

## 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](#)



# The Insider Trader

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## Hold your nose and get back into stocks

Back in May when I started reducing risk, getting out of stocks and moving into Treasury Bonds it seemed like a strange move akin to taking an umbrella with you on a bright sunny day, however, after a near 20% fall from the May highs and a summer most investors would want to forget; reducing stock market risk and buying treasury bonds did not turn out to be such a crazy idea. The TLT ETF soared 30% leaving many scratching their heads especially after US debt rating was downgraded.

But now it's time to put that umbrella away and get back into stocks and sell out of your Treasury Bonds safety blanket. I know it feels wrong but it always does when you're going against the crowd. Humans on the whole like to be popular and like to be part of the crowd but history shows the majority of the

Below the next 6 weeks will see a flood of US earnings which will give us a better picture of what is really going in the US economy. Overall I am looking for most companies to do better than expected.



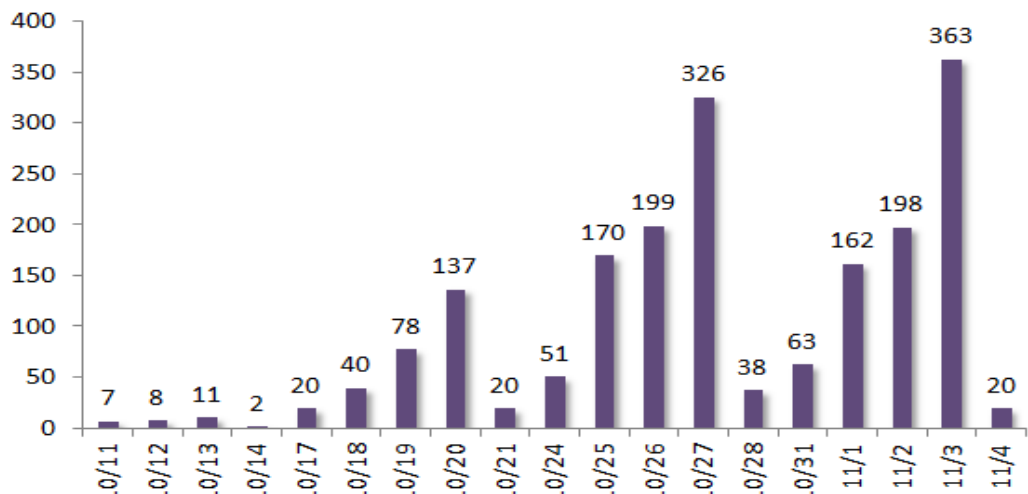
crowd do not make money, so if you want to be a successful investor you have to be able to take a contra view.

Fund managers are bearish, politicians are panicking and the retail investors have given up, yet US companies are in great shape and as earnings come out over the next 6 weeks we will see that many have under estimated how profitable major US companies are.

### Why I am buying the Russell 1000

Whilst I will still be trading individual companies, right now the easiest and quickest way to get exposure to stocks is by buying

### # of Earnings Reports by Day This Earnings Season



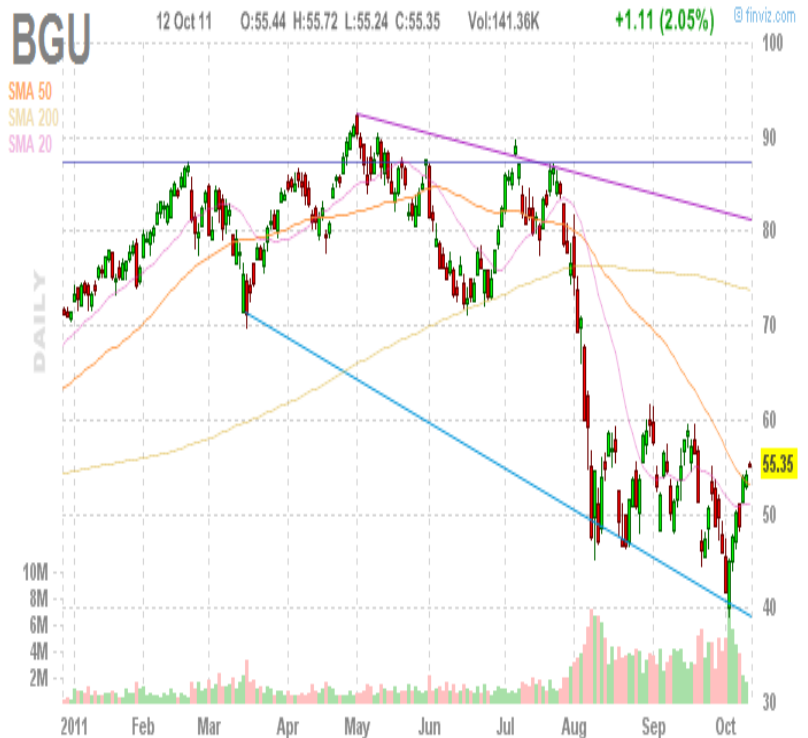
the Russell 1000 Exchange Traded Fund. I will give you two versions depending on your risk appetite, one with no leverage and one with 300% leverage.

