The Insider Trader

Issue 97 November 2014

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)

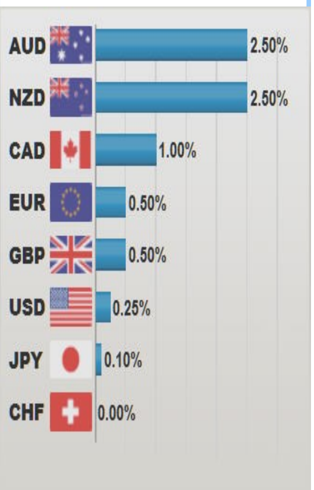
Coffee (KC)

Sugar (SB)

Wheat

Cotton

Rough Rice



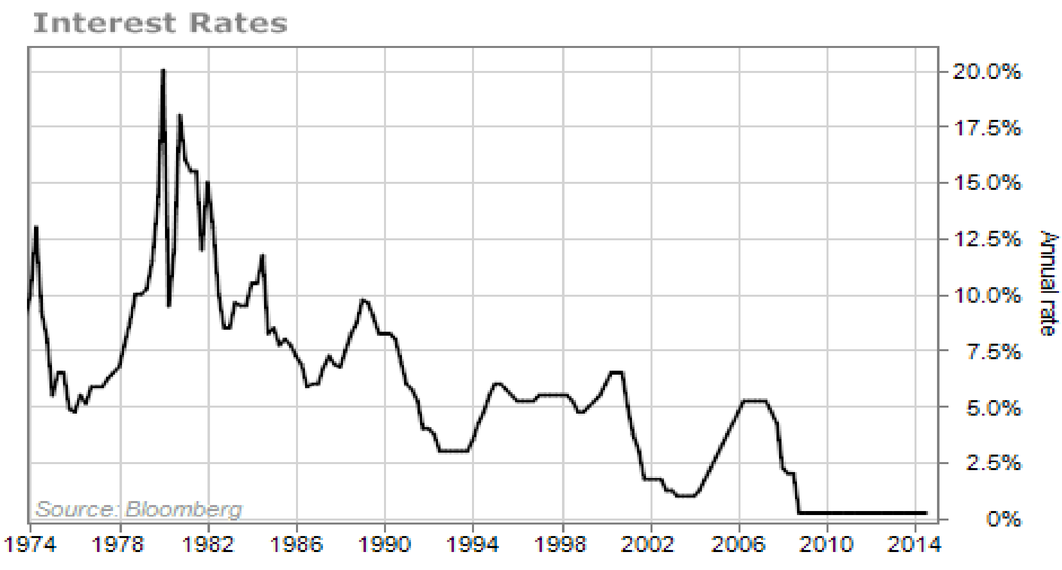
Don't Worry Be Happy – Markets are going higher

As we come towards the close of another profitable year with the US major indices up again and sitting at near all time highs I still sense there is a feeling of distrust in this bull market and that as soon as we get any sort of a small pullback the headlines quickly change to "stockmarket crashing" or "the party is all over" I am no fan of business television or their related websites on the whole the only purpose they serve are as contra indicator and whilst I am sure Shakespeare was not talking about Business TV when he wrote *"It is a tale. Told by an idiot, full of sound and fury, signifying nothing"* it certainly sums up what these channels are about.

I also think Charles Dickins tale of two cities also sums up the recent market action *"It was the best of times, it was the worst of times, it was the age of wisdom, it was the age of foolishness, it was the epoch of belief, it was the epoch of incredulity, it was the season of Light, it was the season of Darkness, it was the spring of hope, it was the winter of despair, we had everything before us, we had nothing before us, we were all going direct to Heaven, we were all going direct the other way"*

Whilst I do ware glasses I assure you they are not rose tinted, I am not some perma bull that always says markets will go higher and have made plenty of money on short trades, however I also invest on what I see and overall being invested in the US stockmarket is the right thing to do and in I see higher prices in 2015. I believe the biggest risk in 2015 is actually not being invested in the market and

US Interest rates may go up 0.25% in 2015 but hardly going to make you rush out and put your money on deposit at those rates



many of the market bears and grumpy market commentators are those that are watching prices going higher and don't want to admit they are wrong. Overall Spread Betting customers are a good contra indicator and they continue to bet for Wall Street to be lower. It's important not to get caught up in the sensational headlines such as "Dow crashed 500 points" with the Dow at 17,000 that is a 3% not the same as a 500 point move when the index was 3,000.

