Lance Spicer's
Trident Confidential - Weekly Report
Consistent High Returns - Capital Protection - Integrity

Wednesday, 29th June 2011

Dear Subscriber,

When You Have No Idea What The Market Is Going To Do…. Take a Deep Breath.

The market has been a little manic lately leaping from "it's all ok" to "we're all doomed!" When the market is like this you just need to take a deep breath and continue on. The market, like all of us these days, is provided with just too much information for its own good. The up to the second news we are provided with is, not only coloured by varying opinions, which may or may not make common sense, but it's also hitting us continuously and we end up living in the minute and making decisions based on rapidly changing information. Those decisions should never be made on the basis of an overload of "coloured" information.

One thing I have learned over years and decades in the market is you don't react to hearsay or conjecture on a particular issue. For example every single commentator was telling us last week that Greece would default and set off another Financial Crisis that would ruin the global economy. Is this rational and well balanced reporting? Was there any balance to this argument that just maybe the IMF and the ECB considered this a bad outcome and would be doing everything in their power to ensure it wouldn't happen? No, there wasn't. It was just pure pessimism whipped up by a media that wouldn't know it's ar$% from it's elbow. I told you weeks ago that I didn't think Greece would default, it seems I was a lone voice in the gloom. I still believe there will be no default. I maintain that Greece will get the loans it needs, the austerity budget will pass and there will be some renegotiation of Greek debt for repayment over a longer period of time (even possibly a reduction). I also suspect, in time, investment will be made into Greece to restore growth to their economy so they can start paying of their debt. The "Another Financial Crisis" outcome so many are predicting probably won't occur because we all know about it this time – the worst outcome is known (unlike 2008).

The worst outcome that the market actually has priced in somewhat is, Greece defaults and this causes a domino effect with Spain, Portugal, Ireland and possibly Italy defaulting on their debt too. This would be disastrous of course and would plunge the EU straight into recession and destabilize the Euro as a viable currency. **Of course, this simply won't happen.** It's no more likely than 2 years ago when some people predicted the collapse of the entire US banking system – it simply was not going to happen. Nobody stands by and lets these things happen. The fact is, it's highly debatable whether Greece will default, let alone much stronger economies in Spain, Portugal and Ireland. Anybody who thinks that the whole lot will go, was probably also running around calling the end of the US economy two or three years ago. These people need to have a good lie down, they'll wear themselves out worrying like that.

We have also a panicking media (or are they just trying to panic us?) screaming the sky is falling over the US due to unemployment going up a tenth of a percent instead of going down as everyone had hoped. On top of this data has pointed to a slowing of growth and has many people calling another recession. These are exactly, exactly the same people who said the US would "double dip" into recession this time last year. They were 100% wrong then, but now for some stupid reason some of us think they are right this time when the evidence is even less compelling for problems ahead. Are we all learning impaired? US growth has slowed to 1.8%….. have I missed something? Isn't growth of 1.8% reasonably substantial growth in an economy the size of the US? Oh, everybody thinks it will slow to a stop, then go backwards… Oh, I missed that, sorry. Well, I can tell you that it won't happen and you can quote me on that. Any further slowing and you can bet your life there will be further stimulus to ensure growth doesn't stop. Ben Bernanke has made it quite clear, he's taking the "training wheels" off the economy because it doesn't need them anymore and I think he's right, it doesn't. However, he's made it very obvious that he'll do whatever is necessary to ensure the economy maintains the recovery and that the markets are supported. I doubt whether we'll need a QE3 and I fully expect growth to pick up again and unemployment to continue trending down as this year continues. What's all the drama about? Haven't you heard enough from CEOs in the last year or so to know that things are ok and getting better?

I understand fully what people are worried about, but I think we worry ourselves unduly due to media headlines that are constructed to get our attention. Sure, there are some investment gurus out there that have exactly the opposite opinion to mine, but you have to ask why? If you dig a little deeper into the pessimistic advertorials you find they are selling you some sort of financial product that possibly shorts stocks or loads you up with options or gets you buying gold or something. My “angle” is to make money, and I’ll short the market (the Switch Strategy) as I did in 2008 if I think it’s prudent to do so – I currently do not. So, you have to make sure you are getting balanced and sensible opinion on the issues. As for people like my old mate, Nouriel Roubini, he has called 7 of the last 2 crises and 6 of the last 2 recessions. There are a stack of “nasty little dark clouds” like Roubini floating about. Remember, many like Roubini (including Roubini) never made a cent for investors in 2008 when he actually (and finally) got it right – How good is he? Be careful who you listen too, pessimists and negative people never make any money.

Oil Prices

Remember when oil prices were rocketing back in March? Well, what’s happened? The oil price continues to weaken as demand and supply normalize, however this is in part due to President Obama releasing some oil from the US Strategic reserve as a way of driving down the price (by over supplying the market) and this in turn reduces fuel costs in the US, which was one of the prime concerns of consumers and a major reason US consumer sentiment has slipped a little and the recovery has slowed. The theory is that by reducing petrol prices, consumers will start spending again as household budget’s ease. I suppose it makes sense if the reason they stopped spending was due to “gas” prices, then reducing “gas” prices will have the reverse effect. Funnily enough, the reason oil jumped so high was due to Libya. Well, back in March I said this was nonsense and it was just all oil market speculation. It seems now that may have been the case as the war in Libya continues and is now having little effect on the price. I wonder what happened to all the speculators?☺

As far investing into the oil and gas sector, I’m simply not convinced it will do much to be honest. I think supply and demand will remain stable and only oil companies with expanding production will do well, as I think oil prices become “self defeating” when they get above $110-$120 a barrel. However, expanding production requires enormous capital expenditure and investment and that means lower cash returns to investors.

Now, on a More Serious Note: Is An Australian Recession on the Way?

As you know I have been bearish on the Australian market and I have in the last 6 months suspected a recession was on its way. Now, we hear some commentators and economists saying there’s a real chance. Yes, we are having a mining boom, but I think we have taken a big bet on Chinese and Indian growth maintaining a healthy clip, but I see the possibility of over supply of commodities being on the horizon and falling or at least stabilizing commodity prices. Yes, for the wider global economy this is a good thing, but bad for Australia and mining stocks, <u>IF</u> this is the case.

The current federal Labor/Greens government worries me greatly with their constant focus on the commodity boom to maintain Australia’s economic health, then only to tax it with a new mining tax and a carbon tax. The government is turning us into a “one trick pony” and now the same idiots in Canberra are taking pot shots at the pony! I see disaster and a legacy of tough times coming if we continue with imposing new taxes in Australia right now. Retailers and consumer discretionary businesses are already telling us they are struggling (some have collapsed like Colorado) as Australians are now hitting 30 year records in levels of savings with it now approaching 12% of disposable income. This is as a result of uncertain times ahead, and the prospect of household budgets being hit by a carbon tax.

