The
Insider Trader
Issue 12
October 2007

When Money isn't worth the paper it's written on

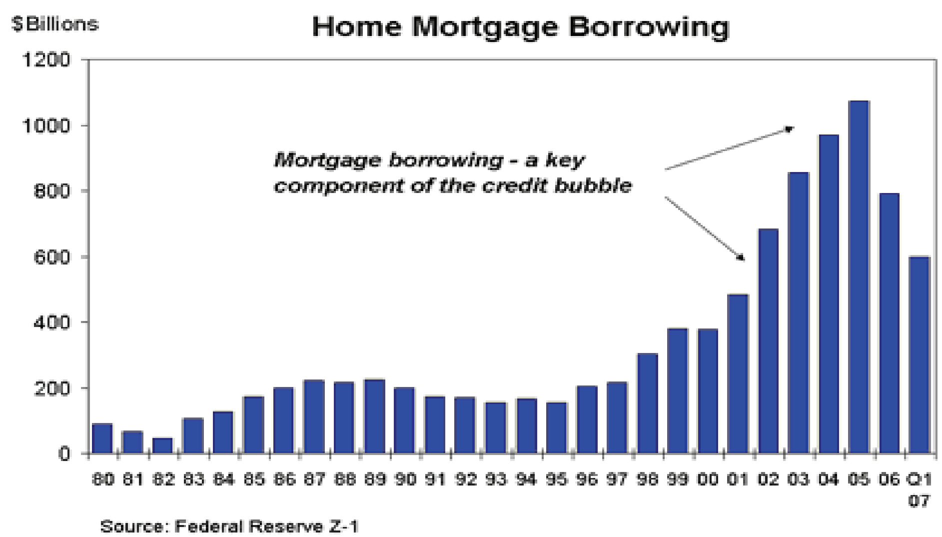
Readers will know that since 2002 I have been bearish on the US Dollar and bullish on Commodities. With commodities at least you're getting something "real" for your money rather than a paper IOU note. 5 Years on and I am even more bearish now than I was then on the US Dollar. The recent cut in US interest rates by 0.5% was in my view a big mistake.

I tune into CNBC the business channel from time to time to get a feel of what the so called 'professionals' are saying and I use it as a great contra indicator. Well, after the 0.5% cut the channel was in a party mode, "It's just what the US economy needed" and "A great day for America," really? I think not. A quick fix yes, a solution - no way. All the rate cut does is gives the junkies another quick fix which will not solve US problems. The truth is that the US did not need to cut by 0.25% never mind about 0.5%.

What you have witnessed was not an interest rate cut it was currency devaluation and from a country and a currency which is meant to be the central banker of the world, it's worrying to say the least. The Fed has now made it clear it has no interest in protecting the US Dollar and will just keep printing money. My advice to anyone holding US Dollars or US Dollar denominated assets is to sell them as the clock is ticking or at least hedge your exposure.

For years countries with weaker currencies and unstable economies would have a second economy based in US$, we have all seen pictures of the old lady standing on the street corner offering to exchange Russian Rouble to Safe US dollars. Interesting

Below US Home Mortgage Borrowing (see last months edition) This is how many in the US and UK survive, by extracting equity from their homes. The banking and real estate problems are far from over.



Markets at a glance

***Trendspotter Signals** (click on links)*

Dow Jones (DJ)
Buy

S&P 500 (SP)
Buy

FTSE 100 (X)
Buy

DAX (DY)
Buy

£/US$ (BP)
Buy

US Dollar Index (DX)
Sell

Crude Oil (CL)
Buy

Gold (GC)
Buy

Coffee (KC)
Buy

Orange Juice (OJ)
Buy

Sugar (SB)
Buy

Wheat
Hold

Dates to Watch
October 2007

19th Oct futures and options expire

27th– end of seasonal weak period

CENTRAL BANK RATES

NZD	8.25%	AUD	6.50%
GBP	5.75%	USD	4.75%
CAD	4.50%	EUR	4.00%
CHF	2.75%	JPY	0.50%

that its less than 10 years since the Russian Rouble was collapsing, now its hitting a new high against the US$. Could we see a stampede to convert those dollars back to Roubles? Well the way the Dollar is going you're safer in Roubles at present.