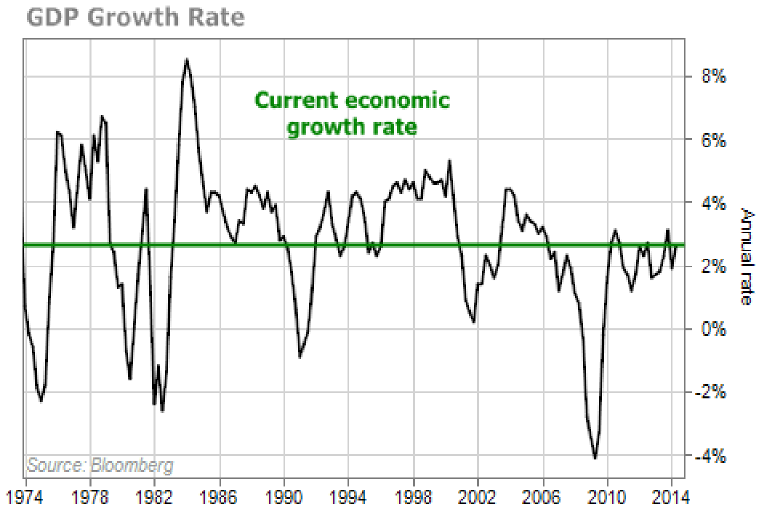
I am in a position where I get to see client accounts daily and get feedback from some very wealthy investors and overall they are still holding large amounts of cash, earning zero interest, at some stage they will have to start investing more and reducing those cash levels which will be another positive for the markets.

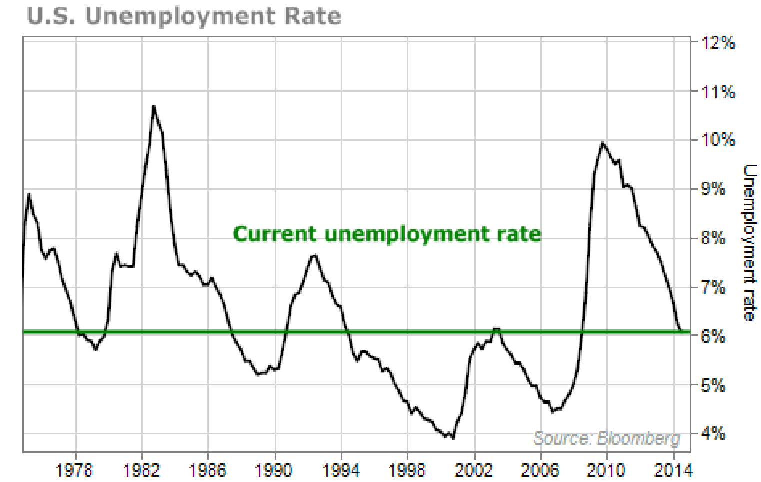
US Economy remains in good shape

As we enter into 2015 overall I see many positives for the US stockmarket and the US Dollar, now I am not looking for some mega stockmarket melt up (but you never know) rather I am looking for a good steady move in markets that will see stocks 7 to 12% higher by the time next year. Larger gains can be achieved in special situations, such as mergers, takeovers and individual stocks. There will still be plenty of opportunities to go short even if I am overall bullish on the markets.

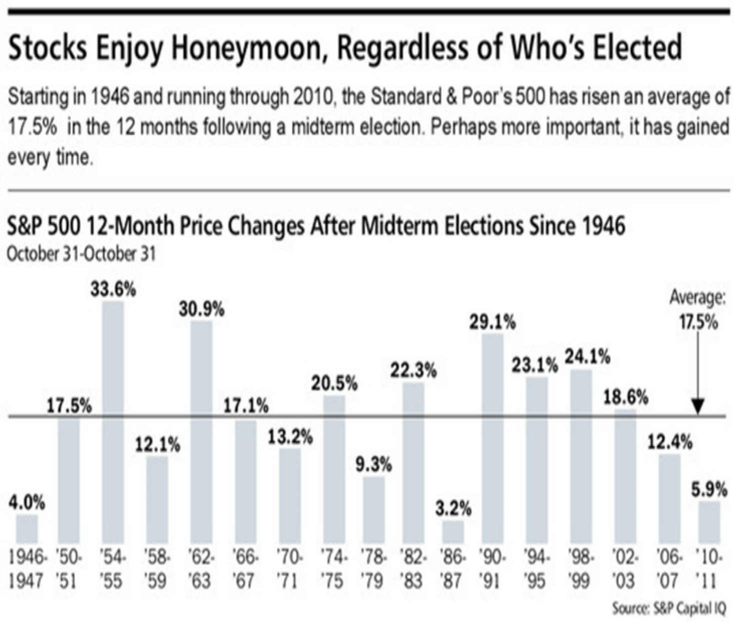
Next year is an odd ending year, which means it's a non-election year which tend to do better than even ones, it's also the 3rd year of the presidential cycle which have been strong. As the graph to the right shows the odds of markets being higher on the 31st October 2015 are near 100%

Interest rates remain low and they are not going to soar higher anytime soon, yes they may go up 0.25% in 2015 but that is not going to stop the bull market in stocks. With GDP sitting at around 2.5% US growth is not strong enough for the FED to increase rates at the same time the economy is moving up and does not need stimulating, the classic **"not too hot not too cold"** which is a good backdrop for a steady market.