The Russell 1000 is an index which makes up around 93% of the US market, the current top holdings are: Exxon Mobil Corp, Apple Inc, International Business Machines Corp, Chevron Corp, Microsoft Corp, Johnson & Johnson, Procter & Gamble Co, General Electric Co, AT&T Inc and Pfizer Inc all of which are household names and can easily be spread bet in their own rights. These are all multi-national companies and most are due to report earnings in the next 6 weeks.

The plain version is **Vanguard Russell 1000 ETF (VONE)** this is a relatively new ETF and offers a very cost effective way to get in and out. Management fees are 0.12% a year which puts it into the lowest ETF fee category. The ETF is bought and sold like a normal share. Yes you can also trade options but I just looked at the prices and I don't see good value. Options on Leveraged ETFs tend to be expensive and not that well traded. The most traded and liquid Index option is the SPY followed by DIA and QQQ.

Now for the turbo charged version; **Direxion Large Cap Bull X 3 (NYSE:BGU)** Based on the same Russell 1000 index BGU aims to make 300% of the daily gain or loss. So if the Russell is up 2% in a day this ETF will be up just under 6%, the management fees are much higher 0.95% a year until March 2012 and then it moves up to 1.28% (I actually read the prospectus). This is not ideal for long term holders; the VONE is more for long term investments.

Short term BGU can give you a better gain and the daily reset as long as market's move upwards fairly steadily daily can work in your favour. The liquidity is massive on this ETF and it's common to see 4 to 5 million units go through a day so you can easily buy and sell with fairly tight spreads normally 1 or 2 cents. **Do be aware of the risk in a 300% leveraged daily reset ETF and only allocate risk capital. Remember it cuts both ways.**



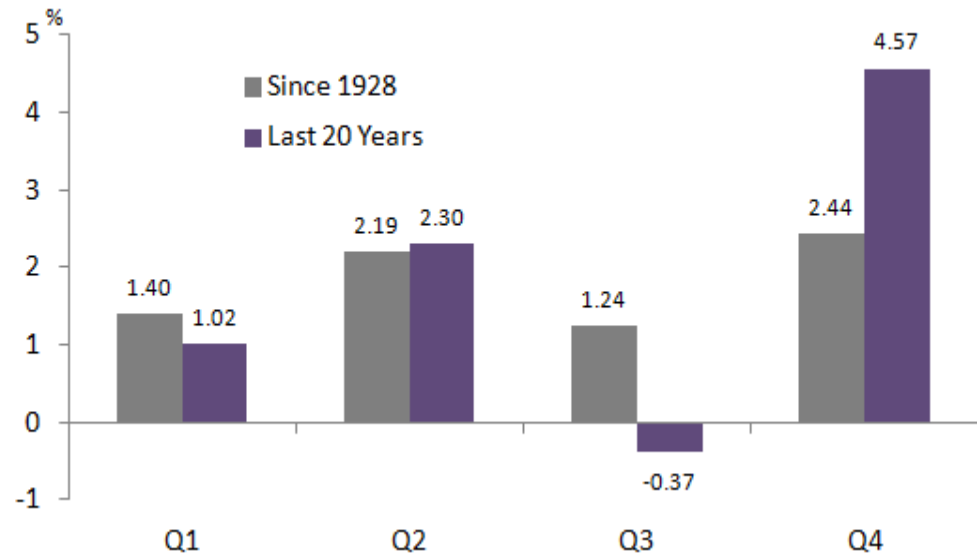
Above: Russell 1000 ETF with 300% leverage (NYSE:BGU). Below the top 10 holdings in the index

Ten largest holdings and % of total net assets <sup>4</sup>	
Exxon Mobil Corp	2.9%
Apple Inc	2.2
International Business Machines Corp	1.5
Chevron Corp	1.5
General Electric Co	1.4
Microsoft Corp	1.4
AT&T Inc	1.3
Johnson & Johnson	1.3
Procter & Gamble Co/The	1.3
Pfizer Inc	1.2
Top ten as % of total net assets	16.0%

