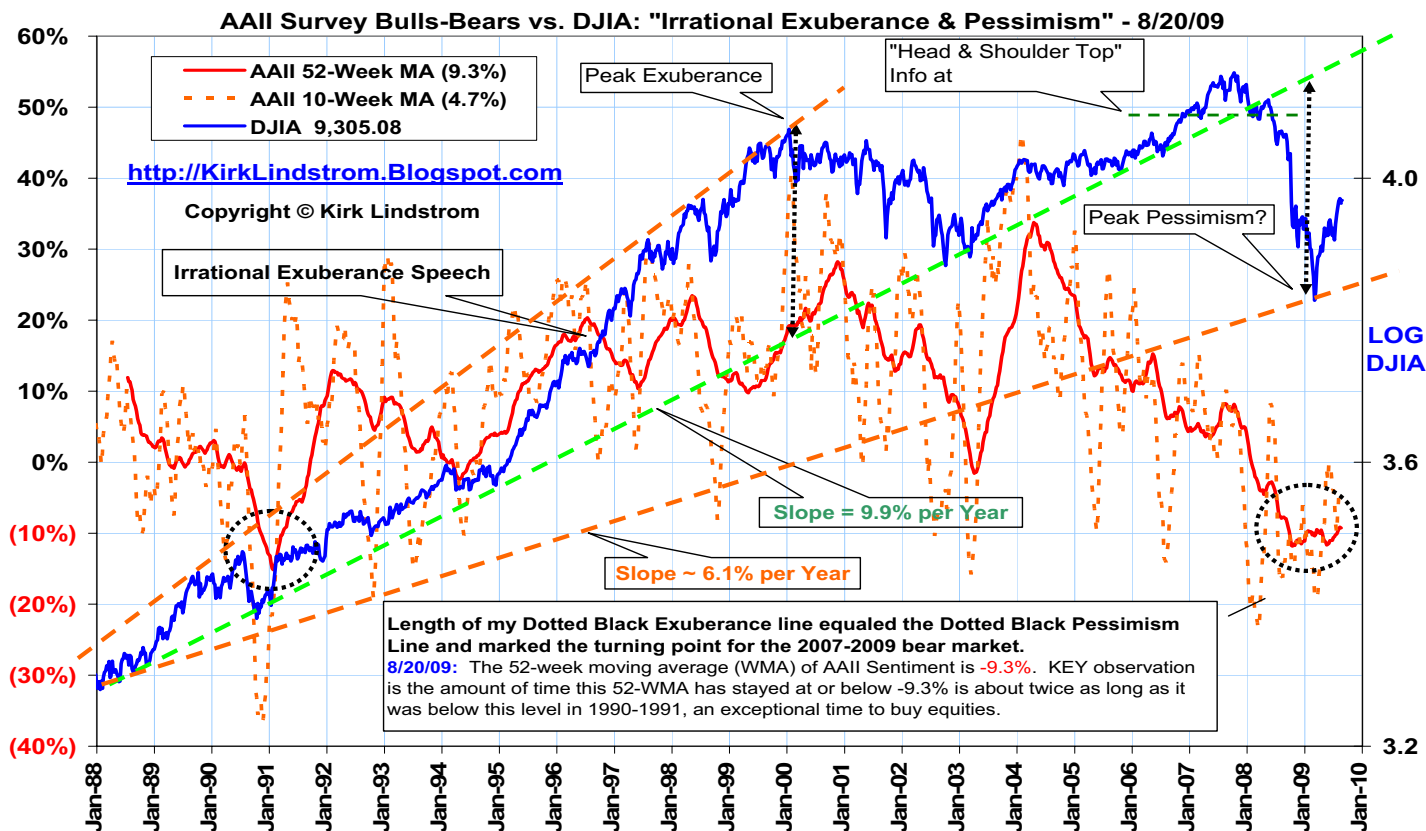


Kirk Lindstrom's September 2009 Investment Letter

8/20/09 Sentiment Update: Remember, typically I do not “approve” of trying to time the markets except for a very small part of our explore portfolio in an attempt to get better prices when asset allocation already says to buy or sell. This could change at an extreme.