Unemployment is returning back to more normal levels, of course if you look at hourly wages and number of hours worked they are still fairly weak but overall the unemployment rate is looking good, without putting pressure on employers to increase wages.



Consumers are happier

Remember the US market is consumer lead, so it's important that the consumer feels happier and is willing to shop at the same time we don't want a reckless credit fuelled consumer. Lower oil prices lead to lower gasoline (petrol) which puts money back into consumer's pockets. <u>I do believe that US retail sales for December are going to be far better than most expect</u> which is way I remain bullish on retail stocks like **KORS, SKX, TIF,SIG and FL,** of course we will know in a few months time.

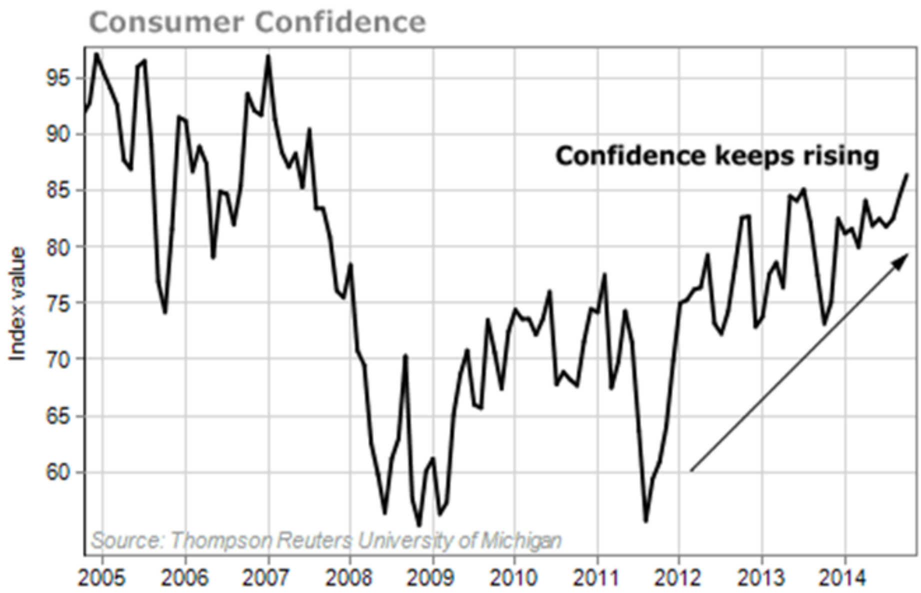
We can also see the Purchasing Managers Index (PMI) recently up to 59 is also a bullish indicator showing private businesses are spending money and investing.

