

## >: Why You Must Reduce Commodity Exposure This Week

Tuesday, May 13, 2008 / Chris Rowe

Did you check out yesterday's "twice-a-week market summary"? [Click here to check it out.](#)

This is an article about one aspect of human nature in the stock market, and how only a few of you will be able to fight it. But the few that *can* avoid this trait and use it to your advantage (against your stock market opponents "the majority") will be able to make serious money in the market.

On April 29th I wrote an article titled "[Commodity Massacre Starting Tomorrow?](#)"

Within 48 hours, the commodities market took a small correction with oil prices going from an all time high to a two week low. First of all, I want to be clear that *THAT* wasn't the correction I was talking about.

The thing about human nature is it's incredibly hard to avoid (or else it wouldn't be human nature). When a decent market timer on an INTERMEDIATE basis (weeks to months), such as myself, writes an article saying that commodities are pretty pricey here and it's prudent to take some of the chips off the table, it's human nature for the individual investor to expect instant gratification.

It's also natural for the public to tell me I was wrong (since commodities are back up) a couple weeks later, just as it's natural for people to give kudos just a few days after the article was published (because commodity prices got hammered *immediately* after the publication).

I guess what I'm saying is the *majority* of stock market investors tend to be short sighted. Understand, this is not an insult, it's just human nature and if you fight that you can profit from it. However if you can get used to being the minority, you'll make money.

Over the years I've found that it's human nature for people to seek results much faster than my forecasts - even when I said throughout the entire article on commodity prices that odds are in favor of an intermediate correction in the long-term up trend. [Click here to read the article I'm harping on.](#)

Anyway, here's the update: No update. Nothing has changed about this story. The prices of commodities have fluctuated and are currently about the same price as the date of the article in question. The dollar is strengthening (probably an intermediate rally in a long-term DOWN trend) and the fed looks like it wants to pause. It seems like all we see and read about oil prices, when we flip around on the television or on the web, is people asking if we can deal with \$200.00 oil, and \$150.00 oil is no longer the target.

The sentiment that I am witnessing has characteristics of a SHORT-TERM bubble on a long-term up trend. And sure, commodities can move higher. I told you I'm certainly not calling "the" top. It's okay to keep playing the short-term advance, but you should just understand what game you're playing in when you are a SHORT-TERM bull on commodities. The way I see it, it still pays to lighten up on commodities and plow your money back into them on *the next major correction* (not the wimpy one week correction we just saw) which you might have to wait even 6 months for from top to bottom... Maybe less.

Look folks, it's like I said, I'm not suggesting that \$200.00 oil won't happen. In fact, I've been talking about the commodity boom being a LONG-TERM BULL MARKET since I *first* started *publicly* broadcasting my thoughts in 2005 when people were saying oil can't stay over \$50.00, and Teeka Tiwari was shouting about it *much* earlier than that. People thought we were too bullish on commodities, but it seemed obvious to us that the seismic shift in the global economy would fuel the huge commodity bull market.

This isn't a hind sight "I told ya so" thing here. I'm making the point that individual investors almost always confuse the intermediate term and the long term with the short-term. They read something, and either act on it immediately and get upset with the short-term results or don't act on it and completely forget about it within a couple weeks at best.

It's a good time to lighten up on commodities PERIOD. Either hedge, or sell (maybe half), into strength that we are seeing here. This is a second chance (after [my article 2 weeks ago](#)).

And now for the hindsight "I told ya so" wrap (just kidding). Here's a good example of what I'm talking about. In December 2006, Teeka, Jason, Wayne and I wrote a 120 page report called "Tycoon's 7 for 07" talking about Tycoon's outlook for 2007 and the potential dangers the stock market was facing. As a business, it was a horrible investment in terms of the drain on our resources. We worked REALLY hard on it, spent lots of time on it, and gave 7 recommendations and a warning of the dangers of 2007 and we only charged about a hundred bucks! It was actually a loss to us financially, but we just HAD to warn our readers about what actually unfolded about 7 months later.

If you're a member of *The Trend Rider*, you can find the report in the "education" section of the website. I won't post the entire report here, but I will post my introduction. We understand

why some readers thought we were dead wrong given the fact that the S&P500 gained 6.8% to the all time high in July. Just remember that while we may seem crazy sometimes when we say things like "lighten up on commodities", by the time we are vindicated, the people who don't listen to

us forget we even said it, and the people who do listen to our long-term outlook *thought* we were wrong because of short-term activity.

*Below is the intro to the report, and remember, it was published in December of 2006!*

## Introduction

My name is Christopher Rowe, Co-founder of Tycoon Publishing and Chief Investment Officer of *The Trend Rider*.

Congratulations!

You've just bought a \$100.00 bill for about 1 or 2 cents.

In the report you're about to read, you'll notice that there are 7 trade/investment recommendations that are specifically geared for a 2007 stock market that *might be fine*, but *has the potential* of being one of the worst disasters in recent history.

With the possible economy-crippling scenarios that face us right now, we would be absolutely insane not to consider the possibility of an economic meltdown.

