June 2013, Vol 2 / Issue #6

The Traders Edge Insider

Print This Issue

Greetings from the Pirate!

Hey everybody, I hope the June edition of Traders Edge Insider finds you well. Speaking of doing well, despite all kinds of negative vibes, from talk of an overdone rally to the 'ol "Sell in May" and "June Swoon" maxims, and for good measure a whole slew of additional reasons heaped on that tell us this market should be tanking, the U.S. equity market continues to trade near its highs and the bulls continue to show some real resolve. They certainly appear serious about taking things higher still. We shall see.

No doubt this thing will turn at some point, but from now till then could turn out to be quite painful to those people out there who continue to insist they know what's gonna happen versus those of us who choose to trade the market as it presents itself. Don't know about you, but I'm here to make money - not to be right in calling a market top or to make predictions on something I have no control over. To me, that's pure brain damage and an exercise in futility. Whatever the case, the markets been ranging a good clip most days, so there's certainly lots of opportunity out there for us to book some sweet profits.

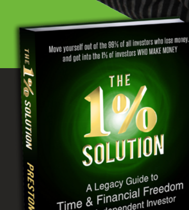
I'll tell you one thing that's an absolute relief - the missing sense of doom that prevailed for the better part of the past five years. It was literally one disaster to the next. Now, it's back to earnings and performance driving the market and dominating the headlines. Stuff that makes sense…that's fine by me!

Oh yeah, I saved the best for last. My buddy DRJ was kind enough to give up some of his most valuable time to be interviewed for this month's Traders Talk. When I say valuable, I mean it - big time! Not just on his part because of what his time is worth - that goes without saying. No, what I'm talking about is the value of that time to you! Do yourself a BIG FAVOR and take time to read it - much of what he offers goes to the core of what's made him the success he is…to ignore it is more folly than predicting markets!

Well, for now I invite you to sit back, read and reflect on the June edition of TEI. It's packed with good, actionable info and definitely worth a read - sure to serve you well this month and beyond.

— Preston James

Preston James
-Author,
"The 1% Solution"



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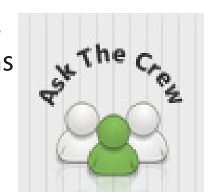

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Traders Talk:
TEI's Louis Horkan Interviews Jon "DRJ" Najarian

In this month's Traders Talk, we're chatting with DRJ - Jon Najarian, co-founder of optionMONSTER and tradeMONSTER, co-lead analyst for the InsideOptions trade idea alert systems, and frequent contributor to CNBC, the Wall Street Journal and a slew of other financial media outlets.

Before becoming one of the most recognized faces on Wall Street, within the financial media and the world over, Jon toiled the trading pits in Chicago for the Board of Trade and CBOE for 29 years, starting out in the inauspicious position of UNPAID floor clerk. He took that position on the backside of what many would consider THE dream opportunity in the world - a pro football career. Go figure…

Well, as the saying goes, "He's come a long way baby!" To the good fortune of many, he's been willing to share the wealth and has worked with traders for many years providing sage advice that can only come from somebody who's worked inside the game. And he does more than talk the talk, putting his recommendations out there for all to see, risking alongside his clients and never shying from telling it like it is.

Fortunately for us, DRJ and Preston have shared a friendship for many years, so once again he's been gracious enough to give of his time to share thoughts, recommendations and insight in his trademark refreshing, straightforward manner.

TEI: Asked and answered many a time no doubt, but can you tell those here who may not know how you got your infamous DRJ moniker?

DRJ: Sure, DRJ was my three-letter acronym from my days at the Chicago Board Options Exchange. When you come down to the trading floor, traders in Chicago are known by three-letter acronyms - any three letters of the alphabet. At the Chicago Board of Trade, which started the Chicago trading scene, 26 people there had one-letter acronyms. As it grew they went to two letters and then three letters. The CBOE is a spinoff of the Chicago Board of Trade and we follow the same protocol that they had…That is how I got DRJ. My dad is a transplant surgeon, so to honor my dad I picked a three-letter acronym and that's the one that happened to fit - DRJ.

