



NEWSLETTERS & RECOMMENDATIONS - June 20, 2010

Dear Friends and Fellow Traders,

The Euro rallies and all's well with the world. Markets recover smartly. GS cut their Euro estimate from a \$1.35 to \$1.15 and I and many others raced to cover our shorts as fast as we could. The CFTC COT (Commitment of Traders) showed that over 44% of Euro shorts were covered. I'm guessing the number is more like 75% today given the Euro rallied from 118 to 124 in the last 2 weeks. In essence the shorts may have rallied the market?

Recommendation: It's now time ***to short the Euro again into 125 with a 131 stop***. This should be a multi-year trade. To survive and prosper most of Europe needs a sub-1 Euro value then we may wish to visit our friends across the sea once more.

I see France is doing its part to cut expenses and help the Euro. On Thursday, France announced they were raising the retirement age from 60 to 62 by 2018. What were they thinking? Greece went from 54 to 68 immediately. I can see more street riots coming from Greece and the PIGS sooner than later.

There is a silver lining in these European debt crises. Our own debt crisis have been pushed further into the future as investors rallied to the dollar in droves. This means our own rates should not rise until late 2011. I can even see a sub-3% yield on the 10 T Bonds. One Fed governor said the Fed will buy long-dated treasuries if needed to accommodate quantitative easing (QE). Our mortgage back securities will not be included in any Fed purchases.

These lower rates are what puts a floor under the markets looking out the next 6 months. So what takes the market higher? This depends on what companies tells us with their 2nd quarter earnings reports. Come July most companies should report excellent numbers. However, for the first time since the correction started analysts have not raised their estimates. Still they have not cut estimates either. Given the softer economic outlook out there we may get a taste a caution from corporations this time around. So we wait.

There is a \$95 earnings estimate out there for 2011 and if investors really believed the estimate the market would already be higher. I'm guessing that estimates will come down. This is not good and means there will be no rising PEs so it's difficult to see a significant rally back to new highs. All predictions of higher market levels from strategist or gurus are based on better earnings coupled with higher earnings multiples. Hence creating a rally ceilings and we have a nice trading range for some time. So buy the dips and sell the rips.

Pimco, the largest bond manager on the planet, talks about a new normal for future growth much lower than previously thought. I want you to think of the new normal as greater and more dynamic instability. There are already more [Black Swans](#) out there these last 10 years than I ever saw in my first 40 years. I'm worried about the skewing of business and the thought of government with its foot on the throats of all businesses.

No wonder business today has more cash than ever before and just sits on it for fear of just what government might do next to them. All this makes it hard for me to envision a world like this with higher earnings multiples. Instead, I can see a world of continued contraction of multiples and that worries me. No wonder I love investments like BTIM so much. Here I only see bright skies ahead.

In advance of the G-20 meeting this week, China announced the dollar-yuan peg will end. Not quite sure what this means for western currencies yet. Since June, the Chinese 1 Month Repo Rate has exploded nearly tripling in the past 3 weeks from the 1.5% area it traded in for the last 3 years. Friday, this rate was trading at a 52-week and close to all time high of 3.8%. The Chinese market may rally on this announcement but in the long term the limited removal of the peg can't be good with the Shanghai Composite hitting a fresh 52 week low. At least someone is paying attention.

BTIM will be included in the Russell 3000 come Friday. This is a \$63 Billion cap index. Think of this - the higher BTIM goes the more shares the funds have to buy. I'm amazed. I never saw this coming. Remember BTIM is setting the stage in 2010 for a great 2011. Patience will be rewarded. (The [Russell 3000](#) Index measures the performance of the largest 3000 U.S. companies representing approximately 98% of the investable U.S. equity market.)

Trade of the Week in Review:

The market rallies sharply early in the week but traded narrowly sideways for the last 2 days. So I did something a bit different Friday when I realized we had the making of a narrow trading range. In my alerts I recommended purchasing both a put near highs and a call near the lows.

As always hedging will ton money in this sort of day. I was going for a Trifecta, a winning put and call trade coupled with huge hedging profits. The hedging profits worked for over 3X returns on the bought options. I then noted to sell the puts first going into the 3:30 EOD weakness. The trade was nothing like past winners but a 50% profit never the less!

Next, I suggested piling into the slightly OTM \$0.20 calls (originally recommended at \$0.50) for a shot at a closing rally. Alas, the calls only hit \$0.35 and we exited for a small loss. This trade was almost one for the books but we didn't make any history. I've come to realize that maybe the monthly expiration has many more cross currents that have a tendency toward [Pinning equities to Strikes](#)

. At the monthly expiration many more traders are involved. NET traders have a much smaller game with the weeklys and this performance bears watching throughout the summer. Click here to see the

[NET Weekly Money Chart 2010-06-18](#)

(no post-day special notation added) or Friday's 5 minute chart.

Keep those cards and letters coming.

Good Trading,

Stan Moore
702.267.0396