Seasonality goes bullish

Those that have followed me for many years will know I am a fan of seasonality and that the most bullish quarter of the year is now upon us. Seasonality is a guide not a guarantee but so far 2011 has really followed the seasonal pattern well, with highs being made in May and lows made in September. If we follow the seasonal pattern then we should be up at around 5% between October and the first few days of January. Whilst it will be foolish to think that the road ahead is going to be smooth and easy, the odds of markets beginning higher by the year end are fairly high. It is also fairly probable that the recent market volatility which has caused even the old timers to feel queasy with massive intra-day swings has likely passed and I expect the Volatility Index to start coming down. Those wanting to profit from lower volatility can look at buying the XIV ETF which moves the Inverse of the VIX. Some spread betting companies also offer a bet based on the VIX futures. As the chart shows the XIV has had a terrible run as the VIX has been soaring the last few months but if markets do calm a little as I expect the XIV could have a great quarter and the VXX should drop.

Average S&P 500 Quarterly Change (%)



## Top 40 Stocks so far year to date

As you can see from the list Health Care stocks lead the top 40 so far this year. I have striped out a few very small cap companies and ETFs. Most of these stocks can be traded via a spread bet and the they can all be bough and sold via any discount broker. When you get in to the \$10 and under stocks it normal makes sense to just buy the stock. **Dominos Pizza** (DPZ) has been one of my top holdings and still is and continues to trend well also **JAZZ** has been in a fairly steady (for a bio-tech stock) and I own a small amount. Don't forget to look at the list I posted in the September edition as you will find some very valid trades and some overlap. Whilst the media is doom and gloom I see plenty of opportunities .

### 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 Traded Funds or shares 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.

Stock	Company	Sector	Price	YTD % Chg
VRUS	Pharmasset Inc	Health Care	80.74	270.71
AMPE	Ampio Pharmaceuticals	Health Care	7.47	211.25
GMCR	Green Mountain Coffee	Cons. Staples	92.06	180.16
MAKO	MAKO Surgical Corp	Health Care	36.70	141.13
MDW	Midway Gold Corp	Materials	1.93	129.85
LQDT	Liquidity Services Inc	Technology	31.55	124.56
JAZZ	Jazz Pharmaceuticals	Health Care	41.66	111.69
GLNG	Golar LNG Ltd	Energy	31.32	109.20
QCOR	Questcor Pharmaceuticals	Health Care	30.46	106.79
HNSN	Hansen Medical Inc	Health Care	3.02	102.68
PCYC	Pharmacyclics Inc	Health Care	11.95	96.55
BLTI	Biolase Technology Inc	Health Care	3.30	94.29
ULTA	Ulta Salon Cosmetics	Cons. Discret.	65.58	92.88
REGN	Regeneron Pharmaceuticals	Health Care	63.02	91.96
ONTY	Oncothyreon Inc	Health Care	6.14	88.34
STMP	Stamps.com Inc	Technology	24.72	86.57
PSMT	Pricesmart Inc	Cons. Staples	70.57	85.56
ARIA	Ariad Pharmaceuticals Inc	Health Care	9.40	84.31
RGR	Sturm Ruger & Co Inc	Cons. Discret.	27.12	77.37
CLUB	Town Sports International	Cons. Discret.	7.12	75.37
IPGP	IPG Photonics Corp	Technology	55.02	74.00
CPHD	Cepheid Inc	Health Care	39.51	73.67
EGHT	8x8 Inc	Telecom	4.11	72.69
LVLT	Level 3 Communications	Telecom	1.69	72.45
HCCI	Heritage-Crystal Clean	Industrials	17.26	71.57
ATRO	Astronics Corp	Industrials	32.20	70.09
DK	Delek US Holdings Inc	Energy	12.27	68.54
CBST	Cubist Pharmaceuticals	Health Care	36.02	68.32
COG	Cabot Oil & Gas Corp	Energy	63.62	68.08
BTH	Blyth Inc	Cons. Discret.	57.92	67.98
TSRX	Trius Therapeutics Inc	Health Care	6.22	67.65
DPZ	Domino's Pizza Inc	Cons. Discret.	26.63	66.96
SUG	Southern Union Co	Energy	39.99	66.14
VSEA	Varian Semiconductor	Technology	61.41	66.11
SCSS	Select Comfort Corp	Cons. Discret.	15.07	65.06
HANS	Hansen Natural Corp	Cons. Staples	86.05	64.59
CALP	Caliper Life Sciences	Health Care	10.42	64.35
ALXN	Alexion Pharmaceuticals	Health Care	65.18	61.84
CV	Central Vermont Public Service	Utilities	35.15	60.80