



# Lindisfarne Investments, LLC

An island of safety in a sea of risk

## Market Update September 16, 2012

### General Market Conditions

The market's recent bi-polar behavior has taken a swing to the euphoria side of the equation. It remains to be seen if the patient has been "cured" or if this is simply a manifestation of expanded mood swings.

What has brought about the recent market move to the upside? According to the chart below, it has broken through resistance and may be ready to challenge its all time highs.

### S&P 500 5 Year Chart



There have been three major economic news events since our last update. First, on Thursday, September 6<sup>th</sup>, the European Central Bank announced that it would buy an unlimited amount of bonds of the countries that meet “certain conditions”. This will help drive down the short term interest rates in those countries which will reduce their borrowing costs and make their balance sheets look better. However, these “certain conditions” will require spending cuts that will drive up unemployment and all the ensuing problems that brings about.

On September 12, the German High Court declared the European Stability Mechanism (ESM) to be constitutional. This allows the ESM to go forward and replace the European Financial Stability Mechanism (ESFS) which was running out of funds to help the Eurozone countries in need. It did so, but placed a cap on the amount of funds in the ESM that could be spent without the approval of the German government.

This spending trifecta was completed on September 13<sup>th</sup> when the Fed announced that it is going to buy mortgage-backed securities with the end goal being job creation. They hope that this move will pump additional money into banks and financial institutions that will then be lent to businesses and consumers. How big is this plan? It is open ended and can amount to as much as \$40 billion new dollars being pumped into the economy every month (until it works).

The market has initially responded positively to this news. The question in everyone’s mind is “Will the market continue up?” Already, there are negatives surfacing about the ECB’s action and some of the candidates for the U.S. Executive Branch are decrying the Fed’s action. Good news is followed by bad news, is followed by good, etc.

It is not uncommon after a breakout move for the market to retrace back to support (previous resistance in the chart above) before moving higher. I believe that is the case here. Time and again, the governments have stepped up and taken action to provide support and prevent a slide into depression. They are not about to quit now.

But if the market falls significantly through its support, then we will need to call this a “news-driven-false-breakout.” No one knows for sure at this point, which is why the market needs to be monitored daily.

Treasury yields have responded negatively to the news as shown below. With the yields rising, the prices of treasuries have dropped with the 10 year bond dropping 0.9 % since just before the Fed action.

The market sectors that we are invested in such as High-yield bonds have responded positively, going up 0.5% since the announcement. Our other investments have similarly moved up with the exception of Municipal bonds which are on a sell watch. (Note: along with the market retracement on Monday, the interest rates are retracing lower which should help the munis).

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# 10 Year Treasury Yields



## The World of ETFs, Agricultural Funds

Last report, we spoke about the three main grain stocks in the U.S. (wheat, soybeans and corn) and their corresponding ETFs. There are several more to round out this list, sugar, coffee and cocoa.

The table below lists the ETFs for each of these. As you can see, there is about one year of history for each of them. The main thing to notice is the average daily volume for each is rather small, on the order of several thousand shares a day. Be careful if you decide to purchase any of these that are within your risk parameters. Limit orders are the safer way to go as market orders can subject you to thin offers and drive up your purchase price and drive down your sale price.

# Commodity ETF Sheet (Cont.)

Commodity	Symbol	9/14/12 Price	Avg Volume (3 months)	Start Date	Gain since 6/15/12
Sugar	SGAR	\$45.67	1,088	4/21/11	+2%
Sugar	CANE	\$18.87	3,613	9/21/11	-1.7%
Coffee	CAFÉ	\$27.32	3,539	4/21/11	+17%
Cocoa	CHOC	\$40.18	4,338	4/21/11	+18%

The following 4 charts show the recent performance of these ETFs.



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Please feel free to pass this update on to anyone that you think might be interested in it. If they wish to be on the mailing list or would like more information about the services of Lindisfarne Investments, we can be contacted by phone at (440) 623-0775 or by email at [bill@lindisfarneinvestments.com](mailto:bill@lindisfarneinvestments.com).

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