



NEWSLETTERS & RECOMMENDATIONS - February 15, 2010

Dear Friends and Fellow Traders,

From Barron's this week, "Brace yourself for the second wave - the wave of sovereign defaults that typically occurs a few years after a financial meltdown." John Mauldin writes we are between "Dire and Disastrous" and "that Greece is a precursor of a new era of sovereign risk". Claims that the Euro could be headed for total collapse are particularly striking when they come from one of the oldest and largest French banks. In a note to investors, SocGen strategist Albert Edwards said, "My own view is that there is little 'help' that can be offered by the other Eurozone nations other than temporary confidence-giving 'sticking plasters' before the ultimate denouncement: the breakup of the Eurozone".

All this new news is very alarming because it came shortly after European Union promised "determined and coordinated" action to shore up Greece. This lack of action happens because I feel that these countries are constrained in what they can and cannot do. I further believe there will be no specific plan just verbal support hoping Greece will bite the fiscal bullet and rollover their debt shortly.

The real risk here is that if Greece defaults, the 3-4 largest European banks would be bankrupt and that starts a series of markdowns across other nation's bank assets. This screams for more bailouts after more writedowns, mark-to-market and so on etc. Subprime will look like a blip on a radar screen compared to this potential global meltdown.

Normally, countries that are highly uncompetitive are able to slash interest rates and devalue their currencies to prop-up their economies. Does this sound familiar? It's happening right before your eyes here. But this is not possible within the Euro, given its one-size-fits-all economic governance. The implication is that weak, peripheral Eurozone members will have to suffer years of painful deflation and tumbling living standards as well as Draconian budget cuts in order to adjust. Greece has promised to cut public spending \$2.75 Billion and raise taxes \$6.7 Billion. This can't happen. There will be blood in the streets. Can you just imagine if we tried that here? This monumental change would take a great leader and it isn't Obama or anyone else I know right now.

Harvard University Professor Martin Feldstein, a long-standing skeptic on the Euro on Friday, said, "The single currency isn't working because member governments have no incentive to keep their public debts under control. There's too much incentive for countries to run up big deficits as there's no feedback until a crisis." We can only hope the above can't and won't be allowed to happen. We can hope that this ends once and for all the march to total socialism in Europe. Governments can't spend their way to prosperity for very long without inflation or

serious repercussions.

I recently saw an interview on TV with a city manager of a bankrupt town outside of San Francisco. When asked why he failed he answered I'm paying for three police forces. One is on duty the other two are retired. The US, states and municipalities have to break these union strangleholds once and for all. It won't be easy but it's absolutely necessary. However, where do jobs increase, employees get steady raises in pay and benefits while millions of other citizens are without raises, cuts in benefits or no jobs at all? Welcome to the new improved "Obamaland" where everyone is a Government employee. Gee but I thought socialism was on its way out. Not here.

We can only hope Obama gets the message before it's too late. I'm not hopeful. Looking ahead as far as the eye can see we are no different than any of those "PIIGS" in Europe. Congress just increased the national debt limit almost \$2 trillion. Right now, the US spends only 9% of the budget on interest because rates are so low. What happens when we try to inflate our way out by printing money? Interest rates will rise substantially and consume say 20-30% our budget. I'm not sure. It's estimated that if interest rates rise to only 3% the entire Japanese budget is consumed by interest alone. Japan is Banko (a slang for bankruptcy)!

Summary:

The only solution I can see for us is to get "filthy rich" before this entire fiscal situation blows up in our face. With wealth, we then have the freedom to live anywhere in the world we choose. Those countries that have sensible fiscal policies will be great places to reside. I'm still suggesting buying as much BTIM stock as you can and do all these weekly option trades in sizes you can afford to build your capital as rapidly as possible. I see trouble here as early as 2-3 years if not sooner.

A review of last week's trades:

Again there were good option trades both Thursday and Friday. I noted on the Wednesday "C" chart that if the market retests the lows we buy calls. The S&Ps made a marginal low Thursday morning but because I was leaving for most of the day I did not put out an Alert Email call buy. In hindsight, I could have before I left because the S&Ps went almost straight up from \$1.30 to \$4.00 just before I returned. However, some of you did catch the long. Congrats!

Friday morning was expected to be more of the same trading range because Berkshire Hathaway (BKB.B) was joining the S&P at the close. This meant that \$8 Billion of BKB.B's stock had to be bought and \$8 Billion of the remaining 499 members stocks had to be sold. This can explain the lower S&P opening and the narrow sideways trading until the 12:30 PM high. Before the high was reached I put out an Alert Email suggesting we buy the 495W puts near \$1.00. The puts hit \$1.10 and rose to \$3.10. I noted on the "B" (the 2:00 PM Intraday chart) intraday chart to sell some at the large Retest/Failure 60ID buy area or hedge.

On Friday afternoon, the market rallied again into 2:30 PM where a \$300+ hedged profit could have been taken and additional puts purchased as low as \$0.65. From here we started down. I sent another Alert Email to sell all puts into weakness. All puts could have been sold for at least a 3 bagger when the puts hit \$2.45. I even suggested in the NET Chat Room that the very

cheap fully-paid for puts were a great hedged long E-mini trade. Yes, you lost a \$1.00 when the puts expired worthless but picked up over \$400 per contract on the hedge. See the attached [N ET Money Chart 2010-02-12 or Friday "C" chart](#)

I noted in the Chat Room a long E-mini trade into 3:30 PM EOD low but not the calls. I thought the OTMs calls would expire worthless (and they did) while the ITM \$3.00 calls were too expensive. These calls only closed at \$5.00. The ITM calls were not our usual cheap Friday option trade. I had learned from CNBC after 3:00 PM that there was an imbalance of BKB.B sell orders of over 50 million shares or \$3.5B. This imbalance meant that traders would have to cover over \$3.5 B of the other 499 S&P shares sold short earlier and could spark a tradable rally. That's where the \$400 hedged or E-mini long profit came from. ***These 2 puts trades could have earned a good NET trader over 5X on the puts and over \$700 more in hedged profits per put contact!***

Trading like this could get you rich in a hurry starting with only 20 contracts and only 10-15 E-minis at a time.

A look ahead:

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As always keep those cards and letters coming I read every one of them.

Good trading,

Stan Moore
702.267.0396

P.S. So what have we learned in 2,064 years?

"The budget should be balanced, the Treasury should be refilled, public debt should be reduced, the arrogance of officialdom should be tempered and controlled, and the assistance to foreign lands should be curtailed lest Rome become bankrupt. People must again learn to work, instead of living on public assistance." – Cicero, 55 BC

Is Greece the proverbial canary in the fiscal Coal Mine?

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