The Insider Trader

Issue 29 — March 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	3.50%	AUD	3.25%
GBP	0.50%	USD	0.25%
CAD	0.50%	EUR	1.50%
CHF	0.50%	JPY	0.10%

No-one stays at number one for ever – The end of the US market domination

When I started as a trading junior back in 1985 one of the first sayings I learnt from my boss was, “when America sneezes the world catches a cold” and of course that has remained true to date. We have all witnessed how quickly a financial cold that started in the USA can spread around the world.

Looking out to 10 or 20 years ahead do you really think the same saying will stand? I do not and whilst the US and Europe will still be important economies they will not be the leaders.

The general “hope” is that some how the US is going to be able to undo and fix the various banking and financial problems quickly and return to the glory years, I hate to tell you Mr Obama and team, your country has already had its best years and it’s now time to pass the leadership on, no country stays number one for ever.

The new dominant market whether you like it or not is China and other Far East regions. Also Brazil is in good shape. I am not a big follower of the Indian market but this region also has growth prospects.

This is not just a bear market in US and European shares, it’s a readjustment to the reality that these markets are not the leaders anymore and the financial system is at or near bankruptcy. The idea that the Dow Jones, FTSE100 or S&P500 is going to make some miraculous recovery is just wishful thinking.

The recent visit by Hilary Clinton to China to re enforce relationships seemed more like a charity request than an official visit. The US thinks that China needs to keep

Below: Monthly chart ishares FTSE China (LSE:FXC) holding up far better than the US

buying treasury bills, it does not – the US needs China more than they need the US and the worse the economy becomes the less likely China will support the US.

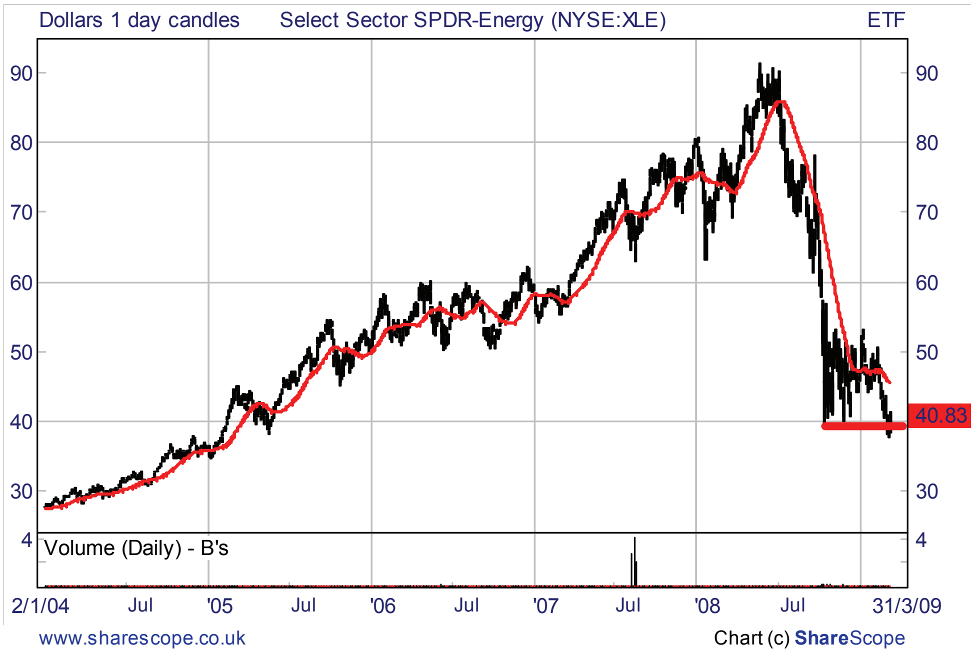
China will look after its own people, economy and Banks, wherever possible it will move money back home, whatever the leaders say whilst posing for smiling photos. At some stage the US T Bond market will go into a serious bear market.

The strongest banks in the world are all based in the Far East. You don't hear about Bank of China, Industrial & Commerce Bank of China or China Construction Bank needing a bailout. HSBC whilst slightly bruised is still a quality bank and did not need any government assistance.

Whilst the US and Europe will get bear market rallies and we are due one now, their will be no resumption of a bull market for many years and even if it does return you are better off having your money in other markets. The only US or European companies you need to invest in are those with a strong link to growth regions.

Major Oil Companies

With Oil back at $45 and with the crowd bearish on oil prices I have to say that buying quality Oil companies has to be a good move. Some of the majors to look at include BP, Petro China, Exxon Mobil, Chevron, Petroleo Brasilerio, Total Sa and Statoil Hydro. I see oil prices averaging over $60 as we move into the second half of 2009 and this will be good for the above mentioned companies.



