

Commodity Watch Radio – 20 February 2007

Michael Hampton, aka Dr Bubb

You're listening to Commodity Watch Radio with Dominic Frisby at Minesite.com.

Dominic Michael Hampton, aka Dr Bubb, is with me now. Michael, why don't you give us the level headed trader's perspective on the uranium market at the moment.

Michael Well, I hope I can give you some kind of a perspective anyway, whether it's level headed or not, well time will show. I think there are some similarities between what we're seeing uranium market now and what we saw in the gold market last year. And of course, in the gold market we saw a bit of a buying frenzy as we went into the top in, I think it was May, but we're seeing some of the same signs of that now in the uranium market. Lots of people who haven't been in the market are jumping in now and they're jumping in and buying almost indiscriminately, they're buying stocks. So I mean, I'm tending to look at this as, and who knows how far these bubbles go, but I'm tending to look at this as a selling opportunity where I can take some money off the table in uranium stocks and put it into gold and energy stocks. So where I have uranium stocks, I'm really selling right now, intending to redeploy elsewhere.

Dominic You're convinced of the long-term case of uranium but you think we might be on our way to a short-term top?

Michael Yea, I would agree with that. Like last year, we saw a top in May, in gold and then we saw a pull back and it lasted some months, and now we're headed back to, I reckon we're going to go back and retest that high and go higher. And if we saw pull back in uranium, it might last a few weeks at least, may be a few months I might be inclined to buy that.

Dominic Now, I understand you are buying, or you are considering buying, puts on the US indices. Is that wise given the screaming runaway bull market that's been going on for the last six months?

Michael Well I think it's stopped screaming with the same intensity that it was before. Let's step back for a second and see what I'm concerned about here. We had a long bull market, it really goes back to 2002 or 2003 depending on which index you're looking at; and that's a long time, 2002 to today is, well it was October 2002, so really talking about almost four and a half years. If you look at 2003, the low would have been in March 2003, so we're nearly into four years. There's a four-year cycle; it tends to be one of the most reliable cycles that you can find, and while some people will tell you it bottomed last year in July, I don't believe that, I believe that cycle has yet to bottom and we will see an important fall before that cycle is over. There are a number of very interesting predictions and forecasts and various analysts, and if I can mention here, Martin Armstrong and there's a threat on this, there's a threat about Martin Armstrong and I think you started yourself, that's right isn't it?

Dominic That is correct.

Michael People can read a threat on GEI about Martin Armstrong

Dominic He's got the 8.64-year cycle, I think he talks about, and I recommend everyone take a look on Martin Armstrong thread on Global Edge Investors and look at some of the charts and click on some of the links. It reads like a thriller, his story; he's currently in prison; he's been held in prison without a hearing for longer than anyone else has ever been held before; one of the key witnesses was assassinated under mysterious circumstances; apparently the CIA was trying to buy his computer, his predictive computer models and he wouldn't give them to them; but anyway he has a big turn date; he has an 8.64 year cycle I believe and his big turn date is late Feb, maybe Feb 25th, 26th, 27th, somewhere around there.

Michael There's another chap called Peter Eliardis, who's an expert on cycles, he's got some interesting ideas; I won't go into a long exposition of that, but basically he thinks we're coming into an important top now, sometime between now and May, and after that top is in place it may be some years perhaps before we see higher highs.

Dominic How successful a trader has Peter Eliardis been? I mean are his calls reliable?

Michael Well I don't know what his trading success is but I've been reading, hearing of his forecast for many years and he has got it right, he's a real student of the market; he looks back decades and even hundreds of years in some cases, and, let me kind of summarize what he's saying; he talks about from low to low to high. So, another way of putting that is he's talking about cycle inversions or if you measure the time frame from two important lows to today there's almost an equal time from form the low to the next low. That time frame is equivalent to the time frame from the second low to more or less where we are today. And he says a whole range of cycles are showing their pattern; I think the longest cycle he talks about which shows that pattern is at 78 years or something. But the point of that is when all these cycles are inverting at the same time it typically means there's a very important turn coming in the market and we should have probably had our cyclical low in the four year cycle around about now, instead we're getting a high, so that suggests we might have one of those inversions going on. If that happens, it could mean we have a very sharp drop to look forward to. I also mentioned one other guy, who's also a student of cycles and long cycles, and this chap goes back hundreds of years, and even thousands of years I think I've heard him talk about, he's a very interesting guy, he's come up with some very interesting forecasts some of them being accurate, some of them not accurate, but he's a guy called PQ Wall, and PQ Wall talks about a sort of repeat of the 1929 drop and he says that there's one date in place in everyone's memory and that's 1929. He says 12 months from now there will be two! So he thinks we're going to see a very sharp selloff. Funny isn't it? I don't know whether to believe this stuff.

Dominic The thing is Michael, bad news is easier to sell than good news. If you have a newsletter and you're going 'everything's going to be great', it won't sell as well as the newsletters that go all doom and gloom. For example, Arch Crawford who uses those, astrological, he uses the planets in order to make predictions and forecasts about the market; his calls, he's made some amazing calls over the years, but last year, 2006, he was horrendously off.

