PRIVATE WEALTH ADVISORY

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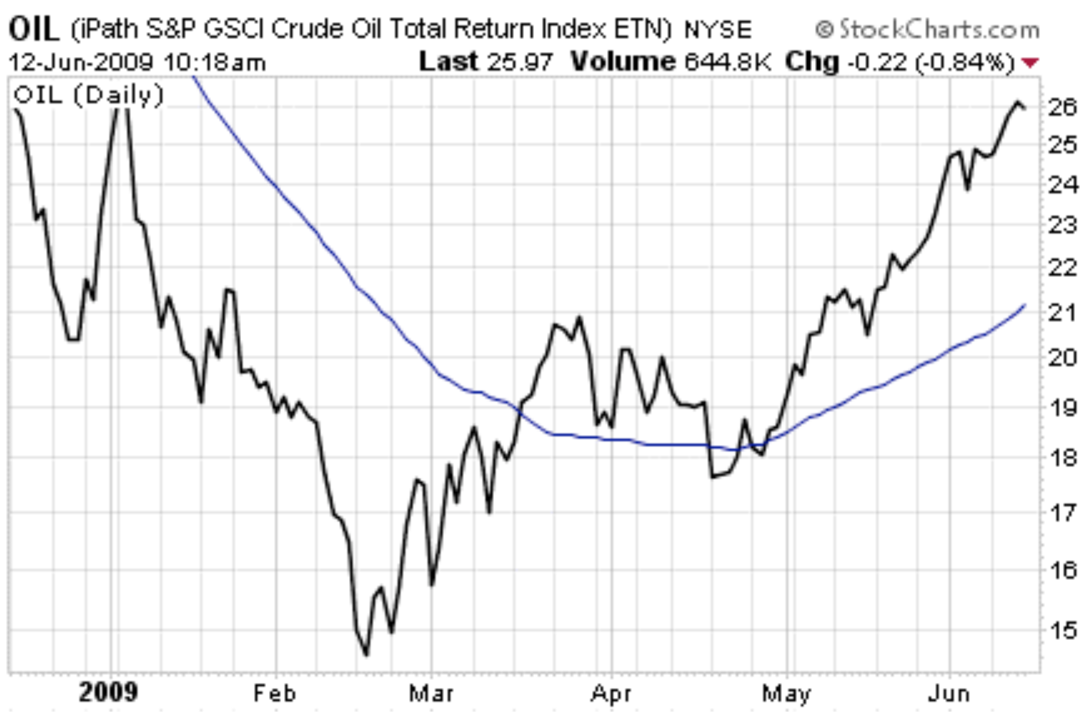
Time to Pull the Trigger

The sheep are stampeding.

Short-term investing is all about using data to find trends before they've erupted. Thus far we've done a great job of this with our "inflation trade," riding the rise in gold and commodities, and the drop in long-term Treasuries for exceptional profits in a short period of time.

However once a trend has developed, the issue becomes a matter of knowing when to sell. An investment, in an uptrend, can attain heights that far exceed its real value. Similarly, an investment that is plunging can fall far below the price at which it belongs. As the legendary investor John Templeton put it, *"the markets can stay irrational longer than you can say solvent,"*

Well, the markets are getting irrational regarding our "inflation trade." Since bottoming, Oil has nearly doubled:



