



NEWSLETTERS & RECOMMENDATIONS - OCTOBER 25, 2009

Fellow Friends and Traders,

Last week was a wild ride for NET traders to potentially obtain substantial option and BTIM profits. BTIM sold down to \$4.35 early and rallied to \$6.40 Friday after announcing the company will be listed on the NYSE/Amex on 10/30. Their common was up nearly 50% while the warrants popped over 60% from the lows. Can't say I didn't alert you to the listing and what it would mean.

This week we had 2 rather good option trades. I alerted our subscribers to the call trade setup on Wednesday's "C" chart if the lows held Thursday. The lows held. The 500 weekly calls rallied from a low of \$1.60 to \$6.50 Thursday. Friday the S&P's opened near the highs and the 505 weekly puts traded between \$0.60 and a \$1.00 for the first 30 minutes. Late Friday these puts hit \$6.40. See the attached 30" chart below for option trades.

Week in Review:

Last week, I wrote, despite the outlook for great earnings reports, there would be substantial selling into S&P 1100. The S&P's hit 1098.50 and sold off hard not once but twice. Remember it's not about the earnings it's how the market reacts to those earnings. Several things are very clear. The companies continue to guide analysts lower so these companies can surprise on the upside and many stock holders have already discounted this game.

So far the market has only suffered 4 mild sell-offs. This pattern has been easy to spot. The market rallies to a new high then trades sideways for awhile. Traders become bored, rush to take profits and the S&P sells off 2-4% and then rallies to new highs. This pattern has been observed twice in August, once in September and now in October. This tells us that traders are counting on continuing good news but are not willing to tolerate bad.

One good thing to report, traders bought 3 puts for every call last week. "Protect" is still the mantra and should continue to moderate all declines for now. The advice I continue to give is sell stocks and, if you must be long, buy calls.

Potential Red Flags for stocks:

Economically we continue to face significant headwinds of higher taxes and interest rates with greater regulation into 2010. The risk of some FED action looms closer as the FED mulls a policy change. Treasuries have now sold off 3 weeks in a row with an even larger supply of bonds coming next week. I'm guessing IRAN will get the bomb and most investors will forget this threat until it's too late.

Just a reminder all the Bush tax cuts are to sunset next year.

The FED will soon shift signals to prepare the markets for reversing their easy money policy. The FED has been rather creative in saving the system but has only transferred the debt-loaded private sector on to the public one. It remains to be seen just how creative the FED reverses course.

The regulatory risk is rather high. Unfortunately, all financial regulators seem to believe they can manage the unmanageable risk and save the world from all "systemic" risk. If current policy trend continues I can see all the abuses of the system and all the advantages regulated right out of existence. The Govt means well but the end result will not be good for any of us.

Other thoughts on the economic landscape:

As usual Barron's Alan Abelson finds a few gems - this time the source gem is from Stephanie Pomboy of MacroMavens. (I knew her father when I worked on Wall Street. She may be even better with her work.) Stephanie believes that companies have cut costs an unprecedented \$327 billion over the last year or more than 25% of total cost. Yet, corporate earnings still fell a whopping \$177 billion. She believes that for revenues to match this cost savings consumer spending would have to rise more than 3% from a current decline of -0.3%. That's a 10X increase in spending – that ain't happening any time soon. Despite such daunting numbers the consumer stocks are up over 77%!

Stephanie speculates the market may be looking to the public (Govt) sectors to hire since the government has been the one hiring these last 10 years. While the private sector shed 588,000 jobs, the government created 2 million jobs during this stretch. The trouble she sees is that 1.95 million new hires were added to state and local government payrolls. Now these public sectors are in worse shape than other sectors and have shed 178,000 workers during the last 12 months.

Abelson, in closing, muses that somehow this fact has eluded the bulls.

Yes, we can show just how bad things are out there yet when the FED throws a party it's best not to stay home. Enjoy, stay awhile and have a drink or two but be ever watchful for the time when the FED takes away the punch bowl. I'm guessing sometime early during the second quarter '10 1200 on the S&P doesn't seem that far away. Be careful out there.

Trade your brains out. Look for those killer Thursday/Friday option setups. The next big BTIM shoe to fall should be the company forcing the early exercise of its 10 million warrants. I'm guessing sometime in the next 30-50 days. Any price weakness will be a gift from the Gods to buy more.

Stay well and keep those cards and letters coming.

Good trading,

Stan Moore

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P.S.

Look at Soros's comments below. Wall Street is celebrating like it's 2000 and Main Street is dying. This will be a big problem for Obama and the Democrats with the voters next year. However, when not if it ends, we all will suffer. Enjoy the party while it lasts.

The big profits made by some of Wall Street's leading banks are "hidden gifts" from the state. Taxpayer resentment of such companies is justified, "Those earnings are not the achievement of risk-takers. These are gifts, hidden gifts, from the government, so I don't think that those monies should be used to pay bonuses. There's a resentment which I think is justified." - George Soros, a very influential hedge fund manager, said in an interview with the Financial Times.

[NET Weekly Money Chart 2009-10-23](#)