The Insider Trader
Issue 11 September 2007

Markets at a glance

Trendspotter Signals *(click on links)*

Dow Jones (DJ)
Sell

S&P 500 (SP)
Sell

FTSE 100 (X)
Sell

DAX (DY)
Sell

£/US$ (BP)
Sell

US Dollar Index (DX)
Sell

Crude Oil (CL)
Buy

Gold (GC)
Buy

Coffee (KC)
Sell

Orange Juice (OJ)
Sell

Sugar (SB)
Sell

Wheat
Buy

Dates to Watch September 2007

18th - Fed Reserve

21st—Sept futures and options exp

CENTRAL BANK RATES

NZD	8.25%	AUD	6.50%
GBP	5.75%	USD	5.25%
CAD	4.50%	EUR	4.00%
CHF	2.50%	JPY	0.50%

Can the FED save the markets (again?)

Americans need two things, cheap money and cheap petrol. If either or both go up they seem to fall to pieces and just can't cope. With US Petrol prices at $3 a gallon, that's 39p per litre and interest rates at 5.25% the US public and voters are not happy. In reality both are not that high, we would be delighted with 39p a litre petrol and interest rates 0.5% less than current UK rates.

Let's take a step back. After the 1999 stock market boom and then the technology crash, the next bubble in the States became property. Everyone was a property developer and speculator. Property deals were being done at 100% of the purchase price and in many cases at 110% of the value. You could flip properties in days for a massive profit just as in the previous boom, day traders flipped shares in minutes. Countless books and seminars were touted on "how to buy property with no money down" and that "property was as safe as houses".

As US home prices went up people felt richer and they would use their house to borrow against with home equity loans and re-mortgages. Lenders were happy to lend as the loans were being backed by property. These loans then get packaged and sold on to funds and banks. The money that was raised from home equity loans was then spent on new cars, home improvements, holidays and to pay off other debts which in turn kept the US economy moving along, creates jobs and the wheels keep turning. It also helps China and the Far East as a good chunk of this money would end up in the consumers buying foreign imports.

Below US Dollar Index monthly chart—US$ is breaking down to a new 15 year low. Click hear to open live chart

Now just like all pyramid schemes at some stage it has to end, interest rates had to start moving up from the historic lows of 1% and at some stage property prices had to start going down. To make things worse, many homeowners took out loans at less than the current, already very low interest rates (Low Starts). Many of these loans are now coming to an end or resetting. If you can't afford your low start payments then you're not going to be able to pay the normal rates.

Also, many loans were self certification or no documentation loans, in other words you declared that you could afford the payments. Of course, if you now own a property with negative equity in an area where property prices are dropping what's your incentive to keep paying? You simply leave, hand in your keys and now it's the lender's problem, just like we had in the UK in the early 90's. Another big problem is that Americans just don't save money, the last savings rate statistics I saw showed Americans have a negative savings rate of 1.6%, in other words people spend more than they earn.

So the strong US economy is really reliant on higher house prices and the ability for Americans to buy cheap imported goods using cheap borrowed money. Of course higher Oil prices and higher food prices which I have been warning about for months now are also hurting the consumer.

Now fast forward on to today. The Fed is under pressure to bring interest rates down considerably. Within the next few days the Fed is expected to cut rates from 5.25% to 5.00% or even 4.75%, but can an interest rate cut make it all better and make the monsters go away?

Well, we could see a quick relief rally but an interest rate cut is not going to save the US housing market and the speculative bubble which has built up over the last few years. Also, markets have already factored in a rate cut of at least 0.25%.

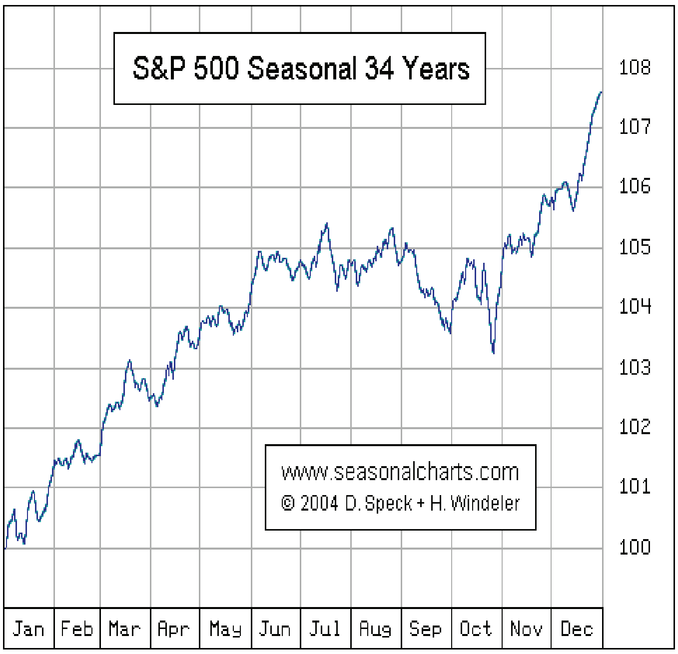
What the markets need is time to correct and the Fed needs to allow this to happen. In the coming weeks we will see more banks and financial institutions such as Lehman Bros (LEH) and Bear Stearns (BSC) report earnings and this will start to show some transparency and how bad things really are in the credit markets.

