The Insider Trader

Issue 61 May 2011

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)]

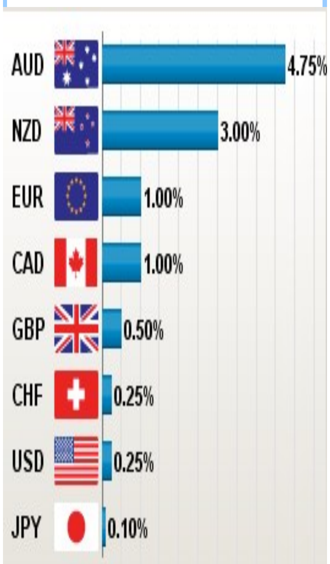
[Orange Juice (OJ)]

[Sugar (SB)]

Wheat

Cotton

Rough Rice



Extraordinary Popular Delusions & the Madness of Crowds

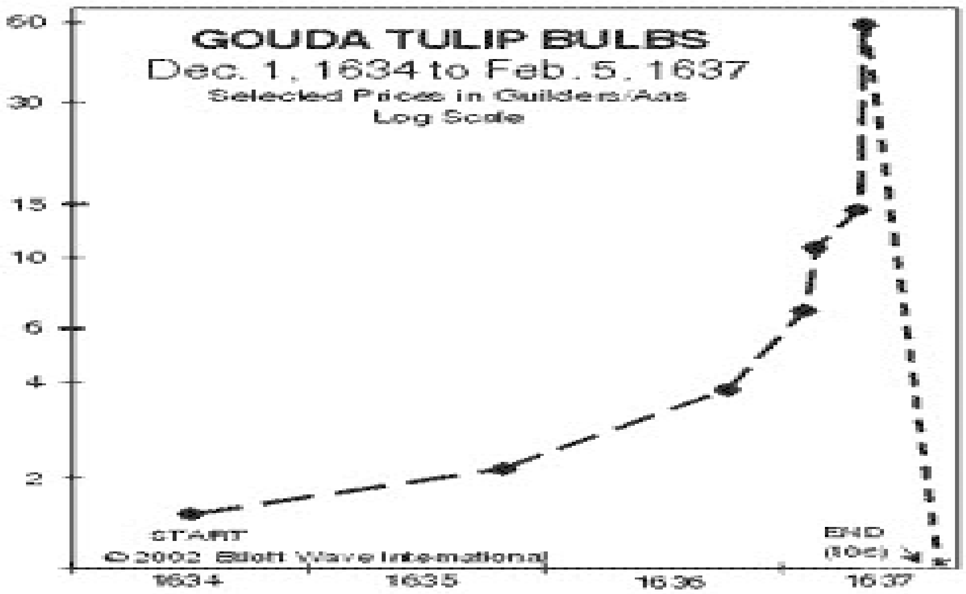
Extraordinary Popular Delusions & the Madness of Crowds is still as relevant today as it was when it was first written in 1841 by Scottish Journalist Charles Mackay. Another similar book written in 1895 is La psychologie des foules (The Crowd: A Study of the Popular Mind) by Gustave Le Bon a French social psychologist. Both books are still in print and easily available which is a testament to their popularity (also in Ebook format). Anyone involved in Financial Trading would be better rewarded spending more time studying psychology and less time reading or watching the latest news about the Dow or FTSE100.

The general theme of both books and my own experience of teaching people to trade is that otherwise intelligent individuals who normally have responsible day jobs i.e. lawyers, doctors or police officers to name a few, when they engage in a collective action or in masses become total idiots and get caught up in speculative frenzies.

People who work hard and many hours a day to earn an income then become reckless gamblers and lose all perception of the value of money when it comes to trading.

