The Insider Trader
Issue 32 June 2009

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	2.50%	AUD	3.00%
GBP	0.50%	USD	0.25%
CAD	0.25%	EUR	1.00%
CHF	0.25%	JPY	0.10%

Have Investors Learned Nothing?

A well known quote by George Santayana comes to mind to describe the current stockmarket mood and it is *"Those who do not learn from history are doomed to repeat it."*

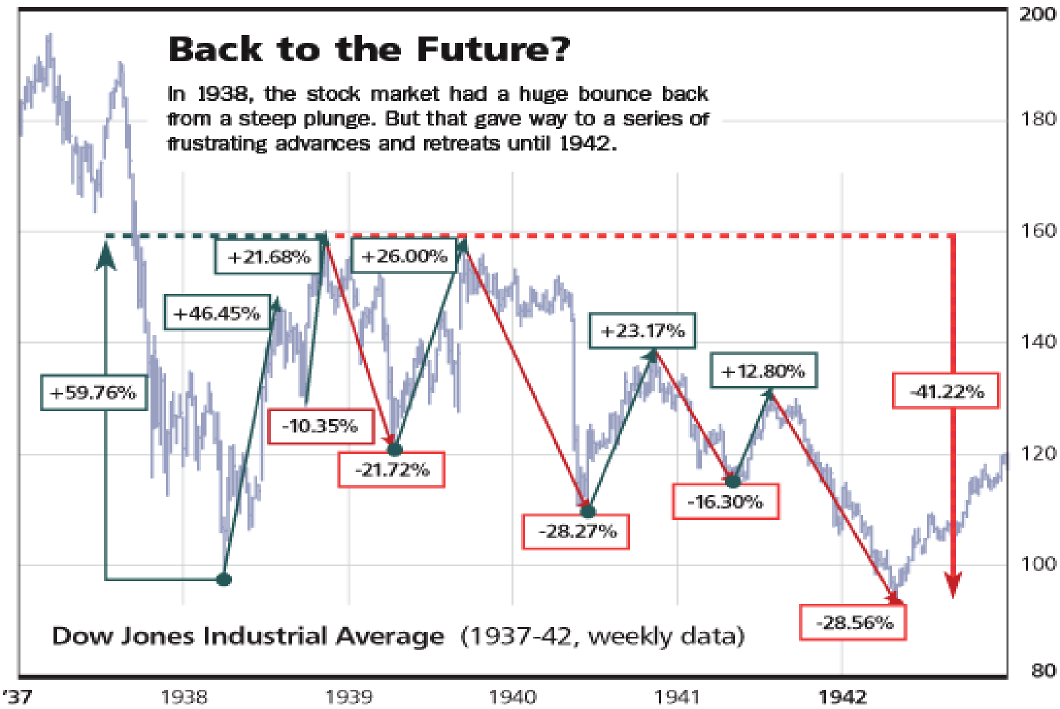
I have never seen sentiment go from so bearish in March to so bullish in just a few months, these really are interesting times. Whilst I'm more than happy to trade along with this ride I still remain of the view that this is a rally in a bear market and not the start of some great big new bull market. The liquidity and money that has been "introduced" by the Federal Reserve and central banks together with the 0 interest rate for savers is worrying to say the least.

The same banks that were taking high risks which caused them to be bailed out are doing the same again. Investors, both professional institutions and amateur (is there much difference?) that were on the verge of jumping under a bus back in March are now chasing higher risk stocks, junk bonds, risky credit products and standing in line to buy new equity raised by banks.

I warn all readers to proceed with caution, this is not the return of 2006/2007 the Fed does not have the ability to cut rates, homeowners do not have rising equity in their homes and access to unlimited credit and the current US administration is extremely unpredictable.

For now I will take it day by day but as we get closer to September I have no doubts that my account will be very much on the short side and moving in to lower risk defensive trades rather than chasing the high risk stocks. Whilst many are seeing "green shoots" I am seeing great opportunities to start shorting stocks again but it's not time yet.

