The Insider Trader
Issue 41
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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)]

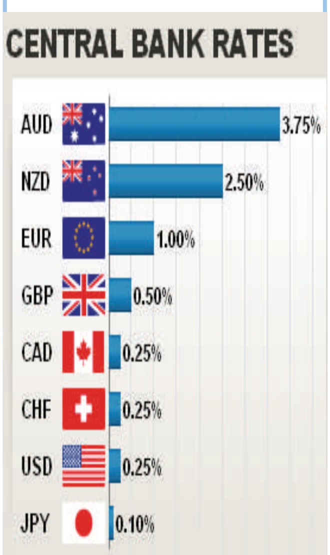
[Orange Juice (OJ)]

[Sugar (SB)]

[Wheat]

[Cotton]

[Rough Rice]



Betting on a Good Drink

Following on from my previous suggestions in the tobacco sector this month I would like to look at another area where I see good global growth and at the same time has a defensive nature and that is the Alcoholic Beverages sector.

Let's start with FTSE100 member **Diageo** (LSE:DGE) or (NYSE:DEO)

Diageo is the world's largest distiller and the maker of leading spirit brands; Smirnoff Vodka, Johnnie Walker Whisky, Bailey's liqueur, Captain Morgan Rum and leading stout brand Guinness. In addition to these core bands they also own a 34% stake in Moët Hennessy.

Over 70% of operating profits are generated in developed markets (41% USA and 32% Europe) with the balance coming from emerging markets in Latin America, Asia Pacific and Africa.

The main risks remain in the developed markets where unemployment levels are high and consumer could trade down to less expensive brands. Another concern is that governments may increase excise taxes.

One way Diageo can sell its premium brands at price sensitive points is by reducing the bottle size from 1 litre to 700ml which they are doing. The outcome could be similar to tobacco where consumers that are lost in the west are more than made up from new emerging markets.

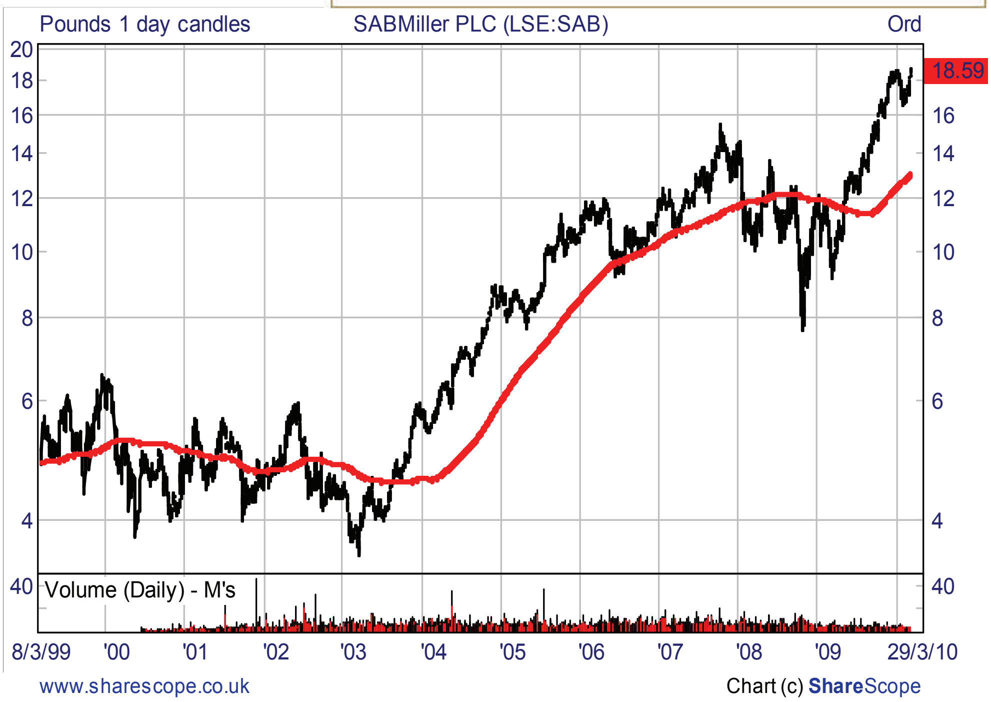
Diageo is currently paying a dividend which works out to around 3.3% yield and is on a P/E of 15.3 which for a world class premium brand is good value. At around the £10.80 price its worth buying and holding Diageo for at least the next 12 months.

Diageo Plc with 420 day long term moving average. A good steady uptrend and paying a 3% yield

Above: A few of the well know Diageo brands. The key will be holding market share in the West whilst capturing new consumers in the East.

SAB Miller (LSE:SAB)

The next stock has been mentioned by me numinous times. A quick corporate recap Miller was part of the old Philip Morris and South African Brewers merged with Miller. Altria (NYSE:MO) owns 28% of SAB Miller and in a recent statement said they had no plans to sell their stake because it would cause tax issues and the other reason being it's a great complementary asset to own.