TEI: Lol…Certainly seems to fit pretty well. I have to ask about your playing days in football with the Bears and then moving over to work the market. I've read your agent actually got you started at the CBOT/CBOE as an unpaid floor clerk. What made you decide to go that route instead of trying to get on with another pro team here or up in Canada?

DRJ: I decided to do it Louis because of the people who came out and watched us practice each day. With the Chicago Bears we were lucky enough to practice up in Lake Forest, IL, which happens to be a very wealthy suburb north of Chicago. I made friends with a number of people, including traders up there, and they were good guys. I liked the idea that they were done at 3:00 in the afternoon and they could come over and see us practice. Who else is done with their day at that time? So it was that. The attraction was that you could actually have a great time and be done by 3:00 in the afternoon if you really mastered that. Obviously these guys had mastered it because they were able to live in Lake Forest, where prices even back then ran from $1 million to $10 million. I figured this must pay pretty well too [laugh]. So I thought, "It's exciting, it pays well and you're done at 3:00 in the afternoon - what's not to like?"

TEI: Good choice [laugh]. I imagine the competitive nature you had in you to play pro football had to play into it as well.

DRJ: Yeah, that's ultimately how I became a floor trader. The opportunity was provided by my agent, who gave me the opportunity to be his clerk here after my stint with the Chicago Bears had expired worthless, just like an option. It's not perpetual - everybody's career has some limit to it with professional football and mine ended up being four games. I had played enough

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football to know that I still loved it, but I really didn't want to go up to Canada and try to break back into the NFL… I'd rather just leave with a good taste in my mouth of the NFL... If I couldn't play at the highest level, I didn't want to play.

TEI: When you look back over your trading career, what was the most important lesson you learned?

DRJ: I would say the biggest lesson is how to take a loss and only slightly less important is how to take a profit. Some people would take a profit way too quickly and others never take a profit. I can give you an example of very famous people in the headlines right now - Carl Icahn and Bill Ackman. Bill Ackman doesn't know how to take a profit, apparently. I respect him and think he's a brilliant trader, but I think he's a perfect example of bad discipline. He famously shorted Herbalife (HLF) in the high $40s, perhaps even the low $50s, and then came out at the Ira Sohn Special Conference in December [2012] and announced that short position, which drove the stock down from that level into the high $20s in just a couple of weeks. It was because of the pressure and him calling it a fraud and a Ponzi scheme. Now if I had a profit like that, I'd have taken, if not all of it, most of it off. I'd shorted a stock at $48 or $50 and I can buy it back under $30. I would take some profits - he did not. As of this interview, HLF is back over $50 a share. [Editor's note - HLF is currently trading in the mid $40s] So who's made the money here? Certainly not him! At best, he's back to breakeven. I think he was short 20 million shares. Now he's taken that $60 million of potential gain and turned it into a wash. That's a mistake and that's why Carl Icahn jumped on it and started to put the pressure on it…He then applied leverage and put on a bunch of options and continued to torture this guy. That's a classic example of a guy who is dead right on the trade, but who by his own admission took nothing off. My rules with options are that if I have a double, I'm going to be taking 50 percent of that position off…This means I've got all of my initial capital off the table. If it keeps going, I'll start scaling out of it on the way up. I won't hold off for the last dollar. If it starts pulling back, I sure as heck won't wait until it pulls all the way back to where I got in. If Ackman would have applied that strategy…he would have perhaps $30 million in profit. Then if the stock runs back up he could get back in. But instead, he's just a casual observer of the stock going up every day and evaporating all of his profits, which I think is a rookie mistake.

TEI: Sounds a lot like hubris.

DRJ: Unfortunately we all probably read what the newspapers say about us. Or in his case the Wall Street Journal. And he probably thinks he is the smartest guy in the room, but on Wall Street there's always another smart guy around the corner, which is another reason I think you have to take money off the table when you can. So the first lesson is how to take a loss and the second lesson, which is almost as important, is how to take a profit.

