



NEWSLETTERS & RECOMMENDATIONS - April 11, 2010

Dear Friends and Fellow Traders,

Why is 1200 important? 1200 was the last leg down in July 2008 and became initial support if you look on the left-hand side of the daily chart. You further see the market rebounding 10% into September 2008. Then the S&Ps broke 1200 support, experienced a weak rally and from that point it was a near vertical descent in a matter of weeks to the 850 level. Now previous support at 1200 becomes resistance the first time back.

The Outlook:

Given the market's 70% rally since the March lows someone new to the market might even think there is in essence an SEC ban on all selling. Recently, stocks have risen in over 70% of all sessions for over double-digit gains. Declines were less than 0.5% during the last two months. Mondays are almost guaranteed a 1% rally with all the mutual fund cash being put back to work after the weekends.

Barrons writes this week in the Trader Column - "Let's not even pretend there's any suspense: Come Monday companies will begin reporting first-quarter earnings that will be nothing short of great". Analysts are penciling in a 37% rise in first-quarter profits versus a rather weak '09 quarter. The reporting season will lead to blowout year-over-year comparisons for many firms.

The only real question we have to answer is will investors be looking for more? Even if the earnings come in much better than expected will investors who have bought the rumor now be looking to sell the news. We know the S&Ps have seen six straight weeks with a gain of more than 6% over the stretch. The economic data is improving by leaps and bounds. Still the last two rather good quarterly releases has seen investors taking profits.

There is even more good news expected from the EU. Over the weekend investors are hopeful

of news for a German below market rate interest rescue plan. Bloomberg writes: Germany said to accept compromise on loan to Greece.

Just released news on Greece:

Eurozone finance ministers agreed to specific terms for possible aid for Greece saying they would provide up to €30 billion for the country in the first year of any support program. The finance ministers agreed Greece would pay an interest rate of around 5% for a three-year loan program, according to European Commissioner for Economic and Monetary Affairs Olli Rehn. If there ever is a time where the markets should rally through 1200 and into a larger resistance near 1225-50 this is the time. Thereafter, let the profit taking begin.

What can go wrong? But it won't happen in the near future.

I truly believe the biggest geopolitical risk, Iran, is off the table. Obama and Clinton appear resigned to a nuclear Iran. Israel will not attack. I cannot believe how Obama treats our friends and welcomes our enemies.

Bloomberg in a commentary entitled the next "Big Crisis" is unfolding in the muni-bond market: The author Joe Mysak touched on some of the problems. I'll sum up his comments with one rather bleak thought: he believes that conditions in the municipal bond market almost match exactly the conditions that existed prior to the blowup that sparked the worst recession since the Great Depression. Barron's had a great piece as the lead story a few weeks ago. This will only matter when it matters.

I have some further thoughts on the "Greek Tragedy" playing out. Right now markets (investors) around the world are buoyed by a cyclical recovery and have yet to recognize the complexity of the situation. When they do it will also become apparent that Greece is part of a wider and historically unfamiliar phenomenon that of a simultaneous and large disruption to the balance sheet of many industrial countries and represents a significant nontraditional headwind to growth and financial stability. Fasten your seatbelts we're in for a bumpy ride.

To further complicate matters we have two divergent views from equally intelligent analysts on interest rates through year end. The two best economic forecasting teams of the past two years couldn't disagree more about where treasuries will go next. Morgan Stanley believes the ten-year yields will rise to 5.5% this year, the highest estimate among top treasury dealers. Goldman Sachs, on the other hand says yields are headed down to 3.25%. You now understand why I have no position in the Bond market long or short. We won't know who's right for awhile so enjoy the ride.

Trade of the Week in Review:

Overall the market was rather quiet in front of what should be an explosive week of news ahead. Our best trade of the week was a put trade. An Alert Email was sent out before the Friday opening. I suggested buying the 545Ws under \$2.00. The puts traded briefly at \$1.80 on the gap-up opening. I mentioned in the Chat Room I was bidding \$1.75 so I missed the 1st trade setup and canceled the order.

Before 10:00 AM and into the next rally I sent another Alert Email suggested a second put with a buy now. The market rallied rather quickly. I started buying puts small around \$1.40 and finished averaging in at \$0.95. The strategy is to start small and buy more options at each tranche buying lower, i.e. 5-10-15. This way you are profitable the minute the market turns in your expected direction. The trade was put on in less than 10 minutes and was over in 30-40 minutes. I mentioned in the Chat Room my average price was \$1.15. I scaled-out selling some as high as \$2.50 on the bid. My average was \$2.15. Great way to start the day in what I said would be a rather narrow trading range day. See the linked [NET Money Chart dated 2010-04-08](#), Friday's 5 minute chart.

Later I sent another Alert Email to re buy the puts. By that time the trading range was obvious the puts never traded back to the lows. The puts did hit \$1.10 but only sold down to \$2.00. I mentioned later in the Chat Room near 3:30 a potential Simultaneous Hedged Trade. I recommended buying the S&P E-mini futures on a breakout (BO) of 1189.50 and scaling into puts. We did not want to buy the puts first but only into the BO they'd be \$0.15-0.20. This is the perfect throwaway protection trade because the puts increase in value nearly point for point should the BO fail. Yet the E-minis could run unlimited up but we'd only lose \$0.20 or so but make \$50 every point the E-minis went up.

Had a NET trader gone long 20 E-minis and long (short direction) 25 puts the result would have been nicely profitable. The trader loses \$500 on the puts yet makes over \$100 per E-mini or \$2,000+ in less than 40 minutes. The options could have been traded in much larger quantities. You can do the math.

This week we have an IRA Tax trade setup for all NET traders. Be alert! I've been teaching this trade for 16 years and the trade has averaged 3X returns in 2-3 days. No losers. It's now in *The Definitive Trading Bible* going on 3 years. All you need to do is to register on the New Era Trader web site or call me to get the details.

Good trading,

Stan Moore
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