The Insider Trader

Issue 74

May 2012

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)]

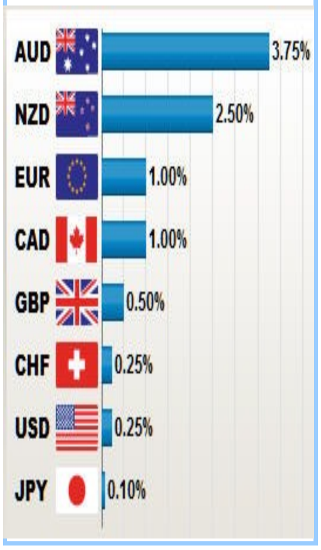
[Orange Juice (OJ)]

[Sugar (SB)]

Wheat

Cotton

Rough Rice



Sell in May and Go away- will it work again this year?

> *"If past history was all there was to the game, the richest people would be librarians."*
> **Warren Buffett**

It's that time of year when the well-worn trading saying "Sell in May and go away" comes out.

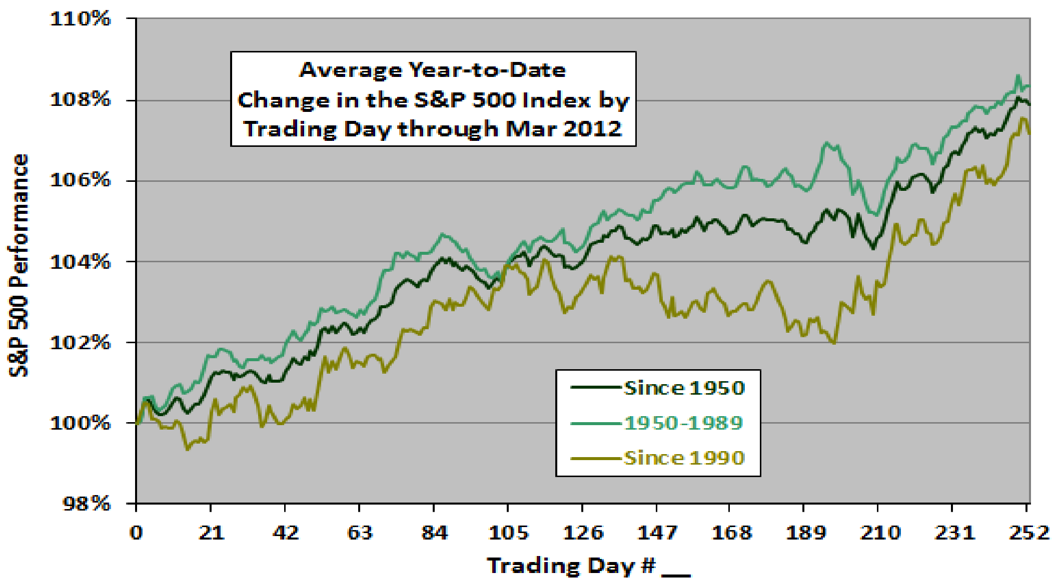
Most readers will have heard of the stock market saying 'sell in May and go away', which is based on the historical tendency for stocks to generate most of their positive returns during the six-month period from 1 November through 30 April.

According to the Stock Traders Almanac, if you went long the market on Nov. 1, 1972, and spent 37 years selling all of your holdings on April 30, then re-buying on Nov. 1 and doing it all over again, you would have earned an average annual return of 7.4%. If you would have done the reverse — buy in May and sell in November — your return would be a measly 0.4% over the same 37 years. Whilst 7.4% may not sound very exciting remember you were out of the market for 6 months so much less risk and you could place your money in other assets during that period.

Of course nothing is ever assured in financial markets and I like to say "seasonality is a guide not a guarantee" but there is plenty of evidence backing up the sell in May mantra.

Unlike many trading systems that have ambiguous rules, it's not that difficult to back test a seasonality system with a fixed entry and exit date rule.

Seasonality studies going back to 1950 - As you can see the market gains come in the first 90 and last 40 trading days of the year. Whilst some say seasonality no longer works the last 20 years still shows that the pattern is working.



Selling in May 2010 and 2011 both worked very well and kept you out of trouble. 2009 did not work well but if you recall that was when the US Federal Reserve started quantitative easing which helped to pump up markets over the summer so it was hardly a typical year.

Of course as investors we don't get paid for the past so the question is what next?