TEI: What's your most memorable trade ever?

DRJ: One of my most memorable trades was a year ago. J.P. Morgan was trading at $42 a share. They announced that the "London Whale" hit was going to be coming. They couldn't even quantify it at that stage and the

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stock fell to $38 or $36 in the afterhours. I said, "Number 1, it's one of the greatest global franchises and Number 2, it has one of the greatest leaders in banking, Jamie Dimon." I think he's the equivalent of Bill Gates or Steve Jobs because of what they created. Not because he's brilliant in tech, but because he's at the top of his class – the top banker around in my mind. I would want to be on the same side of the table as him. When the stock fell apart, I happened to be in the swimming pool out in Vegas for the Salt Conference, an alternative investment conference for hedge funds. I bought a ton of J.P. Morgan stock at that time and I shorted Goldman Sachs, Credit Swiss and Deutsche Bank against it. I'm in more or less a pairs trade where I'm long and short - I'm not just naked long J.P. Morgan. If the world falls apart, I'm going to be short in those other names and I think they're gonna play catch-up. Well, they did. Goldman Sachs was over $105 and Deutsche Bank was in the mid $40s and I covered both of those for huge profits as part of that trade - they both came down dramatically over the next two months. Meanwhile Jamie Dimon declared what the loss was in the "Whale Trade." The stock had traded down to around $33, so it wasn't that bad. I didn't have to sell. It recovered all the way back to where it came from, so I had a profit on the shorts that I put on as a hedge and I had a profit on the long. It's not too often that you can be dead right on each side of the trade like that. That would probably rank right up there with my best trades ever.

TEI: When you look at option trading from the perspective of the past, with much opportunity due to inefficiencies, and compare then to now, do you think it's easier or harder now to trade? Is there more or less opportunity?

DRJ: I think that the game changed, but it's not worse for us. I now trade like all the people that are reading this. I trade as an upstairs trader, shooting my orders onto the floor through tradeMONSTER, our brokerage firm that I trade exclusively through. So, the game changed in that it used to be that things were mispriced Louis – some things were too cheap and some things were too expensive on an individual basis. These days, with all of the computers and so forth, that doesn't exist. What I think the opportunity is now is that they have liquidity like they've never had prior. There are more contracts trading now than ever before in options and I think that gives people a better chance to get in and to get out, whether cutting their loses or having a profitable trade on. I think that's really what it's all about. The worst thing you can do is getting involved in things that are not liquid, among them real estate. Now that doesn't mean I wouldn't buy real estate, but I have to understand that with real estate, I don't have a lot of liquidity. Everybody who's been in it knows that there are problems with real estate. When I want to hit a bid, there might not be any bids, so I might have to sell through bids. In other words, when you put out a house for sale, you can say, "The house is worth $700,000 and I really need to sell it fast, so I'm going to offer it at $600,000." But where's your bid? There's not a bid to hit. With stocks there's a bid and an offer and I can trade them for almost 24 hours a day. With options I can trade them for the full 6 1/2 hours a day that they trade and there's always a bid and an offer, unless there's not a bid because the stock has fallen so far that the call is completely worthless.

TEI: Do you primarily trade equity options or do you mix it up?

DRJ: I'm mixing it up between options and equity trading. In the case of afterhours trading you can only trade stocks or futures - you can't trade options in the afterhours session. What I frequently do is trade against what I already have on when I'm trading the afterhours session. I do that against options that I've established a position in during the trading session. I might get in there and take them off by virtue of trading out of the stock in the afterhours session. But my primary vehicle would be options first, stock second and futures last.

TEI: What are your favorite strategies and why?

