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To: Charles Raj, Editor  
From Bill Wermine  
Subject: Traders Tool Box

### **The Stock Market Wealth Formula**

Despite the onslaught of bad news in America, the Dow, Nasdaq and S & P 500 and most world stock markets continue to power ahead with the Dow and S & P 500 making new highs. Bad news includes the housing collapse, credit crunch, low job creation, falling earnings of many major corporations, rising oil and commodity prices, and the disastrous Iraq war.

If not for the US Federal Reserve, European Central Bank and Bank of Japan working in partnership intervening by injecting massive amounts of money into the markets, the world would be in the grip of a global equity bear market. Eventually this could lead to hyper inflation.

### **Why are world stock markets including the KLSE powering ahead ?**

The answer is simple: Markets are moving because they move by the Stock Market Wealth formula.

### **Stock Market = Liquidity + Intervention + Exports**

You can throw fundamentals and technicals out the window. Central banks worldwide are injecting massive liquidity into the markets to avert stock market collapse. Professionals are moving into commodities, equities and hard assets as a protection against inflation.

Gold recently breached a 27 year high. The same is true for copper, silver, lead, nickel, steel, aluminum, tin, grains and virtually every commodity.

Exports are positive for the liquidity side of the stock market wealth formula. It means more money coming into the KLSE. Savvy investors are funneling this liquidity into quality shares and hedge funds which take positions in hard assets and commodities.

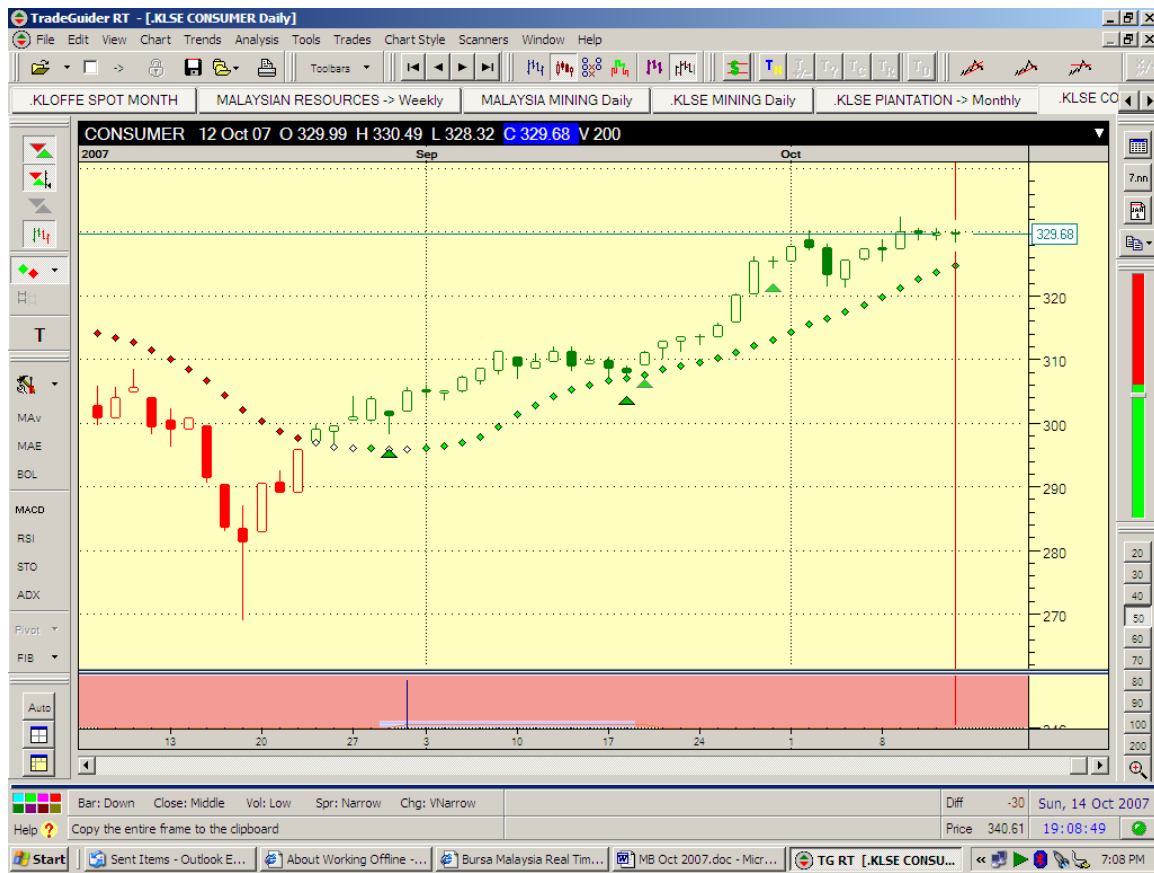
### **Strong Malaysian exports support continued gains in the KLSE**

Malaysia continues to post trade and current account surpluses, the 118<sup>th</sup> consecutive trade surplus since 1997. This is supportive to the KLSE as it increases liquidity.



*The KLSE Plantation Index which is in a persistent marching bull is a good reflection of the commodity price boom. As long as price closes above the TradeGuider green diamonds the up trend should continue and quality plantation shares should out perform.*

The continued drop in the US Dollar is also supportive for commodities. As the US lowers interest rates investors are moving to commodity based markets such as Canada and Australia. Malaysia also benefits because of its natural resource riches.



***The KLSE consumer index is also in a solid up trend as evidenced by price trading above the green diamonds and 2 TradeGuider triangle buy signals.***

The bullish consumer index reflects increased sales and earnings of quality consumer companies.

The KLSE continues to power ahead as it climbs the wall of worry and uncertainty. When the crowd of sheep are fearful we should be optimistic. Stick to quality issues with good fundamentals and use your MetaStock/ TradeGuider filters to find shares ready to move. You may use Dynaquest stock performance guide to filter for fundamentals.

In all cases no matter how strong a company is you must have a predefined exit point should conditions change. (You will never know when conditions changed by reading the press or listening to the TV. By the time the media reports problems the share has dropped substantially. Your trading skills and software can give you advance warning)

Recently I picked up Maybank for all my managed accounts based on its 22 % fall from Feb highs even though sales and earnings are increasing. Maybank should benefit because of the stock market wealth formula just as quality shares world wide continue to power ahead. The stock market profit formula= Liquidity + Intervention + Exports, is what is driving world markets including the KLSE.

That is why all news including bad news is good news for the stockmarkets. Focus on plantation shares, commodity shares and companies that can raise their prices with inflation. Eventually the party will end but for now enjoy the ride.

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