price gets closer to 0 then you have less and less meat on the bone, In the case of Barratt and Taylor Wimpey I have been covering shorts and taking profits, my work is done with these companies and I am now off to my next targets. When a Share drops from over £10 down to 30 or 40p, I don't need to hang around to catch the last few pence.

In the last few weeks I have started building up a short position in Admiral Insurance (LSE:ADM) from around the £8.80 level. I see the General Insurance markets becoming more and competitive, I also predict a trend of people selling up 2nd cars and trading down to minimum insurance.

Of course, all my short sells don't work out, last year I was short Carpetright and then out of the blue Lord Harris announces he was going to take the company private, causing me to be stopped out and taking a £10,000 loss. In the end he never did go through with it and since then Carpetright has sunk. In other cases you may short sell a company only to see it continue to hold up, so you don't make much or lose much. However sure you are that a share is going down you always need to have risk management, open a small trade and as it moves in your favour sell some more.

If you don't want to short sell individual shares then short sell an Index. As stated in previous editions I prefer the FTSE250 to the FTSE100 as a short sell. Anyone following my covered warrant trade last month on the FTSE250 using SQ30 would be up over 55% in less than a month. Of course, nothing goes up or down in a straight line - that would be far too easy, at some stage we will see a sharp rally leading many to start thinking that "a bottom has been reached" and giving a nice false sense of a new bull market. I warn you to be sceptical; <u>I don't see any market bottom in any major index until at least early 2009.</u>

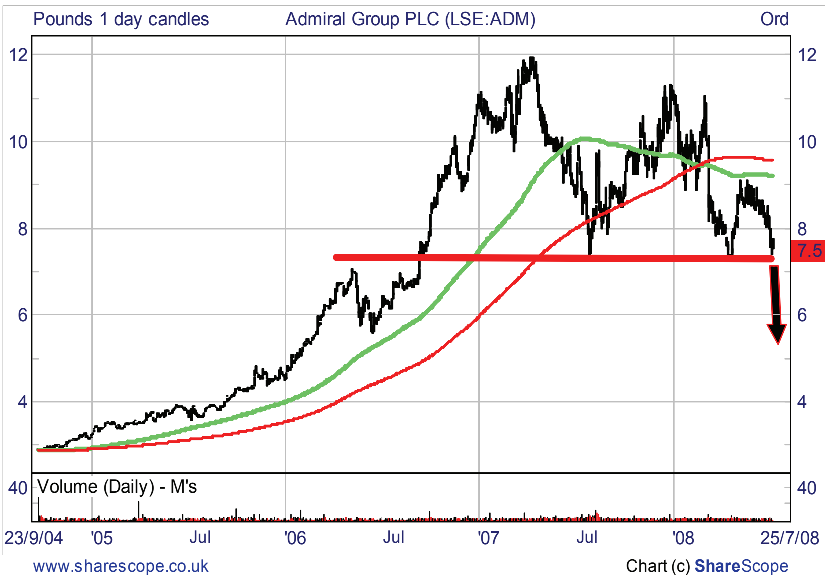
The financial sector is often referred to as "cheap" however, other than for a short term trading bounce I would not invest a penny of my money in financial shares.

How can many claim that financials such as Citibank, UBS, Barclays or Deutsche Bank are cheap when even the companies themselves cannot value their own assets? Buying into financials now is like buying a car with a candle in the middle of the night without a test drive, you may get lucky in the morning and find you have done a great a deal, or most likely you have just bought a pile of Junk..

At some stage I do want to increase exposure and I know the Banks I would like to own, but it's not that time yet. Whilst everyone reading this is no doubt sick of hearing about banks exposed to Subprime Mortgages I still think that banks have even worse financial problems to come yet including credit card debt, home equity loans, commercial real estate loans, commercial and development loans and other derivatives that we just don't know about yet.

One final word on short selling - use a stop if you are trading via a spread bet, even the best researched short trade can continue to go up. Also using a covered warrant PUT is the safest way to go short, your worse case scenario is that the warrant expires at 0 and you cannot be stopped out.

Chart: Tougher times ahead for Admiral Group, Looking for a move down to below £6. Its Confused.com price comparison website is finding it hard to attract new customers.



Spain 1 Germany 0

Those that followed the recent Euro 2008 football will know that Spain beat Germany in the final by 1-0, however when it comes to the economies of these the countries that score looks like the opposite.

As stated before whilst the Euro has been hailed a success and compared the US Dollar anything looks good, but the Euro Zone is starting to look more and more divided. The recent hike in interest rates to 4.25% by the ECB was really a hike needed for Germany not for Spain or Italy.

Spain had been through a great bull market including a rampant property market. Spanish companies including Telefonica (owners of UK 02 mobile network) and Ferrovial (owner of UK airport operators BAA) had been expanding at a fast rate over the last few years but now it seems the good times are over.

The IBEX35 went from 5,000 in 2003 to a peak of 15,500 in October 2007. Since then we have seen a big fall to 12,500, a small rally back up in May and then the current fall. My best guess is that the IBEX35 with the US sees some sort of short term bounce again back to 13,200 before starting a new leg downwards. My projection is for a 50% re-tracement of the 5,000 to 15,500 move, so I look for the IBEX to reach below 10,000 in the next 12 to 18 months making for over 3,000 points of profit potential. Most spread betting companies offer a the IBEX35 future, so its easy to go short or long. Click here for chart

Staying with Europe the Italian MIB is also looking very similar to the IBEX35 as the stronger Euro is killing exports. Click for chart of MIB

Below Spanish IBEX35 which started in 1989 at 3000. 2000 to 2003 saw a bear market, I am looking for 2007 to 2009/2010 to be a new down trend.