DRJ: I'd say bull call spreads. I use them when I have a bullish reading on a stock and I don't want to go in and buy the stock. Whether it's a very expensive stock like Google or Apple, where it just makes sense from a capital standpoint, or it's a cheaper stock, like Herbalife that's $48 or $50, I still want to get the maximum bang for my buck. So instead of going in and buying an option or rather than buying a stock like Herbalife for $50, I'll probably buy the 50 call and sell the 55 call, as one example of a vertical spread. That's probably my most popular. My second most, if I'm bullish, is selling a put spread. Why is that? Because the puts will be worthless if I'm right about the direction of the stock. A put is of course the right to sell the stock at a given strike. So if I wanted to give myself some room, I might get in there and sell the Herbalife 45 puts, and for protection I'd buy the 40 puts against it. If I'm short the 45 puts, that obligates me to buy the stock at $45, but by owning the 40 puts, I limit my risk. Worst case scenario, if Ackman is right and Carl Icahn gets out of his position completely, and the stock just goes rocketing downward, that spread can only go 5 bucks. I've limited how much I can lose and yet that credit spread on the put side puts a buck in my pocket.

TEI: What about a sideways market?

DRJ: In a sideways market I absolutely love to sell straddles and strangles. Let's say that I thought it was a good idea to do something with Herbalife - I thought it was going to just sit here and trade sideways. One of the things I could do is sell a strangle, which is an out-of-the-money call and an out-of-the-money put. I could sell the 55 call and the 45 put, so I'm 5 bucks above and 5 bucks below where the stock is trading, if it's trading at $50. And I get to keep that. What am I obligating myself to do? Sell the stock if it goes over $55 or buy the stock if it goes under $45. If I expect a sideways market then I'm pretty happy with those odds. I could further cut my risk by turning it from a strangle into an Iron Butterfly or a Condor, where you have sold the out-of-the-money put at the 45 strike, sold the out-of-the-money call at the 55 strike, and protected each of those two short positions by, in the case of the put, buying the 40 put against it, and for the 55 call, buying the 60 call against it. I'd be short a call that can only go to 5 and have a put spread that can only go to 5, and I've collected a credit on both sides to do that - so the odds are really in my favor. And I'm not violating the Pig Principle.

TEI: Given the market is trading at record levels and has been trending pretty strong, what's your best suggestion to traders in terms of how to trade now?

DRJ: I would definitely go with more basic - the more basic the strategy they go with, it's usually the better move. A lot of them will try to make a Rembrandt out of it rather than just making it something easy. They'll take on too much risk and they'll sit there with a position that they might not wholly understand. One of the biggest mistakes is that they put on a position that they don't understand before they're ready to do so.

Excuse me for putting out another shameless plug for our brokerage firm, but tradeMonster has practice trading. They call it paper trading, where you're not risking any money and yet it tracks your trades in real time. I think that is a valuable tool. I'd say invaluable as far as the way I look at the world, because people would absolutely know how that stock is moving and how it's affecting their trade… They're not just putting on a spread because they heard me or Pete or Preston talk about it…and then it starts moving and they don't know what to do. They can put on whatever spread Preston talked about and see how it works real time, but without real money. They can do it five, 10, 20, 100 times and see how it trades in real time and then decide, "Okay, this is where I'd be making my adjustment." It's a lot easier and a lot better to do it that way instead of just writing it down and thinking, "I would have bought the stock here." Even though they're not real dollars, it makes a difference.

TEI: Focusing on weekly options, do you view them as a good opportunity for traders?

DRJ: I think there is huge opportunity there. Number 1, the best liquidity in the world is in the weekly options, so I love that. Number 2, you're not dealing as much with the risks of time decay and volatility compression because you've really defined it down to just a few days worth of market exposure. Now that doesn't mean you're not going to have loses. If you're wrong you can be wrong in a hurry with weekly options, but when you're right, you're rewarded very quickly. The best liquidity on the street is in those particular options. And then you can also position yourself knowing that you've got earnings, for instance on Wednesday, and these options expire Friday. Whatever the number is, good or bad, I'm going to be out of this thing Thursday morning. I'm not going to ride them all the way into the ground - instead, I'm going to get in and out based on what opportunities there are in the market.

TEI: Are you using different strategies with the weekly options?

