



NEWSLETTERS & RECOMMENDATIONS - January 17, 2010

Dear Friends and Fellow Traders,

If I had the answer to this email's subject I'd be writing this newsletter from my own island in the sun somewhere south and warmer. What I do know is to have 2 marquee companies like J.P. Morgan (JPM) and Intel (INTC) released much better than expected earnings and have the markets react the way they did is not a very good sign.

Overall the markets did not suffer any major technical damage only testing the multi-week low and 20 DMA before closing off the day's lows. However, Friday's retracement back was rather shallow.

Next week it may not be earnings or anything fundamental we are looking at but the results of Tuesday's election in Massachusetts. In a state where Democrats outnumber the Republicans 3 to 1, Republican senatorial candidate Brown has pulled into a statistical dead heat with his opponent. Obama will fly in Sunday to help. This trip had not been planned. Should Brown win or come in close conservative Democrats in all corners of the land may run away from Team Obama especially Pelosi and Reid. We get gridlock in the Senate and maybe the House. The markets will love that and the rally should continue before a more serious sell-off occurs.

Thoughts on last week's market action:

What have we learned from the first real sell-off in the new year? Yes, this market is extended. Yes, we are due for some weakness. However, is this the time for markets to succumb and roll over? My favorite answer is let Mr. Market tell us what it wants to do. It may be a mistake to believe the market is wrong when it doesn't rally on what seems to be great news. Understand this, "The Market is never wrong". The market does what it has to do to "screw" most of the traders most of the time. Don't ever argue with Mr. Market. You will never win. I have learned great respect for this "Force" over the 49 years I've been trading.

Anticipation by Carly Simon is a great song from our past. Markets anticipate on all levels and timeframes. Therefore, to become the best trader you can be, you should learn how and when to buy the rumor, sell the news versus scalping a trade here and there. See where that gets you. Otherwise look for another gig. I cannot recall how many times I've said this to students over the last 10 years after I started teaching fundamentals with technicals.

Well, at NET this is exactly what I teach. The vast majority of traders can't or won't trade in front of news. Traders can trade what they perceive the reaction to the news is. This is much easier to understand. Here you can earn a very good living but the risks are bigger. How many times have I said, "**We should have an expectation for every trade.**" For example, from this or that news or this technical setup we should do X. So, if X doesn't happen we go the other way. This understanding alone puts us in the top 5% of all traders. Anticipation is the key idea here.

Corporate earning and other fundamental information can always be found at these news sources

Market Watch, Yahoo Financial, Bloomberg, Wall Street Journal, New York Times, CNBC (commenting

From several of these sources I determined that INTC and JPM would have excellent earnings this quarter

Last week two market-leading companies INTC and JPM were expected to report outstanding earnings. INTC was further expected to blow out profit margins at the same time when the market was selling at 52 week highs. 1200 here we come? Were these earnings numbers already anticipated by the market? My answer in the NET Chat Room and my Alert Email subscribers was "Yes!" Buy puts! Why? If I've learned anything in my 49 years of trading you only own INTC when gross margins are going up, not topping out or going down. INTC's margins can only go down so it wasn't hard to make the leap from expected record margins.

A rather simple rule of thumb: Don't own any company when its gross margins are expected to fall.

Just where do you think INTC margins will be in the 2nd half of 2010 higher or lower?

Summary and look ahead:

The market has enough momentum to rally 50 to 100 S&P points from here. The liquidity is still too large out there. After that I am looking for a selloff in the order of 7-10%. Right now all the news ahead looks good. There is a contrary indicator out there that is flashing bright yellow now. Investors Intelligence (or just II) found in its advisory services survey that 53.4% were bullish, the highest since December '07. Only 15.9% were bearish. Alan Ableson points out in his Barron's column this week that this number was just a fraction above the 15.6% a few months before the October '87 high. Stay tuned! I will try to navigate us all through this morass as I study the many messages from Mr. Market.

Review of last week's put trade:

The first setup notice for this week's put setup came on the Wednesday "C" NET Intraday Chart at 3:45 PM where I stated, "I will look at puts tomorrow." This was followed by an early Alert Email Thursday morning telling you that "They" [see Advanced Course, Market Intelligence Chapter 20, pages 231-240] wanted the market lower and 1120ish would be the Max-Pain target. Buy the 530 puts under \$2.00 with the market at or near the year's high 1147. The puts were trading near \$3.80 at the time.

I, again as in the previous week's trade, mentioned that I thought it's best to hedge since I did not expect a large sell off. On Thursday's 2:00 PM "B" chart I wrote "530W's hit 2.20 Long small scaling" into 1147 highs. Students bought more puts near \$2.00. There was another Alert Email sent at 3:44 PM to hedge near the 40ID buy level with long E-minis. Here I mentioned the best

trade would be to sell longs into the INTC earnings ramp and look to hedge any weakness prior to JPM's EPS announcement prior to the opening.

After the close INTC's sales, EPS numbers and margins blew out. INTC rallied to new highs over \$22.10. The S&Ps only rallied back to the previous highs. The hedge could have earned as much as \$150-200 per long hedge nearly paying for the puts. In afterhours trading INTC started selling off. If the markets were open I would have put out a short alert for INTC and the S&Ps. The INTC price action confirmed to me that a short-term top was in and it didn't matter what JPM reported the next morning. Last quarter INTC beat the numbers and then sold off more than \$2.00

Overnight INTC was down over a \$0.60 from the highs while the S&Ps sold off nearly 9 points. There was an early rally attempt near the opening. Friday morning I put out an Alert Email at 9:43 AM to sell puts into weakness. Some of the students were lucky and sold puts over \$5.00. The 535 puts did hit \$7.70 after 2:00 PM but the best trade in hindsight was to buy the 530s when the S&Ps broke the large 1138-1139 support level. *The 530 puts opened at \$0.40 and were trading near \$0.70 when the S&Ps were near support 1138.*

These puts hit a high of \$3.40!

See

[2010-01-15 B Multi-day Chart](#)

for the put trade write-up.

If a trader bought 25 535 puts @ \$2.25 and hedged with only 15 long E-minis he/she could have made \$5,000 or more with the hedges and possibly doubled his money (\$6,000 more) on the puts. With NET knowledge and other learnable fundamental skills it was possible to earn even more substantial profits by shorting INTC, JPM or the E-minis in the overnight market. (For NET Advanced Bible purchasers refer to Chapter 19, section "News Release at Extremes Upper/Lower Unis" pages 225-227.) ***Pure technical traders are always at a disadvantage and were probably trapped by the expected good news at the market's high.***

Regarding the Intra day Alert Email, a NET subscriber should expect between 2-4 alerts per trade. There was even an Alert Email for the stock BTIM after the stock rallied to a triple top/60% sell level. I wrote that I thought the stock could pull back \$0.40-0.50. BTIM hit a high of \$5.39 that day before selling off to \$4.95 Friday. Lucky? No, just years of market-watching experience. Here's a rather simple two page blog on BTIM posted this week that will give you more back ground and thoughts. Enjoy!

<http://www.scimitarequity.com/blog/2010/> (See BTIM mid-way down the blog page.)
As always keep those cards and letters coming. I read every one of them.

Good trading,

Stan Moore
702.267.0396



NEWSLETTERS & RECOMMENDATIONS - December 21, 2009