



NEWSLETTERS & RECOMMENDATIONS - August 1, 2010

Dear Friends and Fellow Traders,

Ben Bernanke says America's economic outlook is "Unusually uncertain". This comes on the heels of the FED nearly tripling the size of its balance sheet with zero interest rates while Obama's increased the size of the deficit nearly \$3 Trillion over the last 18 months.

We had a 4th quarter GDP near 6% with the 1st quarter dipping to 3.7%. The recently released 2nd quarter growth slowed to 2.4%. More forward looking economic statistics are pointing to a further slowdown in the 2nd half. I'm reading by the 4th quarter GDP growth could be as low as 0.8% or as high as 2.8%. We know generally from past economic weakness the economy was flying at this same time. I know it's different this time. Sure!

I won't bore you with the details but just say corporate America have never been stronger than now and are sitting on \$1.7 Trillion in cash. The CEO Survey, a very important leading indicator, says 70% of CEOs expect profit growth over the next 12 months. Still, jobs may not recover to pre-recession numbers for nearly five years. Why the disconnect? Small business stinks, period. I could write a book answering that. Let me try to give you a simple answer.

When I look back in history I find our founding fathers did a magnificent job setting up our nation. They gave us a Constitution, a Bill of Rights and a Declaration of Independence, all spelled out in six pages that have stood the test of time and pretty much created this great country. Today, we have new bills that run thousands of pages that I'm sure no one fully understands the future consequences and add to this many similar executive (Presidential-type) orders still to come. This is "Uncertainty squared" or to the 10th power if you're into math. Big business is much better equipped to handle the new regulations. However, this scares small businesses and individuals who don't understand the costs and how it will impact them hence the tale of two economies.

I've read thousands of editorials and opinion pieces, mostly economic and finance related from countless sources including overseas over the course of any year. I've attached two of the most recent editorials from *Forbes* and *Investor's Business Daily*. I have read *Forbes* for over 45 years and even spent one day on Malcolm Forbes yacht. I skim through IBD nearly every day. I have a great deal of respect for these publications. The information below is the stuff that keeps me awake nights. I could care less where stocks trade as NET traders can make money in all types of markets.

[Article 1](#) and [article 2](#).

Furthermore, our old friend Marc Faber, better known as Dr. Doom, closed the Agora Financial

Symposium last week with a speech that pretty much reaffirmed that there will surely be tremendous dislocations to the existing world socio-political and economic landscape and are expected to take place with some very dire consequences for the US too.

I have read Marc's stuff for the last 5 years. He's both a micro and macro prognosticator and he's one of the best pundits out there. He's not negative. He's what I call a realist. Over the last few years he has made significant dollar gains with his picks, if not he's the most profitable member of the Barron's Roundtable.

I'm concerned enough about the current leadership of the US and where we are headed that I've started early this year to look for another place to live other than the good old USA. I'll let you know if I find one.

Looking ahead to this week:

This will be a most interesting week ahead. Sunday night, China will release a significant piece of economic data much like our "ISM" number which has been getting softer for the last 3 months. Much lower, markets could sell-off hard over night. Then on Monday traders await our own "ISM" number at 10:00 AM. GS put out a report on Friday speculating that the number may even come in under 50. The market's not prepared for this case. Lower yes but not under 50. Wednesday's ADP reports their jobs numbers. Friday's jobs top line should be lower with government cuts but should show a small increase in private employment. All these numbers are potentially market moving events. My Alert Email subscribers may want to pay special attention this week.

Until one or more of any economic numbers moves us out of our trading range (between 1000 and 1150), we must continue to buy the dips below 1030-40 and sell the rips over 1125-50. Since the 4/26 highs the market started a move down with lower highs and lows. However, the market has formed the aforementioned trading range since mid-June. Investors/traders will be looking for a breakout above the 6/21 highs of approximately 1128 that will start in many minds a series of higher highs and lows. However, don't chase strength. Trade!

