Visit The Canadian Rational Investor's web-site **2nd Quarter, 2009**

The Canadian Rational Investor

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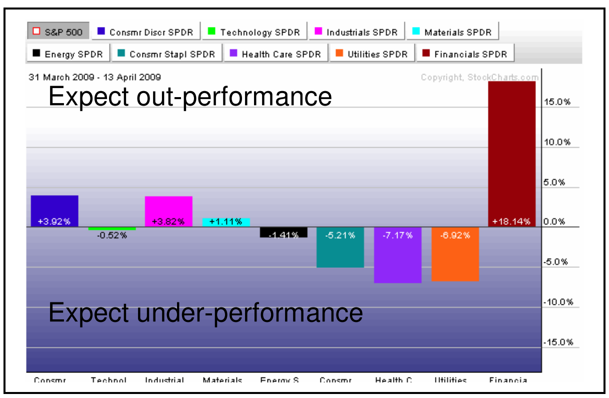
2009 'Q2 Preview

Hello again from the Canadian Rational Investor. The first quarter of 2009 is now behind us and it is time to look forward into the spring. As is often the case, the markets are enjoying a seasonal bounce off of the lows made last fall. This time around, we seem to be '*climbing the wall of worry*' regarding the economy and the duration of the current recession. Ironically, it is at the time when the talking-heads are most pessimistic one ought to be interested in the market. And only when they turn bullish should we consider exiting. How long this current rally can last is anyone's guess but considering the bearish economic backdrop, the horrible January Barometer reading, and a market that has now relieved the oversold condition it was in a few months ago, a seasonal top may materialize sooner rather than later. Regardless, the market is moving higher so as one pier use to tell me, "*make hay while the sun's shining my boy*"…



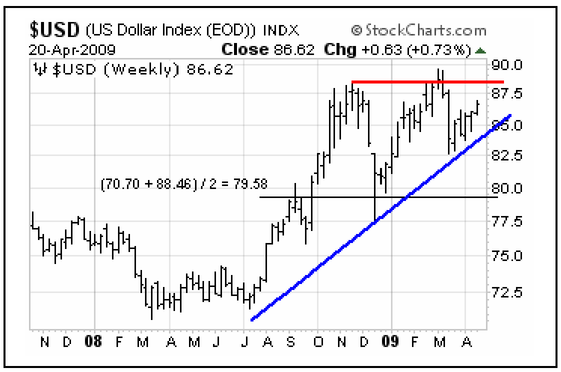
March 31st to April 13th, 2009 ETF % change.

The first two weeks of each quarter often tell investors what to expect for the remainder. With this in mind, to the left is a percentage change graph for nine different US sectors (for the first two weeks of Q'2, 2009) represented through their Exchange Traded Funds (ETF's). Healthcare, Materials & Utilities performed the worst (reflecting a move away from *'flight –to-safety'*). Conversely, the Industrials, Consumer Discretionary & Financials were the strongest performers (reflecting both a bounce in financial related assets and a move towards *feel-good* purchases by the consumer.

What's inside…

- US dollar, Cdn Dollar, Gold Review
- Cdn Equity review (Sr. & Jr.)
- Agg. Review (Corn, Wheat, Soybeans)
- Technical Trading Lesson (CRB index analysis)
- Monthly Bottoms (Australian Dollar)
- Monthly Commodity Trend Survey (to April 2009)

The US dollar continues to enjoy a 'flight-to-quality' rally as many of its trading partners' economies slip into recession. One by one nations are being drawn into the recessionary atmosphere that started in the US. To reiterate a previous statement: '*borrowed money not only fueled unrealistic monthly spending habits by Americans themselves but it was also responsible for a good portion of the bubble that developed in world equity prices too. Indeed, since the market bottom in 2002, not only did house prices rise, but so too did commodity prices and countries currencies that were directly tied to commodity prices.*' As this bubble has deflated, so too have the currencies of the US's trading partners. The Yen has fallen 10% from its peak while the Euro is down 20%. As a proxy for the demand for commodities, the Canadian dollar too continues to point lower and is now down more than 30% from its peak. While a significant stimulus spending program has been approved by the US government, its effects are not expected to be seen for quite some time. And at the same time, spending measures around the world are being reduced as equity prices are perceived to have stabilized.

