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)]

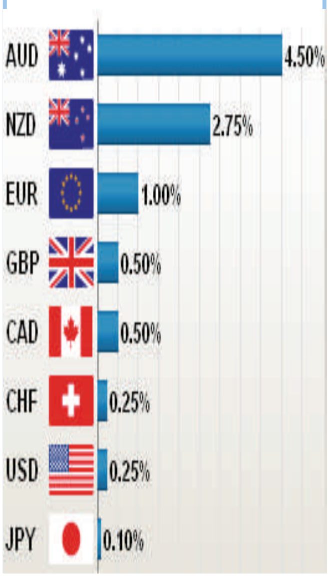
[Orange Juice (OJ)]

[Sugar (SB)]

[Wheat]

[Cotton]

[Rough Rice]



The Insider Trader

Issue 54 October 2010

Mid Term Elections – Bullish or Bearish For Markets?

It only seems like yesterday that the US was having its general election yet it's now almost two years on and it's time for the mid term elections. Whilst the president will not change the power of Congress - the two houses of the US legislature are very likely to change with the Democratic Party losing its majority in both houses.

This is important as it now means that the Republicans will be able to block new government legislation if they oppose it, the term of what is coming is known as "gridlock". What this means is that for the next two years it's not going to be as easy to pass new legislation unless both parties agree.

For most US based companies it's not the economy that has been the only worry, it's not the economy that has been the only worry, it's been the unpredictability of legislation coming out of Washington that has caused them to be cautious in taking new staff on and expanding.

Is this good or bad news for markets?

Well history shows that gridlock is not that bad for the stock market. Congressional change has happened six times since 1950 and the 12 months following have seen an average 11% gain for the S&P500. (Source Compustat and Goldman Sachs Global Research)

Below : 4 Year Election Period. So far the Midterm year (2010) has been flat and next we have the pre-election year which tends to be strong.

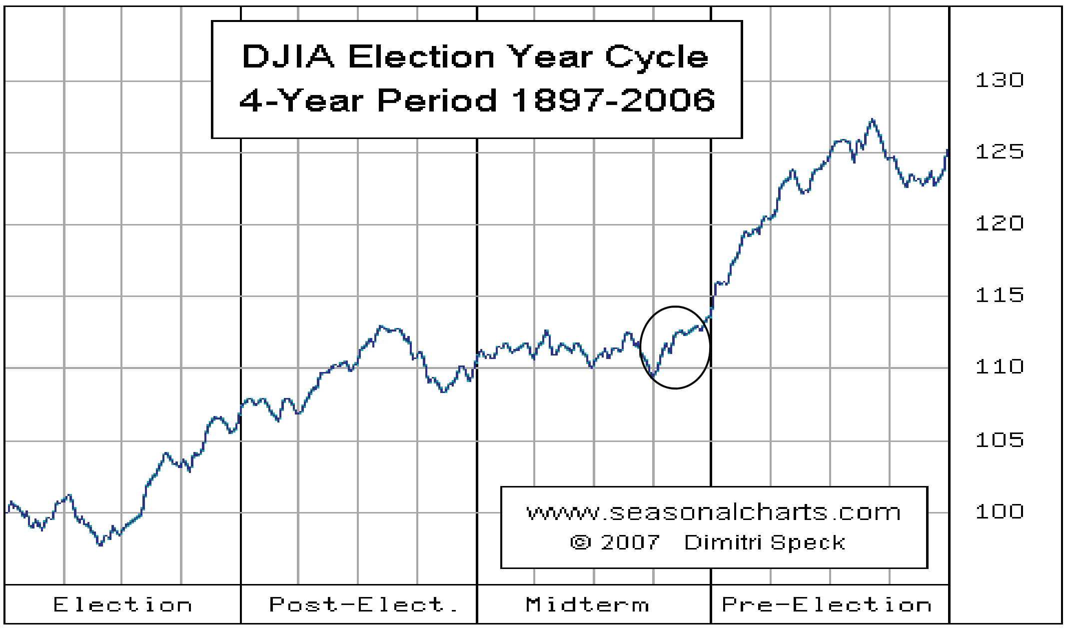
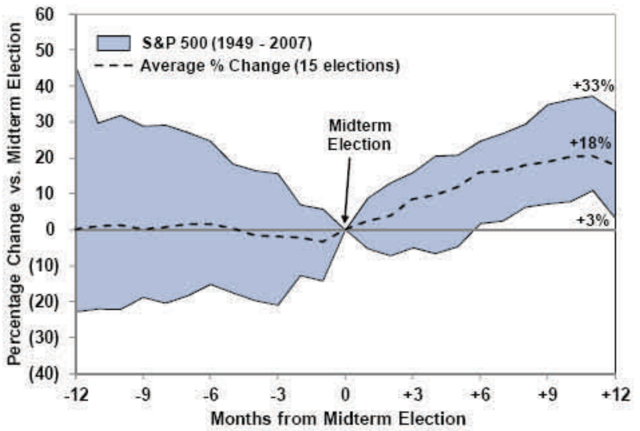
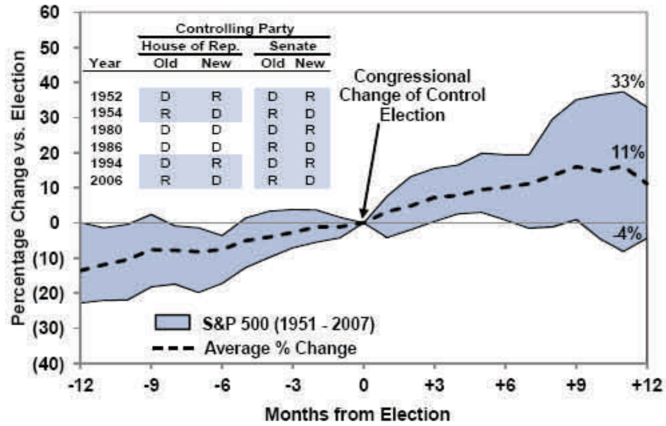


