

Jack Adamo's Insiders Plus

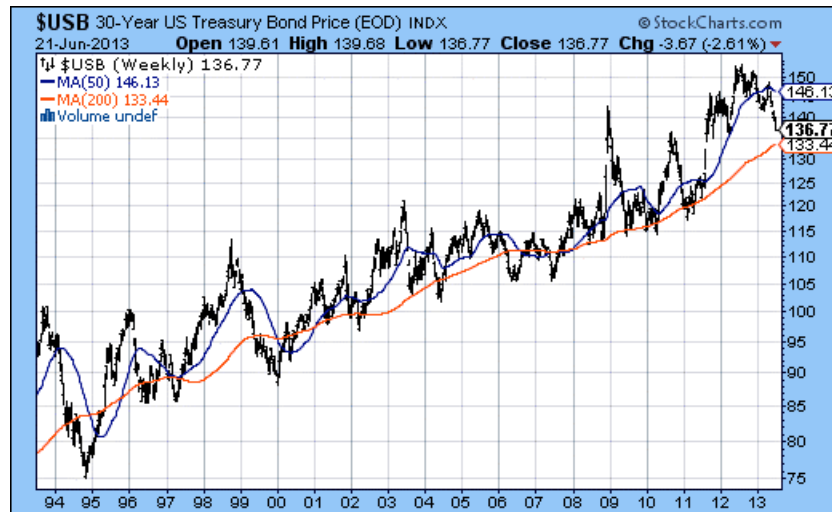
Your source for Insider insights and exceptional analysis

June 22, 2013

Dear Friend & Client,
Thanks for joining me.

This week the markets hinted at the possibility of a correction by dropping two weeks in a row for only the second time since November. This doesn't signify anything by itself; it only says there may be more to come. The S&P 500 is down less than 6% from its nominal all-time high reached in May, so this doesn't even qualify as a correction yet, just a pullback. Whether this is a consolidation phase or the start of something bigger is impossible to say at this point.

The focus of attention this week continues to be the Fed and interest rates. The market fears the cheap-money party is over and bond yields will rise, competing with stocks and raising the cost of corporate debt. Treasury Bond prices have corrected noticeably in the last few weeks and inverse treasury ETFs are soaring on their short-term charts. However, looking at the longer-term weekly charts for the T-bonds and ETFs shows that this could be just another head-fake. Below is the chart of the 20-year Treasury Bond price over the last two decades.



(Chart courtesy of Stockcharts.com)

As you can see, we've still had higher highs and higher lows recently, and the price hasn't even fallen back to its 200-week moving average, much less broken the long-term uptrend. So, in my view, it seems unlikely we have finally broken through into a new period of sustained economic growth that would put sustained pressure on bond prices. We are still in an era of asset inflation, courtesy of the Fed and other Central Banks. I would be delighted to be proved wrong.

We know how these bubbles end; it's just a matter of when. Hence, we will remain cautious and keep a pocketful of cash on hand. What that cash will be worth in the longer term is a larger, more complex question for another day. However, for now cash is good. If second quarter earnings bring *real* positive surprises (not "beats"), we will reassess the situation.

Preferred Stocks

Predictably, our preferred stocks have reacted just like bonds have; they've taken a quick hit. If the world is facing long-term inflation, that will be a problem for preferreds in general. It will not,

however, be a problem for our **Seaspan Corp. Series C 9.50% Cumulative Preferred** (NYSE: SSW-C), so if you haven't added to your position as recommended last week, do so on any further weakness. I reiterate that the terms of this series is so punitive for not redeeming the shares by 2017, that there is virtually no chance they will not be redeemed. That means we will get your money back with a nice return, long before inflation has a chance to eat away at it.

The **Seaspan Corporation 7.95% Series D Cumulative Redeemable Perpetual Preferred Shares** (NYSE: SSW-PD) is another matter. That has no punitive provisions for not redeeming. Conceivably, they may suffer erosion in value over the long term in a protracted inflationary environment. However, since we are making about 6% more than we can get leaving our money in "safe" bonds, we should still be okay. Those dividends may be reinvested in new, higher yielding securities, when/if such instruments become available.

We don't talk about our **Bunge Cumulative Convertible Perpetual Preference Shares** (BGEPPF) often, because they are so steady, but just as a reminder, the fact that they are convertible to common stock gives them a large amount of inflation protection as well. Common stock dividends typically grow with inflation, and the owner (us) of the preferred may convert any time he/she wishes.

Bunge Preferred is out of our buy range for now. Both of our Seaspan preferreds are comfortably within their buy ranges. See the portfolio page for allocations.