From Yahoo.com.au: *The downturn in the retail sector has been due not only to higher official interest rates, says a key central bank official. Reserve Bank of Australia assistant governor (economic) Philip Lowe said the November rate rise was one of many factors responsible for poor retail sales. Other factors included the higher rate rises by the major banks on top of the official rate rise and consumer uncertainty due to the poor world outlook." I think the November rate rise did have a big effect (on spending).*

As we are now aware, interest rates have slowed spending by Australian consumers and is now having an effect on property prices, which are now falling in many parts of Australia.

Most parts of the Australian economy feel like they are in recession already, its only the mining sector that’s holding the economy together and we see the federal government’s grand plans of investment in the sector already falling to pieces with a huge infrastructure project like Oakajee Port and Rail running into funding problems due to the Chinese pulling out. According to the WA government this is due to the Carbon Tax and Mining Resource Rent Tax. Could it be that these new tax imposts on the economy could spell the end of the “grand vision” of Australia being one big mine? A Year 12 economics student will tell you that increasing taxes is a sure fire way to reduce investment and to reduce GDP growth, so what is going on with the Carbon Tax and the mining tax? If you want to slow economic growth, increase taxes and raise interest rates – it's that simple.

However, there is good news! I suspect that there is a good chance that both taxes won't make it. I think the knives are out for Julia Gillard and she may be rolled before these taxes can come into effect. These taxes are both unpopular, the Carbon Tax more so. What's more, I think if we do slip into recession, we can expect the RBA to quickly reverse course on interest rates, which will take some of the strength out of the AUD$ and get the stock market looking a bit healthier towards the end of the year due to better returns for exporters. A recession will probably remove much of the support for the taxes, particularly by the independents.

Once we see some weakening of the dollar and hopefully these two taxes going away, we'll be looking to invest more heavily back into the Australian market. There will be a point where Australian equities will be cheap, but they aren't there yet, not with the Australian dollar so high and the prospect of growth killing taxes on the way. Surely, some common sense will prevail soon.

Last Night's Action on Wall St.

Monday's big jump on Wall St provided some relief as investors starting using their heads again and realised the world wasn't coming to end after all and that the Greek debt "crisis" may be just a tad overblown.

Then along came today, another big bounce and a feeling that Greece will be ok after all, and there will be no default…. What did I tell you? It seems I was the only one saying there would be no default, but when you are the only one saying it, you start to wonder maybe I'm the one that's nuts? But seriously, the Europeans don't strike me as total imbeciles and they would have to be to let Greece fall over without at least doing absolutely everything to avoid it. Some credit has to go to the majority of the Greek parliament for having the guts to tell their people it's time to pay the piper for their decades of fiscal irresponsibility and having wages, retirement schemes and social welfare that was simply out of step with what they deserved based on their national productivity. With the Greek situation slowly calming down, the market can now start focusing on the earnings season just weeks away. Can't come soon enough.

The Bottom Line

It may sound strange but overseas investors regard Australia as a riskier place to invest. We, evidently have a high degree of what they call "sovereign risk". This is not due to our debt being dodgy like Greece or anything like that, it's due to issues like the carbon tax where the government has given the market absolutely no certainty. There is no price for carbon because the Labor and the Greens can't agree on a starting price nor a tax elevation process to get the price up around $60, which is the Greens preferred price (to start with). This will in turn ensure overseas investors don't invest in our stock market or be particularly keen to invest further funds into projects until things are cleared up. The Oakajee Port and Rail project is just the first of a number of significant projects that may collapse due to the government's mis-handling of the issues.

On top of that we have a narrow sighted RBA who think increasing interest rates will fix inflation and have no further effect on the economy. The problem with this is that a high dollar also adds to the sovereign risk of foreign investors as nobody really believes our dollar is worth its current levels. Sure, "terms of trade" is often quoted as a justifiable reason for a our dollar being so high, but these terms of trade can so quickly turn around when profits and exports lag as does further investment due to higher sovereign risk perceptions.

Internationally, I think we are in a mid recovery slump and concerns over China slowing, the US economy falling into recession are way overdone by a market that is constantly looking for bad news to support a very bearish outlook. Eventually the market will realise it has overdone the bearish outlook a little and positive data will support a re-assessment and the market will react in a more positive way. We have to ensure we have taken advantage of this period of bearishness and not wait like everyone else for something positive to happen because by then the good prices will be gone.

Things are nowhere near as bad as the media would have you believe, but then it's their job to write headlines that compel us to read their "stories".