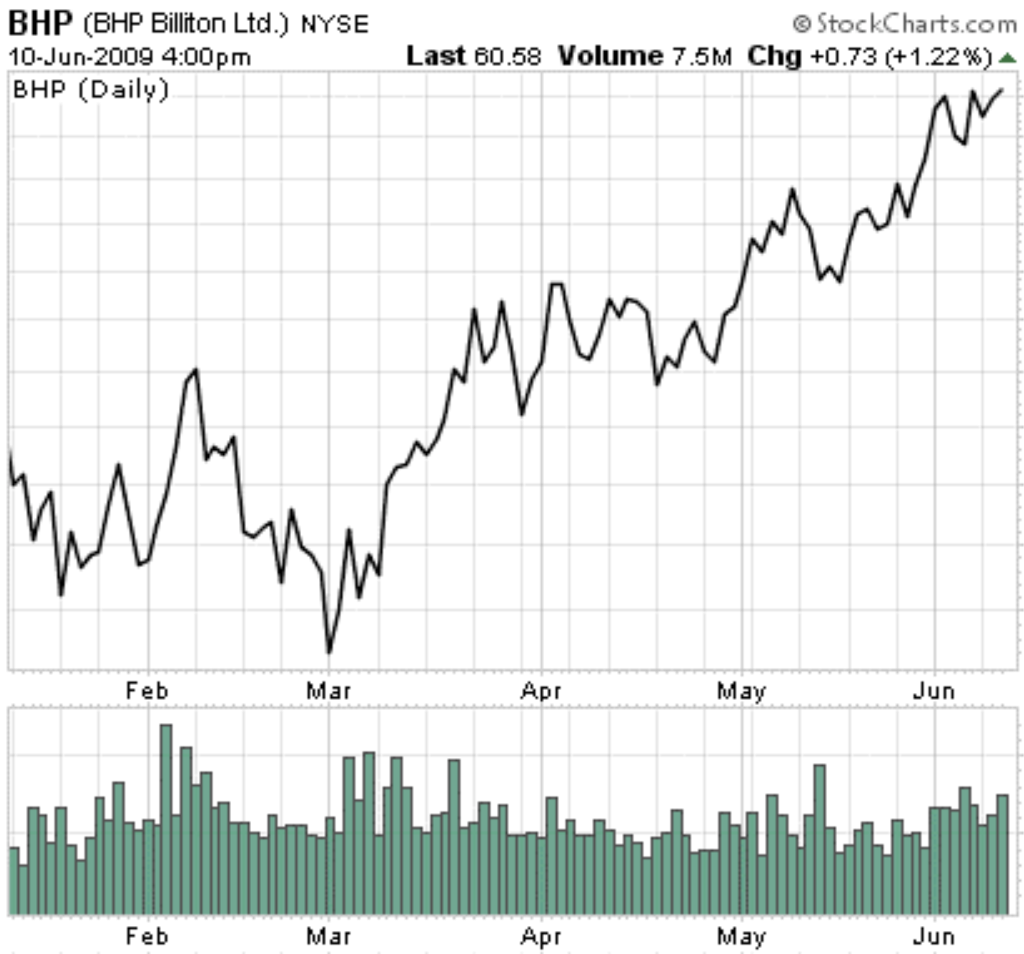
Ditto for copper:

Meanwhile, the dollar has plummeted:

Let's be blunt here: the market is beginning to price in inflation. But I believe we have come too far too quickly. Investments that doubled in less than six months were either grossly oversold to begin with OR experiencing investor mania. To my way of thinking, commodities had a taste of both coming into this latest rally.

Indeed, investors everywhere seem to have bought into the “buy stocks, buy commodities, buy gold, short Treasuries” game. Average daily volumes for the gold ETF nearly doubled in May. Volumes are also up dramatically for gold mining stocks, and virtually every other commodity you can name.

Here’s the chart for BHP, the world’s largest diversified mining company with volume bars below (notice the swell in volume in June):



Again, this is not a sign of a healthy market. This is a sign of overly-bullish sentiment. My guess is that many ordinary investors who missed the start of this rally in stocks and commodities have recently been pulled into both markets. As usual they’re late to the party.

However, over-bullishness has come to permeate professional investors as well. The latest Investors’ Intelligence survey shows there are currently twice as many bulls as bears (bullish sentiment of 47% vs bearish sentiment of 23%). Money flowing into stock-based mutual funds has outnumber money flowing out for 12 consecutive weeks now. And less than one in three money managers think we’re due for a correction.

