



NEWSLETTERS & RECOMMENDATIONS - June 6, 2010

Dear Friends and Fellow Traders,

The markets were expecting a blowout Jobs Number Friday morning. Obama and Biden were touting the NFP (Non-farm Payroll) number so aggressively you'd swear "they" had inside information. I used the number of 450-700,000 on my Thursday charts. Goldman raised their estimate to 600,000. Later in the day I was hearing upwards of 900,000 were being whispered. Anything over 600K would be market friendly.

As I've said before, there are about 30 or so major news announcements a month that can move markets but only 3-4 really work well for a NET trader. NET traders look for news announcements at price extremes. If the market is expecting good news and is up hard into resistance the prior night we look to buy puts before the news is released and vice versa for bad news with price at lows.

The trading results using this strategy have been outstanding over a total of 28 years but specifically during a five year stretch I noted these trades on my Intraday Chart postings to prove my teaching point. The results showed that if a trader did this trade he/she made money 85% of the time -the winners returned on average nearly 100% while the losers averaged a point lost.

We now look forward to these trades with cheap weekly options – every week. This strategy builds on one of my many trading pearls - *buy the rumor then sell the news*. We are expecting the news is already priced-in but should the news disappoint we ton money. Besides, there is almost always some profit-taking on the good or bad news as the case may be. We generally only lose money if the news is a blowout in the expected direction.

Thursday night the 495 weekly puts closed at \$2.65 and they opened over \$6.00 on the lousy jobs numbers but reached \$13.00 Friday near the close. So I drank the Kool-Aid (I believed the pre-announcements) with everyone else and I missed a great put trade. The puts doubled overnight and turned into another 10 bagger, the eighth this year. This is a rather simple trade strategy that pays rather large returns.

Why the President touted this NFP number so aggressively is beyond me. I'm guessing his advisors are all truly incompetent and have no idea what the market perceives as good or bad news. It's always bad when the government creates 95% of the jobs.

If I told you over 15 months ago that Congress would spend nearly \$1 trillion on stimulus and that 2.5 million more Americans would be without jobs would you have believed me? Never! Even Obama said unemployment would not exceed 8.4%.

What's with that great neo-Keynesian "multiplier" that states that for every \$1 the government spends the economy expands 1.5 times in output. However, I believe this multiplier is a myth because this money has to come from somewhere in the private economy, either in higher taxes or borrowing. Taking money from private enterprise to be spent on transfer payments (jobless benefits (now up to 99 weeks), Medicaid expansions, welfare, illegal immigrants, etc.) does nothing to create incentives to invest, take risk or create jobs.

Let's get this through our brains once and for all: Governments do not create or generate wealth, they can distribute it. The challenge for both parties is simply define how much distribution is "enough". There is no such thing as enough as far as Obama is concerned. Let's get the Government out of their "creating wealth" illusion and start asking how to get business to hire again. Only then will the economy start a real jobs recovery.

Until that shift in thinking occurs our stock markets will be mired in a casino like mentality. I keep saying we're on a "Mr. Toad's Wild Ride" with markets up and down triple digits from one day to the next. Into early last week, the market had a streak of seven days in which the S&P 500 reversed its prior-day direction and closed at its extreme high or low for the session. Traders should love this action but most step off feeling whiplashed. Personally, with my trading style, I find it most rewarding. The velocity of trading (AKA market volatility) has accelerated the ups and downs. In the past we used to take months if not years to correct. Now the market corrects in a month.

Friday's action was nothing more than catching everyone on the wrong side of the market and crushing them. Until analysts' profit forecasts fall a lot further and faster than they have yet the market is locked in a 100-125 point trading range. There is plenty of good news but it will take time to unfold. Commodity prices are settling back nicely. The bad news, for the most part, is in this market. Europe's fiscal crisis is not a new crisis but an aftershock of the global financial crisis. Yes, I'm a bit nervous that the Euro's erosion could nudge the world back into a recession while European public services cuts could trigger unrest and radicalize the political climate. However, this is just what we need in the US to put us on the right track to correcting our own excesses in government and state budgets. Government seems to only act sensibly in a crisis.

I think I see a bright spot on the horizon. By the end of May investors took out \$30 B from stock mutual funds. This one month flight from risk surpassed the \$25 B withdrawn in Feb '09 and the \$26 B pulled out in Mar '09. At that time in '09 it wasn't the best time to be a seller of equities.

Trade of the Week in Review:

See this week's [NET Weekly Money Chart 2010-06-04](#) or Friday's 5" C chart. Yes, the easy trade was to buy the 495 W puts anywhere in the first hour between \$4.00 and \$6.00. The puts hit \$13. There's nothing wrong with a 2-3X return but forgive me I don't trade for doubles in what I thought was going to be a huge down day. The S&P was down 30 intraday S&P points.

On a day like this we can make 5-7X if done correctly.

Personally, I could never buy already expensive OTM puts into weakness. This is not a NET trade methodology. No, we have to work much harder, doing more trades (5-7 versus 1) when buying much cheaper OTM calls near \$1.25 and scaling in lower using our hedging profits to buy more calls.

Friday I put out two Alert Emails suggesting buying calls near a \$1.00 average price and NET trader must hedge our brains out because there was no way this side of hell the market was going higher until much later in the day. The overall hedge results were posted on the chart. If handled well a Net trader could have earned over \$800 net for each long call traded assuming the calls were sold for 80% of their purchase price. If the calls expired worthless knock off \$50.

Once the downtrend was established rather early, a trader just sold all rallies back to the 20 expo (MA) middle line while the NET Oscillator traded between -8 and 62. In a downtrend a 62 high reading from a jammed 1/-8 reading at the lows tells us we can continue to short lower rally highs without fear. This strategy was further confirmed by a -1400+ negative Tick reading.

The S&P had a nice 7 point rally into the close but it came too late to help the calls which expired worthless.

I expect I will have a few more "get rich slowly" trades this week if the wheels don't fall off the train. Both YHOO and HUN are above last week's recommended entry price and still very doable on any further stock weakness.

Keep those cards and letters coming. I enjoy hearing how well some of you are doing. My goal is to get all of you doing well as full-time traders should you wish to so.

Good trading,

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