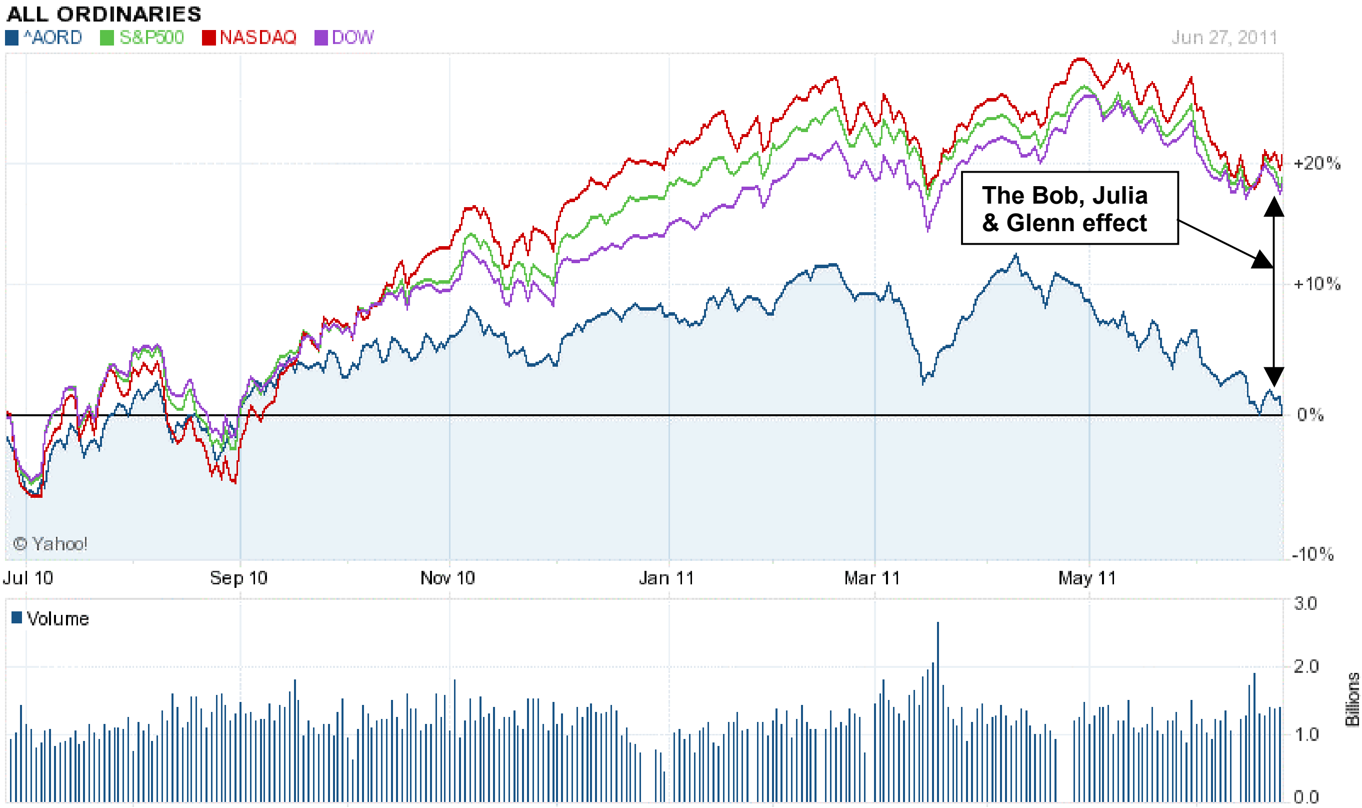
I know some days we are tested and you wonder why you bother with the stock market? You sometimes feel like giving up and going to cash, but it's the biggest mistake you may make. Going to cash is "capitulation" and you can't make money from the sidelines and at some point the market will turn and that point is not too

far away and the agony of watching the market rise and not being part of it is almost as bad as watching it fall. The fundamentals are all pointing towards the market being oversold even after Monday's rally.

What you need to do now, as we did last year when the same thing happened, is to hang in there, stick with your investments and consider prudently buying more on those down days because at the end of the day, the stocks we have aren't just stocks in the stock market, but are real businesses increasing profits and growing – every single TC and Trident Fund stock is increasing profits – the best type of business to own. Look past short-term events that muddy our mental waters and focus on the long-term prospects for the great companies we have invested in. We will be well rewarded for our patience and "stickability".

Australian Stocks - An Update on last week

Our Research Analyst, Andrew and I have been looking at some Australian stocks for re-inclusion (or initial inclusion) into our portfolio in recent weeks and have come up with a re-inclusion in XXXX.AX. However, I want to show you something that may explain my current reluctance to buy more Australian stocks….. Check this out….



One Financial Year on and the result is 0, zero, nada, nil return on the All Ords. Notice the US indices?

The reason for this enormous underperformance?

I have 3 names that will give the answer.

Glenn "Bozo" Stevens – RBA Governor for his unnecessary interest rate rises (and obsession with government stimulated inflation) that have driven the AUD$ to such heights that Australian companies have had to downgrade profit projections. If you were wondering about the "Bozo" bit? Mr Stevens really is a clown.

Bob Brown – Greens Leader and his deal with the Labor Party that a Carbon Tax should be implemented otherwise the Labor party stays in opposition. This forced Julia "There will be no Carbon Tax" Gillard to give in. Her political desire for power overwhelming her sense of doing the right thing and keeping her promise to the Australian people. If you want to know who's running Australia, it's a nutty bloke from Tasmania.

Julia Gillard – Prime Minister who reluctantly agreed to share power with the Greens if she could be the boss, but now is making a real meal of it by providing such uncertainty about the price the carbon tax will be levied at that investors are reluctant to invest in Australia. The issue between the Greens and Labor is simple, the Greens want an enormous impost on the Australian people and the Labor party are sensible enough to know it will be a disaster. Ask Julia what she and the Labor party really think, and they hate the Carbon Tax as much as we all do and hope it falls over, but she and the hairdresser do like the Lodge, so, big deal if people lose jobs and your electricity bill turns up on a pallet next year.

The solution is simple. Scrap the Carbon Tax and cut government spending. Certainty will return to the markets, interest rates will stabilise or fall as inflationary pressures ease and Australian companies will increase profit projections as the dollar falls. Investors will respond by buying Australian equities again.

Now, don't get me wrong here and think I've some political agenda, as many of you know who have read my books, I have been equally critical of Liberal governments when I think they are doing the wrong thing. This has less to do with politics and more to do with economics. When a political agenda gets in the way of the stock market going up and you good people making an honest dollar – I get cranky – and I'm cranky with Julia, Glenn and Bob (not that they could care less) ☺

Well here are some stocks we have done work on this week.

XXXX – Neutral – Price Appreciation Potential in the next year 13%

Doubt exists over their future growth due to delays related to XXXX project and concerns that more projects could be delayed or cancelled due to the new taxes the Labor/Greens government wants to introduce next year.

XXXX – Buy – Price Appreciation Potential in by 2013 50%

The recent capital raising at $8.50 per share was over subscribed and most of directors participated at that price, now we find the price well below that in the under $7 range. Based on earnings next year which will be around $0.60 and a PE applied at the low end of where they usually trade, say 13, the price should be around $7.80. However, if we look even further out and take into account their new world class facility at XXXX, when it will be up and running, the earnings will be more like $0.80 and at 13 times, we are looking at $10.40, which is roughly a 50% rise from here. The stock is now good value as early investors are exiting in increasing numbers as the stock (and the whole market in Australia) falls.

The thing is, XXXX is the world's most advanced and most efficient manufacturer in buoyancy products for the offshore oil and gas industry. An industry as we know is expanding as the world requires ever-increasing amounts of these commodities. Now, elsewhere in this issue I talked about not investing in oil and gas directly as I don't believe oil prices will necessarily rise as much as people think they will. However supply will increase and XXXX is a play on increased demand not necessarily the profitability of oil producers. At the moment there are increased orders for drill ships for offshore exploration and XXXX will no doubt get some of the business to supply their flotation devices. In addition, these "modules" (the buoyancy devices that XXXX makes) have a limited life and they need to be replaced after around 10 years or less and there are approximately 200,000 modules in service today and around 20,000 each year need replacing which is equivalent to US$250m in sales. XXXX's share of this replacement market is growing due to their products being regarded as the best in the world. Estimates are that 30% of this market will go to XXXX as well as new rigs and drill ship requirement for expanding production.

