The Insider Trader

Issue 50 June 2010

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)

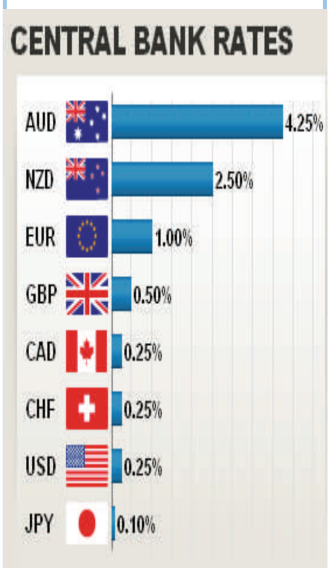
Orange Juice (OJ)

Sugar (SB)

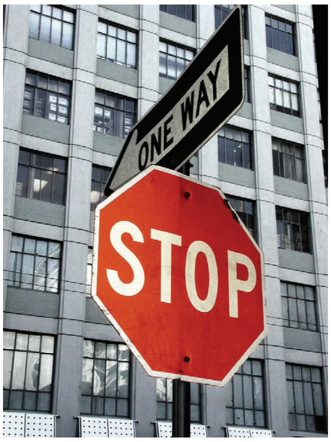
Wheat

Cotton

Rough Rice



Commodities are not a One Way Bet



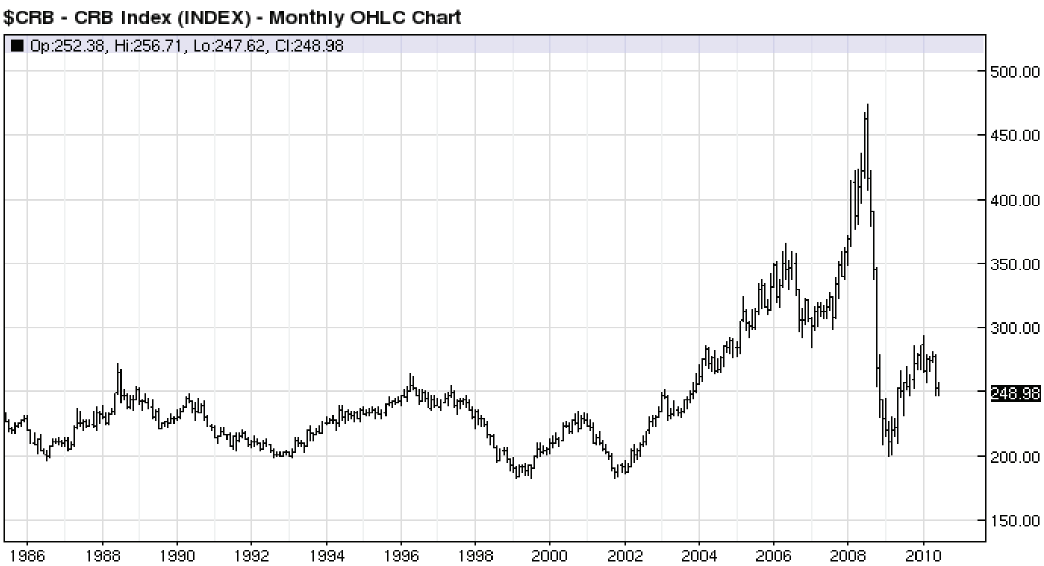
I first started getting bullish on commodities in 2000, at that time the only other person talking about commodities was Jim Rogers and the media, with the exception of the odd Gold and Oil quote which hardly covered them.

Today it seems that everyone knows that China needs commodities and they are a sure thing. My twenty four years of investing experience tells me that when everyone "knows" anything then they are normally wrong, after all a decade ago when I was buying commodities the public were chasing DOT COM shares – I think you get my point.

Whilst overall I still like the idea of having exposure to hard assets the problem is unless you want to store your own commodities you're not really buying a hard asset you are buying another piece of paper. So whilst Commodity Exchange Traded Funds and Futures (spread bets) provide short term speculative tools (months not years) which I have no problem in using to go long or short, the overall long term picture on investing in commodities is cloudy and most investors will be disappointed with the returns from investing in Commodity Exchange Traded Funds.