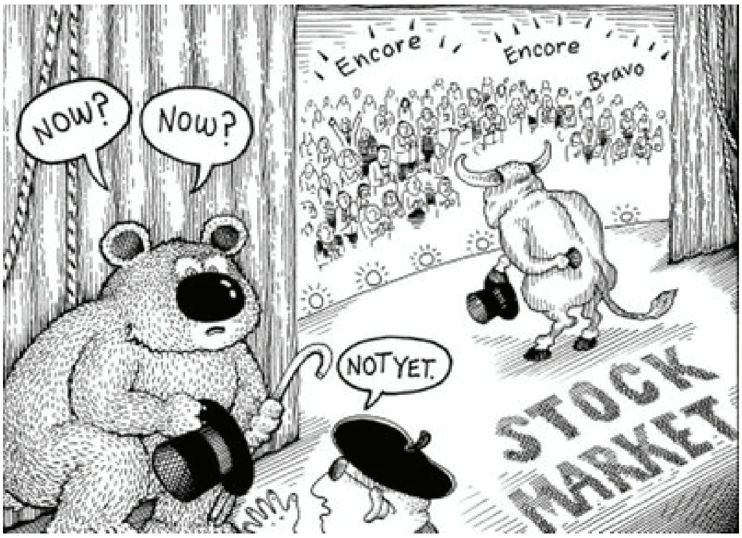
Below: Dow Jones 1937—42 A series of sharp rallies and pull backs but over all no growth. This is what I think is shaping up for the next few years.



Source: LY Advisors based on Dow Jones and Bloomberg historical data

What I see at the moment is fund managers that have been left behind are now playing catch up with the market. Many of the funds that have been sitting in cash and were looking clever are now not looking that smart. Investors are telling them to go out and start buying, <u>everyone else is making money around and your sitting in cash!</u>

I think you know how this story is likely to end and this is how I expect to make my next killing in the rest of 2009.



Time to Get Bullish on Natural Gas ?

Over the last few months I have received many calls about trading Natural Gas and how it's so cheap especially relative to crude oil prices. This month I will analyse the Natural Gas market and describe a trade to be made here with a good potential return and strictly limited downside.

Firstly let's define "cheap". Stocks and commodities can remain cheap for a very long time and whilst the fundamentals may sound great you could be locked into a trade that's going nowhere or against you for years or even months. Many traders said the shares in Japan were cheap in 1999, 10 years on, they're still cheap and you have just wasted a decade!

The recent interest in Natural Gas has been brought about because of the price of oil hitting $70 a barrel, where as Natural Gas is hovering at less than $4 per million British thermal units, so the logic of the trade is that Natural Gas is cheap compared to Crude Oil, however, before you go all in and bet your house on NG who says that this relationship cannot continue for some time longer? Whilst this 17.5 ratio (1 barrel/1 mmbtu) sounds a bargain against the normal 10 to 12 ratio, we still need to dig a bit deeper.

Natural Gas does not have the same price controls as Oil does with OPEC opening and closing the taps to keep prices higher. Whilst the Gas Drillers are cutting production, there still remains a glut of Natural Gas, stockpiles are 22 percent larger than the five-year average according to the US Energy Department.

The last few years has also seen new technology making extracting NG from Shale viable.

The main users of NG are factories and power plants and they use around 58 percent of all natural gas. As the economy and manufacturing weakened so did demand for NG. Other uses for NG are heating and air conditioning, however, the big users remain heavy industry.

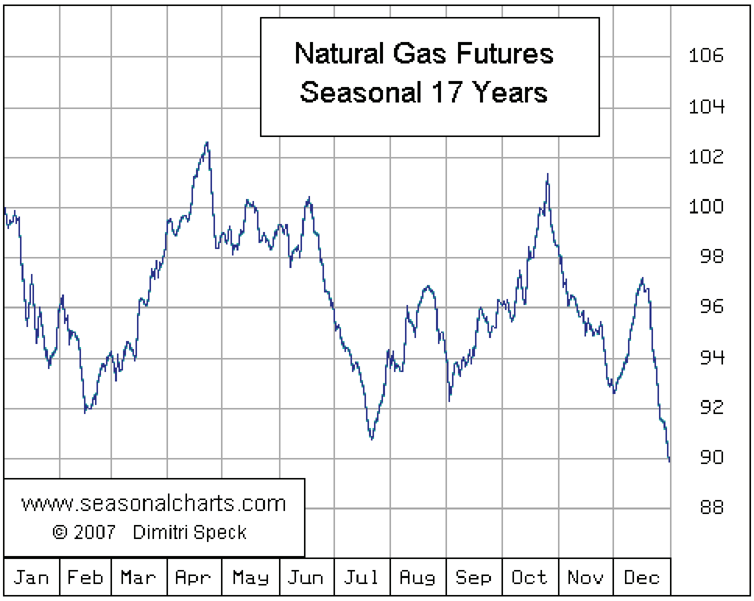
So whilst NG looks historically cheap especially in relation to Oil we still have a large surplus, but here comes the positive, at anything lower than $3.50 per mmbtu then it's just not worth drilling the stuff and in fact that's what's going on, rigs are being closed. The number of U.S. rigs plunged 56 percent in nine months, the steepest drop in two decades, so we know that new supply is going to drop although this will take time to filter through.