I first posted this chart showing peak pessimism reached the same level of peak exuberance in my March 19, 2009 newsletter, just 10 days after the market bottomed. For new subscribers, this is some of what I wrote:

The AAll chart above shows a dashed green line for a 9.9% annual return since Jan 1988. This line was the “support level” for the DJIA until early 2008, about 20 years. I show two dotted black lines with arrows marking distance from this green line as “peak exuberance” and “peak pessimism.” I point that out to show that, when measured as distance from a long-term return of about 10%, the low set about a week ago was about as pessimistic at the low before the rally as it was overly optimistic at the top in 2000. If the market was a rubber band, this would be the perfect “snap-back” level to return to trend of about 10% a year.

I also show “Head and Shoulder Top” that I posted on this chart over a year ago as a personal reminder to remain cautious. It clearly was a top and the market exceeded the “minimum target” of about DJIA 9,000.

Finally, back in 1988 you could buy a 30-yr Treasury Bond that paid about 8% a year interest so the DJIA has under performed it by about 2% a year for the last 20 years, a very, very rare occurrence. **Regression to the mean plus pessimism greater than peak optimism suggests we are due for a very large rally** after investors realize Treasury bills paying a few percent at best will not keep up with inflation.

It took the DOW about 3 years to fall from peak exuberance to the green trend line. It could easily take just as long to reach that line again but from a point of peak pessimism. We could easily remain in a secular bear market where we do not make a new high for years, but I believe there is significant money to be made as the market recovers to trend from the trillions of dollars on the sidelines returning to the markets. Note that the last three bear markets began (1998, 2000 & 2007) just after new highs for the 52-wk moving average (WMA) of AAll. People as a whole are so bearish now that I'd not be surprised if the markets rally to undo most of their declines in a year or two. We COULD get a “higher high” for the 52-WMA just before the markets enter another major bear market.

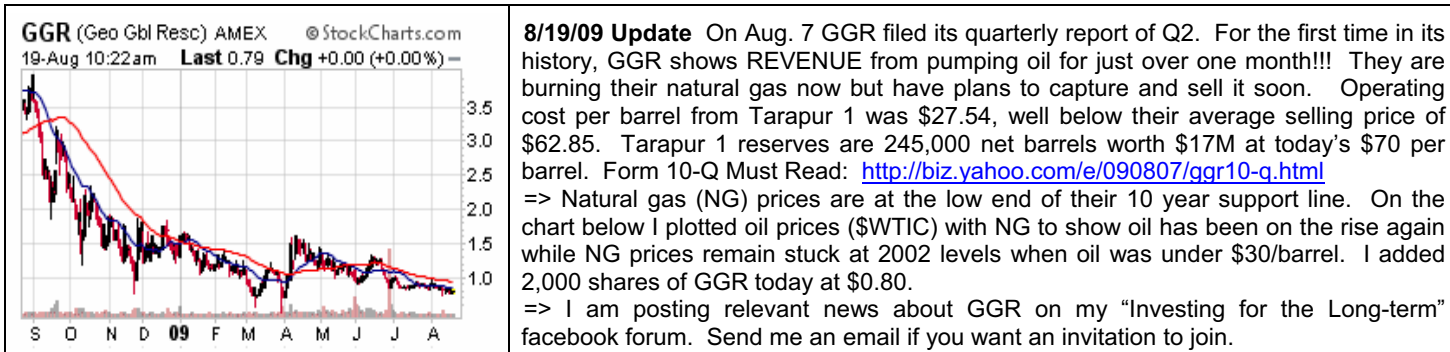
Market Timing Disclaimer: No sentiment indicator, or any indicator for that matter, is 100% reliable. I look at sentiment as head winds and tail winds. When sentiment is terrible, then it acts like a tail wind for your returns where you could see further declines, **but long term, it is best to be buying when most others are selling.** Likewise, if we see sentiment get too bullish, then I would consider lowering my portfolio asset allocation. **It seldom pays to be buying stocks when EVERYONE is talking about stocks and how much money they are making at cocktail parties.**

In addition, I am not market timing but for a small portion of my explore portfolio. **I use market-timing indicators to tell me it is a good time to buy so I can add to positions when the market is down and thus help me overcome my fear to rebalance back to my target asset allocation.** Likewise, when the market-timing indicators are saying to sell, they usually come when the markets are high where I want to be taking profits. **The market timing indicators at market highs help me get over my greed and take profits.** Now and then, I may make an asset allocation adjustment based on the Fed Model saying the market is over or under valued. Some call that market timing, but I have stayed pretty close to 70:30 equities-fixed for many years despite the Fed model.