The solution is a managed one where you trade commodities both long and short and at times you just stay out. Also many don't realise that when they invest in commodities they are also making a currency

Below CRB Index going back to 1986—after the big run up and down in Oil the Commodity basket is back to 1988 levels.



bet on the US$ which remains the official commodity settlement currency, the recent strength in the Dollar has done no favours to commodity buyers.

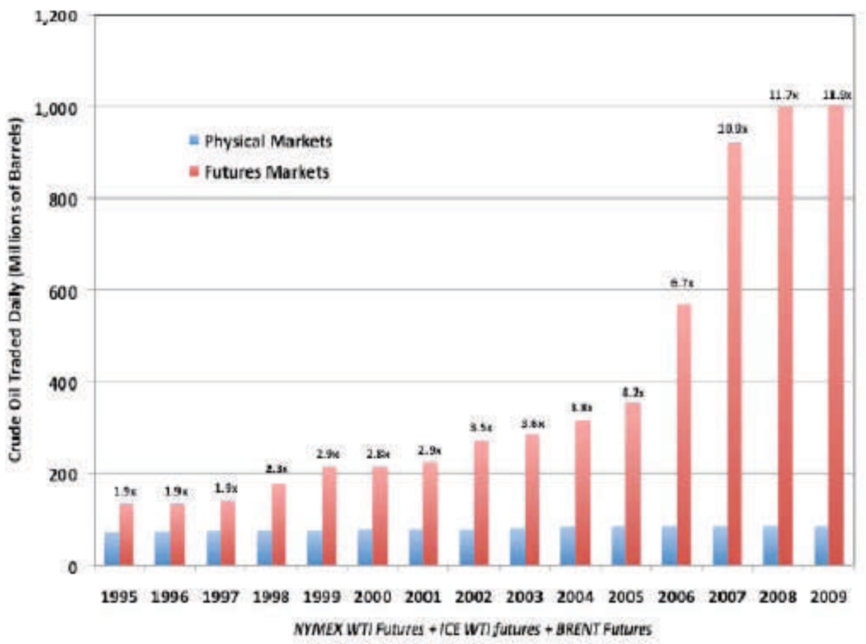
The old 80/20 rule tells us that 80% of a commodities gain goes from 20% of the time, so for example Coffee could do nothing for months and then make a big move in 2 or 3 months for the whole year. I am not recommending day trading commodities as that's a mugs game, however, the "buy and hold" only model is also questionable and is where my differences with Mr Rogers arises and the idea of buying into a commodities index.

Using Sugar as an example if you had bought the **Sugar ETF** when it first launched in the UK in 2006 and just held it you would have lost 26% where as a simple managed solution being Long, Short and out of Sugar would have returned well over 100% during the same period. If you had bought the **Roger Raw Materials ETN (NYSE:RJI)** when it first launched in October 2007 at $10 you would now be sitting on a loss of over 35% and I think you are going to be waiting some years to just break even. Using a simple buy above, sell below a 200 day moving average whilst not perfect would have done far better.

As featured in my previous update I have built up a sizable short position in **Copper** and other industrial metals as I question the whole industrial demand especially the GDP numbers coming out of China. I have also built up on the **Short All Commodities ETF (SALL)** which as the name implies makes me short a basket of 19 commodities which forms the DJUBS commodity index. So far this year the SALL is up 12%