DRJ: No, I use virtually the same strategies. You only have a few days for news to work. Preston probably is famously taking advantage of that. I would do that as well, I just wouldn't do it ahead of earnings.

TEI: Any cautionary advice you'd have to offer on trading the weekly options?

DRJ: I won't short them when there's an event. In other words, I think that you're really playing against the odds when you do that if there are earnings due on Thursday. Some people will get in and sell the options knowing that they'll really have to outperform to hit this number. If somebody's buying the options that I'm selling so actively, they might know something. So, if there's an event that week, I don't want to sell the weeklies. I'd rather put myself in a spread rather than be naked short those options. On the other hand, if I get the opportunity to put on a time spread, we call it a calendar, where I'm buying the next week out and I'm selling this week, so that it's actually a spread transaction, I'm perfectly fine with that. So as long as it's a spread, I'm fine with it. I just don't like the idea of being naked short into an event, whether it's new product introduction, earnings, litigation settlement, FDA approval or whatever it might be.

TEI: Were you starting today, would you mainly focus on trading options?

DRJ: Yes, I would still trade options. I think options give you leverage and they let you address risk - both of those are good. I think they let you participate in the market that you might otherwise get shut out of because of price. For instance, if there weren't options, I don't think most individual investors could trade Apple because it's just too darn expensive - and yet you would have missed one of the best opportunities in our lifetime. Same thing with Google - it's a $900 stock, so 1,000 shares cost $900,000. I don't think there are a lot of folks that are buying $900,000 worth of stock for their individual account. But you can own a call spread for just a couple thousand dollars and put yourself in a much better position to make money.

TEI: What's your best advice for an option trader at any level, whether they're just coming in or they're somebody that's been out there fighting the good fight and sort of struggling?

DRJ: I guess I'd go back to taking profits when you've got them. Don't just worry about taking losses. That's important, but knowing how to take profits is just as important - when you have it, take it and don't wait around. You don't have to be any smarter than that. Keep in mind that an option is a wasting asset, so take those profits and run…be very disciplined about it.

TEI: Starting out, if you were seeking a resource to help you become a better trader and to make good trades, what things would you look for in a trading service?

DRJ: Do they give you their exit price? In other words, if you get into a trade and now it either goes for or against you, does that service then send you an update to tell you to get out, whether it's to take a profit or a loss? Number 2, do they eat their own cooking? Somebody that really takes risk themselves. I get accused of that all the time by people that don't subscribe. They're like, "You spend so much time cheerleading yourself." I say, "Yeah, because I eat my own home cooking. I'm not just putting out a newsletter and making money from subscriptions." My risk is right on the same table with my subscribers. That's what Preston does too. That's why people like him. So, those two things in particular, and then the next one would be experience, but I think that kind of plays in with the other two. The guy that isn't trading his or her own picks is probably not doing it because they don't have experience. Instead, they just think they can tell somebody else to do it. But I think the most important thing is whether they give you exits. Getting you into the trade is only half the battle. Now that the stock moved, for or against me, what do I do? "Here's where I start scaling out a bit." They need that hand holding or that instruction.

TEI: What type of services does optionMONSTER provide?

DRJ: We've got a bunch of different services Lou. We've got a service that'll give you one trade a week. We've got a service that'll give you one trade a day. We've got a service that will give you the whole fire hose - everything that we're trading… We've got a bunch of levels like that and we've got education - from basic option education all the way up through advanced.

TEI: You have a pretty major conference coming up. Can you provide details on that for our readers?

DRJ: Absolutely Lou. It's called TheStreetMONSTER Investor Conference and it's a combination of Jim Cramer and us. Jim Cramer's firm is The Street and we're optionMONSTER and tradeMONSTER, so we created TheStreetMONSTER. The website is thestreetmonster.com and people can go and see all of the details about this particular conference. It's in New York City, June 7 - 8, at the New York Hilton. There are various VIP-events where people can do things like come down to the New York Stock Exchange floor and ring the opening bell with us on Friday, June 7. I think there are 12 different 40-minute speeches about trading delivered over both days. Jim Cramer kicks it off and then I speak. There's my brother Pete, Guy Adami, Jeff Macke from Yahoo, Dan Fitzpatrick from Stock Market Mentor and others. There are 12 different talks that everybody gets and there's no additional money once they're there - they get it all. It should be a great event. We've already had hundreds of folks sign up.