I am not a fan of chat rooms or forum's for trading as the truth is that no successful trader ever posts or spends time on a forum, therefore the collec-

At the height of the bubble, a tulip bulb flower could buy you a house by the canal in Amsterdam .... but at the end of it, the same bulb was worth pennies.



mass is made up of those that don't know anything, and those that think they know something but really they know nothing but I do like to browse some of these chat rooms occasionally as they can act as good contra indicators, see them as a modern day cave. **The more convinced the group are that something will happen the more likely that the opposite will occur.**

Youtube is another good contra indicator and an insight to mass psychology; just see how many clips have been posted about Silver in the last few months with why Silver was heading to $100 any day now.

A bubble or a mania is easier to spot after the event and the media is very good at explaining to you what just happened and being very wise after the event but there are normally a few signs.

More "media noise" is always a good sign and we certainly saw that with Silver over the last few months and Crude Oil back in 2008. It's true the crowd can remain irrational for a while but eventually the fundamentals always come back and you see a revision to the mean.

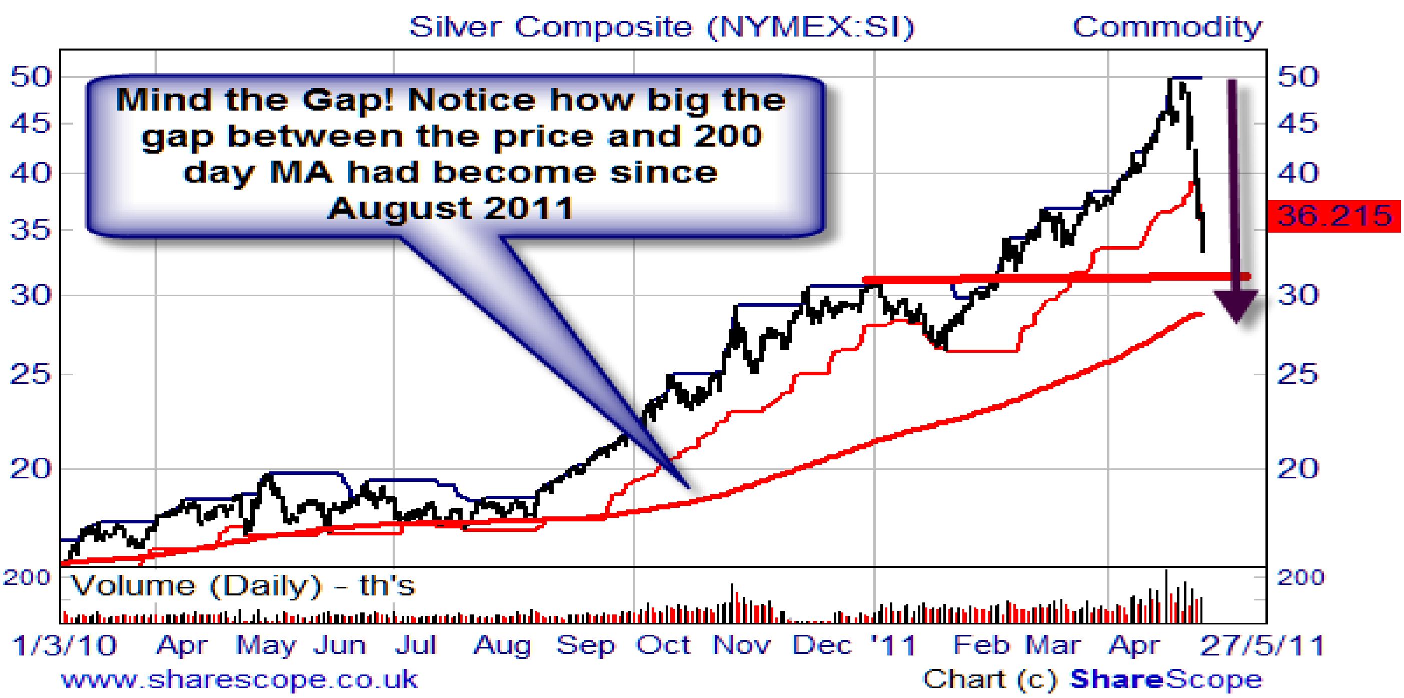
For years I have used the 200 day simple moving average as revision to mean. Whilst a price trading over the 200 day moving average is a bullish sign, a price way over the 200 day moving average is a warning and the further it moves away the more you should be worried.