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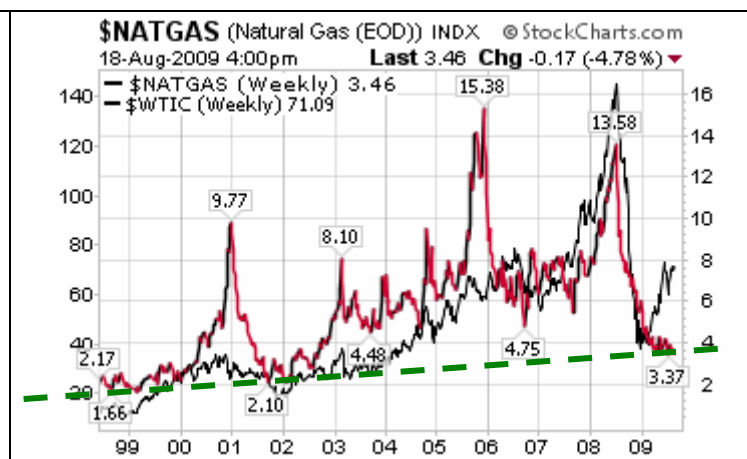
GeoGlobal Resources Inc.(GGR) is an oil and gas company based in Canada and listed on the American Stock Exchange. Through its subsidiaries, GGR is engaged primarily in the pursuit of petroleum and natural gas through exploration and development in India. GGR and its partner, GSPC⁸, have discovered what could be the largest natural gas (NG) field in the Indian Ocean. Since GGR showed it could successfully find hydrocarbons, they have made similar partnerships with other Indian oil companies. **GGR has a tiny revenue stream now from oil with natural gas (NG) sales to start any day so it remains highly speculative!** If we continue to buy shares when very low and take profits when up, it is a safe (but **VOLATILE**) way to invest in a key emerging market, India. After buying 2,000 shares at \$0.80 on 8/19/09, I have **\$24,696 cash profits taken** plus **7,900 shares** from buying and selling GGR. This is all profit. GGR could go to zero tomorrow and I would still have the cash. My goal is to use GGR as an ATM to generate more cash trading its volatility.



Warrants: GGR extended to June 20, 2011 the expiration date of warrants exercisable at \$9 plus the compensation warrants exercisable at \$6.50. These were originally set to expire in September of 2007 but were extended twice, similar to giving away free money via the value of free call options. They also have \$7.50 warrants extended to expire June 20, 2011. Warrant holders must exercise or lose the warrants if GGR trades at or above \$12 for 20 consecutive trading days. GGR gets money equal to the value of the warrant strike price when the warrants are exercised in exchange for a share of GGR stock. The thing to remember is big money believes this stock will be up well above \$7.50 in less than two years so the warrants have value or they would not have agreed to lock up their shares with the offering in exchange for the purchase warrants.

My Plan: If the past is any predictor of the future, GGR promoters will hype the stock to get it over \$12 to force the warrants to exercise so they get the warrant money. Then they stop the hype and let the price fall or crash when those who exercised and bought shares to hold for LT capital gains treatment sell to prevent a loss.... I would not be surprised to see them short the stock if they know there are people holding shares from exercised warrants with a \$7.50 cost basis. For example, promoters might promote the stock to \$15, sell their shares, then go short and not cover until it was clear the selling was over, perhaps back under \$6. My plan as of now is to have a mental trailing stop for 90% of my shares for some price over \$12 after the stock reverses. This will not be for the faint of heart.

8/22/09: Natural Gas prices are down a HUGE amount so whatever the reserves they have are worth far less now than at the end of 2005 when the stock price peaked. Proven reserves are a matter of whom you ask. India's DG of hydrocarbons is not a world body so what he says does not always match what is official by international standards. India's government is also historically corrupt. **The market took GGR to 12¢ once in the past but I think now is a good time to buy since soaring oil prices may be telegraphing the direction of NG prices.** I added 2,000 more shares at \$0.80 to go with the 2,000 at \$1.30 as it appears NG may have bottomed and trading volume for GGR is tiny. Otherwise, I am happy with what I have now with a very, very large cushion of "house money" from taking profits in prior runs to high prices. **Long-term Trend:** The good news is the trend is up with higher lows for natural gas. Given NG is cleaner than coal or oil for generating electricity or for making fuel for automobiles, I do not see this long term trend changing.



GGR Charts: <http://home.netcom.com/~kirkindstrom/Charts/GGR.html> or <http://tinyurl.com/ChartsGGR>

⁸ GSPC or Gujarat State Petroleum Corporation is planning a \$6B listing and IPO on the Bombay Stock Exchange.

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