

## **Welcome in the SafeTrading area !**

If you read this file, it means that you are interested in financial markets: whether you are involved as an observer analyst or a practitioner attempting to make money out the present mess, you stand at the right place. No previous knowledge is required: in fact, as you will see with the forthcoming documents, issues are not so complicated for a safe investors or traders.

One of the main problem in making decision on financial markets is that we are constantly under the gun of various news or of the last best opinion by an analyst. It seems to be a hard job to understand what is relevant and what is not. What we intend to do here is to work above the noise. Is it possible by principle? Can one identify the bullet points and noisy news in the flow? In a sense, that's what market does! We will show you how it works in details. That's what an investor needs to do first: work and think above the noise, otherwise, it's lost.

It will be our leitmotiv along the pages you will receive. It is not a common approach if you check what other groups are doing. Here, we base our strategies on fundamental grounds, well rooted in the functioning of markets. We take the most possible care. Then, we can propose investments and trade opportunities depending on some triggers we define or upgrade each time.

At this date, late February, the US real estate crisis associated with the financial crisis and the "slow down" of the global economy give the trigger for a bad period within financial markets. It started months ago but it does not prevent from being active on stocks, rates or commodities.

This period is a perfect illustration of the necessity to balance various analysis and news. We do not enter into details in this first note. We want to illustrate the conflicts between views that seem reasonable at first glance:

- The bear point of view is the most natural one. One important argument of this side can be summarised on the plot below. In a period of lowering the main FED rate, stocks (represented by the S&P500 index on the figure) “obviously” follow the move down in average.



- The bull point of view can be based on a contrarian sentiment: everyone yammering about a crash, odds are high that the market is near a low and that a snap back recovery rally should get underway.

In short, we have two kinds of analysis on the stock market, both can be extended with a lot of other arguments and subsequent ideas and both are concluding inversely. That's the key point! It's fine to look at the correlation between rates and stocks, but one has to question also the continuity of the FED policy. In fact, it happens that the medium/long term yields have already anticipated a new action(s) by the FED, but we can not claim with certitude that B. Bernanke will go further than a broad 2% FED rate target. On the other side, the bull view must be confronted to the economic uncertainty prevailing nowadays! There may be some good news booming the stock market with an improbable timing but the financial crisis generated by 10 years excess may take some time to get solved.

Of course, a complete overview would lead us to act differently on capital-weighted or price-weighted indices, to look at currencies (in particular YEN/USD), at commodities etc. What about the commodity cycle? For example, the correlations between GOLD prices and stock market prices must be questioned.

Each time, we need to understand the basis: what does stock market measure? does it change with time? No, it is always the same since markets have been studied. In short, stock market measures the marginal profitability of the capital with respect to the marginal cost of the capital. We will make this complicated sentence dead simple in a next document. We will show practical and simple examples... Then, you will be able to follow our investment process and our help in making decisions on financial markets.