Exhibit 1: The S&P 500 averages 18% in the year after midterm elections
as of September 29, 2010



Source: Compustat and Goldman Sachs Global ECS Research.

Exhibit 2: Congressional change of control has happened six times since 1950
as of September 29, 2010



Source: Compustat and Goldman Sachs Global ECS Research.

The 3rd year of the presidential election cycle which is 2011 is a bullish year regardless of congressional change with an average 18% gain in the S&P500 (1949 to 2007)
Of course, other factors can easily throw this bullish bias off course but we also have the seasonal stock-market bullish period just starting which would give added support to stocks until at least the end of April 2011.

Just to recap, stocks make most of their annual gains between November and May each year. If you had invested $10,000 in 1950 and just stayed in the Dow Jones Industrial Average between 1st of November and 30th April you would have made $464,305 or an average return of 7.1% had you done the exact opposite and invested on 1st May until 31st October and stayed out of the good period you would have lost around $1,000 - so as you can see a very big difference.

We also have the US Federal Reserve making it clear that they will do anything to stimulate the economy and more quantitative easing is certainly due in the next 12 months and whilst the longer term effects of money printing is very worrying, shorter term it could give markets a short term sugar rush high. **Remember if the Dow Jones goes to 50,000 but the value of paper money becomes worthless then what have you gained? Stocks in Zimbabwe went up x100 times but not in real cash. See old youtube clip**
http://www.youtube.com/watch?v=a0adIEsqDF4

What to Buy?

I would look at good quality multi nationals that are paying dividends. As interest rates remain at historic low rates and bonds are barely keeping up with inflation I see a big move into dividend paying stocks in the coming months. One way to play this would be a good ETF such as the Vanguard Dividend Appreciation ETF (NYSE:VIG) which holds well known names that have a history of increasing dividends such as PepsiCo Inc, McDonald's Corp, Coca-Cola Co, Chevron Corp, Procter & Gamble Co, International Business Machines Corp, Exxon Mobil Corp, Wal-Mart Stores Inc, Johnson & Johnson and Abbott Laboratories.

Another possible is the **SPDR Consumer Staples (XLP)** which has a good spread of well known names including Phillip Morris Intl, Proctor & Gamble and Wal-Mart. As well as paying the 2.7% a year dividend you have exposure to emerging markets growth and potential dividend increases that are above inflation. Most spread betting companies offer this and many other SPDR ETF sectors as spread bets going as far as March 2011.