Another positive for the NG bulls is that we are now entering into hurricane season in the US. For those that don't know many Oil and Gas rigs are located in areas vulnerable to hurricanes which could disrupt supplies and see prices spike higher. Anyone doubting the potential for NG prices to rally in the wake of a major, rig damaging hurricane need only look at a price chart of NG for October 2005 in the aftermath of hurricane Katrina.

Whilst NG is a volatile market it does have a seasonal tendency to bottom around mid July and then peaks out at the end of October so we are entering this bullish period.

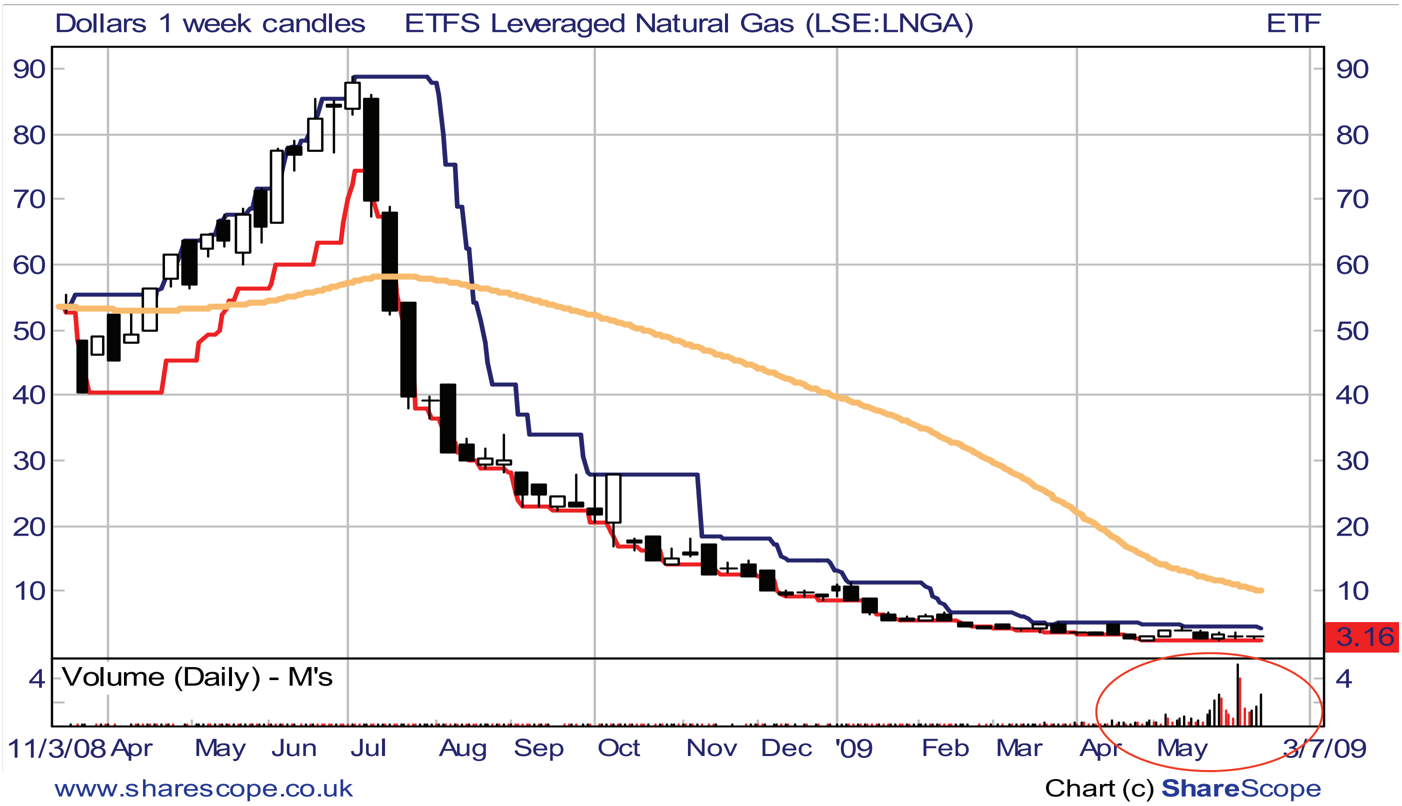
So am I buying Natural Gas?