Now, it's true XXXX faces headwinds as far as the AUD$ goes, but that is already accounted for in the price and I expect that this situation will begin to turn later this year. As far as their huge new facility, all cap-ex requirements have been made so there will be no further capital raises to dilute stock. Long-term growth should run at around 15-20%pa based on their market share and increased production requirements of oil and gas to due emerging market expansion. I think the present price fall is an opportunity to get on board this growing company.

We are currently still reviewing:
XXXX
XXXX
XXXX
XXXX
XXXX

Reader's Letters And Questions

You may have noticed I have started publishing letters from subscribers so you get to have your say on the issues brought to a wider audience. It's often helpful to hear the experiences and thoughts of other subscribers who have may have very similar financial goals to our own. I hope you find them helpful and enlightening.

Patience and Placing Your Trades

Hi Lance
*Just wanted to share this experience with you since it was your system, which produced it. I have had orders in for second allocations of **XXXX** and **XXXX**. I was sure XXXX had got away but last night picked up both **XXXX** and **XXXX** at the **very bottom** of the range for the day. This was even more surprising since the NASDAQ went up last night. It was very exciting to have this little win after getting stopped out a few times recently.*
Regards
Barbara B.

The Carbon Tax

Hello Lance,
Just a couple thoughts from a subscriber in NZ.
I joined Trident about two months ago and i now fully understand the meaning of volatility!
The positive aspect i guess of starting my investing during difficult times is that you learn heaps and you learn fast.
I sure hope you are right about the second half of this year.
I have read all the newsletters from over the last year and have learnt heaps from them, especially Q&A's from subscribers.
Watching the goings on in Aust from overseas I've got to say it does not fill me with confidence about Australia's immediate future. I reckon the keystone cops could do less harm than Gillard and her band of socialist/communist buddies are doing. Having a Labor/Greens govt in power for another couple of years is going to knock the stuffing out of investor and consumer confidence. Because of the carbon tax insanity and mining tax etc I am selling my only Aust stock and will be 100% in USA stocks.
The so-called carbon tax is just a Trojan horse for wealth redistribution - something socialists excel at.
You could pray for an early election, but as they say turkeys don't vote for an early Christmas.
Cheers, Tim M.

The Future of Trident Confidential as a Going Concern

Dear Lance,
Thank-you very much for all your exceptional hard work on Trident Confidential and more importantly keeping me positively focused as I'm naturally disposed to the negative by my nature.
Because you're a very busy person I will keep this short.
Speaking on behalf of all your clients, do you have a contingency / redundancy plan for when you retire, or god forbid happen to pass away or just merely be not able to write, research, work etc etc.
I mean you have taught us how to do this stuff for ourselves, which is absolutely awesome, and I'm very very grateful, but most of us are full time working (and more) and simply cannot hope to cover the ground work you do for us through your Trident Confidential Newsletter and recommendations.
Have you trained someone up to replace you? I mean you're pretty much "un-replaceable" I know, but you know what I mean. Your vision, experience and advice etc. With your knowledge of the requirements for top stock picking wouldn't you be able to "choose" some-one who you could have as a ride along and eventually develop, be groomed up to the same abilities or very similar whom you would "trust "to deliver the way you deliver? Speaking for myself, to learn next to a master surely anyone would jump at that opportunity, no?

It'll be sad day when you stop delivering your newsletter. I look forward to it every week even when I'm pressed for time. I look forward to your reply.
Kindest regards, Peter

Response: Thanks Peter, a good point you have made there and it's not the first time it's come up. Well, contrary to what some people might think I'm not as old as Methuselah, but some days I feel like it, so I have no plans of retirement at this stage or planning to get run over by a bus, but I do have a "plan".

The plan is for my son, Andrew to take over one day as he already works in the business as our research analyst and is not only passionate about investing, he seems to have his Dad's "knack for numbers" and reading a balance sheet and cash flow. He's qualified and currently holds an Australian Financial Services License and he's in the process of learning the processes and logic I apply to what we do here. You may not have noticed but he was responsible for picking **XXXX** and this week's new pick, **XXXX**. Over time, he'll be contributing a lot more to our newsletter, but I won't be going anywhere for quite a while. So, to calm concerns, yes there is someone right now learning what there is to know from the horse's mouth so to speak.

Portfolio News

XXXX Beats Expectations and Shares fall in a heap, but then bounce back!

XXXX reported great earnings and sales. However, Wall Street didn't like what it terms as softer than expected hardware sales. As a result, the stock sold off last week, due to analysts saying they were disappointed and this filtering through to investors.

Are these people on drugs?

These analysts do not understand XXXX's business model at all. Seriously I wonder where they got their degrees from? XXXX is doing very well and it's numbers support this. These analysts have not done their research properly as they don't understand the leverage the XXXX business model is developing with the XXXX acquisition. XXXX allowed XXXX to grow it's more profitable software business and keep the hardware business in house as well. The growth was always going to be in the software side. I have no idea what the analysts were thinking when they expected huge growth in hardware this early in the integration of XXXX.

The analysts have it all wrong and just because the results didn't fit their out of step prediction they think something is wrong.

The bottom line here is, XXXX's profits increased 36 percent as new sales of business software were at the high end of its expectations. Revenue rose 13 percent.

XXXX said net income was $3.21 billion, or 62 cents per share, in the fiscal fourth quarter, which ended May 31. That compares with $2.36 billion, or 46 cents per share, a year ago.

Excluding stock-based compensation and one-time expenses, XXXX earned 75 cents per share, higher than the 71 cents per share that analysts polled by FactSet expected. That's a 6% earnings beat and it also beat expectations on sales! Revenue of $10.78 billion was slightly higher than the $10.76 billion that analysts expected.

However, it was revenue in its hardware division that upset the analysts which was flat at $1.83 billion.

XXXX management told analysts on a conference call to expect the next quarter's earnings to be between 45 cents to 48 cents per share, which is roughly in line with the consensus 46-cent estimate, but slightly above previous indications.

Next quarter's revenue is expected to rise 9% to 12%, which would equate to roughly $8.27 billion to $8.5 billion. That is ahead of analysts' $8.28 billion estimate.

Sales in the much mis-understood Hardware division is expected to be flat with either a revenue fall of 5% or a rise 5% from the year-earlier level. New software license revenue is expected to rise 10% to 20% in Q1.

After this result I am even more bullish on XXXX!

XXXX – What Next? World Domination?

Just when you thought XXXX could do no more, the rumours are now circulating that XXXX's in development to create a television set to use with its XXXX technology that could debut next year, an analyst report said.

