



Common Sense Rules to Investing in Current Climate

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Let's look at transport share performances in relation to earnings and recommendations, and trading off bottom 1H09

Contrarian, in moderation: Buy when others are running for exits. But don't be a hero by being too early. March 09, and even later for some, was a better time to buy than 4Q08. Current RSI on S&P 500 is on high side...but has been at elevated levels before. One has to keep asking questions about the 02 triple bottom pattern and other market bottoms. In 02, third bottom was a "higher low"...The double bottom in 4Q08-1Q09 saw a lower low than first ...

Momentum and liquidity: The trend is your friend. Until it isn't anymore. 2Q09 was a good time to go out and play. Aren't the risks of playing in 3Q09 higher, justifying locking in some trading gains? Med-term, the scary part of being under-invested when shares trade up too far too fast is that save the world "maximum liquidity policies" force one to stay invested given zero interest income policies. We received one bank statement this week which renewed a one-month deposit at exactly 0.0% (who would request such punishment?). Puzzled, we went to the bank manager to review the steps to this unrequested auto-renewal. The banker duly reversed the transaction "without charge"

Good companies with bad earnings: UPS on 23 July reported an approximate 49% decline in 2Q09 profit. Shares were indicated significantly lower in pre-market and early trading, as guidance was weak. But as the company ran into a "better housing data" better than "weaker employment data" rally, shares reversed early losses and ended well up on the previous day close. The day trade, had one opted to turn such a purchase of shares at open into one, could have easily netted 5%. Had the market fallen, then the decision could have been to add a good company to the long-term portfolio. We think focus should remain in strong companies for long-term players...

Bad companies or problem companies: Many transport companies are in this camp in 2008-09?, along with many banks and many cyclical plays...One broker did a study several months ago showing a portfolio of junk shares performed better than those of higher quality companies in the Big Rebound of 2009. This is common sense. The reverse could be – and we believe investors have to be ready for this now – that better quality companies could perform better than junk companies at some point soon. Certainly worth checking here

Ignore most upgrade/downgrade calls (use your common sense on timing): Using TNK as an example, we saw shares pop last week on a broker upgrade¹ –following a miserable pre and post share placement experience from banks recently. Watching the performance relative to market for a small cap can be revealing and challenging. Post the upgrade, the shares opened at post-placement highs and closed the week only a shade above the open level on upgrade. The safer strategy was to ignore the timing of the recommendation before and after, and keep one's own views of trading and value as determinants of investment strategy. Most investors we think do the latter already

¹ Note Sally Krawcheck 21 July 2009 FT opinion page on analyst compensation tracking for good/bad recommendations. Though she made noteworthy comments, compensation is also determined by seniority, internal politics, and perception. We cite a piece in *The Economist* a few days earlier on "Going Overboard: Are investment banks run for employees or shareholders?" (http://www.economist.com/businessfinance/displaystory.cfm?story_id=14034875)... Adding a one trading day delay to rating changes to better measure post recommendation performance, and adding other measures (ie, VWAP or volume at price for smaller stocks) would at least improve performance tracking...Relative versus absolute performance is another key debate. A stock up in an up market is not rocket science...But there is value to absolute also. Note, for instance, **COSCO Pacific** and **COSCO Holdings** have had roughly similar performances YTD, despite more than usual Sells/downgrades in COSCO Pacific from market bottom 4Q08/1Q09 (26 July 09 15:9 ratio of Sell/Hold to Buy calls). As often pointed out, it often comes back to process and method, not the people following instructions. We have sourced stories from market reports and every effort is made to reflect news items fairly and accurately. However we can make no warranties of any kind as to the contents of reports and we shall not be held liable for damages. Our views represent our current opinions with respect to available data and information. **Transport Trackers** © is a subscription-based service for paid clients, therefore re-transmission of our reports is not permitted. For more information please contact us at sales@transport-trackers.com or charles@transport-trackers.com.