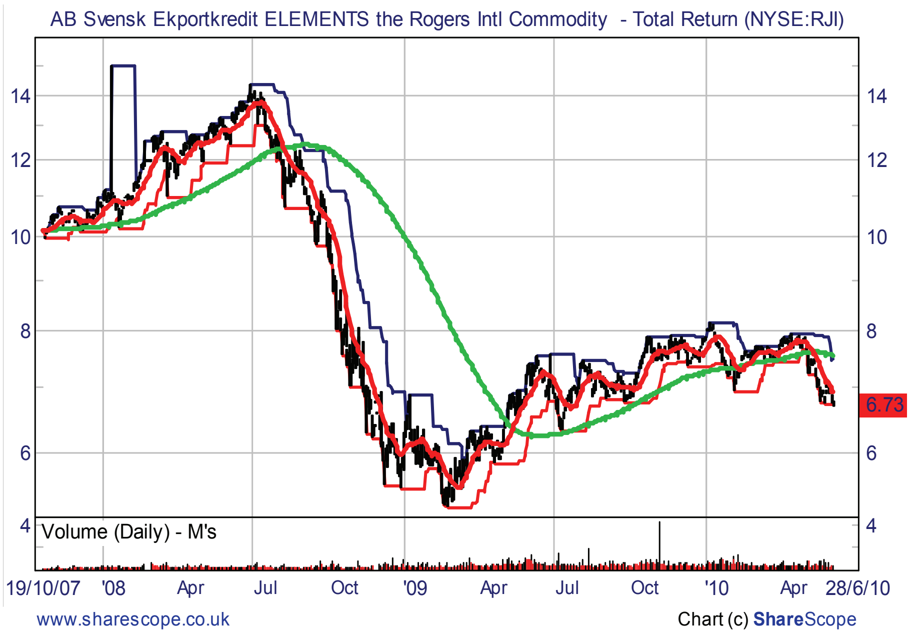
Paper Commodities,– Where the true demand for Oil is. The truth is its "paper" that is changing hands not physical demand. Getting data on other markets is not that easy but we know the growth of Commodity ETFs has also added to the distortions in commodity prices. Speculators and lets be honest that includes 99% of those reading this have more to do with the ups and downs in commodities short term than the real demand and supply fundamentals.

Chart 4: Financial vs. Physical Oil Markets



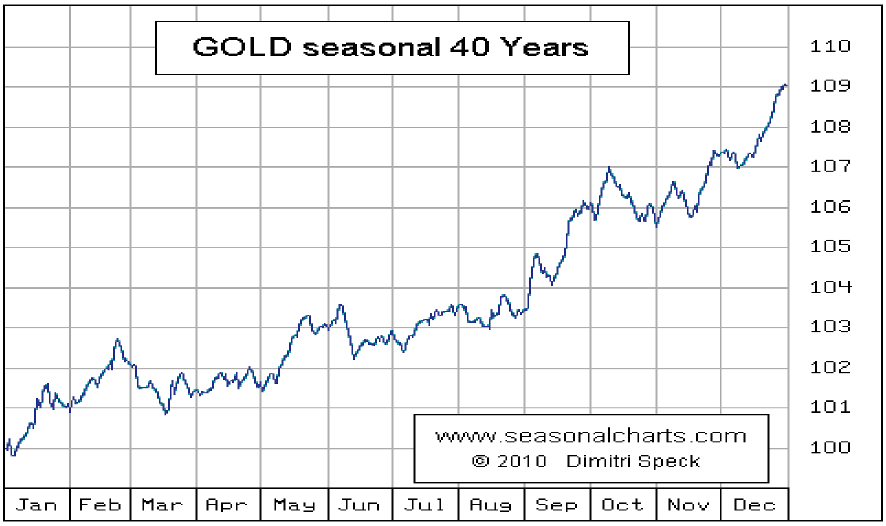
Source: Masters Capital Management

Below: Rogers Intl Commodity ETF since launch at $10 investors have lost over 35%. The S&P500 has also lost the same amount. Buying a Gold coin and putting it under you mattress would have made you 65% with no physical paper risk.



The bright spot in commodities has been Gold which continues to remain in a long term bull market. Seasonally Gold does weaken over the summer and then starts picking up again as we go in to September. One advantage of Gold, Silver, Platinum and Palladium is that even the small investor can take delivery and store physical bars or coins (Walk into Harrods and go to the basement and you can buy Gold). Of course you have to pay a premium to take delivery but then you know where you stand. You can buy an ETF but be very careful who the counterparty is and do they actually have any physical metal? One of the best respected metals ETFs are those issued by Swiss ZKB which has an AAA credit rating and backs everything with actual Swiss vault held metals.

Above: Gold remains one of the few commodities that is in an uptrend however we may get a seasonal sell off in the coming weeks before moving up again into year end. Overall any sell offs should be used to buy more Gold (coins and bars) rather than paper Gold



So my point is commodities are not just a one way bet and just buying and holding a Commodity ETF is likely to give disappointing returns for the foreseeable future, however with some simple management and switching - returns can be seriously enhanced and that is what I am doing. By current observations are:

1. Financial Demand (paper transactions, ETfs ,Warrants) has been the driver not industrial demand.
2. The Chinese have stockpiled aggressively over the last 18 months causing many indicators to be distorted and show higher than true demand.
3. Commodity ETF growth in UK and US are growing much too quickly whilst the underlying commodities market is still very small. The result -large swings and more correlation between equities and commodities. When investors all rush to sell electronic commodities all at once then don't be shocked to see 10%+ down moves.