TEI: Thanks for sharing your time and insight DRJ, it's much appreciated on this end!

DRJ: It was my pleasure.

Jon "DRJ" Najarian

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Jon 'DRJ' Najarian is co-founder of optionMONSTER® and co-lead analyst for the InsideOptions™ trade idea alert systems. He spent the first 29 years of his trading career trading in and around the pits of the Chicago exchanges.

"DRJ" is a frequent contributor to CNBC, the Wall Street Journal, as well as other prominent financial media organizations. Mr. Najarian also co-developed the patented trading algorithm the Heat Seeker®, used to detect unusual trading activity.

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Upcoming Events & Special Announcements

Traders Edge Mentoring Program

In our continuing effort to provide comprehensive training for traders, TE recently expanded its mentoring program. You now have the opportunity to train side-by-side with profession traders in either Salt Lake City or St. Louis. This intensive two-day program is designed to deliver actionable instruction focused on helping you understand and apply proven strategies in a real-time trading environment - training that goes well beyond the generalized "book-based curriculums " offered by most other training services. To find out more about the Traders Edge Mentoring Program, be sure to contact us at (801)717-3993.

Traders Edge Network Blog

Be sure to check out the Traders Edge Network blog each Thursday afternoon, as TEI Editor Louis Horkan offers a bit of tongue-n-cheek commentary on what's occurring, as well as insight on things you need to be aware of and suggestions on how best to succeed in these markets. Trust us, this isn't the same ol' staid, button-down rehashed news or analysis you're accustomed to running across most places! Join us each week on the Traders Edge website (www.tradersedgenetwork.com) and be sure to leave a comment telling us what you think…

TEI Insight: Marching Orders…

By Louis Horkan

We pointed out recently that the bulls have had it pretty well over the course of 2013, bagging a gain of 18 percent YTD when the record high was hit just this past month at 1,687 intraday.

The climb so far this year has been much like a methodical assault, with steady advances marked by healthy retrenchment moves before the advance continues. The uptrend has channeled upward in tight formation for the most part, although the activity In May did see an acceleration that looks a bit like a blow-off move.

Much of the recent retracement has been attributed to Bernanke's congressional testimony regarding the slowing of the Fed's purchasing program and a slew of accompanying "Fed speak" on the part of other Fed Governors chiming in to prepare the markets for the inevitability of a change in their accommodative stance.

From a fundamental standpoint there is solid reasoning in that train of thought, given that the market is going to have to come to terms with the eventuality the accommodation phase that's been in place for over five years now will change.

From a technical trading standpoint, none of that matters - why it traded down is of no consequence, only that it did do so from significant resistance. The fact is the index traded right up to the top side of a longstanding recovery channel that was formed off the breakdown lows of 2009…and it failed to get through.

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Money Chasing You - Trading Success Stories

As ALWAYS Karson, your presentation is fantastic, clear, humorous and super-informative. Love what you do! Learning a lot from the weekly Swing The Axe webinars... keep up the good work!

J.A., CA

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The question now is what does the technical landscape look like and tell us. Foremost is the fact the long and short-term trend remains bullish and is intact. For bulls and bears alike, nothing has occurred that should be construed as a sell signal on the market.

in short order, an exodus will likely gather some momentum. The bigger test would then come at secondary support for the most recent leg of the bull-run formed back in November 2012 - that level sits in the 1,535-40ish area.

As demonstrated on the daily chart, the S&P 500 continues to maintain its near-term trend support back at roughly 1,600. For many, this is yet another retrenchment move and 1,600 or thereabouts represents a great opportunity to load up more on the long side before the next assault leg to new highs.