Industry sources believe the company will enter the TV market with a full focus, as an all-in-one XXXX television. It's estimated that of the 220m flat panel TVs expected to be sold in 2012, 48% units will be Internet-connected, of which XXXX is expected that it could sell 1.4m units.

The analyst who came up with this, Gene Munster, has been talking about this for the better part of a year, but as we all know, even a broken clock is right twice a day. Munster seems to think that XXXX's XXXX like XXXX, XXXX and XXXX are already on board, so the transition will be seamless, especially with XXXX offering easy media storage. There was then further reports from a former XXXX executive who stated that XXXX had registered several TV oriented patents.

XXXX already has it's set-top XXXX TV, so one wonders if it was really serious about creating a TV? Would XXXX bother competing with manufacturers such as Samsung, Sony and LG, which are already established brands with factories in place. While the XXXX television would have XXXX internal hardware, most televisions would be iOS-ready without XXXX having to create them. However, how many XXXX devotees would line up for an XXXX TV? Probably millions. This analyst may be way off the mark, or there may be truth to the speculation, but one thing is certain, XXXX is not going backwards and based on the proliferation of their XXXX, and XXXX TV would be a big hit, particularly if it integrated all their products and the XXXX. I believe a guy by the name of Bill Gates predicted this would happen in his book, The Road Ahead years and years ago, but I think he thought it would be Microsoft leading the charge not those upstarts from XXXX taking over the world.

Website Improvements

We continue to change the new website and make improvements, as we see how we can better assist subscriber's to do more on their account. If you are having trouble with any function and the User's Guide – Getting Started Instructions are not helping, please email sales@tridentpress.com.au with the issue and someone will be able to help.

Remember, we have included all the functionality so you can make changes immediately by yourself, so if you can't follow the instructions and want to be shown how so you can do it in future, please ask.

Trident Global Growth Fund – Last Opportunity Before June 30!

Today is probably the last day you'll be able to transfer funds into the Trident Global Growth Fund for the Financial Year ending tomorrow. So if you are topping up your Self Managed Super Fund or just taking advantage of the June Stock Market slump – transferring funds today makes good financial sense. I transferred my funds yesterday to take advantage of the recent stock market slump.

My Interim Fund Manager's Report on the Trident Global Growth Fund is available at:

http://www.tridentinvestment.com.au/fund-manager-s-report.aspx

I discuss the mini correction in May and some of the Fund's positions and the Investment Themes that I see affecting the fund going forward longer term.

Details and Product Disclosure Statement (PDS) of the fund can be found at: www.TridentInvestment.com.au

NOTE: For anyone topping up their account – Please make sure you are making payments to the new custodian - Australian Executor Trustees Limited as per the PDS instructions.

Economic News from the US

Existing Home Sales in the US Fall Further, but Better than Expectations

The declining trend in existing home sales continued in May. Sales of American single-family homes and condos fell 3.8% to a six-month low. Sales fell to a rate of 4.81 million, which was just above analysts' estimate of 4.8 million.

Initial Unemployment Claims Edge Higher

The markets dipped last week after a higher than expected jobless claims report. Unemployment claims rose 9,000 to 429,000 last week. The previous week's claims were also revised higher to 420,000 up from the original 414,000 reading. Analysts expected claims to fall to 415,000 last week so the report proved to be unpleasant surprise.

Some Good News - Durable Goods Orders Rise

After three-months of decline, the durable goods orders picked up in May. Orders for durable goods rose 1.9%, while the consensus estimate only predicted a 1.5% increase. Auto and parts orders also rose a small, but still encouraging, 0.6%. The big mover was civilian aircraft orders. Outside of transportation gains were also seen in electrical equipment, communications, computers, machinery and metals. This report was a very good sign for a more earnings surprises to come.

The Week Ahead

I think Greece will still be the focus and whether the progress made last week continues – I think it will. Then there will be focus on the US economy and any further signs of weakening. I suspect the markets may just bounce around a bit rather than going up or going down too much further.

We also have the ISM manufacturing Index coming out this Friday, and the non-farm payroll report next Friday. Both reports pertain to June, so they technically don't form part of the second-half numbers. But the numbers will nevertheless be significant since the momentum in June, or lack thereof, will carry into July and beyond.

- Thursday: US Initial Jobless Claims. The US Labor Department produces this report that details initial jobless applications. The report provides an indicator of the direction of the economy, with increases or decreases in claims that signal slowing or accelerating job growth.

- Thursday: Chicago Purchasing Managers' Index. There are many regional manufacturing surveys that are used to measure the manufacturing activity in certain regions. The Chicago purchasing managers' report, released on the last day of each month, is one of the most important. The purchasing managers' reports are measured like the national NAPM–50% marks the breakeven line between an expanding and contracting manufacturing sector. This week's survey will report data for June.

- Friday: University of Michigan Consumer Sentiment Index. The University of Michigan index is almost identical to the Conference Board index, though there are two monthly releases, a preliminary and final reading. This report is for June. Like the Conference Board index, it has two sub-indexes–expectations and current conditions. This index has increased its influence of late on Wall Street and has the ability to move the market up or down.

- Friday: US Construction Spending. The US Commerce Department will release its monthly report detailing residential, non-residential and public expenditures on new construction for March. Trends in construction spending can impact the broader markets.

- Friday: ISM Index. Or the Purchasing Manager's Index is an economic measure for the US business sector. This index is run by the Institute of Supply Management in Arizona, which releases a monthly report on the first working day of the month on the overall state of the business sector in the United States.

Remember, you can check the New York futures each day here: **http://money.cnn.com/data/premarket/index.html**
Make sure you have your stops in place

Last Week's Buys:

XXXX	**Bought at $37.13**	**2 allocations**
XXXX	**Bought at $1.94**	**2 allocations**
XXXX	**Bought at $42.75**	**3 allocations**
XXXX	**Bought at $21.27**	**2 allocations (I at the open on 22/6)**

Bought this week's stocks pretty much as per our Stocks in Range table although strength in Lynas meant we had to adjust buy the trade by a couple of cents for the first allocation.

This Week's New Buys:

XXXX.AX	**XXXX**	**Buying up to**	**$7.00**
XXXX	**XXXX**	**Buying up to**	**$16.40**

Our stock analyst, Andrew has come up with a great stock this week in **XXXX**. Not is it undervalued with a forward PE ratio, a PEG of 0.54, but for new technology stock firmly in the Green industry it actually produces excellent cash free flow. What's also exciting about this company is that late last year the management decided to buy back $200m worth of stock for the benefit of shareholders, so we have confidence that the management are "shareholder centric" with returns on equity over 90%!

