The Insider Trader
Issue 17
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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

**CENTRAL BANK RATES**

| | | | |
|---|---|---|---|
| NZD | 8.25% | AUD | 7.25% |
| GBP | 5.25% | USD | 3.00% |
| CAD | 3.50% | EUR | 4.00% |
| CHF | 2.75% | JPY | 0.50% |

# SP500 confirms a bear market - you're not in Kansas anymore!

As far as I can recall I first heard the saying "You're not in Kansas anymore," at a blackjack table around 11 years ago in Las Vegas. The dealer had pulled 5 straight blackjacks cleaning out the players at the table who all had good 20 and 19 hands, which was good but not good enough.

After some research I now know the saying comes from the classic film The Wizard of Oz, Dorothy is transported from the flat terrain of Kansas to the bizarre Land of Oz Her cry was, "Toto, I don't think we're in Kansas anymore."

Dear readers, we are certainly not in Kansas anymore and we now have the S&P500 rolling over and giving a SELL signal which closes the buy signal given in 2003. Does this means the S&P500 will crash in the next 60 days, no I doubt it, however, the trend now for as least 12 months

trend now for as least 12 months and most likely 24 months is lower. As already stated the FTSE250, CAC40 and Nikki 225 had already given sell signals. You can now also add FTSE100 and most other European markets but not the German DAX. Of course, you will see counter trend rallies; note the move up in the FTSE250 from the 22/01/08 lows but that has changed nothing, it's still in a bear market.

Thanks to the great tools we have at our disposal ranging from Fixed Odds bets, Covered Warrants, Spread Bets and inverse ETFs we can easily make money from down markets.

Of course the key here is having capital and the nerve to understand that you will get big rallies within a bear market, that's where covered warrants make life easier, you can be wrong for weeks or months and still make money without

S&P500 the first long term sell signal since 2001. This is a bear market.

the fear of stops being triggered.

Many readers follow the Dow Jones or Wall Street index, as bookmakers call it, to date it has not given a sell signal yet, but its weeks away from it. The Dow has held up a bit better thanks to its defensive nature, money has flowed away from smaller companies into household names, however, it is just time before they follow. The Dow is not really a true representation of US markets; it is the S&P500 which is still the market that the world's professional traders follow.

### So where's the money going?

Well it's fairly easy to spot where the money is going, its commodities across the board. Commodities such as Cotton, Sugar, Coffee and Cocoa are now playing catch up with the boom in Grains, Metals and Energies. People don't want worthless pieces of paper anymore, they want real hard assets.

The idea that China and other emerging markets would some how carry on going up even if the S&P500 was to start breaking down is proving to be wishful thinking. Traders are not shifting money from the West and sending it to the East; they are taking money out of stocks worldwide and looking for protection.

## Gold hits $333, time to cash in?

Have I got your attention? You'll be thinking what do you mean $333, gold is near $1000 and it's higher than the 1980 $850 peak. Well let's look at a factor that many are missing. INFLATION, the dollar is not what it was. You can use various complicated ways to work out inflation and we can safely say the government inflation figures are fixed and should not be trusted so we will not use those.

Here is just a rough and quick view, in 1980 to 2008 I would say you need $3 to buy what you could have bought with $1 in 1980 and I think that's conservative. So if gold is $1000 then divide that by 3 and you end up with $333.33. We can also say the same for silver, oil and all other commodities.

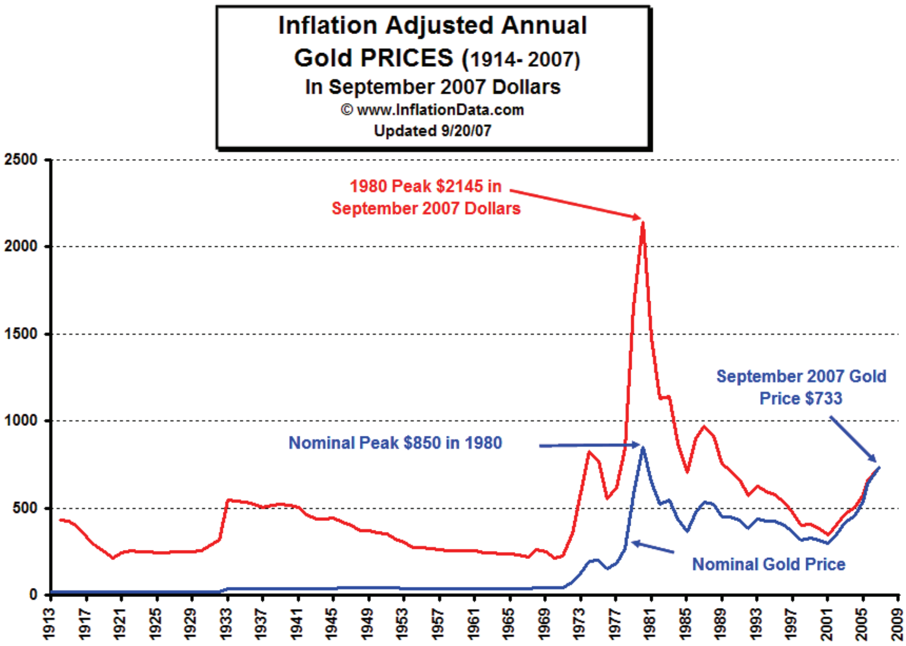
So whilst the magic $1000 gold sounds steep it's still no where near the 1980's high. To match the previous $850 Gold high you would have to see $2,500 an oz.

