



### NEWSLETTERS & RECOMMENDATIONS - JANUARY 24, 2010

Dear Friends and Fellow Traders,

What a week. After seeing stock markets hit new yearly highs it took all of three days for the S&P 500 to move from 2 standard deviations above its 50-day moving average (DMA) to 1 standard deviation below its 50 DMA. Yes, I've been talking about a 10% or so correction but not now. While the potential cracks in the market were apparent for some time, vast amounts of worldwide liquidity sustained rally after rally.

This week's stock market 5% decline couldn't be ascribed to any one thing. A potential decline has been building and all of the negatives hit at a time when the markets were priced for perfection. It started last week when stocks sold off hard after beating EPS estimates and continued as a possible default in Greece grew. (Greece's is too big to fail?) There were signs of Central Banks exit strategies and raising rates had begun in a number of countries. China froze lending for all of Jan after loans grew 100% year over year. After the Massachusetts Brown Senate election win the Dems seemed to be in disarray. Fed Chairman Ben Bernanke may not be reappointed Chairman of the FED as some up for re-election Dems were out looking for a scape goat. Finally, Obama tours the country telling everyone he wants our money back bashing banks in the process.

I believe out there in markets around the world it appears that the giant global liquidity pump that rallied asset prices is slowly being turned off. This points to lower prices for risk assets as the USD gets stronger in this environment. Right now the market lacks sector leadership. The three best groups' techs, materials and financials are failing. It's hard to see the markets going back to 1150 let alone 1200. Goldman Sachs thinks everything is starting to point in the direction of Japan's lost decade. Ugh!

There is good news out there is that markets are oversold. Volatility is back with its 20-30 point range days if we're lucky. 1085 is a large support shelf that held the October breakout prior to the breakout to new highs. However, it's bad news if this level fails to hold. The market spent two months basing before breaking out again to 1150. The next important support area is near the 200 DMA or 1010ish. This would give us our 10% correction. Look on the bright side, YTD China's down 14%, Brazil 10% and Germany 8%. I think we may get a 10% correction just not yet.

Next week, Obama has a great chance to lead this great country as he will give his first State of the Union address. Between now and then, he needs to stop, rethink, recalibrate and learn some painful lessons. Obama should be focused 1000% on Jobs and growing the economy and nothing else. He needs to accept that the country was not voting for a left-wing agenda in

2008. Instead, the public was voting out a Republican leadership they deemed unable to govern effectively. The person the American people thought they were voting for in 2008 was a moderate who wanted to bring transparency to government and work with leaders of both parties on common-sense reform.

Remember JFK did the same back in 1962 [yes I was alive then] when he attacked the steel companies. The market crashed by 20%. He adjusted, cut taxes and focused like a laser beam [didn't have 1 back then] on the economy. He was a great leader when we needed one. We can only hope we are at the fork in the road. Obama can become a great leader and do the right thing or he can take us down the path to divisive class warfare than helps no one. May he chose wisely but don't get your hopes up.

Looking ahead the Wednesday FED meeting should contain no surprises. Another big decline in weekly jobless claims could upset markets but the number should be in the markets already hit hard. 4th quarter GDP released Friday should be in the 4.5%-5% range. But this would be no surprise.

Last week we clearly broke down from a multi-week trading range as noted on the Wednesday 30" NET Intra day Chart. On Wednesday I wrote on the 30" intra day chart we could go with the breakout in either direction. A possible break down was confirmed on the daily chart given the large divergence on the Oscillator headed from jammed to 44. I wrote that we could become more aggressive and favor the short side in one of my Alert Emails.

I mentioned in the Chat Room Thursday morning I was looking at puts on Thursday morning but the market never rallied into my sell zone. I favored the Osc divergence on the Daily chart. In hindsight, I was much too cautious given the power of the 10 month rally and I thought the better trade was the call setup at the large 60/40 buy commonality and the 20 DMA with a possible daily chart sitting on the Oscillator's 44 from a jammed high. This trade had been gold for the last 10 months.

I recommended buying calls in a Thursday morning Alert Email at the above large buy level with the caveat that the call trade may take awhile for the trade to work out. Therefore aggressive hedging of the calls was recommended in the Alert. The calls did double off the lows but the hedging turned out to be one of the best opportunities I've seen in months. Ideally there were 5-6 S&P E-mini hedging opportunities against the calls.

Depending on the skill level of the trader and the % hedge (50-75% could have been used). I calculated a full hedge could have earned over \$1,500 per S&P hedge while a less aggressive style might have earned over \$600. In the Alert Email I did write that one should hedge aggressively since the market would not rally much if at all until GOOG and AXP reported their expected much higher EPSs after the close Thursday. Both companies beat but all the S&Ps could muster was a 4-5 point rally back to 1115 in the overnight session that should have been hedged or sold into.

Friday's pre market Alert Email confirmed we were not going to rally much and to sell calls into any rally. I thought at best the market would rest. At the opening calls were crushed from the

\$1.65 previous day's close. A trader would have lost over 50% of the call purchase price. A brief rally would have mitigated the loss somewhat. Again Friday morning I mentioned buying puts in the Chat Room at the 1113-5 area but the market never reached this area. I wasn't aggressive enough and watched the market slice through support after support. *The \$0.80 OTM puts hit \$8.80 later in the day!*

See the

[NET Weekly Money Chart 2010-01-22](#)

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In summary, the markets were totally shaken by the build-up of bad news every day after Brown's Senate victory and sold off. Good news didn't help. Traders were aggressively taking profits, content to shoot first and ask questions later. I also believe that selling was more pronounced given the expiration of the January LEAP puts. Therefore, the risk protection under the market was not there in size. The VIX rallied over 50% for the week. There is a great deal of fear that wasn't there before. I will look to take advantage of this decline to load the boat on BTIM and sell market rallies back into break down areas until I lose money.

This is a rather good link describing relationship of BTIM with their partners as well as their business plan -> [Good News from the BTIM Message Board](#) . And checkout this article: IPS cells are big part of stem cell future therapeutics; hence BTIM will be major leader -> [UW Stem Cell Study Makes Heart Association's Top Ten List](#)

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Thank you for all your support and keep those cards and letters coming.

Good trading,

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