Above Energy ETF down but stronger than the overall S&P500

Buying into China

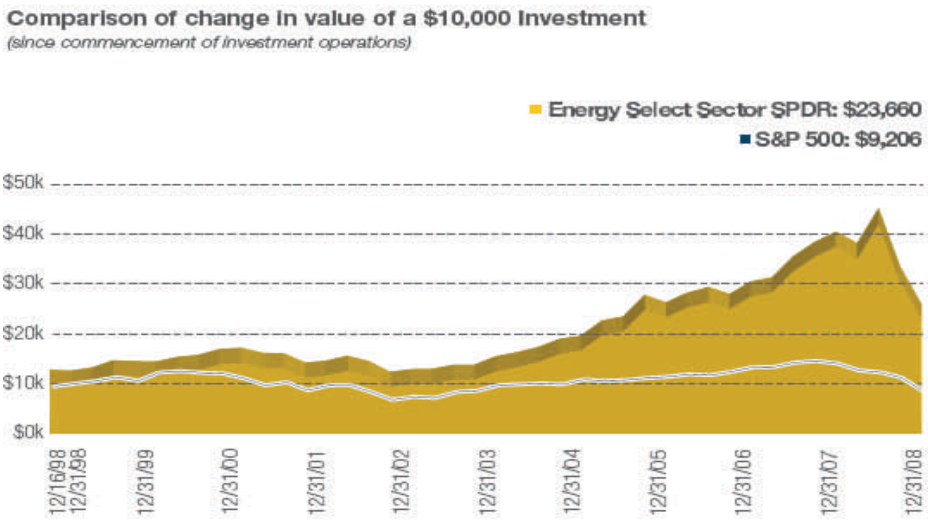
If we look at the China 25 Exchange Traded Fund FXI (US listed) and FXC (UK listed).

This is made up of 25 of the largest tradable companies. The ETF is very heavily weighted to financials (47%) but these are the banks and insurance companies that I don't mind owning. We also have China Mobile, Petro China, China Shenhua Energy to name a few. (You can download a full factsheet from www.ishares.com)

Whilst down, the China 25 has held up far better than the US markets or UK markets and will continue to do so, this index has stayed above its November lows. I don't suggest you put your life savings into this but rather invest every month or so and build up a position. I also like Brazil and this can be traded via the Lyxor Brazil ETF (LBRZ)

Main components of this EFT are:

Exxon Mobil	22.78%
Chevron	14.67%
ConocoPhillips	7.75%
Occidental Petroleum	4.74%
Schlumberger	4.61%
Devon Energy	3.18%
Apache	2.80%
XTO Energy	2.35%
Marathon Oil	2.27%
Anadarko Petroleum	2.11%
EOG Resources	2.00%
Halliburton	1.98%
Hess	1.87%
Valero Energy	1.50%
National Oilwell Varco	1.40%
Baker Hughes	1.37%
Southwestern Energy	1.37%
Spectra Energy	1.35%
Chesapeake Energy	1.26%



Here we see the returns of the Energy Sector against the S&P500, whilst down from the 2008 peak Energy shares have done far better than the general Index. International Oil companies are not included in this ETF, however you can easily spread bet Total SA and Petro Bras (PBR)

Crude Oil

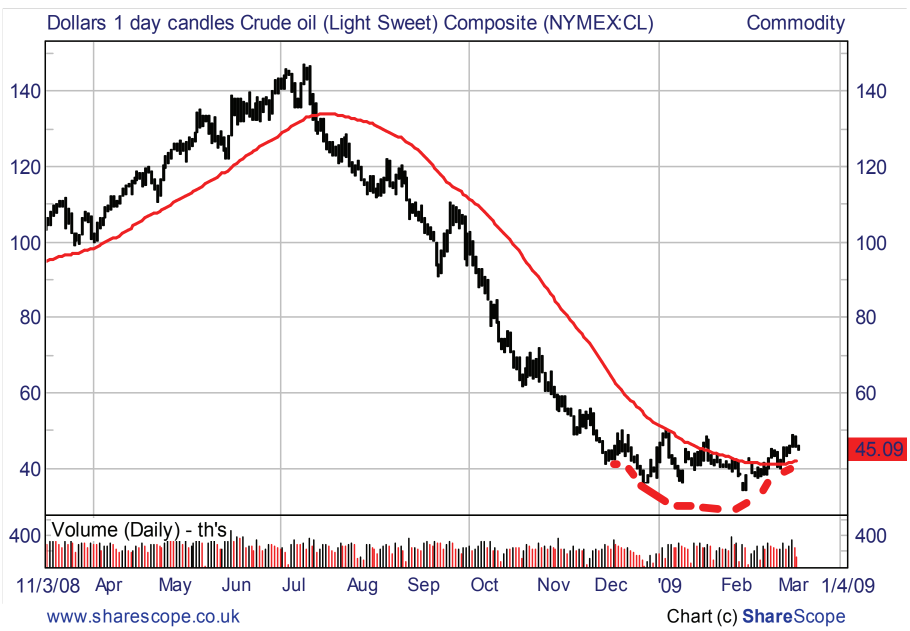
Crude Oil is finally starting to look a bit more bullish. If you look at the chart below you can see CL has broken above its 50 day moving average (see below) and that's the first time it's done that since July 2008. Whilst I am not saying we are going back to $100 and I do see strength here and can see Oil prices moving back to $70 to $75 before the end of the year.