The US Dollar Index which is a basket of currencies against the US Dollar is at or near a 15 year low and whilst you may get a few short term bounces over the coming weeks, the Dollar is still going lower, and bar the Fed increasing interest rates which I think is highly unlikely, I can see this index continuing its drop. Another 20% fall is not out of the question.

For the foreseeable future the US Dollar is in a downward trend. My favourite currencies are the Canadian Dollar, Australian Dollar, Singapore Dollars and Norwegian Kroner. Of course the Pound and Euro are also by default going up, remember, it you sell Dollars you have to buy something else but I am worried about the Pound and Euro longer term. For now it's a case of the best of a bad bunch.

The temptation for Central banks is to do the same as the Fed and devalue the Euro and the Pound. Already The Bank of England is under pressure to cut rates. There is no reason why the UK should cut rates in fact another 0.25% increase would be the correct move and holding base rates around 6% is hardly historically high.

So, what about the Stock Market - it's hitting new highs?

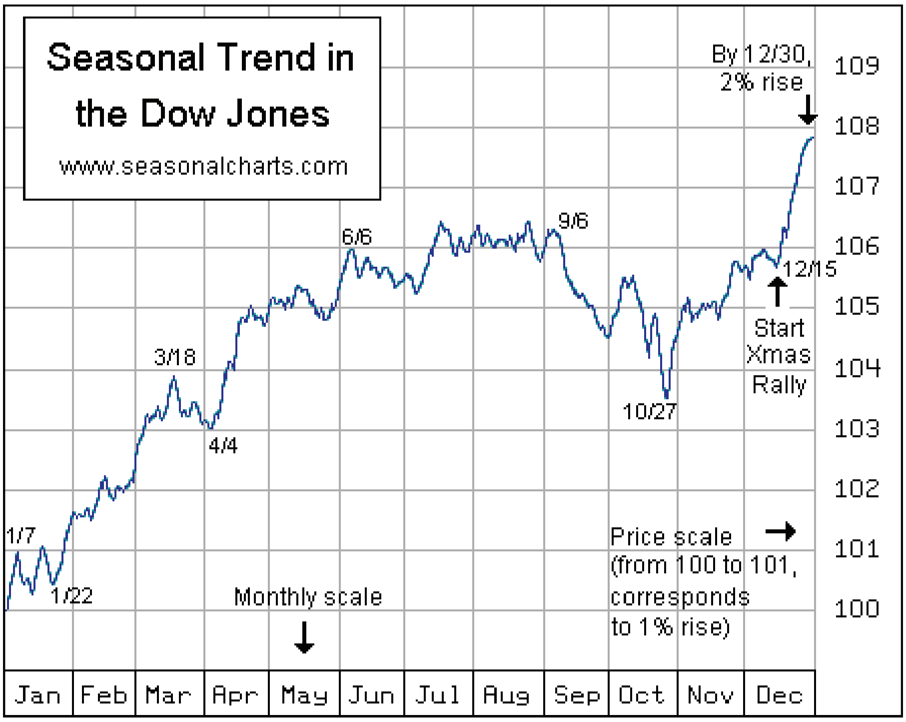
For most traders the Stock Market is still the Dow Jones when in reality the SP500 is a better measure.

Let me demonstrate how the recent Dow Jones high is not all that it appears. Let's say you bought the Dow 10 years ago in 1997 and just held it. You would have made 79% -not great, but an average 7.9% p.a return. Now, if you had made your investment

is about 1%.

So be careful when you read headlines about new highs - they are nominal highs.

So far seasonality has not worked well this year. September and October are normally weak



months for the stock market**. <u>If you sold on the 5th September and bought back on the 27th October every year going back to 1900 you would have beaten a buy and hold strategy by around 3,000%</u>**, of course we could still see some sharp moves down towards the end of October/first week of November. We then move into a seasonally bullish and safe time of the year.