The Price and 200 day moving average can move back into line in two ways a) The price goes sideways allowing time to pass and as such the moving average catches up and gets back into line or b) the price falls and then comes down to the 200 day MA.

In the case of Silver the price was recently at $50 with the 200 day MA was at $28, well you know what happened next, in a few days Silver crashed down and is most likely going to hover around the $28 level - If we look back at crude Oil in July 2008 we also see the same pattern, however, Oil whilst an extreme move was not as extreme as what we have just witnessed with Silver.

As I have been saying for years the price of anything whether it be a Faberge Egg, a house, a classic car, a painting or an ounce of Silver is only worth what someone is willing to pay for it.

There is a classic scene in the film Trading Places where Dan *Aykroyd* goes into a pawn shop



with his fancy watch which retails for over $6955 and can tell the time simultaneously in Monte Carlo, Beverly Hills, London, Paris, Rome, and Gstaad to which the pawnbroker replies " in Philadelphia its only worth 50 bucks!"

So how much is an ounce of Silver worth today? As much as someone is willing to pay for it.

Here is a link to the video clip:
http://youtu.be/pMz_sPs11HU

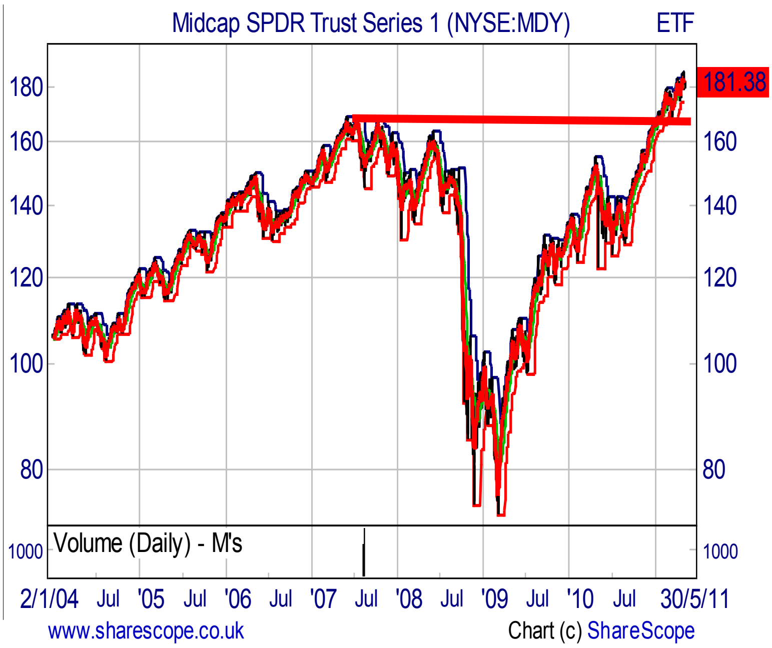
Sell in May and go away?

Most readers are familiar with the stock market saying "sell in May and go away" which is based on the historical tendency for stocks to generate most of their positive returns during the six-month period from November 1 through April 30.

Since 1950, the Dow Jones Industrial Average has appreciated 7.4% on average during this favourable period, versus only a 0.4% average return in the May 1 through October 31 period so the argument is why bother taking the extra risk for such a small return and not just take the cash a park it away safely after all you can make more on a cash deposit?

Of course seasonality is a guide not a guarantee and markets can be distorted by factors such as Quantitative Easing (QE) but I am not expecting a surprise announcement to be repeated like last August.