Michael Yes, it's true and we have a thread which, if people want to see it on GEI, it's all documented - his forecasts and comments about them and eventually how wrong he got it. Yes, it is true.

Dominic But his newsletter sells well.

Michael Yes, I wonder if it's selling as well now as it was a year ago?

Dominic I doubt it.

Michael But let me come on to how I'm using this information, these forecasts and I think that's important for people to take on board. My portfolio is about 80 or 90 percent long resource stocks. It's mainly gold shares, and I'm shifting slowly, slowly, I'm shifting some of my portfolio into energy shares, but I guess it's something like 80 percent mining now and 10 percent oil and 10 percent something else. Now amongst that something else, I own some puts. It's dwindled down because they've lost value to a few percent now, but basically what I do is, I've been investing and this goes back even to Arch Crawford's disaster last year, I've been investing a portion of my profits in put options. I don't buy puts every day or every week or every month, I haven't actually bought them for a little while, but what I tend to do is take some portion of my profits and I buy put options. Now this has a number of advantages over shorting the market or selling my portfolio and that's demonstrated by the trading results that mine have shown over the last year. I mean over the last year, I guess I'm up one portfolio well over 30 percent and overall something like that and that's despite having lost a lot of money in puts. So what I'm doing is I'm taking some of the profit and I'm buying puts. Now why am I buying puts? Well I lose on the puts and the market keeps going ahead and drives my resource shares higher, it's like losing an insurance policy – you lose the premium but you're still alive, and in my case I lose the options premium but my portfolio is still alive and still benefiting from the run up in the market. So that strategy's worked well; I'm now thinking about buying quite a large number of puts sometime in the next few weeks, possibly during February, possibly as soon as one or two weeks from now. I'll start buying a large number of puts again and let's look at the how the dynamics of this work. For about 2 to 2½ percent I can buy them at the money put on the SMP 500; so for \$25000, approximately \$25000 I can protect a million dollars of investment. So for example, if I have a \$5 million portfolio to protect, for \$125000 I protect that portfolio. Now my particular portfolio tends to be more larger than most, so I might want to protect a notionally larger portfolio, and so you know that's a small amount of money relative to portfolio. So if I spend \$125000 on puts and then the market doesn't drop, the market instead goes up another 10 percent, well my 5 million is now going up to 5½ million, and I'm ahead of the game, even accounting for the loss of 125 the \$500000 profit leaves me with a nice profit of close to \$400000. So that's a nice return. Now if the market drops and my portfolio falls from, let's say 5 million down to 4 million, then I might make a \$1 million from my puts. That's what I'm trying to achieve; I'm trying to achieve a situation where if the market goes up I make money and if the market drops, shifts sharply, my losses are covered by the puts.

Dominic Throughout the 1970s we saw, basically, the stock market and the commodities market go in a different direction but over the last 2 or 3 years basically everything has gone up, and in the May correction we saw everything go down, if we get, let's use the word a 'correction,' is we get some kind of stock market correction which way do you think gold is going to go and which way do you think the gold and resource stock are going to go?

Michael Well that's an excellent question and I think we need to think about three different, three different things to watch; one is stocks, another is gold and another one is gold stocks, and I tend to regard gold stocks as somewhere in the middle between being gold and being stocks. So you know, if gold and stocks go in the same direction, gold stocks are likely to follow, both of them up or both of them down, but in the situation where gold goes one way and stocks go another way, gold stocks will be somewhere in the middle, and I think we also have to consider what might drive the move downwards in the market. If it's fears of higher inflation, or evidence of higher inflation, then what we might see is, we might see stocks falling as people worry about rising interest rates and we might see gold going up because people feel it's the place to be if we're going to have higher inflation. In that circumstance gold shares might tread water or even rise when the rest of the stock market is going down. Now having said that, we do have to keep in mind that since gold shares are stocks, if people start getting hit with margin calls at some point people might be driven to sell their gold shares simply to shore up their portfolio values. So in that situation if we saw a 10 or 20 percent drop in the stock market we might see gold shares sell off a bit too but hopefully quite a bit less. So, you know, it'll be quite interesting to see which type of drop we have this time. Is it driven by external events which leave gold flat or even going down, or is it driven by some kind of, a story or fear that causes gold to go up while shares drop. But any way I'm hedging my gold shares by buying puts on the general market and I'm kind of hoping we will have one of these moves where I win on both sides of the hedge.

Dominic Mike, it's been great talking to you and I wish you good fortune with your puts. Do you want to give out the website of Global Edge?

Michael Yes, it's easy to find, easy to remember, it's www.globaledgeinvestors.com. If you want a short cut into the site, you don't want to type up all those words, simply type geibb.com.

Dominic Or there's a link from Minesite if you click on the Minesite bulletin board button, that will take you through to Global Edge.

Michael Everyone's welcome and please come and have a look, join and even start a thread.

Dominic OK. Michael, hopefully I'll see in a couple of weeks at the PDAC in Toronto but in the meantime, it's been great talking to you.

Michael Same for me, speak with you soon.

Commodity Watch Radio is presented and produced by Dominic Frisby for Minesite with music by Minnola Camp. To discuss the markets and have your say, why not visit our bulletin board at globaledgeinvestors.com, that's www.globaledgeinvestors.com.

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