Unfortunately, last night it had a good run, so maybe waiting for a little pullback may be prudent, however there is still plenty of value left in this stock and the orders continue to roll in.

You can find out more on stocks at www.yahoo.com/finance

XXXX

Buying up to US$16.40

Price Appreciation Potential: 49% +
Risk: Medium - Low
Analyst – Andrew Spicer

XXXX is a leading global supplier of xxxxxxx production equipment, xxxx xxxx growth systems and related xxx manufacturing equipment for the xxxxx industry.

Latest Results

Revenue for the fourth quarter of fiscal 2011 totaled $271.6 million, compared to $262.9 million in the third quarter of fiscal 2011 and $194.7 million in the fourth quarter of fiscal 2010. Gross profit for the fourth quarter of fiscal 2011 totaled $116.9 million, or 43.0 percent of revenue, compared to $122.1 million, or 46.4 percent of revenue in the third quarter of fiscal 2011 and $73.1 million, or 37.5 percent of revenue for the fourth quarter of fiscal 2010. Operating margin for the fourth quarter of fiscal 2011 was 30.5 percent of revenue, compared to 36.1 percent of revenue in the third quarter of fiscal 2011 and 28.4 percent in the fourth quarter of fiscal 2010.
The company had net income of $51.9 million in the fourth quarter of fiscal 2011 compared to $63.6 million in the third quarter of fiscal 2011 and $33.3 million for the fourth quarter of fiscal 2010. Earnings per share in the fourth quarter of fiscal 2011 on a fully-diluted basis were $0.41, versus $0.46 for the third quarter of fiscal 2011 and $0.23 for the fourth quarter of fiscal 2010. Net income for fiscal 2011 was a record $174.8 million compared to $87.3 million for fiscal 2010. This resulted in a fully diluted EPS of $1.24 per share for fiscal 2011, more than double the fully diluted EPS for fiscal 2010 of $0.60 per share.

Most Recent Guidance:

The company had previously indicated on its last earnings conference call on May 24 that it expected revenues between $140 million to $150 million, EPS fully-diluted in the range of $0.08 to $0.11 and gross margin of approximately 37% for first quarter fiscal 2012. The company now expects first quarter fiscal 2012 revenue of approximately $225 million based on sooner than expected completion of DSS™650 upgrades in Q1, allowing for Q1 revenue recognition for certain PV orders which had been previously expected in Q2. The fully-diluted EPS for Q1 is now expected to be approximately $0.30, and gross margin for Q1 is now expected to be approximately 43% to 44%.
The company reiterated its full fiscal year 2012 guidance provided on May 24, 2011, which includes: revenue in the range of $1 billion to $1.1 billion; earnings per share of $1.55 to $1.85; gross margin between 42 to 44 percent; operating expenses between $115 million to $125 million; capital expenditures of approximately $25 million to $30 million; and an effective tax rate of approximately 33 percent. In addition, given the significant number of orders it has received thus far in the first quarter of fiscal 2012, the company now expects its backlog at the end of fiscal 2012 to be at least $1.6 billion. Previously, it had estimated its backlog would be above $1 billion at the end of fiscal 2012.

Recent Developments

Announced that it has received an order for its xxxxxx totaling $460.4 million from a new market entrant. The order is XXXX's largest single order to date, and represents a significant milestone for the company as a leader in the fast-growing xxxxx industry. The order will be included in XXXX's backlog for its current Q1 FY12, which ends on July 2, 2011.
According to Strategies Unlimited, an industry analyst firm that tracks the xxxx industry, revenue for xxxxxx applications will be approximately $19 billion by 2015, with general lighting applications accounting for about 25 percent of this total. High brightness xxxxx are primarily manufactured on xxxxxx. This growth is driving the expansion of manufacturing capacity to meet the increased demand for high quality sapphire material.

Valuation

The balance sheet, cash flow and profit loss are very strong and in a business such as xxxxxx, that's unusual. What's also great is the fact that they constantly beat estimates. It's only been awarded a long term PE of 10, so we can use this is a benchmark for margin of safety, however, I think it will be rerated as time goes on and the xxxxx industry becomes more viable as fuel prices remain somewhat elevated. Looking forward its expected they should have EPS around $1.90+ and at a reasonable PE of 12 we can expect a price around $23 in the next year, maybe much sooner if their order book continues to build at the current rate.
That'll see a lift of around 49% from the current price.
In recent times we have seen a significant re-rating of the stock with analysts lifting estimates from $1.38 eps next year to now averaging $1.85 which I'm sure will be revised even higher. I mean, with an order book that was $1B, then jumping $600m in literally months, this company is doing very well.

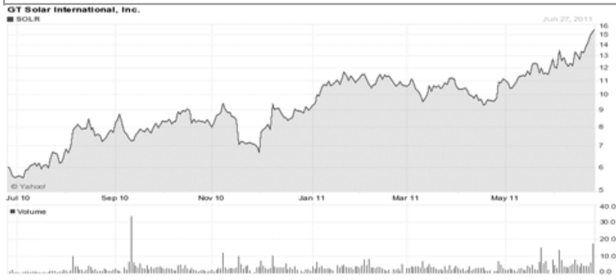
Valuation Measures	
Market Cap (intraday)	1.95B
Enterprise Value (Jun 28, 2011)	1.68B
Trailing P/E (ttm, intraday):	12.52
Forward P/E (fye Apr 2, 2013)	8.39
PEG Ratio (5 yr expected)	0.54
Price/Sales (ttm):	2.14
Profitability	
Profit Margin (ttm):	19.44%
Operating Margin (ttm):	30.86%
Management Effectiveness	
Return on Assets (ttm):	18.66%
Return on Equity (ttm):	91.75%

Earnings Est	Current Qtr. Jun 11	Next Qtr. Sep 11	Current Year Mar 12	Next Year Mar 13
Avg. Estimate	0.31	0.53	1.67	1.85
Year Ago EPS	0.11	0.28	1.24	1.67

Revenue Est	Current Qtr. Jun 11	Next Qtr. Sep 11	Current Year Mar 12	Next Year Mar 13
Avg. Est.	225.98M	309.55M	1.06B	1.18B
Year ago Sales	135.17M	229.29M	898.98M	1.06B
Sales Growth	67.20%	35.00%	17.70%	11.40%

Earnings History	Jun 10	Sep 10	Dec 10	Mar 11
EPS Est	0.04	0.24	0.38	0.34
EPS Act. l	0.11	0.28	0.46	0.41
Difference	0.07	0.04	0.08	0.07
Surprise %	175.00%	16.70%	21.10%	20.60%

EPS Trends	Current Qtr. Jun 11	Next Qtr. Sep 11	Current Year Mar 12	Next Year Mar 13
Current Est.	0.31	0.53	1.67	1.85
60 Days Ago	0.38	0.35	1.41	1.38
90 Days Ago	0.38	0.35	1.41	1.38



Stocks in Range and Limit Buy Orders based on 2 Allocations – Indicative Prices only and subject to change.

