



### NEWSLETTERS & RECOMMENDATIONS - August 22, 2010

Dear Friends and Fellow Traders,

Most aggressive money managers missed the performance trade of the year (the buying of bonds) and some money managers are even closing their doors. According to Barron's this week, the PIMCO 25+ year Zero Coupon Treasury (ZROZ) is up 35% versus the Diamonds (DIA), an index which tracks the DOW, is down 6% over the last year. That's the bad news. The good news is that bonds have now become significantly less competition for stocks with Treasury yields reaching in some cases the lowest yields in recorded history.

Anyone buying and holding bonds today is guaranteed to lose money during the next 5 years even if it's just purchasing power and not capital. The only way this country can solve the current debt crisis is through hyper-inflation and that's coming down the road.

Right now the \$64 Billion question facing the economy is who's right? In most cases I'd say the bonds. These sharply lower yields are telling us we are in for one heck a recession. Obama bet on housing and employment getting better and pushed all his chips in with his \$1 Trillion bet and lost. Yet all is not hopeless. Corporations are in the best financial shape I've seen in my 50 years of investing. Business spending has picked up significantly this year. Many S&P corporations should benefit greatly from overseas growth.

#### **Market Summary:**

Given all the plus and minuses, we aren't going to 900-950 with interest rates this low and we aren't going to 1200-1250 with earning multiple compression in stocks given the headwinds we face. I see a wide-swinging trading range that will chop both traders and investors to pieces. (It's our kind of trading "Nirvana".) This will kill the Quants. But, the real good news is that business cannot meet their pension goals with yields here. Sooner or later bonds will be sold and once this terrible pessimism lifts, (i.e. Dems get beat in November, etc.) business will hire and investors will put money back into stocks. Stocks will, over the next 10 years, outperform bonds from here.

A great strategy for the next 12 months will be to sell any index, selective stocks or calls into strength and then sell their puts into weakness. I'm now looking at JNJ (Johnson and Johnson) and a slew of large tech caps. Buffet has just increased his sizable JNJ position 73% according to his latest filing. JNJ also yields 3.5% limiting the downside.

The last trade I noted in the past week's post had us selling OEX calls and doing a OEX put spread. As expected, the calls, written near highs, expired worthless. However, the put spread broke even with the 490s closing at \$4.50. Had we just sold the 470 puts naked priced at over

\$4.75. The trade would have earned over \$10 per trade or doubling our profits.

### **Biotime:**

There is very little I can add here except that I've sold over 300 puts naked and I'm looking to add another 300 more under \$5.00. I will also be looking to increase my call position with new December '10 and March '11 call buys into any weakness below \$5.00. Then again I'll look to sell common on any rally over \$6.00. I know that BTIM does not fit the description of a great defensive stock play that most investors look for in today's market. All I can say is that we'll never get rich in the stock market playing defense. Think Alpha!

### **Trade of the Week in Summary:**

Friday we got lucky again. I suggested in an early Alert Email and on my intraday chart another long OEX call trade scaling into long 485 calls from 1065 down to 1062 level. The low was 1061. We started buying calls small at \$0.90. They hit a low of \$0.65. We had even more calls to buy in the Chat Room down to \$0.40 but we didn't get lucky here.

Friday's 2:00 PM "B" Chart noted no more hedges and that I expected OEX calls to reach \$2.00-3.00. Our upside target was 1071-74. However, the 30" Oscillator hit 62 from a jammed telling us to sell at the first target 1071 or \$2.00. The market retested the day's high for the last hour giving traders plenty of time to exit the trade between \$1.80 and \$2.00. In addition, with proper hedges a Net Trader could have earned another \$250-\$400 per long call with S&P E-mini shorts. Nice work if you call get it. See Friday's EOD "C" chart, [NET Weekly Money Chart 2010-08-20](#)

One of the newest NET students in the Chat Room noted he had his most profitable week ever and has made steady progress every week since he started 2-3 months ago. Congrats!

Due to California vacation during the end of August though September 6th I can only be reached by email. I will be in the NET Chat Room September 2nd and 4th (Thursday and Friday). There will be no newsletter for the weekend of August 29 and September 5, 2010.

Keep those cards and letters coming I read every one.

Good trading,

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