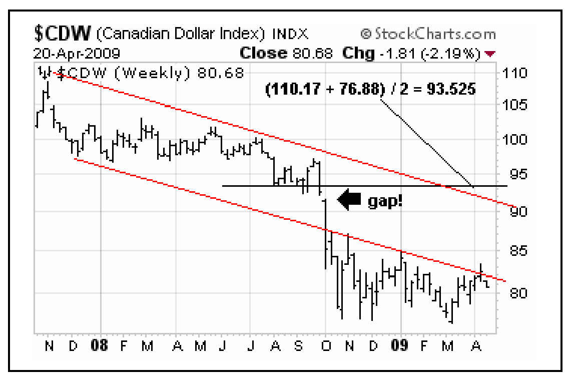


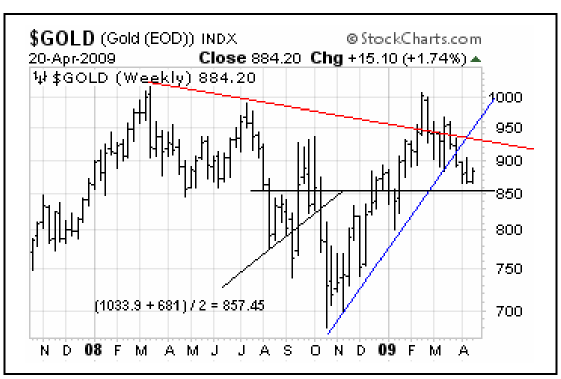
US Dollar Index

The consolidation of the 2008 rally continues for the US dollar index. The 50% pull back cleaned up the overbought condition and the push to new highs in February suggests prices indeed want to go higher. Should this be true, a massive rally could ensue where this would represent a bull-flag-pole formation suggesting prices want to go up into the 94.84 area [(88.46 - 71.31) + 77.69].

Canadian Dollar

A well defined bear flag pole formation suggested prices needed to fall back into the .80's. That target has been hit and even exceeded. The downward pointing channel that has dominated trade over the past 6 months does suggest further downside pressure may come. Any rally ought to meet stiff resistance at or near the near .90 area.





Spot Gold

As a proxy for fear in the market place, gold prices have remained relatively strong over the past year. The rally from last fall broke the 'top' formation that was in place since last summer. However, recent banking sector optimism has broken the steep uptrend from the fall lows while also forcing the market to fall back below the downtrend line. Gold bugs be careful….

"When they are yellin' you should be sellin'. When they are cryin' you should be buyin'!"

CANADIAN EQUITY REVIEW: BUY WHEN IT SNOWS, SELL WHEN IT GOES

In what can only be considered a very abnormal year, equity prices have tried to stabilize after their dramatic depreciation last fall. Here then is a case where indeed the seasonal trade was correct but in a way most wouldn't expect (i.e. from spring to fall the market falls dramatically and then from fall back to spring the market stabilizes). Considering the sizable declines in economic activity around the world, it shouldn't be a surprise that the demand for Canadian natural resources would ebb. Gone are the days of bidding wars for Canadian companies. Adding to this, local economies are starting to suffer as major infrastructure projects (like the Alberta tar-sands) are put on hold.

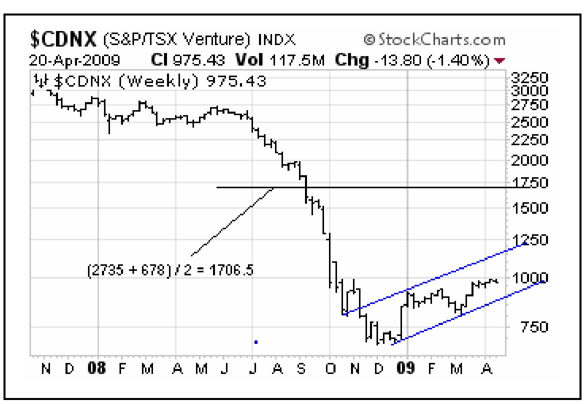
TSX Composite:

As the chart to the right suggests, prices have fallen dramatically from their peaks seen only a year ago. While prices have yet to stabilize in earnest, the steep downward pointing channel has been broken and one ought to start considering upside targets. Yes, this seasonal trade is nearing and end but there may be further upside pressure over the coming few months. Having said that, significant resistance shall come into the market should we get back to the 11,000 to 12,000 area. Until then, we will continue to 'climb-the-wall-of-worry'.