For a larger portfolio a 3rd allocation can be made at 8% below Buy Up To Prices. Average prices and stops should be adjusted accordingly. I place my stops AFTER I have filled all my positions and usually the following trading day (or at the latest, the end of the week regardless of allocations). Stocks in **Blue** are this week's New Buys. The prices shown are Indicative and are based on recent market prices. Actual buy prices can vary plus or minus 2% depending on market conditions.

Ticker	Company		Buy up to Price*	First buy Allocation	Second Buy Allocation	Avge Price based on two allocations	Stop Loss
xxx	xxxxxxx	Buying up to	$ 9.50	$ 9.31	$ 9.03	$ 9.17	$ 8.43
xxx	xxxxxxx	Buying up to	$ 342.00	$ 335.16	$ 324.90	$ 330.03	$ 303.63
xxx	xxxxxxx	Buying up to	$ 104.00	$ 101.92	$ 98.80	$ 100.36	$ 92.33
xxx	xxxxxxx	Buying up to	$ 83.65	$ 81.98	$ 79.47	$ 80.72	$ 74.26
xxx	xxxxxxx	Buying up to	$ 15.00	$ 14.70	$ 14.25	$ 14.48	$ 13.32
xxx	xxxxxxx	Buying up to	$ 5.07	$ 4.97	$ 4.82	$ 4.89	$ 4.50
xxx	xxxxxxx	Buying up to	$ 38.50	$ 37.73	$ 36.58	$ 37.15	$ 34.18
xxx	xxxxxxx	Buying up to	$ 38.50	$ 37.73	$ 36.58	$ 37.15	$ 34.18
xxx	xxxxxxx	Buying up to	$ 1.98	$ 1.94	$ 1.88	$ 1.91	$ 1.76
xxx	xxxxxxx	Buying up to	$ 44.50	$ 43.61	$ 42.28	$ 42.94	$ 39.51
xxx	xxxxxxx	Buying up to	$ 21.95	$ 21.51	$ 20.85	$ 21.18	$ 19.49
xxx	xxxxxxx	Buying up to	$ 0.52	$ 0.51	$ 0.49	$ 0.50	$ 0.46
xxx	xxxxxxx	Buying up to	$ 1.25	$ 1.23	$ 1.19	$ 1.21	$ 1.11
xxx	xxxxxxx	Buying up to	$ 63.00	$ 61.74	$ 59.85	$ 60.80	$ 55.93
xxx	xxxxxxx	Buying up to	$ 7.00	$ 6.86	$ 6.65	$ 6.76	$ 6.21
xxx	xxxxxxx	Buying up to	$ 16.40	$ 16.07	$ 15.58	$ 15.83	$ 14.56

Stock in Blue are this week's new buys.

*Note: Some Buy Up To prices are adjusted lower to better reflect the current market prices rather than my "Official" Buy up to prices. Always check official buy up to prices in the portfolio table.

Now, please don't race out and buy stocks and pay over the limit prices, always try and be patient and wait for the market to drive the prices down to your price. Place your stops after all your allocations are made – I do this the next day as I usually use 3 part allocations where possible.

To work out how I get good prices and place trades, refer to the User's Guide on the website.

My Favourite 5 Stocks

These are my favourite stocks at the moment that have **true medium to long-range potential (2-5 years)** - in no particular order. However, only buy these stocks if they are below my buy up to price.

- ✓ XXXX
- ✓ XXXX
- ✓ XXXX
- ✓ XXXX
- ✓ XXXX

This list can change at any time and it only represents the stocks I would have in my portfolio if I could only choose from 5. It will only be updated for each new issue, not at any other time.

My Bargain Basement Stocks

These are the stocks that I feel the market has under priced. I expect a short term upside correction (next 3 to 6 months) - in no particular order. However, only buy these stocks if they are below my buy up to price.

- ✓ XXXX
- ✓ XXXX
- ✓ XXXX
- ✓ XXXX
- ✓ XXXX

This list can change at any time and it only represents the stocks that I think the market has most dramatically under priced in our buy list at the present time. It will only be updated for each new issue, not at any other time.

Portfolio as at Tuesday 21st June 2011
Open Positions Only

Ticker	Company	Bought in	Recent Price	Price Paid	Profit	My Buy Up To Price	Earnings Based Valuation
xxx	xxxxxxx	Jun-11	$ 1.90	$ 1.94	-2.06%	$ 2.10	$ 3.00
xxx	xxxxxxx	Jun-11	$ 43.51	$ 42.75	1.78%	$ 45.00	$ 54.60
xxx	xxxxxxx	Jun-11	$ 21.49	$ 21.27	1.03%	$ 22.50	$ 52.50
xxx	xxxxxxx	Jun-11	$ 38.30	$ 37.13	3.15%	$ 38.50	$ 66.00
xxx	xxxxxxx	Jun-11	$ 14.91	$ 14.21	4.93%	$ 15.00	$ 30.00
xxx	xxxxxxx	Jun-11	$ 37.92	$ 37.78	0.37%	$ 40.00	$ 67.00
xxx	xxxxxxx	Jun-11	$ 78.88	$ 69.72	13.14%	$ 74.75	$ 100.00
xxx	xxxxxxx	Jun-11	$ 9.47	$ 8.32	13.82%	$ 8.65	$ 17.00
xxx	xxxxxxx	Jun-11	$ 78.14	$ 75.24	3.85%	$ 77.00	$ 90.00
xxx	xxxxxxx	Jun-11	$ 1.18	$ 1.15	2.17%	$ 1.16	$ 1.60
xxx	xxxxxxx	Jun-11	$ 81.95	$ 80.97	1.21%	$ 85.00	$ 125.00
xxx	xxxxxxx	Jun-11	$ 14.26	$ 10.29	38.58%	$ 10.50	$ 15.00
xxx	xxxxxxx	May-11	$ 0.50	$ 0.52	-3.88%	$ 0.52	$ 0.78
xxx	xxxxxxx	May-11	$ 9.22	$ 9.80	-5.92%	$ 10.50	$ 12.75
xxx	xxxxxxx	Mar-11	$ 103.84	$ 100.94	2.87%	$ 104.00	$ 152.00
xxx	xxxxxxx	Mar-11	$ 86.89	$ 85.75	1.33%	$ 88.00	$ 112.00
xxx	xxxxxxx	Feb-11	$ 14.21	$ 13.23	7.41%	$ 14.00	$ 24.00
xxx	xxxxxxx	Dec-10	$ 7.72	$ 5.78	33.56%	$ 7.00	$ 11.20
xxx	xxxxxxx	Nov-10	$ 365.75	$ 253.02	44.55%	$ 325.00	$ 465.00
xxx	xxxxxxx	Oct-10	$ 4.97	$ 5.12	-2.93%	$ 5.10	$ 7.15
xxx	xxxxxxx	Aug-10	$ 1.23	$ 0.94	31.55%	$ 1.25	$ 2.04
xxx	xxxxxxx	Aug-10	$ 100.70	$ 73.31	37.36%	$ 100.00	$ 155.00
xxx	xxxxxxx	Aug-10	$ 61.69	$ 40.83	51.09%	$ 65.00	$ 89.50
xxx	xxxxxxx	Aug-10	$ 47.60	$ 31.83	49.54%	$ 46.00	$ 72.00
xxx	xxxxxxx	Jul-10	$ 58.71	$ 29.92	96.22%	$ 50.00	$ 75.00
xxx	xxxxxxx	Jul-10	$ 50.80	$ 30.38	67.22%	$ 49.50	$ 80.00
xxx	xxxxxxx	May-10	$ 36.68	$ 16.66	120.17%	$ 29.25	$ 48.00
xxx	xxxxxxx	May-10	$ 45.31	$ 23.92	89.42%	$ 41.00	$ 68.00
xxx	xxxxxxx	Feb-10	$ 335.26	$ 192.67	74.01%	$ 350.00	$ 435.00
xxx	xxxxxxx	Oct-09	$ 32.34	$ 21.15	52.91%	$ 28.00	$ 38.00
	Open positions average return				27.62%		