What is today's best investment and how to protect yourself from worthless paper?

The answer is simple: Gold and a basket of commodities

The Gold standard was replaced by Nixon in the 1970s. He basically replaced the Gold Standard with the 'Dollar Standard.' But the dollar is just printed paper which can be printed in any amount. You just turn up the printing press until one day you have so many dollars in circulation that it becomes almost worthless.

If every dollar must be backed by a certain amount of gold, then you cannot create money out of thin air. The gold standard says you must have the gold first. Governments find it harder to wage war, dole out entitlements and build public works with a gold standard tying them down. Banks can't lend as much money; hence they can't make as much money.

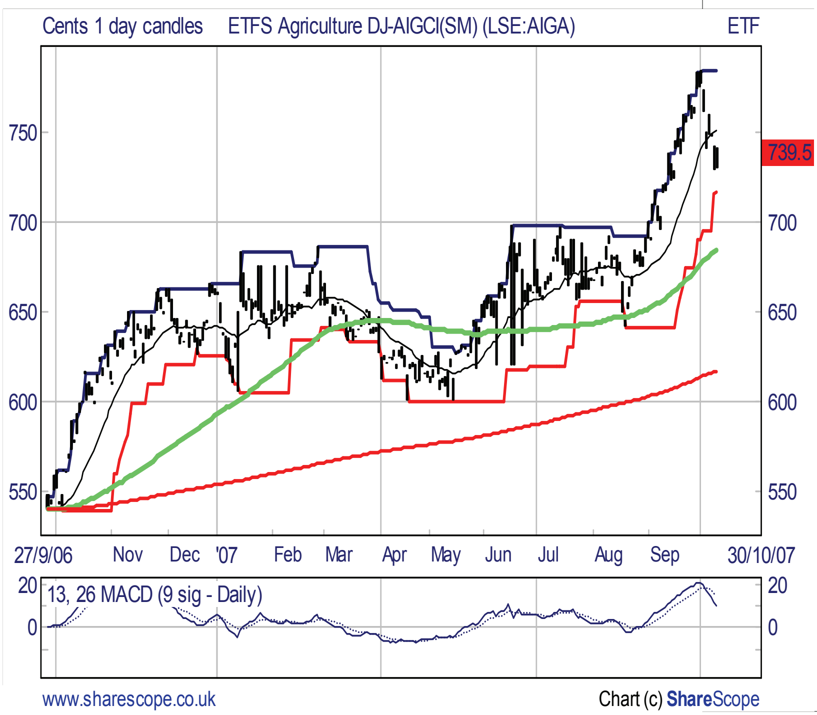
This is why the US backed the creation of the Federal Reserve.

Today you have various ways to invest in Gold, ranging from Spread Betting to buying physical bars. Which ever way you trade, having an exposure to gold over the next 5 to 10 years will not be a bad move. Also, think about opening bank accounts in other currencies other than £ or Euros.

Whilst commodities have had a very strong run over the last few years, its still not too late to get an exposure to commodities. The easiest and cheapest way to get exposure is a Commodity exchange traded fund such as those offered at www.etfsecurities.com

The ETFS All commodities (AIGC) would give you a good diversified spread of commodities. ETFS also offer a vast selection of individual commodities including Gold.

Below: ETFS Agriculture, up over 35% in the last 12 months. Currently having a pause put longer term still very bullish. Food prices will continue to increase for many years to come.



Of course we will get swings in commodity prices but over the next 5 years I see no reason why the bull market should end. If we say that this bull market started in 2000, on average a bull market in commodities lasts 20 years, so it's not too late. Another way to build up an exposure to commodities is to buy a set amount every month.