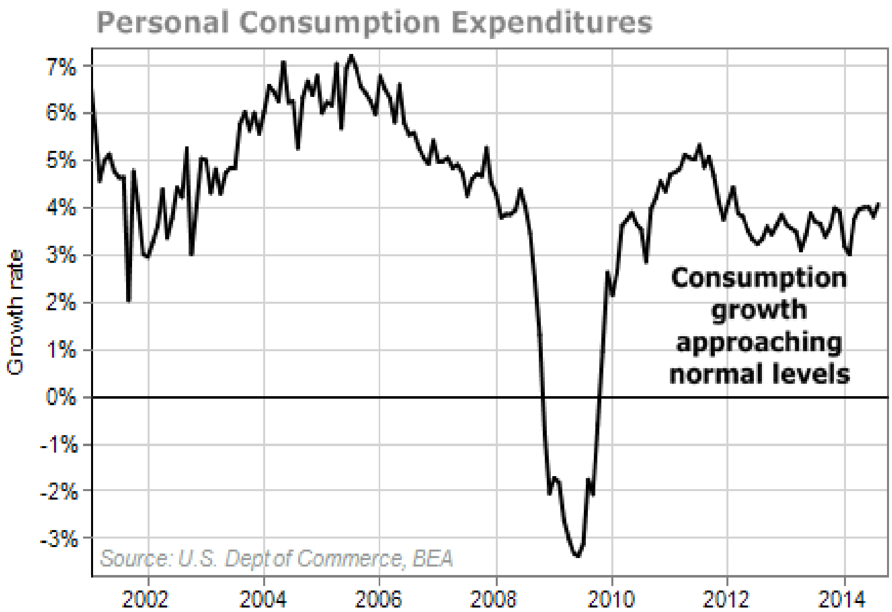
US Dollar

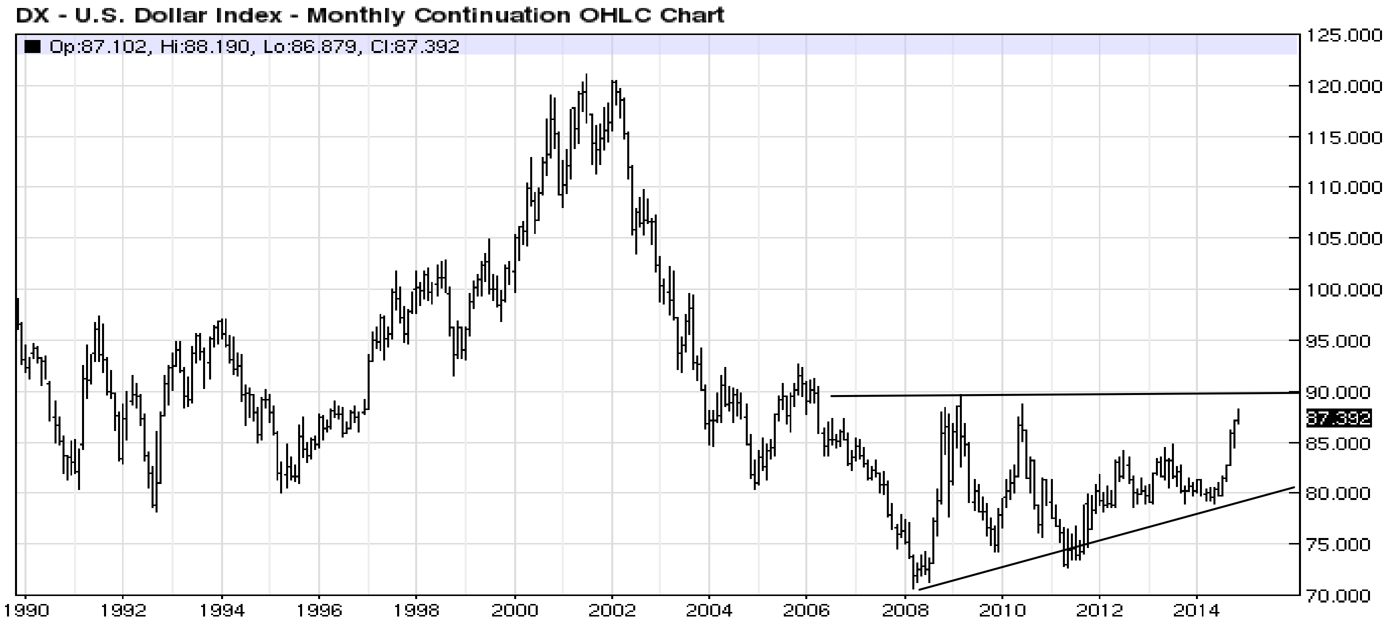
With the backdrop of what I have outlined with the Eurozone ready to start its own Quantitative Easing (just as the US is stopping) then the US Dollar stands to have another good year in 2015. Japan is ready to let Yen continue to weaken and we have already seen the Yen weaken against the US$ and the GBP. If you are reading this chances are you already own US$, personally I have over 80% of my personal wealth in US dollar assets and I think that should give you an idea of who comfortable I am with the US$ and to be clear I don't live in the US.

How to get exposure to the US$

Well owning US$ stocks gives you US$ exposure, you can also look at an ETF (again buying it in US$) such as the UUP which covers the US Dollar Index or if you want to be more aggressive you can look at







US DOLLAR INDEX: 25 years of ups and downs in the US$. US$ starting to make a comeback as Euro and Yen weaken, we could see 90 and then to 100 within the next 12 to 18 months. This is not an overnight trade, you can look at the UUP ETF which tracks the US Dollar Index.

at the **Euro Short ETF (EUO)** or **Short the YEN via (YCS)** just to be clear these are inverse ETFs so you would buy them and they go up and the currency falls.

You can read the EUO factsheet here: http://www.proshares.com/funds/euo.html

And the YCS is here http://www.proshares.com/funds/ycs.html

Exhibit 1: We expect the euro will fall to parity vs. the dollar by year-end 2017
as of September 18, 2014

Source: Goldman Sachs Global Investment Research.

Goldman Sachs recently issues a forecast that the Euro would get back to parity against the US$ by 2017. For a currency to move 20 to 25% is a big deal and will not happen overnight but it is possible for the Euro to weaken to this level which would take us back to rates seen in 2002.