



NEWSLETTERS & RECOMMENDATIONS - April 26, 2010

Dear Friends and Fellow Traders,

We may have entered and are only two months into a market sweet spot similar to Jul of 2006/Feb 2007 time period where the market rallied over 200 points with all corrections falling into a 25-35 point range. Until last Friday, the market has held above 10 DMA for 42 days in a row, the longest stretch in 10 years. M&A is about to explode. NET traders stay tuned.

The U.S. stock market has rallied 8 weeks in a row. All news is treated well. The market is chewing up and spitting out bad news with only a moment's hesitation. It's spring and this spring a young man's fancy turns to thoughts of speculation as the Fed promises look good and as long as you're not a small business, you can borrow to invest and speculate at almost no cost. B.B. in fact is begging us to speculate, being unfair only to savers, conservative income investors like retirees, CD owners and money fund investors.

Under these conditions we have to be brain dead not to make money. Right? No, wrong! Most rational people understand easy access to credit has been the engine of growth for the past 30 years. Past and present easy credit is now being exposed in the media as a total fraud and has threatened to be dismantled or least turned into a shadow of its past and has created one of the greatest financial bubbles we have ever seen. At this same time the GDP would be solidly negative if it would not for inventory rebuilding, massive government spending and an additional \$8-10 billion per month of consumer spending obtained from defaulting on their home mortgages. Yes! Virginia there is a Santa Claus and his name is Obama and his chief elf is none other than B.B. Just remember Bush started the bailouts with a \$700 Billion TARP.

Exactly what is going on? It's taken me many years to understand that the game is "rigged." We have "Rigged Capitalism" designed to benefit the rich, connected and powerful - Wall Street and other financial institutions. These powerful forces will always find ways to benefit under any circumstances. Obama's trying but I'm afraid regulations won't work except to force capital to where it's treated better. Don't get me started here. That's a book!

Here's a peek into our future. GE, one of the world's largest Corps, earned over \$10 Billion in '09 but didn't pay a single dollar in US taxes. Their US operations lost \$400 Million. Recently 5-6 S&P listed companies moved their corporate headquarters offshore to tax-friendlier countries. The rich will leave too and become citizens of other friendly nations. They will be welcomed with open arms. Frankly, I'm looking too. The "beat goes on" and will only get louder. Thank you Sonny and Cher.

Today and going forward, the major financial institutions are poised to make money like it's 2006-07 again. The primary bread-and-butter of Wall Street and its ilk are new issues and M&A. Deals are in a sweet spot where \$5 to \$10 Billion friendly deals can now be financed. New issues are coming to market in greater numbers than any time in the last two years. In fact, seven new issues came to market on just last Friday.

Wall Street's Black Boxes:

Right now Wall Street does not want anything to affect their money machine and will do everything in its power to keep the market from a sizable sell off. How does GS et al keep the markets up? There is been much talk from the SEC about "high frequency trading" or AKA HFT. The practice (see below) is frowned upon but it has never been seriously regulated because it's considered necessary to keep markets "liquid." This HFT game is dominated by Goldman Sachs. I've always called these investment banks Hedge Funds in Drag. The leading force, GS, was an investment bank until the fall of 2008, when it became a commercial bank overnight in order to capitalize on federal bailout benefits providing virtually interest-free money from the Fed so it could speculate, manipulate and control markets. Nice work and virtually cost-free money if you can get it.

Just how does Automated Trading Systems (ATS) work? ATS trading uses high-speed computers governed by complex algorithms to analyze data and transact orders in massive quantities at very high speeds and has been likened to a poker player peeking into a mirror to see his opponent's cards. HFT allows the program trader to peek at major incoming orders and jump in front of them to skim profits off the top. *Today it's estimated to account for over 70% of all trading in NYSE equities!*

Unlike the NYSE which is only open from 10 am to 4 pm ET daily, ATS trade around the clock

and is especially busy when the NYSE is closed, a time when stocks are thinly traded and easily manipulated. No wonder I now find trading the overnight S&Ps easier than the intraday session. The market moves in more or less straight lines.

Tyler Durden notes on the Zero Hedge web site, "As the market keeps going up day in and day out, regardless of the deteriorating economic conditions, it is just these HFTs that determine the overall market direction, usually without fundamental or technical reason. And based on a few lines of code, retail investors get suckered into rising market that has nothing to do with green shoots or some Chinese firms buying a few hundred extra Intel servers. HFT are merely perpetrating the same Ponzi market methodology last seen in the Madoff case, but on a massively larger scale."

The above quote may help explain that when the market drops into or even falsely breaks a "support area" for lack of a better word these computers can spring into a buy mode for no apparent reason and force the shorts out and the longs to re-enter. I spent a considerable amount of time analyzing what "They" do to manipulate markets in my new book, *The Definitive Trading Bible Advanced Edition*

. In today's market, little volume is all you needed to turn the market. The ASTs have become the ultimate dip buyers or sellers when the need arises. WOW! I see this all when I'm in the Chat Room just by reading "price action."

The Present:

We've had this powerful rally from the February lows without any meaningful correction with economic data and earnings all moving in the right direction. "If you like last week's EPS numbers, you're going to love next week," said Art Hogan, chief market strategist of Jefferies & Co. In addition, 83% of earnings so far have surpassed analysts' expectations. I believe the S&P can get to 1227 before resting. At this level I'd look to take trading profits and start looking for some typical post-earning retreat.

