



## NEWSLETTERS & RECOMMENDATIONS - December 21, 2009

Fellow Friends and Traders,

Get ready for 2010. After a flood of money lifted all assets in '09 I expect '10 will be a year of much smaller gains and will require better risk management. Performance for the year of front-end loaded as the rest of the stimulus is spent with a 2nd half swoon looking ahead to higher taxes, lower growth, shrinking PEs and higher interest rates.

The above assumes we get through early Jan/Feb with no one at war with Iran. This is starting to heat up and will be front and center on the world stage as 2010 opens. Israel is chomping at the bit to take out their nuclear facilities. Currently, Iran remains defiant in the face of any possible sanctions and has been making well-planned excursions into Iraq recently. Iran even planted their flag on an Iraq oil facility and let the world know they did it. A release of this news early Friday rallied oil almost \$1.75 giving us a small rally into the opening.

All I can say is I'm in cash trading my brains out intraday. I will use any BTIM weakness to increase my holding in a major way should it break much lower. If and when news on Iran breaks badly I could see the DOW drop over a 1000 points intraday if there were no trading curbs [A temporary restriction on program trading in a particular security or market, usually to reduce dramatic price movements; also known as a collar or circuit breaker] were put on. Fasten your seat belt we may be in for a bumpy ride.

### Weekly Money Chart in Review

This was another week trading in what has become known as the "Channel of Death". The market tries to rally on good news only to get sent lower by a rising USD then this cycle repeats. I expect this carry trade to unwind sometime next year as liquidity is sucked out of the markets by world central banks with rising rates. Meanwhile we sell rallies and buy the dips. Works well for NET traders.

I was looking for a call trade on Thursday's sell off but I could not see any upside given the extra heavy Friday expiration rebalancing of the S&P. We have VISA being added to the S&P in with significant capitalization additions to both Citicorp and Wells Fargo allocations after their \$38 billion equity offerings. In plain English, index funds were selling about \$7 billion of stock in 497 companies in the S&P while buying \$7 billion of shares in the other 3 companies at the close of business Friday. So, I suspect it will difficult to see the market rally much higher after a small gap up opening. I could see the S&Ps being pinned or going nowhere most of the day. The OEX calls opened much lower from the overnight close even when the market opened 5 points higher. This option action further confirmed the trading range and only happens when traders are expecting very narrow price action.

On Friday, I looked at the ATM puts but they were \$2.50-\$3.00 - too much risk to own with a small expected decline. Never looked at the OTMs given what I thought was going to be only a

6-7 trading range day. I even mentioned in the Chat Room I would sell the OTM calls short because these options should go out worthless. I rarely recommend this trade because of the opened-ended risk. However, the trade was highly probable so I sold the calls which expired worthless.

A number of students called in and I related the above info about how I thought the market couldn't go up. Guess what if the market couldn't go up, they bought OTM puts between \$0.35 and \$0.50 and later hit \$1.35. They were lucky as the USD broke to new highs and the market range expanded about 2-3 points more to the down side. They called back later to thank me. See [2009-12-18 Friday "C" chart](#) .

Reminder: I will be away from the Dec 25 through Jan 4. There will be no emails or posted charts. I will be following the markets because I expect a lower market into year end. My ability to answer calls or emails may be sporadic. Have a great Holiday Season and a Happy New Year.

Keep those cards and letters coming.  
Good Trading,  
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