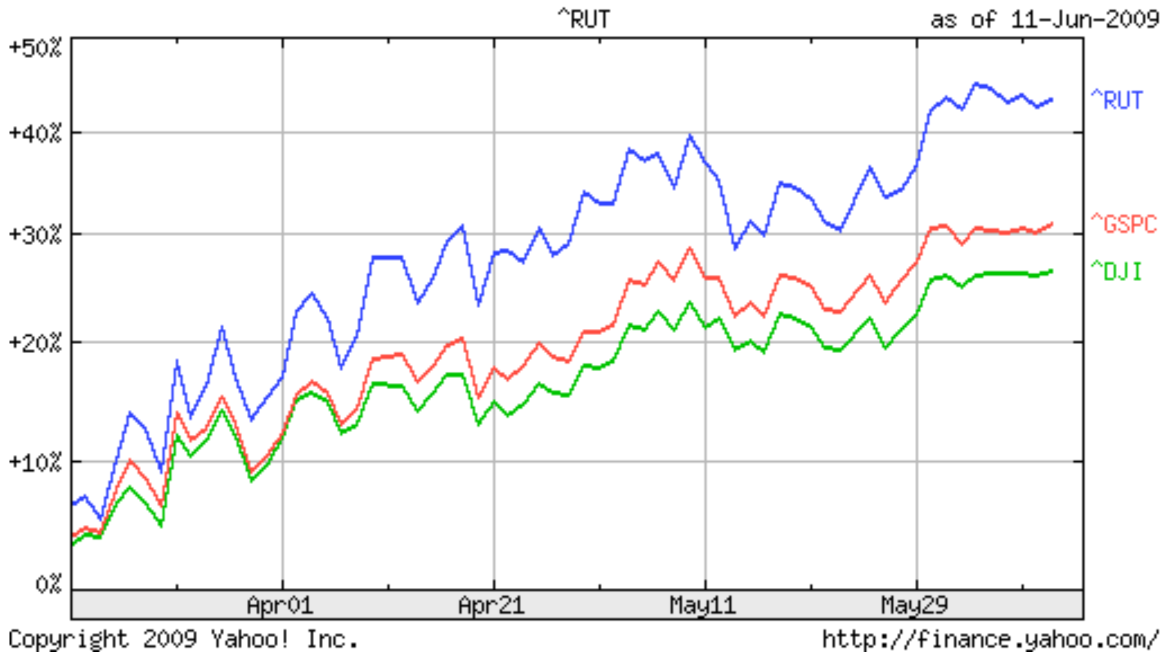
In other words, people have gotten WAY too bullish. And this is coming at a time when the S&P 500 is looking exhausted.

As you can see, the S&P 500 has tested and re-tested its 200 exponential moving average. The failure to break above the 200-EPA is a serious blow to bulls. We may see the S&P 500 continue to rally from here, but stocks are already way over-extended. Again, everything we're seeing here are not signs of a healthy market. Instead, they are signs of a highly manipulated, over-extended, low liquidity market.

In other words: this a market that is primed for a Crash. And we're going short in anticipation with the **UltraShort Russell 2000 Proshares (TWM).**

TWM returns two times the inverse of the Russell 2000: the most popular small-cap stock index. So if the Russell 2000 falls 10%, TWM returns 20%. If the Russell 2000 falls 20%, TWM returns 40%. It's a fantastic hedge against a market downturn, focusing on those stocks that will be hit hardest: small-caps.

Many commentators have made a big deal out of the rally in the S&P 500. Well microcap stocks (the Russell 2000 and the blue line in the graph below) have completely blown away both the S&P 500 and the Dow Jones Industrial Average. All told, the Russell 2000 is up 43% from their March 10 bottom, a full 15% MORE then the S&P 500.



From a technical perspective, the Russell 2000 is way overextended above its 50-DMA. The last time the index was this extended (the beginning of May) it staged a 5% correction in one week. I expect a similar correction this time. In fact, we could well see the Russell 2000 fall to test its 50-DMA, a drop of 8% If this occurs, we'll make a quick 16% with TWM.

Action to take: Buy the UltraShort Russell 2000 Proshares (TWM).

Many of our inflation trades are way up. With a correction imminent, it may be time to take our profits. I'll be watching our portfolio closely in the coming days and will notify you as soon as it's time to close out these trades. Until then…

Good Investing!

Graham Summers

Portfolio

Company	**Symbol**	**Buy Date**	**Buy Price**	**Current Price**	**Gain/ Loss**
Gold ETF	GLD	5/6/09	$89.54	$93.86	5%
Gold Miner's ETF	GDX	5/6/09	$36.86	$43.74	SOLD
Rogers Agri ETN	RJA	5/6/09	$7.62	$7.85	3%
Lehman 20-year+	TBT	5/6/09	$50.11	$58.77	17%
DB Base Metals	BDD	7/27/09	$7.11	$8.92	25%
UltraShort Financials	SKF	6/3/09	$42.18	$40.43	-5%
UltraShort Russell 2000	TWM	6/10/09	$40.55	NEW	BUY

Ps. So far we've been early on our Financial short. This position remains the one loser in our portfolio. But don't worry. Financials led the market on the way up during this rally. When the market rolls over they'll lead the way down too.