We don't claim to have a crystal ball, and we're well aware of both the bull arguments and the bear arguments that exist. The question is *which* history will be highlighted, and *when*. So when we structure our 2007 model portfolios, we are considering all of the possible negatives that could be unearthed, causing unprepared investors to suffer the consequences of complacency.

If the bull argument prevails as it has been lately, then sure, we can have a great year and we'll all make good money again. But if certain bear arguments that currently exist come to the forefront, then it could conceivably cause a severe decline in the market that only a few of us will be well positioned for, and that's what we will be preparing you for in 2007.

Each editor will give you ways to profit in a safe manner, by giving you the framework for making decisions on your own, and by giving you some suggestions on how to position yourself for the next 12 months. So what's everyone else in our business doing right now? (I might make a couple of enemies here ...)

While our competition might enjoy staggering subscription sales by feeding you any positive hype that they can get their hands on, the fact is that it's a win-win situation for them. They are capitalizing on the two most popular and therefore most profitable vibes right now:

1. Ignorance
2. Complacency

The first valuable idea that I will "download" into your brain is this:

Everyone and their uncle in my industry is upgrading their homes and cars, cashing in on your hyped up view of the market right now, because as long as they keep you excited, they will make their money. (But they forgot about the new guys in town who are here to bring you the cold, hard truth about what's going on, no matter what the cost.) That's why we wanted to get this report out to you early:

To give you the truth before the other publishers tamper with your brain any further!

In wartimes, governments can slant the majority of their entire nation's thinking to the government's preferred school of thought by using one of the most powerful weapons known to man: *The Media*.

So don't feel bad when you realize that, when it comes to your confidence in the market, you're the victim of that same manipulation. That your views may have been slanted/manipulated by that same powerful and sometimes hypnotizing media, in order to make the advertising dollars that keep that revenue wheel spinning.

You may be familiar with billionaire Mark Cuban - current owner of the Dallas Mavericks and co-founder of Broadcast.com. After going public with what was at the time the largest single-day gain in the history of the stock market in July of 1998, he sold Broadcast.com to Yahoo! for \$5.7 billion at the height of the Internet bubble in 1999.

Only a couple of years later - after the NASDAQ was smashed to pieces along with Yahoo (which went from \$125 to less than \$5.00) - Cuban was asked how he seemed to know when it was the exact right time to sell, while everyone else was experiencing such euphoric mania.

He said that he just recalled that famous old saying that his father used to recite: "When you're at a card game, and you look around the table at everyone else, if you can't figure out who the patsys ... It's YOU!" So after seeing that everyone else was high on the market, he knew that the game was over, and it was time to cash in his chips.

My point?

Look around you!

Right now, we are looking at the highest level of complacency in 13 years! The Chicago Board of Options Exchange's fear gauge - VIX - just hit the lowest level since 1993 (right before a 2 month correction of over 10%). I don't use this indicator to call market tops, but this sort of high complacency has set the stage for the market's worst declines in the past. But that's not even what concerns us the most.

In this financial card game, most investors are playing without even understanding which devastating cards exist in the deck!

- We face the risk of a currency crisis. Four years ago, former Fed Chairman Paul Volker said we're looking at a 75% chance of a currency crisis in the next 5 years.

- For much of 2006, we had an inverted yield curve. Why would long-term investors settle for lower yields while short-term investors take so much risk? Because long-term investors will settle for lower yields now if they think that the economy and interest rates are going lower in the future. (The savviest investors use the bond market to predict the economy.) Inverted yield curves are almost always followed by a recession, or at least an economic slowdown.

- We don't only have a housing bubble, but a credit bubble ... thousands of Americans who refinanced their homes with Adjustable Rate Mortgages. Many of the option ARMs taken out in 2004 and 2005 are resetting at much higher payment schedules to the surprise of those who thought the low installments were fixed for at least five years. Since home prices have leveled off, borrowers can't count on rising equity to bail them out. 32.6% of new mortgages and home-equity loans in 2005 were interest only. 43% of first time home buyers in 2005 put no money down. 15.2% of 2005 buyers owe at least 10% more than their home is worth (negative equity.) And most disturbing of all is that \$1 Trillion in 2006 and \$1.7 Trillion in loans in 2007 will adjust to much higher rates.

- Even the U.S. Government - which funded its spending with short-term financing at low rates - now must refinance trillions worth of its bonds at higher ones.

- On November 30, the dollar hit a 20-month low against the euro (the dollar fell more than 2% against the euro in 1 week), and a 14-year low against the pound. It has dropped 6.7% against the Federal Reserve index of seven major currencies.

- A recent Wall Street Journal front-page article said "Bush administration economic officials are eager to avoid a market-rattling crash" and "Nobody wants a rout -- a disorderly, panicky decline in the dollar," says Princeton University economist Alan Blinder, a former vice chairman of the Federal Reserve Board. A sharp drop in the dollar probably would lead foreign investors, who lend heavily to the U.S., to demand much higher interest rates. This would cause economies such as China and Japan to look to other countries for higher returns on their money.