The stock market (and I refer to US stocks) has been very strong in the favourable six-month period just ended. The Dow gained 14.5% from November 1 through April 30. The S&P400 also known as the Midcap index did even better gaining a staggering 22.5%. The Midcap can be traded via an ETF such as (NYSE:MDY) which recently made an all-time high but gets very little press. In the UK the FTSE250 would be a similar comparison which many do not realise can be traded via a spread bet and via an ETF (LSE:MIDD) but back to seasonality.



May has started off a bit weaker and after the recent strong run it should not come as a surprise if we do get a sell off and overall the major indices drift and then we see markets pick up again with a strong year-end rally. Of course the whole stock market does not stop we still have plenty of opportunities in individual shares and sectors. The sectors that tend to do better over the May to October period no surprise are the more defensive sectors such as consumer staples (NYSE:XLP), Healthcare (NYSE:XLV) and Utilities (NYSE:XLU). I would stay away from Energy (NYSE:XLE) and Metals and Mining (NYSE:XME) for at least the next few months.

ETF Leaders and Laggards

On the next page you will see leading and trailing ETFs so far this year. You will see 4 healthcare ETFs in the top 10. I like the **Powershares small cap Healthcare** (PSCH) as well as the Powershares Dynamic Healthcare (PTH) featured in the March edition. The Ishares Medical devices is also at a near all time highs (NYSE:IHI)

Powershares small cap Healthcare (PSCH)

To the right you can see the top holdings in this ETF. Many of the individual shares can also be spread bet however as these companies can be volatile buying the ETF spreads your risk as some of these companies are prone to big moves. Short term we could see a pullback in this ETF maybe 10% down but the overall trend remains bullish. This area should see more merger and takeover activity. **Dionex Corp** was recently taken over by Thermo Fisher (NYSE:TMO) for $118.50

ETF Laggards

Uranium URA is the biggest loser so far this year after the Japan Nuclear disaster. Holding up better is NLR which is down 10%. Whilst short term some nuclear energy projects will be put on hold the facts remain that Nuclear is a viable, clean and safe way to generate energy. Thinking 7 to 10 years out at the these depressed levels a small investment should do very well. Sometimes you have to buy the most hatted sector, Remember I was buying Tobacco in 2000 when that sector was hated.

Year-To-Date Performance Leaders		YTD Return
UGA	United States Gasoline Fund	+28.7%
BNO	United States Brent Oil Fund	+23.5%
SIVR	ETFS Physical Silver	+22.8%
SLV	iShares Silver Trust	+22.5%
DBS	PowerShares DB Silver	+21.8%
PSCH	PowerShares S&P U.S. SmallCap Health Care	+19.6%
JO	iPath DJ-UBS Coffee	+19.0%
FXH	First Trust AlphaDEX Health Care	+17.9%
XBI	SPDR S&P Biotech ETF	+16.7%
IHI	iShares DJ U.S. Medical Devices	+16.6%

Year-To-Date Performance Laggards		YTD Return
URA	Global X Uranium Equities	-30.6%
EGPT	Market Vectors Egypt Index	-28.1%
SGG	iPath DJ-UBS Sugar Commodity ETN	-27.6%
INP	iPath MSCI India Index Fund	-12.2%
EPU	iShares MSCI Peru Index	-12.0%
HDGE	AdvisorShares Ranger Mgmt Active Bear	-11.1%
UNG	United States Natural Gas Fund	-10.1%
NLR	Market Vectors Nuclear Energy	-10.1%
VNM	Market Vectors Vietnam	-10.0%
EPI	WisdomTree India Earnings Index	-9.9%

data through: May 09, 2011

› Top Holdings

Fund Holdings subject to change

Regeneron Pharmaceuticals Inc.	5.66%	HMS Holdings Corp.	3.20%
AMERIGROUP Corp.	4.98%	Dionex Corp.	3.05%
HealthSpring Inc.	4.16%	Cubist Pharmaceuticals Inc.	3.04%
Salix Pharmaceuticals Ltd.	3.44%	Centene Corp.	2.58%
American Medical Systems Holdings Inc.	3.37%	Haemonetics Corp.	2.54%

As of 5/9/2011