Gold Mining Shares (Junior)

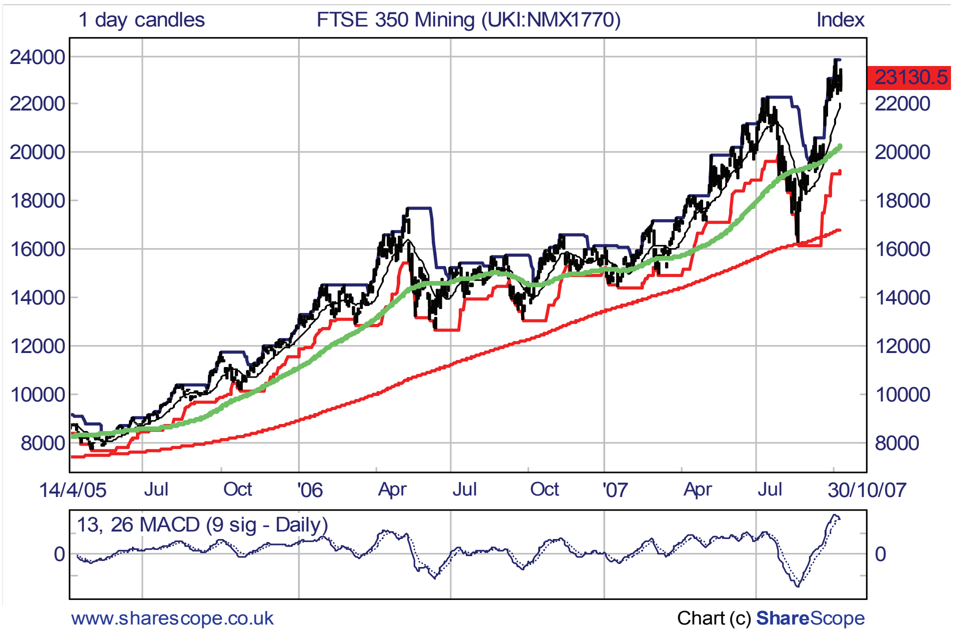
The last few months have seen a massive run up in the major commodities mining companies such as BHP, Rio, Lonmin and Anglo American, however, the smaller companies have been ignored. Whilst it's true that junior mining companies carry a high risk they can produce spectacular gains. I think we will see some attention move into the smaller well managed mining companies, where we also have potential take over action. It's easier to buy mining growth than go out and start a new mine. As I write, Celtic Resources are under a take over offer. **We could see a big round of takeovers in the coming 12 months as the Big fish eat up the little fish.**

A few of the other mining companies I like include **Ridge Mining (RDG)** trading at the £1.00 level. Ridge focuses on platinum, nickel and associated metals with three main projects in South Africa.

Eastern Platinum (ELR) £1.12 is a Canadian company and is UK AIM listed so it can be traded easily. The share price is up over 100% so far this year but it still has a long way to go. This company reminds me of Aquarius Platinum (AQP) which took some years to get going but once it did it went from £3.00 to £18.00 in less than 2 years.

The final one is **European Nickel (ENK)** at 45p. These shares have gone from 60p down to 30p and now back to 45p. As you can guess from the name, it's a Nickel miner with projects in Turkey, The Philippines, Serbia and Montenegro. Whilst the price of Nickel has recently come off its record highs of $50,000 a tonne to $30,000 the demand for Nickel remains strong and even if prices went lower the company can still make a good profit.

Whilst the media focuses on China as the big user of metals and of course it is, we must not forget that other countries such as India, Brazil, Russia and Eastern Europe are all in major re development stages.



That's it for this month, wishing you a successful trading month.

FTSE 350 Mining index showing the success of the BIG Fish global mining companies such as Rio, Lonmin and BHP. Look for some of the smaller companies to start seeing some of the good news spill over.

New Financial Trading London

November 19th 2007

Make sure you keep this date free. I will be holding my only Financial Trading **seminar/day** for the rest of this year and the foreseeable future. I will contact you shortly with details on how you can attend. This is a brand new day where I will be discussing a new way of trading (not spread betting) which has been making massive returns on of currencies, commodities and shares.