18 Months TSX Composite showing downtrend and 50% rule.

TSX Venture Market

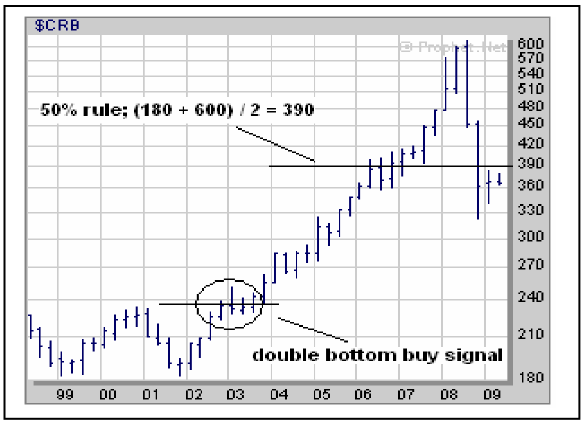
Probably the hardest hit sector in our economy, the venture capital market has seen its valuations fall by almost 70% over the course of the past year and a half. On top of the cycle peak in commodity prices, substantial amounts of borrowed dollars were being thrown at the market in an ever increasing biding war for the worlds hard assets. On the margin, companies that were in the business of looking for new discoveries saw their share prices soar higher. Now that the silly money has left the system, prices will have to take some time to establish a floor. As technicians though, we should be cognizant of the fact that markets never move in one direction for too long. As a result, one ought to be looking for the proverbial 'dead-cat-bounce' here too. From a seasonal basis, we are now in a period where the market shall see net inflows rather than redemptions and a full summer of field work lays ahead of us. With that backdrop, a 50% retracement of the down move would bring prices back into the1700 area. And unlike their bigger cousins, venture stocks did not break to new lows on this recent push lower in March (a good sign I think!).



1 ½ Year TSX Venture Composite and current long term channel

LESSONS LEARNED THROUGH COMMODITIES

The term *technical analysis* often conjures ideas of number crunching computer geeks who pour over meaningless data believing there is an answer to the market's direction. The irony of it is that the more complex the analysis, the more dubious the result. If one can keep to a few time tested principles, one can claim the distinction of being a technical analyst, yet you can keep your day job too. Today, we will look at the huge bull market seen in the commodities from a quarterly basis. When one looks at the commodities markets from the longer term, it actually makes sense (from a price perspective) why the market has moved the way that it has. And if we refer to two of our most basic technical tools we see that the current correction was not only predictable but actually quite healthy in the long run.

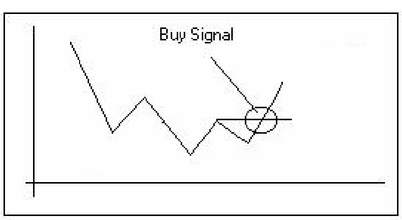


Commodity Research Bureau's Index 1999 to 2008

To the left is a chart of the Commodity Research Bureau's index of prices, known in the market as the CRB Index. It is the broadest measure of commodity prices in North America and a general benchmark for the sector. Notice how the market broke out of a double bottom formation in late 2003 from about 240. Prices went up 150% to a peak this summer near 600. A 50% retracement of that rally suggested prices needed to come back to the 400 level, where we are now.

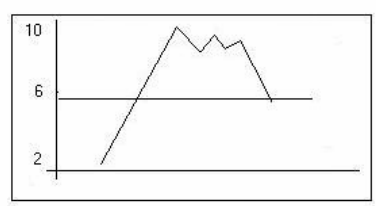
TWO TOOLS TO ADD TO YOUR TOOLKIT

Double Bottom Breakouts



- Market makes new low
- Market rallies away from low
- Market tests low
- Market rallies through High.

50% rule



50% Retracement
10 + 2 = 12/2 = 6

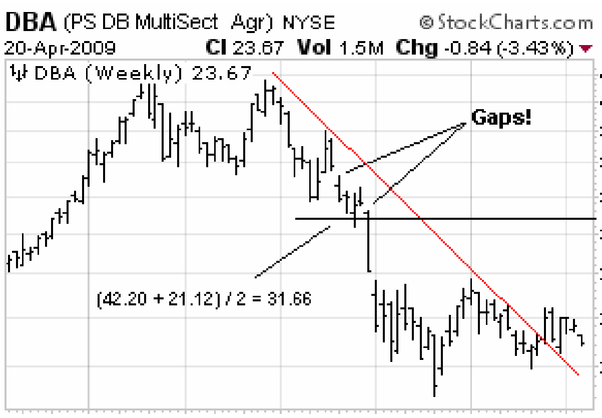
- Market moves a dramatic amount.
- Determine low & high of move and add them together.
- Divide that number by two.