Gold

When the specter of Fed "tapering" first hit the wires a few weeks ago, stocks dove and gold soared. No such luck this week. Everything went down. It looked a bit like 2008, which may not be too far off the mark.

Gold was hit hard on Thursday, the same day the Chicago Mercantile Exchange substantially raised margin requirements on gold futures, but "long" positions among Non-Commercial traders were already the lowest they had been in almost a year, and long positions as a *percentage* of Non-Commercial gold futures positions are as low as they've been since 2002. On the other side of the trade, NC short positions rose this week to 7% higher than they've *ever* been, and 24% higher than they were in mid-May.

For those new to the Commitments Of Traders Report, Commercial traders are producers and users of commodities, such as oil, gas, gold, wheat, etc. They use the futures markets to hedge their costs and revenue. If the price of wheat is volatile and you want to make sure the costs on your Raisin Bran don't get out of hand, you might buy (go *long*) wheat in the futures market to lock in a price you know you can still profitably make your product with, even if the price goes up in the future. Conversely, the wheat farmer might *sell* part of his crop (go *short*) in the futures market to lock in a profit in case wheat prices plunge before harvest time. The futures market serves an important function for both users and producers.

On the other hand, Non-Commercial traders are speculators that are just making bets on which way prices will go. In terms of usage and production, they have no skin in the game. Moreover, they are mostly working with other people's money, so they gamble more recklessly. Unfortunately, the commodities market has become a casino for these folks in recent years, and the NCs drive market prices, especially in the short-term. We saw oil prices reverse direction and plummet from \$160 to \$40 in 2008 when speculative traders decided oil was a "short" not a "long" anymore.

In this context, I would have expected that raising margin requirements would halt or at least slow the rapidly rising short positions in the market. But despite the rising trend in shorts, long positions still outnumber shorts in the NC gold market by about 35%. So, it appears that the higher margin requirements are culling the diminishing herd of gold bulls, which is encouraging the shorts to pile on.

This trade is becoming increasingly lopsided. There have only been eight weeks in the last 600 when the proportion of shorts to longs was higher. When everyone goes to the same side of the boat, it usually tips over. It may not do it this week or month, but it will probably do it. If not, then

we have reached a true secular turning point in the precious metals, in which case, frankly, we are toast on our gold options. If I thought this were true, we would be out of there, but I don't. The speculative metals positions have shifted from long to short in gold, but are building up on the long side of platinum and palladium futures. Hence, this is to a large extent a money-flow issue. These imbalances eventually cure themselves. I have no good guess on the timeframe.

PORTFOLIO UPDATES

There are no stock-specific updates this week. The big drops in foreign and commodity-related stocks are all related to the rise in the dollar brought on by the Fed fears. The dollar rose 2.4% in the last three days, which is a huge move for a currency. If the dollar continues to strengthen, we will have to endure this until the trend stabilizes. With Central Banks all over the world interfering in the markets, it is not possible to make a reasonable prediction or exercise sound judgment on these matters. Holding a lot of cash is the best we can do for now.

Prices are coming down on income stocks, including utilities and MLPs, so we may see some buying opportunities sometime this summer.

You can view all of our holdings with their current advice by going to:

http://www.jackadamo.com/main.asp?fn=portfolio_view.asp

The password is: **perfect**

New subscribers please note: You can look up all the original write-ups on any stock in our portfolios by clicking on the symbol on the portfolio page. The original write-up is usually the first mention in any newsletter (although sometimes a stock has been re-recommended later); so, you'd want to pull up the letters oldest first. To see recent comments, click on the link that reverses that and brings up newest write-ups first.

Please see the important legal notice at the end of this letter.

That's it for today.

It is a gorgeous day at the Jersey Shore, which is in the process of rebuilding after Hurricane Sandy. Most of concession stands are in operation, but the two amusement piers near us are just in the beginning stages of rebuilding. That's a shame from the point of view of the small children that come here, but they can still play in the surf.

I hope your weather is as fine as ours.

I look forward to talking with you again soon.

Jack

Questions? Write to Jack at: jack@jackadamo.com

Important Legal Notice

This publication contains Jack Adamo's opinions. No recommendation or statement made in this publication, regardless of how strongly or positively rendered, should be construed as anything except Jack Adamo's personal opinion.

Jack Adamo makes economically feasible efforts to verify facts and calculations set forth in this publication, but errors can and will occur from time to time. The publisher cannot guarantee that any misstatement of fact, or any miscalculation will be discovered or corrected prior to or after publication.

Jack Adamo is not a registered investment advisor, nor is he required to be, and he cannot judge the suitability of any investment recommendation for an individual reader. All investments mentioned in this publication entail some degree of risk. All information is provided on a “use at your own risk” basis. Past results are not necessarily indicative of future performance.