Stocks **within my buying range** marked in **purple** in the Buy Up To column

Earnings Based Valuation is calculated by using the forward earnings estimate multiplied by the average historical PE after removing abnormal peaks and troughs and taking into account sector averages or changes to the business model and taking into account long-term growth profile. ETF's are calculated using the estimated earnings of the underlying 10 largest positions then multiplying by the gearing ratio. EBV is updated when year forward estimates change materially. Prices shown are potential prices over the next 12 months.

NA in the Trailing Stop Loss Column means that the 8% stop loss is still force. It changes to a TSL when the profit exceeds 22% (the actual TSL will be 25% from the intra-day high) at any point in the time we have held the stock.

2011 Results

The portfolio increased 2.98% in the last week. – Based on the return methodology we are using (see end of the newsletter), taking into account closed (losing and profitable) positions and allowing for new open positions bought. Based on an evenly weighted portfolio.

Total Portfolio Return for 2011 is +15.73% (6 months)

The Australian Market (All Ordinaries) fell 0.92% this week. –6.68% year to date
The US Market (S&P 500) was up 0.08% this week. +3.24% year to date
The TC Portfolio moved up 2.98% this week. +15.73% year to date

Please read Page 4 for a full rundown as to why the Australian market is so sick, even after Wall St has a good session the Australian market reacts badly.

Well, I can tell you the first half of 2011 has been tough and I say good riddance. I suspect however, the next 6 months will give us a better result, but it will be volatile.

How Calculating the Returns Works.

I have updated my explanation of how returns are calculated due to a number of requests from people to describe it better. So, here goes…..

Every newsletter in the world seems to have a different way of calculating their returns. However, these days, more and more seem to not indulge in this practice anymore due to ridicule, accusations of dodgy numbers and also because people who do the most accusing are generally those who have the least skill in doing arithmetic. So, for those who would like to know exactly how our returns are calculated, I will present a very simple example of how it's done at Trident Confidential.

Let's look at a 10 stock portfolio, all have the same amount of money in them at time of purchase, say $1,000 in each position.

	Price Purchased	Current Price	Price Change for reporting period	% Change during reporting period
Stock 1	$ 22.25	$ 25.62	$ 3.37	15.15%
Stock 2	$ 1.75	$ 1.85	$ 0.10	5.71%
Stock 3	$ 16.50	$ 16.23	-$ 0.27	-1.64%
Stock 4	$ 18.00	$ 18.92	$ 0.92	5.11%
Stock 5	$ 29.23	$ 36.78	$ 7.55	25.83%
Stock 6	$ 45.15	$ 68.23	$ 23.08	51.12%
Stock 7	$ 32.33	$ 33.98	$ 1.65	5.10%
Stock 8	$ 14.00	$ 16.95	$ 2.95	21.07%
Stock 9	$ 68.75	$ 72.98	$ 4.23	6.15%
Stock 10	$ 11.23	$ 23.62	$ 12.39	110.33%
		Over the period the Portfolio Increased by 24.39%. This is the average amount each stock		24.39%

increased and therefore, the portfolio

Also, during the period, it could be a week, or month or a year, there could have been a sale and a new buy.

These transactions are included in the reported return as part of the period's return as either a loss or a profit depending on the purchase price and price the stock was sold for or the current price of the new stock. This profit or loss effect to the portfolio is apportioned in terms of its size and effect to the portfolio over all. In the case of a ten stock portfolio as above, the effect of one loss on a sold stock, of say 8%, will have an effect of 0.8% negative return over the whole portfolio due to it being only a tenth of the portfolio. Therefore in the example above, the return for the period would be 23.59% (in simple terms) The same would apply to a profit on a stock bought between reporting periods, it would be added on.

The effect on the portfolio, as a percentage, affects the portfolio and how many stocks are in the portfolio at the time the transaction occurs. All stocks in the Trident Confidential portfolio are of equal purchase size (evenly weighted), so as to keep it as simple as possible.

The returns shown are indicative and will vary from subscriber to subscriber due to the amount of money invested in each position and the number of positions invested in.

Obviously, the portfolio return can only be used as a guideline as it would be unusual, one would think, that a subscribers portfolio would be equally weighted and purchases and sales would take place on exactly the same day and at the same price as the portfolio records the transaction. The Portfolio Table shown above is indicative only and is based on an evenly weighted portfolio with stock movements recorded based on recommended and achievable buy and sell prices.

The returns do not take into account dividends received or re-invested, brokerage or foreign exchange fluctuations between the Australian dollar and the US dollar whether favourable or not. Foreign exchange fluctuations also carry a degree of risk.

Until Next Time…
Kind Regards
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