Thoughts going forward…

A good market technician is always looking forward and asking if there are any hints as to where prices may go. Because the recent top was straight up and then straight down, one ought to asking if either a 50% rally ought to be expected or even an outright test of the old highs. Keep in mind that the chart above is a quarterly chart (meaning each bar represents three months) so yes there may indeed be a test of the old highs, but that may be quite a few months down the road.

Agricultural Market Review…

Like most commodities, the grain markets fell very hard last fall. As the prospects for international demand for their raw goods fell, prices fell too. Indeed, if one looks at grain prices in particular (three charts at the bottom of this page) we see that prices on average fell by more than half. As good technicians (who understand that the world isn't about to stop eating) we ought to see a potential profit opportunity. Should the fear of a major flood or draught raise it's head this summer, prices could easily retrace 50% of their recent down move. In the case of the grain markets, this could represent dollars per bushel.



On the left is a chart of the Deutsche Bank Liquid Commodity Index, ETF (NYSE:DBA). The index is composed of futures contracts on liquid and widely traded agricultural commodities (Corn, Wheat, Soybeans and Sugar). The index is intended to reflect the performance of the agricultural sector for those that would like to participate in the grain markets without buying futures contracts. Jan. 2010 $28 Calls are currently $1.50 and would be worth $3.55 at the 50% level. An interesting trade considering the risk…

So, is there a trade in the grain market's themselves?

A further analysis of the underlying grain markets suggest that this might be a good time to consider a long position. Corn's & Soybean's 50% levels are $2.00 higher than where we are now and Wheat is more than $3.00 higher. As well, on all three of these charts there are gaps near their respective 50% levels. As technician's we understand the significance of gaps as a point of confusion for the market and that at some point in the future the market will want to take prices back up and fill those gaps in…

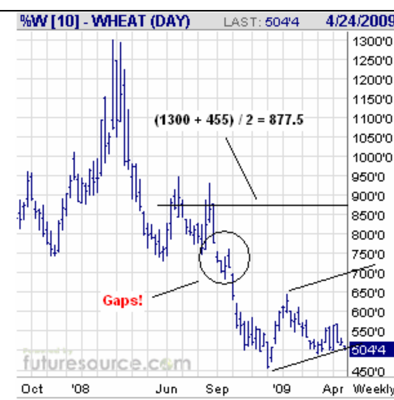
Corn

The December 2009, $4.50 Call option is currently trading at 36 points ($1800). Should the market go to the 50% level this option will have an intrinsic value of 76.25 points ($3812.50)

Soybeans

The November 2009, $11.00 Call option is currently trading at 40 points ($2000). Should the market go the 50% level this option will have an intrinsic value of 118.5 points ($5,925).

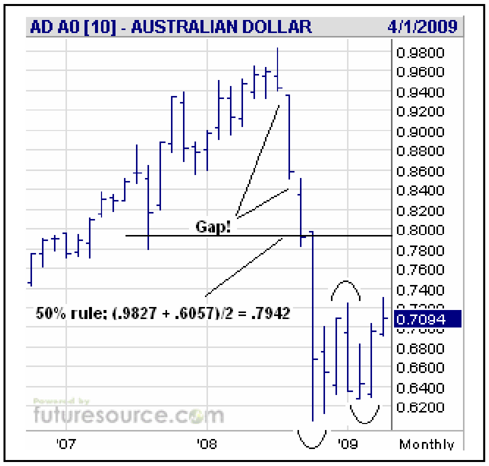
Wheat



The December 2009, $8.00 Call option is currently trading at 17½ points ($875). Should the market go to the 50% level this option will have an intrinsic value of 77.5 points ($3,875).