Gold is in a bull market and that's not going to end in a few weeks or months. It has years to go, however, just as the S&P500 will not fall in a straight line, Gold will not go to $1,500 or $2,000 in a straight line either.

Those trading longer term using Exchange Traded funds should just ignore the falls and ride it out, I would be shocked if Gold is lower than current levels by the end of December 2008.

For those willing to take a small risk you could either look at Fixed Odds bets on Gold with www.betonmarkets.net or SG warrants. You could look at a Dec 08 800 Put warrant on Gold code: ST40 giving x5 leverage. Of course, you would not hold this until December, you would look to hold it until 1st Week of September, if Gold has not had a good fall by then I suggest cutting the trade and get back whatever you can.

If you go to www.inflationdata.com you will find more interesting charts including Corn and Unleaded gas adjusted for inflation.



The current price of the warrant is 14p. We also have another way to now short Gold and that's the Short Gold ETF which has just been launched. (more about short ETFS in a moment)

Although Gold still gets reported widely and recently Platinum has been in the news because of the problems in South Africa but silver tends to be ignored. I still think silver has a long way to go and silver tends to be seen as a poor mans gold. Again the recent run up to $20 could be it short term but going further out we could still see some massive gains in Silver.

### Euro/Swiss

Last month I outlined the case to be a bit more bearish on the Euro, so far the Euro has held up and made new highs against the US$, however I still hold the view that that the Euro has problems ahead. If you follow F1 motor racing you will know that at some stage the cars needs to come in a make a pit stop, change tyres take on fuel, some cars come in sooner than others giving the short term impression that the car in the lead that has not had a pit stop is ahead, when that's not the case. So far the European Central Bank is holding interest rates steady and holding on to a strong euro policy however this can not continue.

### Warrants on commodities

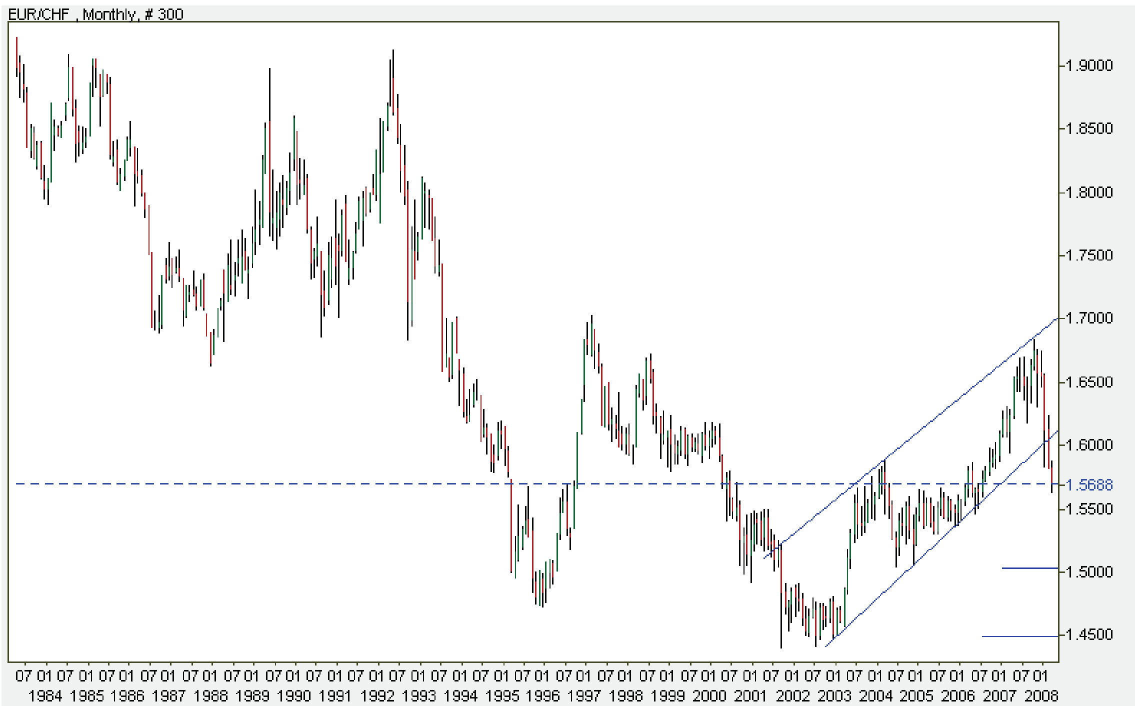
SG has launched new warrants on Soybeans, Wheat and Corn. They also offer the GS Agriculture index. This offers a way to go long or short with less risk capital than a spread bet and without the need to worry about stops. The new contracts are being offered with December 2008 expirations. As I have outlined on Gold, no commodity goes up or down, longer term I remain bullish on commodities especially the foods including Sugar, Cocoa, Coffee, Corn and Rice. I also see good long term (3 years out) value in Cotton and Natural Gas.