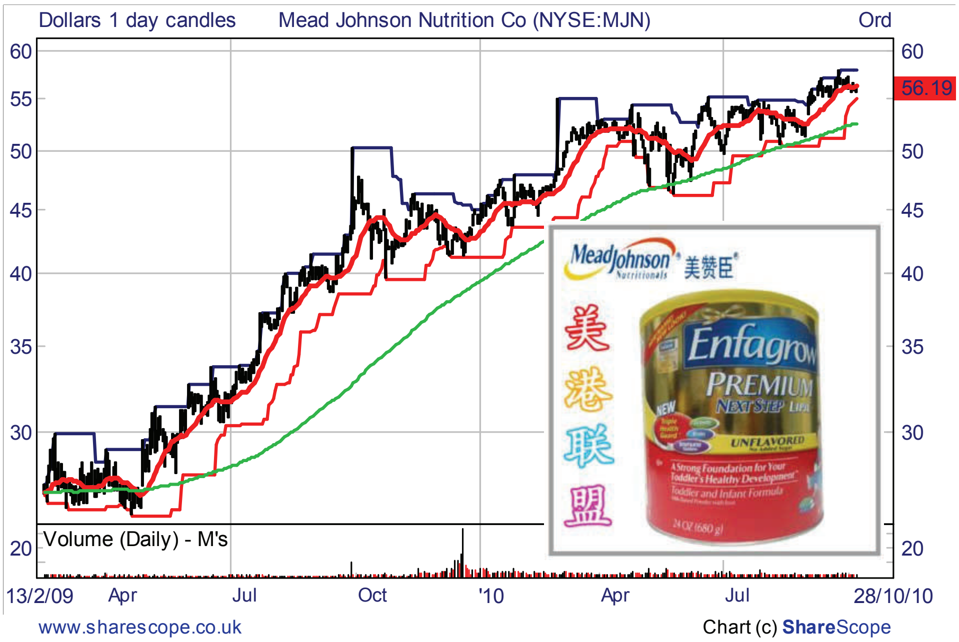
One stock I have been buying (also available as a spread bet) is **Mead Johnson Nutrition** (NYSE:MJN) which was spun out of Bristol Myers Sqibb (BMY) in February 2009. As the chart shows it's been in a very good up trend and up 89% but I see more potential. MJN is a leading pediatric nutrition company and owns the Enfamil infant formula which is seeing strong growth in Asia and emerging markets.

Market Vectors Brazil Small Cap (NYSE: BRF)

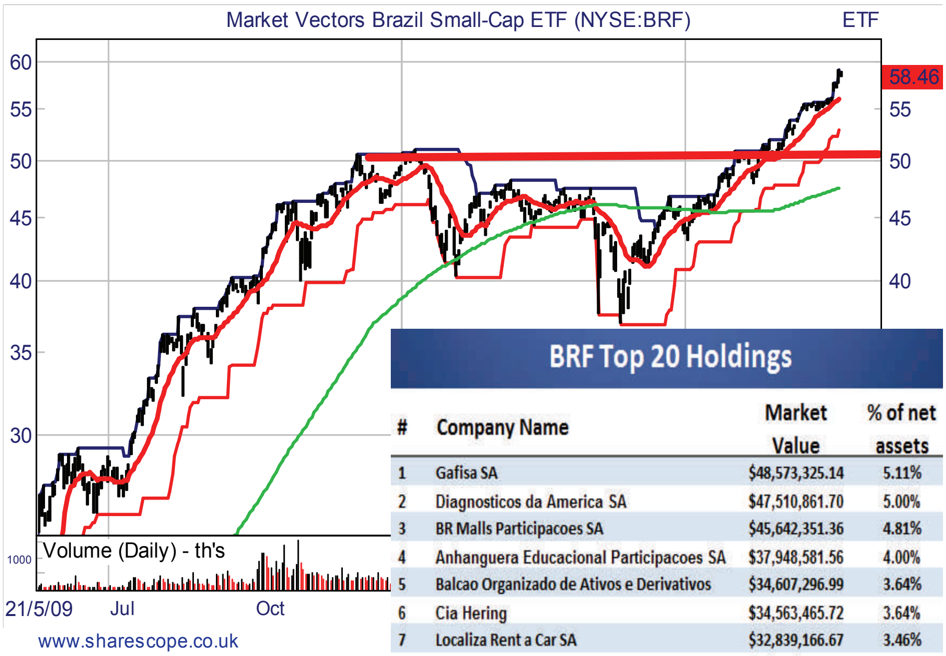
As stated in various past issues I have been a fan of Brazil for some time. My interest moved to smaller Brazilian companies and the launch of the BRF by Vaneck was well timed. Since the launch the ETF is up around 125%. Whilst we could see some short term pull backs the Brazil story remains intact and I really see no change. In the past I have used the EWZ Ishares Brazil because that was the only choice. EWZ is very heavily weighting to Pertrobras and mining stocks, where as BRF has a better spread of companies and smaller companies which will see higher growth hence I favour BRF over EWZ.