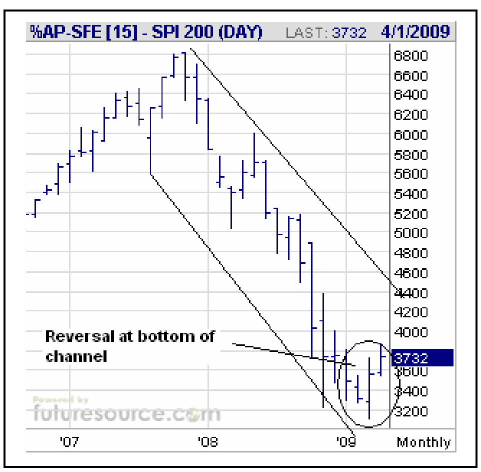
ASIA IS STILL GROWING? - BUT HOW TO PLAY IT

If there was one are of the world that seems to still be growing it would be Asia and China in particular. Recently the country reported quarterly growth that was indeed below previous quarters, and yet the number reported was still significant in itself. China is still growing and coupled with the recently announced government funded stimulus package, its growth will only accelerate in the coming years. The problem we face (as potential investors) is that China itself is a totalitarian dictatorship with no legal recourse for investors and extreme corruption. This problem is so big; it makes direct investment into the country a dangerous idea at best. So the question becomes, is there any proxy for this growth where we can have some faith in the free market coupled with a reliable legal system? There is one market that because of its commodity asset base and a solid free market platform makes it ideal – Australia. Just as the suppliers of parts fueled the Dot.com boom, so too will Australia's natural resources be in high demand as China continues its economic expansion.



Monthly Double bottom in Australian Dollar

Very rarely does one see such a well defined double bottom in price. The Double bottom was formed when the market sold off to a low of .6057 in October, 2008. The market then rallied away from the low to reach a counter trend high of .7249 in January of this year. The market subsequently sold off and tested the lows when it traded down to .6279 in February 2009. The market confirmed the bottom when it moved back up through the .7249 just this month.



Monthly Bullish Reversal in Australian Stocks

Almost as rare as double bottoms are 'reversals'. A reversal is when the market opens lower than the previous month's low and then closes above the previous month's high. While not as significant as a 'key-reversal' (where the two previous bars are included) reversal bars are significant in themselves as they suggest that sellers have exhausted themselves and buyers have taken over. Should the following bar move through the reversal bar's high, then a confirmation of that reversal has been established - that has happened in Australian stocks.

Conclusions

While North America resolves its current debt issues other parts of the world continue to grow – namely Asia. Those investors leery of the inherent risk of investing directly into these blossoming economies may want to consider more established neighboring countries that may benefit from the region's growth indirectly – in this case, Australia.