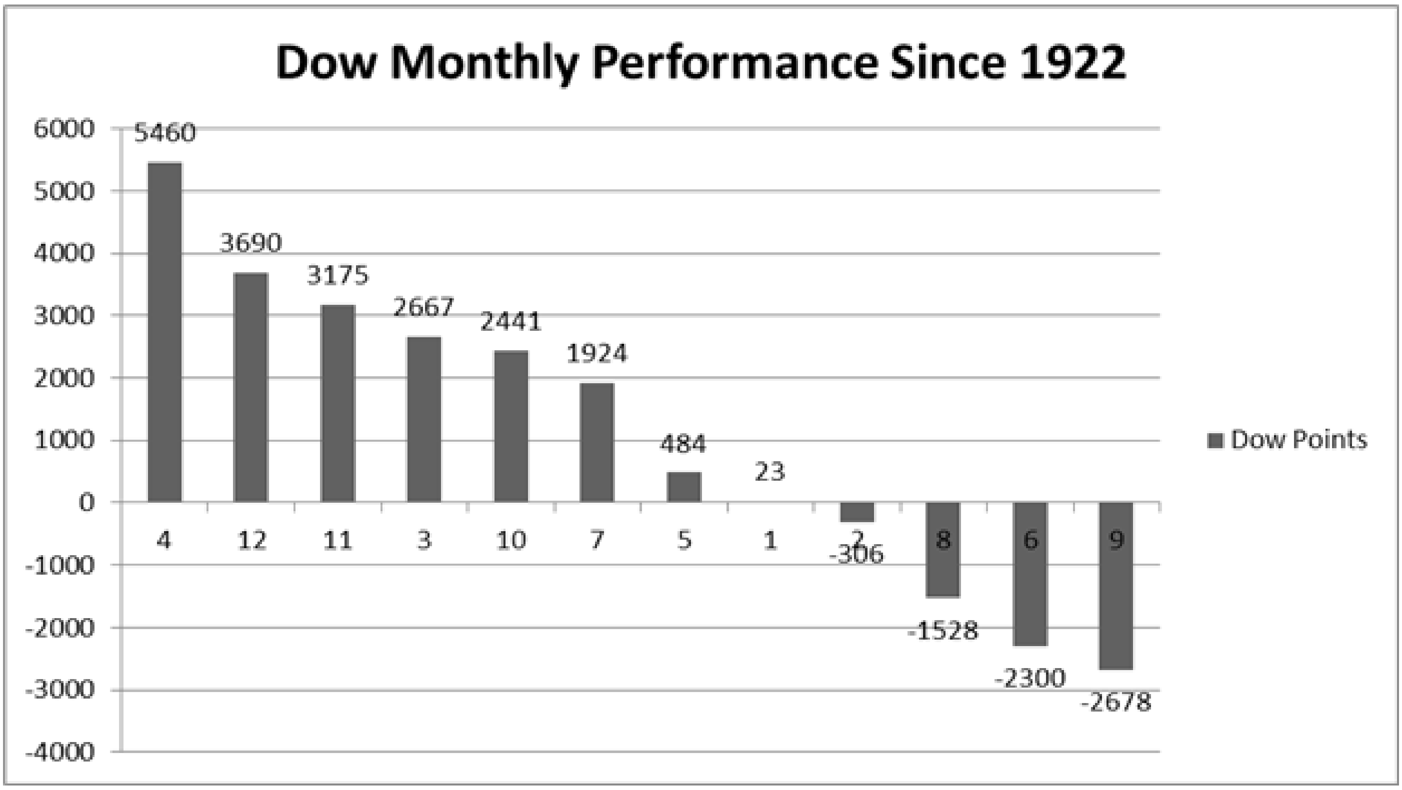
2012 is a US presidential election year so the seasonality pattern could be affected by any shock announcements but so far markets have been so strong in 2012 I don't see why the Fed needs to do anything in the next few months. I think that the overall US indices will stay in a trading range over the next few months before the next run up. So far this year markets have been very strong with the S&P up 11% and the NASDAQ100 up 20% thanks to the big move in Apple and other technology shares.

Whilst overall bullish it seems to me that markets have got ahead of themselves and a summer selloff and pause is highly likely and investing less over the next few months would not be a bad idea. I then see September to mid-December being very active again.