Why? The latest sounding of advisory service opinion by Investors Intelligence tells us we are at extremes of bullishness. We have reached a 3-to-1 bulls-to-bears reading (53% Bulls to only 17% bears). This has happened only 4Xs the last 10 years. These setups, after the correction has run its course, offer traders and investors great buying opportunities. The biggest 3-1 bull sell-off came way back in 1987. Not exactly a time to be super bullish. Given the above games "They" play with their new computing toys, this time may be different. However, somewhere

down the line investors and traders will have to face the prospect of weaker consumer expenditures, higher interest rates and taxes eventually. God help us if we ever get a VAT tax; the spending will never end. We're no different than the PIGS of Europe.

Then we have Greece and the rest of the PIGS. The current Greek bailout may fail to ease investor crisis angst. Trust me this will end bloody, literally. I'm more convinced than ever that there will be a government overhaul in less than 3 months, hopefully peaceful but more likely if the IMF bailout in fact occurs and continues a vicious spiral from financial crisis to sovereign debt crisis to a new banking crisis in all the PIGS. GS is telling clients to buy PIGS bank Credit Swap paper. PIGS bank deposits are starting to flee for safer institutions. After awhile "Government Guarantee" will be meaningless. I am never comfortable with things that are driven by politics rather than fundamentals.

Next week the big show between Goldman's Blankfein and the Senate's 30 year veteran Carl Levin:

The show will be billed as Wall Street's smartest versus the Senate's toughest that could provide a seminal moment in reckoning after the current financial crisis and similar to like back in 1933-34 which generated new regulations and the SEC. Testimony is scheduled to begin at 10 AM ET, Washington on Tuesday, April 27th. Bloomberg believes the hearing presents a "lose-lose situation" for GS because the firm is fighting a battle over its reputation as well as the law. I expect this will be no walk in the park for Blankfein like he received in front of the Financial Crisis Inquiry Commission led by a California state treasurer in January of this year. Levin's hearing should have serious implications for financial regulations. Companies involved with Levin in the past emerged with one hell of an image problem afterwards. Go Levin!

Maybe just a harbinger of what's to come - the China market was down almost 5% last week and now is down almost 10% YTD while we are almost 10% higher. China led world markets lower in the 2007-08 decline. Enjoy it for awhile longer. Not to be trite, but most of the above problems will only matter when they matter. Right now, party like there's no end in sight. I'm wondering if B.B. and Obama will ever get us off this "sugar" high until it's too late. The next correction will make the last one seem like a mere dip in the road. I hope I'm wrong. I'm guessing we have at least 3-4 years before we have to really bite the debt bullet. By the way, new numbers coming out on Obamacare tell us we're looking at a \$300 Billion short fall now. I'm guessing the shortfall will be 5-10X that new number.

NET Trades of the Week in Review:

There is no doubt we got lucky with the GS fraud news giving us multiple 20+ point trading setups. See the final [30" "D" chart for Friday, April 23, 2010](#) . If you were so inclined there was a perfect IRA Tax Trade setup Monday-Wednesday morning using OTM calls for nearly a 3X return. This is the 1st time in 17 years I can remember 2 trades during tax time, one before and one after. I did write that the option trade may be tricky because the trade was broken up by a weekend and no cheap options available for the second trade. However, the range expanded rather nicely.

A second option setup, a put trade occurred Wednesday at the opening when the market rallied back to the year's highs and the top of the newly formed trading range of 1206-10ish where I recommended puts. The OTMs traded as low as \$1.25 only to reach \$7.40 the morning of the 22nd or Thursday. That same Thursday morning a call trade setup near the week's lows could have been entered.

The OTM calls went from \$1.25 to \$5.50!

I was trying to scale into the week's lows and missed the calls.

Friday morning at 9:00 before the opening, the first of seven Alert Email recommendations was sent to buy puts, scaling right into the 1210 highs. The average purchase price was near \$0.75, the low was \$0.50. Remember the lower the option goes the more we buy at each tranche (think 1-3-5 or any such combination). That way we end up with an average price much closer to the low. We closed the trade out as high as \$2.50 before 11:40 am with numerous E-mini hedged profits totally upwards of \$250 per put. Remember, we're long a \$0.75 put and sold over \$2.00. Add another \$250 gives us a nearly \$4.00 profit or about 5X.

After exiting the puts I looked at the calls. The ITMs were over \$3.00, not our price – too much. The OTMs were \$0.15-0.20 and 6 S&P points OTM. I didn't see an expanded range possible so I passed. A number of students in the Chat Room and outside loved this "Throwaway" call price. I won't say it very often but I was wrong big time! The market continued to rally into new highs. The calls hit \$2.80 before closing at \$2.65 for a 15X return. See Friday's C chart, [NET Weekly Money Chart 2010-04-23](#)

I continued with the puts, hedging and parlaying and sending more Alert Emails. After awhile I realized the market would most likely BO to new highs. Had I suggested a simultaneous hedge

like last week, long E-minis and long puts on the BO, the trade would have been a big winner. Because we were already long puts and sold our long hedges we had a higher average price, say \$0.50 versus \$0.20, for the long put. This trade was only a push or breakeven.

I will conclude by saying who needs to trade stocks with option profits like this every week. Keep those cards, letters and calls coming as I read them all. I must say I received a very gratifying call from a student who started with me over three years ago. He has been trading for over 20 years and has never seen any other professional take the news and give it meaning so a trader can use it to make money. He has seen this over the last three years. Yes, I am blessed with gifts to be helpful to a few of you out there. Said a bit differently, I spend almost six hours a day preparing to be gifted. Trading is in my blood and my life. Your kind thoughts make it all worthwhile. For this I am most grateful. I thank you all. I could have packed it in more than once but I'm still here.

Good Trading,

Stan Moore

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P.S. I may be in California next weekend for business so there may be no newsletter next weekend or Chat Room the following Tuesday. I'll let the Chat Room subscribers know as to how things develop.