Also, after FED governor Bullard's comments, "The US is closer to a Japanese-style outcome today than at any time in recent history." There are rumors that the FED is considering new measures to prevent the possibility of a double dip. There are a lot of balls in the air at the present time so be alert but all re-enforce the limited downside so continue to buy the market dips.

Review of BTIM:

BTIM is one great trading stock for sure. After trading up to \$7.02, BTIM dropped below \$4.50 in less than 3 weeks only to rally back to \$6.50 last week. My suggested strategy to buy calls on any break under \$5.00 and then to sell stock out into strength was right on the money. Buying \$5 strike calls under \$1.00 was possible as was selling BTIM above \$5.50 even as high as \$6.50. This strategy would have kept one long while freeing up substantial dollars to buy more BTIM on dips like now. For me, missing this one trade alone made for one very expensive vacation.

To tell the truth I was disappointed with how fast BTIM corrected after hitting \$6.50. Maybe the selling was brought on by comments on Yahoo that BTIM may sell stock to raise cash to fund their research. These comments are totally off base given BTIM offered a warrant exchange that will alone generate over \$19 million in cash between Aug 31st and Oct 31st 2010.

Regarding Geron, there was significant FDA-generated [Geron news](#) that popped the stock and hurt the shorts rather big time. I'm not sure what this means for BTIM.

Unless the market goes to hell in a hand basket such as war breaking out in the Middle East, I believe we have seen the lows for BTIM this year. I recommend NET traders to buy the dips and sell the rips – the same applies here too.

Trade of the Week in Review:

July was one of the best months in recent years rallying almost 7%. Looking at this number one would think we would not have had an EOM markup but a protect profit trade on. No, that was not the case. Remember how often I told you that most everyone is looking for a larger correction and when it didn't happen the majority of PMs were caught off guard and severely under performed. The only PMs performing were those closet indexers who want to mimic the S&Ps.

Only last week Bloomberg noted the extremely high cash positions that hedge funds were holding and even those HFs that had substantially outperformed their peers over the last 3 years with positive high returns. These same HFs are playing very small, trading less and also holding larger than normal cash. This is another support for trading ranges to continue. No one is really trading aggressively this summer.

On Friday, the market opened below the previous day's low and just in front of the up turning the 20 and 50DMAs between 1080 and 1085. I was trying to buy the 495W ATMs for \$2.00. These never traded below \$2.50. C'est la vie again. One of our newest students bought the OTMs and nearly tripled his money and ran. Congrats! See Friday 5 min "C" chart, [NET Money Chart 2010-07-30](#)

After 12:30 there was a good put trade Alert Email to buy the 500Ws near \$1.00. Shortly thereafter, these puts went from \$1.00 to \$3.00 in less than 90 minutes. Later another \$0.85 put trade became the best hedge trade in sometime. Once the market held the 60% buy level after 2:00 the markup boys went to work and drove the market straight up into new intraday highs resulting in nearly a \$300+ long E-mini profit per put versus losing say \$0.90 on the long put. Both put trades could have returned almost 3X in very short order.

In Conclusion:

Remember the market does what it can to screw most of traders most of the time. The market broke the previous day's low to stop out the longs and let more shorts in. The A/Ds were 1-7 negative and bonds were up sharply yielding 2.96%. A Goldman report tells us Monday's ISM number may come in lower than expected. Looking at a really weak market right? So what does the market do next? To screw the most traders, the market rallies to new intraday highs

with bonds also at or near the day's highs. If you are an average trader go figure it out. Most are lost. NET traders know what to expect but we know exactly what happened and I'm sure most traders were badly burned in the confusion.

There is one closing note I will not enjoy imparting to all of you. Our clueless President and his highly qualified non-business political hacks may have just cost US tax payers almost \$10 billion to help clean-up the Gulf oil spill. BP said it plans to claim \$9.9B in U.S. tax credits based on the \$32B charge it reported related to costs for the Gulf clean-up. This will put even more heat on BP. However, it's all legal as current IRS regulations are written. Shakespeare in Hamlet called this "hoisted by your own petard." I can't wait to see how this plays out.

Keep those cards and letters coming I read every one of them.

Good trading,

Stan Moore
702.267.0396