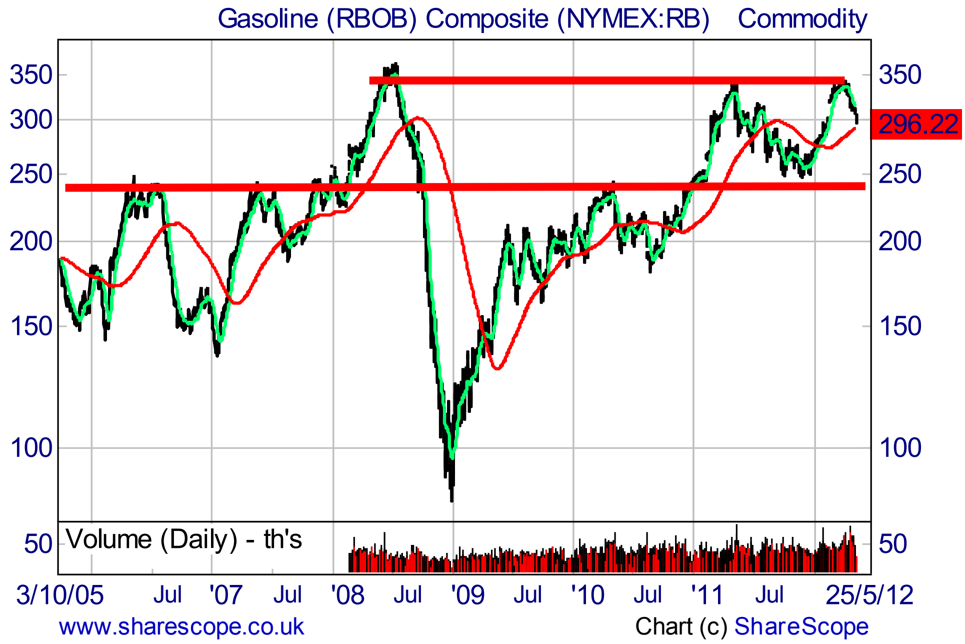
Of course the whole stock market does not stop, so there are still plenty of opportunities in individual shares and sectors both long and short. It's no surprise that the sectors that tend to do better over the May to October period are the more defensive sectors, which can also be accessed via a spread bet or contract for difference (CFD) on ETFs, such as consumer staples (NYSE:XLP), healthcare (NYSE:XLV) and utilities (NYSE:XLU). Telecom shares such as Dow veteran AT&T (T) should also hold up well in the next few months and they pay a large dividend, currently yielding 5.3%. I own T in my Dogs of the Dow strategy.

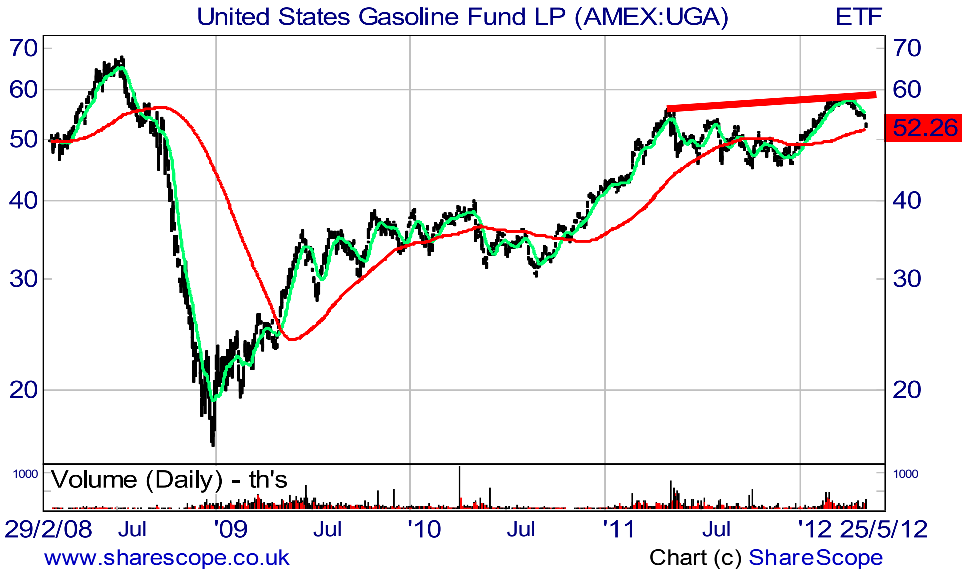
What I do expect is nearer to the election to see some pressure on Oil prices and Unleaded Gasoline, if Obama wants to get re-elected he needs to get Gasoline prices down in the run up to the election. WTI Crude is currently at $106 and taking into account the current demand supply for Oil I am amazed its anywhere over $100. The main factor holding Oil over $100 is a risk premium coming from Iran and other possible conflicts in the coming months but taking that out I see a WTI of nearer $80 by November than $110.

Below: The number represents the month of the year so 4= April, 12 = December. If you had bought the 1st day of April and sold the last each day each year you would have gained 5460 points so in point April has been the best followed by December. The worse is September.