Brazil will be hosting the 2016 Olympic games and I see no reason for continued growth to continue until at least then and the BRF could gain 100% over the next 5 years and average 20% a year return is something not to be sneezed at.

On the Subject of ETfs it does not seem like a day goes past without a new ETF being launched. I have found Vaneck do come up with some great ETF ideas (I don't get paid to push say that) with keeping an eye on the www.vaneck.com site to see which new Etfs they are issuing. One Market Vector India Small cap (NYSE:SCIF) was launched on the 1st September and has not had that much press yet, if this follows the BRF could see some good games in the next 12 months.



Mead Johnson (NYSE:MJN) continues its strong growth into emerging markets with its Enfamil products.



Another more recent ETF issuer is Globalx see www.globalxfuds.com that have also come up with great niche ETFs such as Lithium (NYSE:LIT) and the China Sector ETFs.

BRF Top 20 Holdings

#	Company Name	Market Value	% of net assets
1	Gafisa SA	$48,573,325.14	5.11%
2	Diagnosticos da America SA	$47,510,861.70	5.00%
3	BR Malls Participacoes SA	$45,642,351.36	4.81%
4	Anhanguera Educacional Participacoes SA	$37,948,581.56	4.00%
5	Balcao Organizado de Ativos e Derivativos	$34,607,296.99	3.64%
6	Cia Hering	$34,563,465.72	3.64%
7	Localiza Rent a Car SA	$32,839,166.67	3.46%
8	Tereos Internacional SA	$30,505,917.55	3.21%
9	TAM SA	$30,171,568.89	3.18%
10	Totvs SA	$27,691,037.23	2.92%
11	Magnesita Refratarios SA	$27,364,455.23	2.88%
12	Rossi Residencial SA	$25,347,394.50	2.67%
13	MMX Mineracao e Metalicos SA	$25,278,005.11	2.66%
14	Cosan Ltd	$23,291,553.75	2.45%
15	Sul America SA	$21,905,040.19	2.31%
16	Amil Participacoes SA	$21,240,427.30	2.24%
17	Brookfield Incorporacoes SA	$18,764,734.93	1.98%
18	Klabin SA	$18,065,333.57	1.90%
19	Odontoprev SA	$17,520,165.48	1.84%
20	BR Properties SA	$15,692,121.75	1.65%
21	Randon Participacoes SA	$15,294,875.89	1.61%
22	B2W Cia Global Do Varejo	$15,295,750.00	1.61%
23	Cia de Saneamento de Minas Gerais-COPASA	$14,461,903.07	1.52%
24	Marcopolo Sa-Pref	$14,433,161.17	1.52%
25	Iguatemi Empresa de Shopping Centers SA	$14,219,381.21	1.50%

Third Point Offshore (LSE:TPOU)