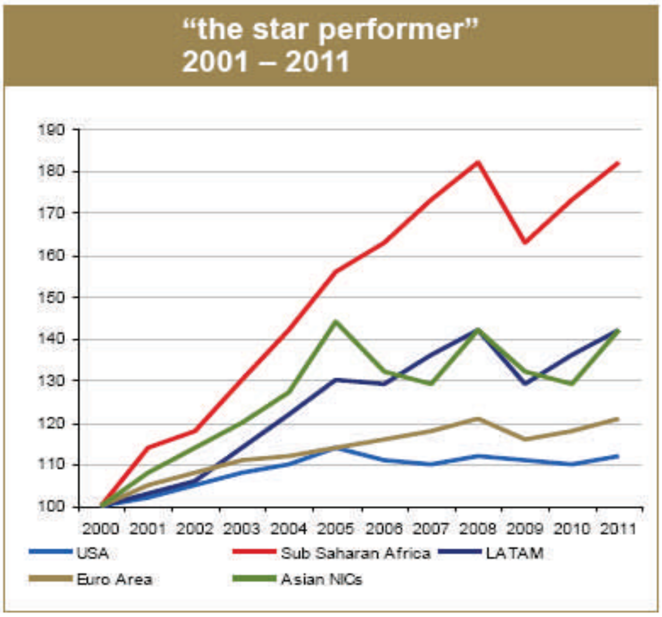


SAB Miller(SAB) is a FTSE100 stock which is up over 250% since 1999 and has been a great investment however I still see good growth and excellent free cash flow. SAB has a strong African heritage but its brands are global including the number one beer in China Snow, Number 1 in Italy Peroni, Number 1 in South Africa with Carling Black label, Number 1 in Poland with Tyskie and host of other beers around the globe in number 1 or 2 positions including Haywards 5000 in India which is the number two.

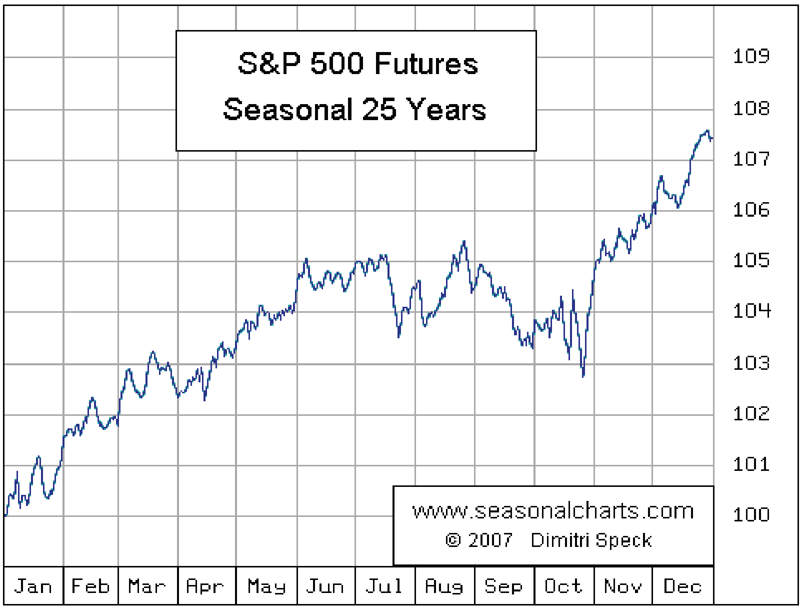
SAB has a good spread of brands in premium, mainstream and the affordable markets making the company less susceptible to a weaker economy. The only slight negative is in the USA which is a highly competitive market but this weakness is more than offset from growth in China and Africa. The upside from the World Cup being hosted in South Africa this year should also help local SAB sales.

At the current £18.50 level SAB is on a P/E of 20 with a yield of 2% so the share is pricing in some of the growth but it's certainly one looking to big up on any weakness as the long term trend remains up.

Below SAB Growth. The USA and Euro Area is flat. Sub Saharan Africa has had a great 10 years and we now see Asian and Latin America building up



Seasonality still favours the bulls



Whilst world stock markets are off to a calmer start this year seasonal factors still favour some more short term gains in the indices as we run up in to the end of April, at that time it would be worth looking to reduce risk as we move in to the May To October weaker market periods. The big moves so far this year have been in the currency market and I still remain of the view that the US Dollar will continue to see short term strength with the GBP being the weakest of the major currencies.

One factor that may have been missed is how many UK companies could be wide open to takeover bids especially from Australian, Canadian or Norwegian companies. For example if you're based in Canada which has a strong Currency your money in the UK will go around 30% further than it did a few years ago. We could see some good trading opportunities from potential takeover targets in the coming

Below the GBP/USD continues to look weak ($1.40 is the obvious next level in the coming months) , however the weaker pound is also adding some support to the FTSE100. The smart move has been buying the FTSE100 but in $ per point not £. Most spread betting companies will allow you to do this.

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.