Unleaded Gasoline (not to be confused with Gas) is a hard market to trade and makes very erratic moves so it's not for the faint and should under no circumstances be traded with a spread bet. There is a UK ETF but that's thinly traded so is not much better than spread betting and I am not a fan of the firm behind it which is UK based ETF Securities. This leaves one US listed ETF which is AMEX: UGA and there are options traded on that ETF. The ETF is up 17% so far this year and I am looking for all of those gains to be reversed in the coming months with the ETF trading nearer to $45. You could look at a Put option with October 2012 expiration around the $50 strike. The spread is fairly wide but would come in closer to expiration.





Metals and Mining

I would stay away from energy (NYSE:XLE) and metals and mining (NYSE:XME) for at least the next few months. Gold and Silver are both looking weaker and I expect to see lower prices into September and then we may have a buying opportunity

As I stated in my recent update any rumours or suggestions that there is some shortage of gold and silver is just propaganda put out by dealers with too much stock on their hands. With the exception of a few gold coins (I will be giving one away at my seminar) I cashed out all my Gold last year and put it all into stocks. Of course at some stage

Gold may look more attractive but for now it's not part of my portfolio. Silver also remains full of small speculators that cannot afford Gold so they buy Silver instead and is breaking down.

ETF Round up Year to Date

As you can see Vietnam has been the best ETF so far this year however it had a terrible year in 2011 so is more of a bounce than a strong up-trend. FBT is a good way to back biotech and spreads your exposure. EGPT is similar to VNM where it had a terrible 2011 so more of a bounce than a great trend.

Year-To-Date Performance Leaders		2012 Return
VNM	Market Vectors Vietnam	+39.7%
FBT	First Trust NYSE Arca Biotechnology Index	+32.9%
EGPT	Market Vectors Egypt Index	+31.9%
ITB	iShares DJ Home Construction Index	+31.3%
GXG	Global X Interbolsa FTSE Colombia 20	+27.8%
EPHE	iShares MSCI Phillipines	+27.2%
XHB	S&P Homebuilders SPDR	+25.8%
TUR	iShares MSCI Turkey	+24.2%
THD	iShares MSCI Thailand Index	+23.9%
KBWB	PowerShares KBW Bank Industry	+20.7%

Year-To-Date Performance Laggards		2012 Return
UNG	United States Natural Gas Fund	-36.5%
JO	iPath DJ-UBS Coffee	-25.1%
EWP	iShares MSCI Spain Index	-17.1%
GDX	Market Vectors Gold Miners Equity Index	-14.3%
FAN	First Trust ISE Global Wind Energy	-13.5%
PSAU	PowerShares Global Gold & Precious Metals	-12.0%
KWT	Market Vectors Solar Energy	-11.9%
TAN	Guggenheim MAC Global Solar Energy	-11.5%
JJS	iPath DJ-UBS Softs Sub-index	-11.4%
GDXJ	Market Vectors Junior Gold Miners	-11.1%

data through: May 04, 2012

On the short side Natural Gas has been a disaster for the bulls. Gold and mining stocks have missed out on the recent up move in stocks. GDX is back to 2010 prices. Since launching in 2006 the Gold Miners index has been a poor investment and the GDXJ the Junior version has crashed back to its launch price. As I have warned before there is a big difference between buying a mining share and the price of Gold and just because Gold goes up 100% over the last few years it does not mean your mining stock will.

Powershares KBW Bank Industy ETF (AMEX: KBWB)

This is a fairly new ETF and up 20% so far this year. KBWB gives you a way to get exposure to banks including some of the smaller regional US banks and tracks the KBW bank index of 24 stocks as show opposite. I am still wary of US banks but they are certainly in better shape than they where a few years ago.

That's it for this month, look forward to seeing you on the 25th May where I bring you right up to date with my views and investments, it's going to be a great 2 days.

Top Fund Holdings (%)

Name	Weight
JPMorgan Chase & Co.	8.71
Bank of America Corp.	8.66
Citigroup Inc.	8.06
Wells Fargo & Co.	7.58
U.S. Bancorp	7.06
Capital One Financial Corp.	4.77
Huntington Bancshares Inc.	4.50
Regions Financial Corp.	4.43
BB&T Corp.	4.02
PNC Financial Services Group Inc.	3.98
M&T Bank Corp.	3.98
Suntrust Banks Inc.	3.96
Comerica Inc.	3.80
Zions Bancorp	3.53
Fifth Third Bancorp	3.48
Keycorp	3.31
The Bank of New York Mellon Corp.	2.88
New York Community Bancorp Inc.	2.80
State Street Corp.	2.38
Commerce Bancshares Inc.	2.06
Cullen/Frost Bankers Inc.	1.96
Northern Trust Corp.	1.55
Peoples United Financial	1.47
First Niagara Financial Group Inc.	1.07