Not yet is the answer, based on the current demand/supply I see no reason to own Natural Gas even if it looks "cheap" as this could continue but I am watching for any spikes in price or increase in hurricane activity in July, if this is the case then yes I will start buying. The easiest way would be the ETC Natural Gas for December 2009 which is priced in US cents currently 70.00 cents, however, you can spread bet in £,$ or Euros per point. You can also buy the ETC via a stockbroker, the symbol is (LSE:NGAS). For those looking for a bit more risk reward there is also a Leveraged Natural Gas (LSE:LNGA) which aims to move 2 x the daily price move of natural gas less interest charges.

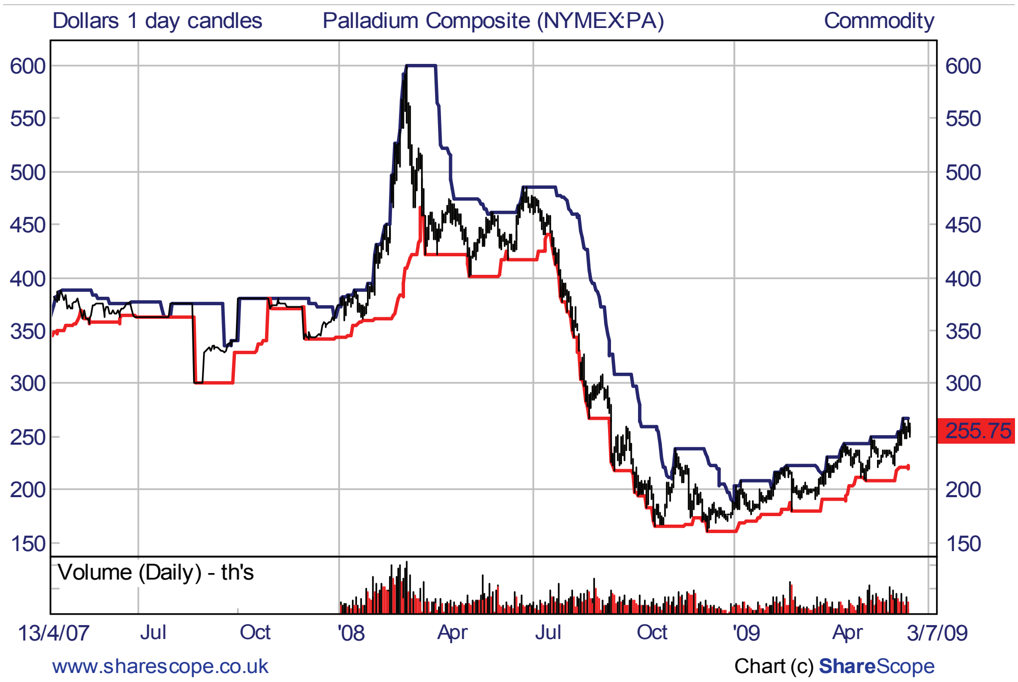


Staying with commodities my favourite commodities are the ones not making the big headlines including Cotton, Coffee and Sugar. I also like the grains such as Corn, Wheat and Soyabeans. I am not a fan of Gold or Silver short term as they are in a seasonal weak period and they seem to be featured heavily in most media

Weekly chart of LNGA. Notice the massive increase in volume



As we get towards the end of August I will take another look at both Gold and Silver. One metal I have been steadily buying is Palladium which is around $250 an ounce and up 35% this year but I still see it as offering value compared to Platinum. Palladium can be used in Jewellery and industrial applications such as catalytic converters and is also purchased for investment purposes. You can easily spread bet Palladium or buy the ETC which is backed by physical palladium (LSE: PHPD)



Two small Potash Mining companies worth looking at

If I say "mining juniors" the instant association is Gold or Silver Mining, but these two mining juniors have nothing to do with metals they are in the Potash area. For those that don't know Potash or Potassium is used in farming, it protects plants from extreme temperatures and helps fight weeds, insects and strengthen roots. As farming becomes more intensive then use for Potash increases. Corn farming is the biggest user of Potash however it's also used for other crops.

Potash One listed in Canada under TSX: KCL

http://cxa.marketwatch.com/TSX/en/Market/intchart.aspx?symb=kcl

It must be accepted that these companies are small cap Canadian listed companies that carry a higher risk and higher reward, if you do go forward with them I would only suggest a small amount of risk capital and you need to understand that liquidity in this shares may be thin. You should be thinking 2 to 3 years rather than 2 to 3 weeks.

Take a look at **Potash one KCL**: TSX website: www.potash1.ca **and Western Potash TSX:** WPX, website www.westernpotash.com these are too small to spread bet but any stockbroker trading US or Canadian shares can buy these for you.