Man Group (FTSE100: EMG)

They say if something looks too good to be true it normally is and it is very rare in a so called “efficient” stock market to find a bargain especially in a FTSE100 stock, however, that’s what I see with MAN Group plc (EMG). Man Group is misunderstood by many and I believe this is partly why the opportunity has arisen. The company is also unique and so many analysts find it hard to benchmark against a similar company.

The recently announced takeover/merger between Man Group and GLG will form one of the biggest Alternative Asset Managers servicing high net worth clients, institutions and sovereign wealth funds. With today’s low interest rates, volatile financial markets and financial scandals which have given many Hedge Funds and products a bad name, Man Group remain the premier global Asset Mangers with transparent, liquid and well managed funds with very good track records.

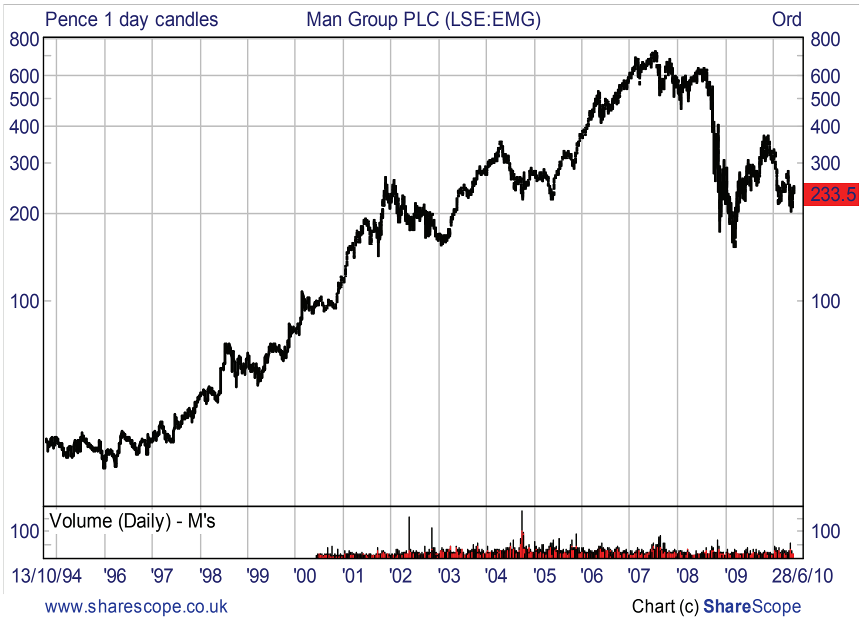
The AHL Alpha program which is run by Man has only had one losing year since it launched in 1995 and has returned over 650% compared to 190% for the S&P500 (dividends reinvested) over the same period.

The share price has had a few down years but anyone that invested 10 years ago is still up an average of 14% a year plus dividends. Whilst short term the share may remain volatile I see no reason why Man Group will not continue to return 14% a year over the next decade plus dividends. This is the sort of stock to buy and leave it alone.

At the recent £2.30 price level your getting a quality dividend paying stock with great global growth potential. **If your not going to buy the stock and hold it for 3 to 5 years then don't bother.**

I do expect the dividend to be cut from the current whopping 12% yield to maybe 6% but that is still well worth having.

If you are interested in knowing more about what Man do and recent developments on the GLG deal go to **www.mangroupplc.com** and select investor relations.



Above Man Group which has transformed its self over the years after spinning off the MF Global group (broking) to a pure play Asset Manager. Below is the flagship AHL hedge fund ($2 million minimum required) against the S&P500. Not only are returns far superior the volatility is much reduced. The better AHL does then the better Man do as they earn a percentage fee on profits. Man is not about making 100% returns and high risk bets rather hedged long and short positions in various markets including currencies, bonds, commodities and credit markets resulting in steady absolute returns.

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 Trading Funds 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.