We have already seen that lower house prices are spilling into other areas such as retail and car sales.

Whilst markets are off the July highs we certainly haven't seen a massive sell off yet with the exception of Banking, Homebuilders and now Retail.

Seasonally we are still in the weak period, so the odds of markets going lower between now and the end of October are high; however, a bottom could be made in October with a rally heading into Christmas. I am becoming more bearish on US markets and apart from Mining and Oil sectors, I don't see much to be bullish about for the rest of 2007. Even with lower interest rates I don't see a quick fix. For confidence to return into the housing market you would need interest rates at 2% and you would need a new speculative property bubble to start and I don't see that happening for some years.

For now the key levels remain intact. The Dow is holding above **12,800**. As the Dow has safer consumer stocks such as Proctor & Gamble, Altria and J&J, the index is holding up better than the broader S&P500. If the Dow closes at around 13,000 for the year it would still be up 4%.



The S&P500 is holding above the 1380 March 07 lows. We did get below this intraday but we then saw a strong snap back rally thanks to the discount rate cut and some soothing words from the US administration. Overall, this market remains weak and I would continue to be short going into an October low, we can then look for some sort of year end rally.

Don't be fooled by the recent calmness in financial markets, we still have a lot of bad news to come out and for complex derivative trades to be unwound and I am looking for the **VIX** to move back up to 30 again.

GOLD

Well we finally got back to $700 and I am very happy with my covered warrants trade. Just to re cap, a way you can back Gold is via a covered Warrant. You trade covered warrants just as you do shares, so any online broker will cover warrants, there's no stamp duty and they are easy to deal. If you have never dealt warrants then you may have to fill in a risk disclaimer before you can deal. A covered warrant is like a PUT or Call option, the worse that can happen is that your option expires worthless and you lose your premium so you are not taking an unknown risk. Profits are unlimited. SG Warrants have a December 2008 800 Call Option which looks interesting. It's currently trading at 26p. Taking the view that gold is trading at around $750 by mid December 07 this option would be worth 40p giving you a 54% profit. The code to look up the warrant is SK72. See www.sgwarrants.co.uk

Of course you can also spread bet gold in the normal way using a fixed odds bet via www.betonmarkets.net

With the current uncertainty in world markets and currencies, Gold does still offer a safe alternative.

Other Commodities

Wheat prices have just hit $9 a bushel, an all time high. I continue to look for higher food prices and urge you to get exposure to grains and soft commodities. See previous editions.

Above Monthly Gold. $750 is a realistic target between now and December 07, we could even see as high as $790- $800. Below: Wheat one of my most profitable trades of the year so far. Those that took my advice back in October 06 are in a massive

US Dollar

Regular readers will know that I have been bearish on the US$ for some years and nothing has changed. With interest rates now on the way down in the US, I can't see how the US dollar can recover from its current slump. I continue to see the Euro, £, Yen, Aus$ and C$ moving higher against the US$. The US$ Index basket is hitting new 15 year lows breaking below the important 80.00 level. Since the 2001 highs of 120.00 which means that your US dollar buys 30% less than it did. We could easily see the US$ Index basket down to 65.00 in the next 12 to 18 months.

For now look for the US$/Euro to hit 1.41. Also take a look at the US$/NOK which has been breaking down. The Norweign Korner benefits from a good economy and oil revenues. Whilst the US is expected to cut rates I see Norgesbank moving rates up by 0.25% to 5.00 and we could see 5.25% by year end.

IG Group Holdings (IGG) FTSE Mid 250 Speciality Finance

Readers don't need much of an introduction to this company as I would guess that many of you are clients of IG Index; however, how many of you are shareholders? IG Index is the world's leading spread betting and CFD company. They have now expanded into new countries including Australia, Italy, India and Germany. As well as Spread Betting, they offer FX, CFD's and Binary Bets.

The business thrives on market volatility and the recent months have been very profitable. Whilst the UK market for spread betting is becoming more competitive the overseas expansion will more than make up for any loss of market share in the UK.

Whilst the share has had a strong run over the last few months I see no reason for the up trend to stop. We could see a pull back to the £2.90 level but expect any sell offs to be short with new buyers coming in. You can spread bet IG Group, but not via IG or you can buy shares via a stockbroker.

London Capital Group Holdings plc (AIM)

Staying with Spread Betting this is the parent company of Capital Spreads. A newer spread betting and binary betting company which was floated on AIM at the end of 2005. The company has a market cap of just over 130 million, so small fry compared to IG but considering that this is a newer company they have moved into profits very quickly and are on target to report pre-tax profits of 7 million for 2007. The company is doing well with joint ventures and have recently signed a deal to offer spread betting to Paddy Power customers. The shares have come along way but are still well priced.

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