Monthly Commodity Trend Survey as of April, 2009

Market	Sym.	Trend U/D	As of	Age in months	Position	From	Stop	Target	Comment
Currencies									
US dollar index	DXY	U	08/08	09	Long	74.31	77.688	Tgt hit	50% rule; (107.31 + 70.7)/2.
Cdn. dollar	CDY	D	08/08	09	Short	.9688	.8696	Tgt hit	50% rule; (1.1019 + .6262)/2.
British Pound	BPY	D	08/08	09	Short	1.9361	1.5474	Tgt hit	50% rule; (2.111 + 1.543)/2.
Euro.	ECY	D	08/08	09	Short	1.5318	1.4645	Tgt hit	50% rule; (1.6008 + 1.9861)/2.
Swiss Franc	SFY	D	08/08	09	Long	.9445	.9046	Tgt hit	50% rule; (1.0185 + .6684)/2.
Jap. Yen	JYY	U	11/07	16	Long	.8919	.8059	1.1543	TR Brkout; (.8059 - .9801) + .9801
Australian dollar	ADY	U	04/09	01	Long	.7249	.6279	.7942	50% rule; (.9827 + .6057)/2
Interest rates									
Euro-dollars	QED1!	U	11/08	06	Long	97.79	98.54	Tgt hit	Bull flag; (97.79-94.06) +95.34.
US 10-YR Note	QTY1!	U	09/08	08	Long	114'28	124'18	Tgt hit	Bull flag; (122'26-105'18) +112'16.
GOC 10-YR	WCB	U	09/08	08	Stop hit	120.75	115.77	Tgt hit	Bull flag; (120.8-109) +115.8.
Long Gilt	LGL	U	09/08	08	Long	112.57	116.52	Tgt hit	Testing high fr 03/98
Ger. Bund	DGB	U	11/08	06	Long	118.48	121.55	132.4	Bull flag; (124.6-101.85) +109.65.
Jap. 10-YR Bond	SJG	U	08/07	21	Long	135.60	138.0	145.0	Testing high fr 06/03
Australian 10 yr.	ASX	U	06/08	11	Stop hit	--	--	--	Extreme Volatility – no discernable trend
Stock Indices									
Dow 30	INDU	D	06/08	11	Short	11634	9654	Tgt hit	50% rule; (14198-7416)/2.
Nasdaq 100	NQY	D	04/09	01	Long	1287	1040.25	1637	50% rule; (2256+1018)/2.
S&P 500	ESY	D	07/08	10	Short	1255	942	Tgt hit	Bear flag; (1586.5-1255)-1440.
S&P/TSX 60	WSX	--	--	--	--	--	--	--	Too Volatile - No discernible trend
FTSE-100	LFTY	D	01/08	16	Short	5840	4688	Tgt hit	50% rule; (6802.1+3250)/2.
German DAX	DAXY	D	01/08	16	Short	7220	5356	Tgt hit	Bear flag; (8253-6174)-7270.
Nikkei	SNIY	D	01/08	16	Short	16330	9885	Tgt hit	Bear flag; (17640-11635)-14565.
SPI Aust.	APIY	D	07/08	10	Stop hit	5039	3718	Tgt hit	Monthly Reversal
Metals									
Gold	%GC	D	08/08	09	Stop hit	849.6	925.7	667	50% rule; (1014.6+319.3)/2.
Silver	%SI	D	08/08	09	Short	16.00	14.49	Tgt hit	50% rule; (21.18+4.35)/2.
HG Copper	%HG	D	08/08	09	Stop hit	3.51	1.98	Tgt hit	50% rule; (427+69.05)/2.
Platinum	%PL	D	07/08	10	Short	1852	1490	Tgt hit	50% rule; (2251.1+342.5)/2.
Palladium	%PA	D	07/08	10	Stop hit	405	228.25	Tgt hit	Bear flag; (585.25-405)-476.85.
Energies									
Crude Oil	%CL	D	09/08	08	Stop hit	111.34	54.62	Tgt hit	50% rule; (147.27+26.26)/2.
Heating Oil	%HO	--	--	--	--	--	--	--	Too Volatile - No discernible trend
Unleaded Gas	%XRB	--	--	--	--	--	--	--	Too Volatile - No discernible trend
Natural Gas	%NG	--	--	--	--	--	--	--	Too Volatile - No discernible trend
Softs									
Coffee	%KC	D	10/08	07	Short	125.80	123.4	Tgt hit	50% rule; (169.6+56.4)/2.
Orange Juice	%JO	D	04/08	07	Short	184.2	129.3	Tgt hit	50% rule; (209.5+54.2)/2.
Cocoa	%CC	U	02/07	20	Stop hit	1732	2217	3425	Bull flag; (2971-1763) +2217.
Sugar #11	%SB	U	12/07	17	Long	10.53	10.51	Tgt hit	50% rule; (19.73+8.36)/2.
Cotton	%CT	D	09/08	08	Short	63.1	52.4	Tgt hit	Bear flag; (91.38-63.1)-76.2.
Lumber	%LB	D	01/08	09	Stop hit	223.5	270.3	Tgt hit	Bear flag; (312.3-185.7)-270.3.
Grains									
Soybeans	%S	U	04/09	01	Long	1040	1122	1218.5	50% rule; (1660+777)/2.
Soy Meal	%SM	U	04/09	01	Long	326	302	346.25	50% rule; (455.5+237)/2.
Soy Oil	%BO	U	04/09	01	Long	36.95	29.5	49.36	50% rule; (70.65+28.07)/2.
Wheat	%W	D	09/08	08	Short	731	645	Tgt hit	50% rule; (1300+282.5)/2.
Corn	%C	D	10/08	07	Short	485.5	428.25	Tgt hit	50% rule; (762.5+186)/2.
Oats	%O	--	--	--	--	--	--	--	Too Volatile - No discernible trend
Meats									
Live Cattle	%LC	D	09/08	07	Short	96.82	89.1	Tgt hit	50% rule; (104.7+73.45)/2.
Feeder Cattle	%FC	U	04/09	01	Long	98.05	87.6	102.625	50% rule; (119.8+73.45)/2.
Lean Hogs	%LH	U	04/09	01	Long	64.9	55.7	90.00	Testing high fr 08/08
Pork Bellies	%PB	D	12/08	05	Short	82.8	93.6	60.7	Testing low fr 07/08