The two problems we have with trading oil are the massive spikes and the roll over spreads. What I suggest is using an ETF which you can spread bet or buy via your broker. I would use ETFS Crude Oil listed at ETC Crude Oil on IG Index. This is without the extra leverage. Any close below $35 on Oil would be your exit. On subject of Oil, **Heating Oil** and **Unleaded Gas** RBOB are now both in seasonal bullish patterns.

Gold

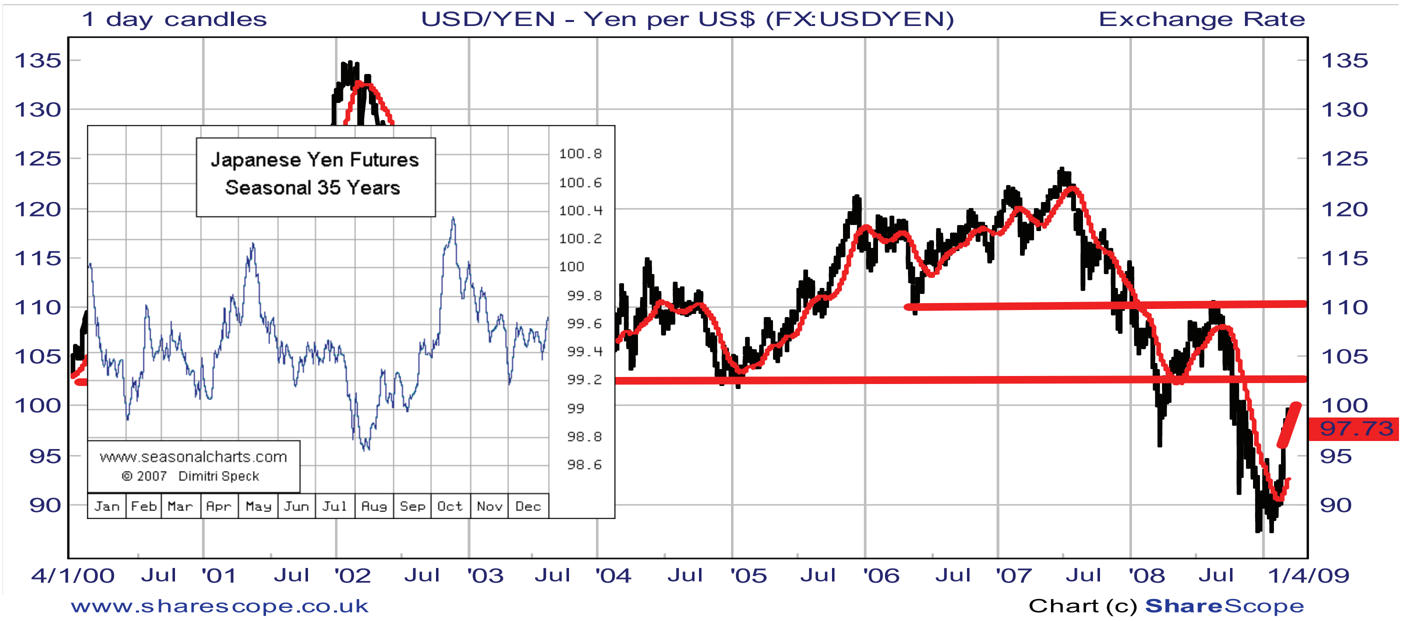
Gold has been up 8 years in a row yet many have still lost money trading gold, and that's the key word "trading." Gold is a relatively small and volatile market, you can see large spikes which makes short term trading difficult, however, over time Gold is going up. I first started buying Gold around $250 an ounce in 2003. <u>Rather than try and time the exact highs and lows most reading this are better off just buying gold every month.</u> You can use a physical backed EFT such as PHAU or a company such as Goldmoney.com. Silver is also having a good year and again I would look to accumulate silver via a physical backed ETF such as PHAG.

Below: Crude Oil, we can see the start of a base/saucer formation which is bullish and means that a bottom is starting to form.



With interest rates at near 0 and central bank adopting "quantitative easing" **<u>then it's just a matter of when not if inflation makes a come back. I see Gold heading to $2000+ in the next few years.</u>** As with all bull markets you will see pull backs but it still remains a bull market.

Right now I cannot think of one currency that I would want to own, unfortunately you have to own some currency so it's a case of picking the least ugly in a beauty contest. The Japanese Yen had been a good holding but is now starting to weaken; the Swiss Franc has never been the same since the UBS bailout. The Dollar is a car crash waiting to happen and the Euro is looking more like the Deutschmark than a single European currency. For this reason Gold will continue to hold up and act more like a currency than a commodity. The best looking currencies at present are the Brazilian Real, Canadian Dollar and Norwegian Kroner.



Above: USD/YEN, looks like a move back to 100 is possible however April normally sees the Yen strengthen as Yen are bought at the end of the financial year.

Above Gold with a simple 200 day moving average. We are now moving into a seasonal weak to range bound market until the last few days of July when we then go in to a very strong time seasonally. Of course any major event such as a currency default will see gold move higher. I think we will stay within $790 to $1000 until August/September then we have a good chance to take out the $1000 by the end of the year.