We will see many shakeouts along the way, just as we saw in the 1982 to 2000 stock market Bull Run; we will see the same in the 2000-2020 commodities bull market. A bit of advice for most – you're better off just holding a core commodities position and not worrying about trying to trade every counter trend. Even the stock market was very bullish in the late 1990's and many still managed to lose money, they would have been better off just buying and holding. I am sure this will happen again in commodities.

We could easily see a 20 to 30% fall in commodity prices in the coming months; however, this would be a buying opportunity.

If I am correct and we do see weaker stockmarkets and a loss of risk appetite over the next few months then the Euro will weaken against the Swiss Franc and the Yen. I also see the ECB starting to let the Euro weaken as companies find it harder and harder to compete. You can look to spread bet or use fixed odds bets to back Euro/Swiss and Euro/Yen, so just to be clear you're selling Euros buying Swiss or Yen.

**Euro/CHF (swiss) From 2002 to 2007 we see the Euro strengthen as stock markets move yp and traders take more risk. If we look at the end of 2007 to date Euro is weakening. 1.55, 150 and ultimately 145 could be seen in the next 2 years as risky trades are unwound in favour of safety.**



## New short and leveraged ETFS

Inverse ETFS are relatively new. In brief an inverse ETF moves opposite to the underlying price, so if Sugar goes down 1%, the Short ETFS Sugar would go up 1% and vice versa. The good news is that you don't have to worry about stops and margin calls.

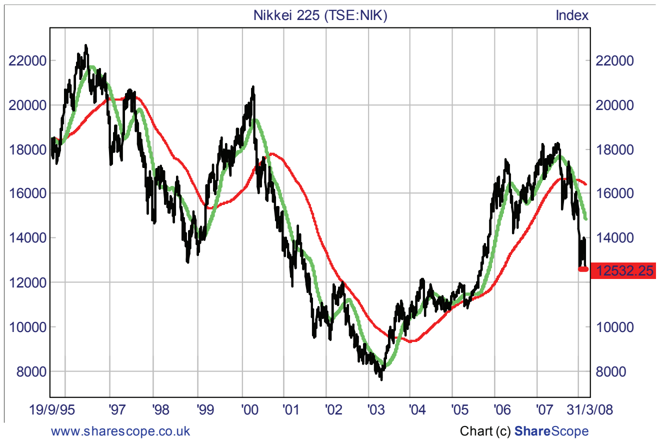
Another new edition is leveraged ETFS on the long side. The academics have done some studies on leveraged ETFS and they are not perfect - that the ETF should move x2 the underlying commodity less the interest charge that the fund is paying to borrow the extra money to purchase commodities on margin. I need to follow these for a few months before I can recommend them, for now I will stay within the un leveraged ETFS.

## Aberdeen Asset Management (Short) General Finance

Aberdeen Asset Management is a well known financial provider of investment products focusing on mainly Long strategies. As the stock market does well so do Investment management firms and that's the problem. AAM is nothing special and as we know most fund managers cannot beat the benchmark indices over time. With the current downturn in stock markets I really don't see any good news for this company. The only possible positive is if the company was taken over by another larger bank or financial institution, however in current markets this is a risk I can take.

Look to go short for June Aberdeen Asset with a target of £1.00 and then a fall down to 75p

**Aberdeen Asset Management (Short). If you look at the big run up that was when we had the 2000 Tech boom as Aberdeen did well from Tech funds, then the crash. Most spread betting companies offer a spread bet, look for June or September.**


Nikki 225, Still looking very weak. The 2003 to 2007 move up looks like a rally in a bear market. Japan still has serious problems. Below Euro/Yen. Every time stock markets have sold off you see a rush to sell the Euro/Yen and then as markets recover money flows back to Euro. So far its held above the 1.52 level but this will break at some stage and we will see a massive opportunity to short the Euro and buy the Yen with a target of 1.40. This could be as soon as this summer.