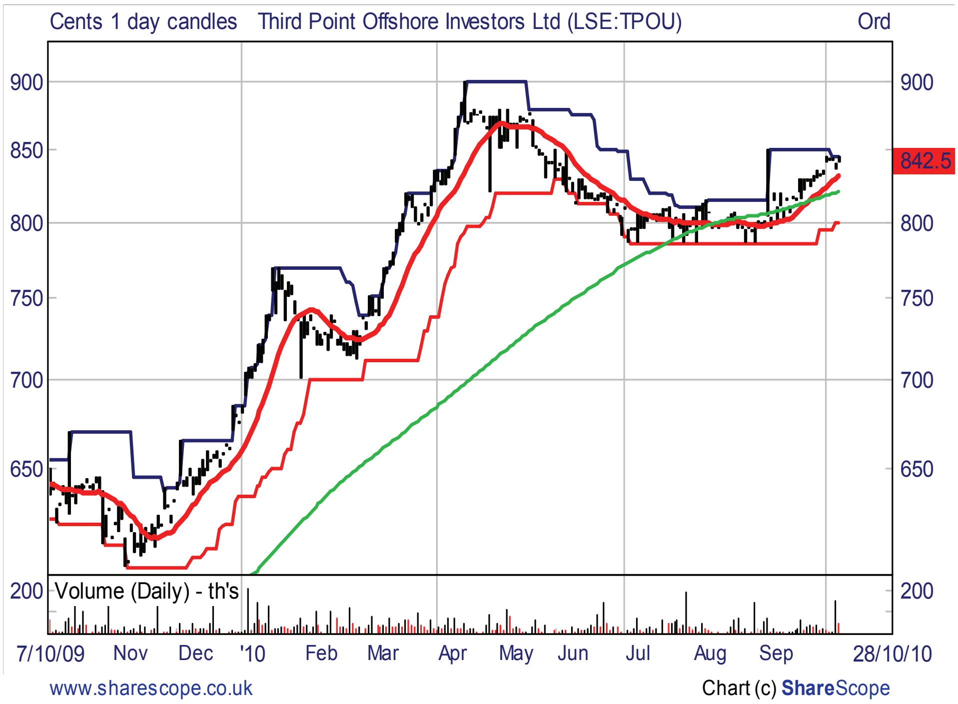
Third point is a feeder fund for the Third Point Hedge fund run by Dan Lobe. Shares are traded in London and can be bought in $,£ or Euros—the $ class tends to see the most trading.

The fund invests in event driven opportunities such as mergers, takeovers and debt restructuring areas which are not easily accessible to most private investors.

What attracted me to this fund other than the good track record is the current 20% discount to Net Asset Value.

As with all feeder hedge funds it is possible to buy in as little as 1 share and you can sell during normal market hours so no lock in.

So of the current largest holdings include Potash Corp, Chrysler and CIT which are debt restructuring investments.



So far the fund is up 19.1% in 2010 against the S&P500 being up 4% and as the graph below shows its beat the S&P500 and Hedge fund Index buy a big margin since 1995. You can access more details at

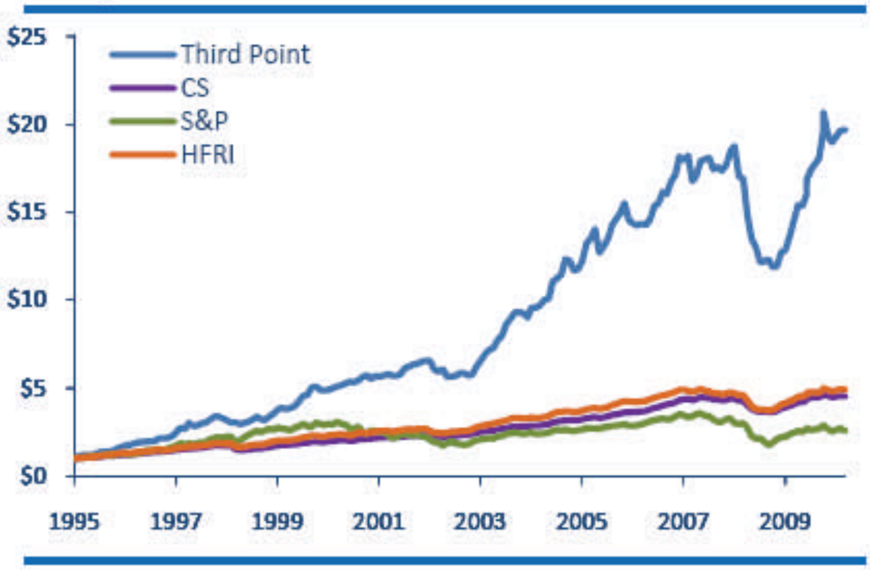
http://www.thirdpointpublic.com/

Third Point Offshore Investors Limited LSE Code: **TPOU**

Third Point Offshore Investors Limited Price Information

2010 NAV		NAV	Price	Prem/(Disc)	Volume
29-September, 2010	Weekly Est.	$10.26	$8.32	-18.9%	122,444
22-September, 2010	Weekly Est.	$10.19	$8.26	-18.9%	106,579
15-September, 2010	Weekly Est.	$10.14	$8.10	-20.1%	4,675
8-September, 2010	Weekly Est.	$10.03	$8.14	-18.8%	145,968
1-September, 2010	Weekly Est.	$9.98	$8.00	-19.8%	142,653
31-August, 2010	**Monthly Final**	**$9.93**	**$7.90**	**-20.4%**	**435,628**

Comparative Historical Performance



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 Trading Funds 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.