Unless and until 1,600 is tested and fails, which is a big IF, the trend must be considered intact and respected… Translated - don't buy into all the negative talk going round that the markets are overdue and what's happening now is the start of what is inevitable. That may well end up being the case, but jumping the gun before confirmation could well prove perilous.

That said, it's no secret everybody out there is cautionary in terms of how far this bull-run can ultimately extend. If 1,600 fails and can't be retaken

A failure there and we are looking at more than retrenchment…suddenly the reality of correction is at hand - the 1,518 level represents a 10 percent slide from the intraday record high.

Just below that should be solid support at 1,500. The big target for the bears is below that level further still at 1,450 - the bottom/support level for the recovery channel formed off the 2009 breakdown low. Failure there and the **Bull is Broken** - a major pucker event, indeed!

But that is a long ways off and bears should wake from that dream…….. For now, all activity above 1,600 should be construed as constructive on the part of the bulls and the next assault on the record level/top of the recovery channel should be expected.

We shall see…

~LH

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Musings from the Editor: Barbarous Reflections…

By Louis Horkan

I had to laugh over famed-economist Nouriel Roubini's recent invocation of the term "barbarous relic," coined by J.M. Keynes oh so many years past. Keynes' reasoning for the rather nasty label was due to his view that Gold holds no intrinsic value, and in fact is used incorrectly and irrationally as a hedge against fear and panic.

Don't get me wrong, I don't disagree with Keynes' assessment in the least. I just find it funny that Dr. Doom drudged that beaut up in support of his argument that Gold is headed below the millennium mark between now and 2015 - a view more and more peeps find quite plausible…myself included.

Even more amusing to me was the response of commenters. The most memorable was put forth by a bloke who stated bluntly, "Now that Dr. Doom is on record as a bear on Gold, it's time to buy buy buy!" lol…

Seems Roubini hasn't lost his touch for eliciting rancor on the part of bulls of any sort. When he comes out negative on an asset - the moniker Dr. Doom should clue you in to his reputation - bulls tend to circle the wagons and spew hatred in his direction. I'm guessing he anticipated such treatment and decided to either deflect such criticism by dragging Keynes into the mess…or perhaps sought to inflame the passion of gold bulls by denigrating the metal in such tortuous fashion. In either case, he pissed em off!

Equally amusing is the fact you have Jimmy Rogers and others coming out and flatly stating the slide in Gold isn't over, yet they don't seem to draw the ire of bulls. Just proves it's hard to hate a guy balsy enough to be sport a bow tie all the time - Roger's trademark.

Roubini went on to list his six reasons Gold is heading decidedly lower in the coming months and years. Frankly, no matter how impassioned gold bugs might be, it's hard to argue with his logic. In fact, I've put forth many of the same points over the course of the last year.

Three key points he made must be taken pretty seriously by traders and investor - not just because of what they mean in terms of Gold, but because of their impact on the markets in general heading forward.

First is the issue of Gold running in times of serious economic and/or geopolitical crisis. That is in fact indisputable. One must simply look at a historic chart to find that sharp rises in the price of Gold have coincided time and again with periods of serious turmoil in the world. Am I a genius for noticing this? Pleeaaase… that notion has been thoroughly dispelled. No, it's just common sense! When you think you're heading back to the Stone Age, you start hoarding the most valuable stones - not exactly rocket science.

So, why does the "crisis factor" matter now? Quite simply, we just walked away from the worst period in the U.S. dating to the Great Depression. Same is the case for much of the developed world. Looking around, it's hard to make a case the world is ready to head back to the edge of economic ruin…just yet. Yes, give it time and we'll find ourselves back there…but not yet…we're still in recovery mode.

The second issue is that of interest rates and where they're headed. Given they're near zero and have been so throughout the entire meltdown, they've got nowhere to go but up. Yes, they've largely been kept in check due to the Fed's accommodative stance, but that is going away…sooner or later - and sooner is the risk the markets are trying to come to terms with presently.

Whenever that occurs, the reality is that rates will rise. Roubini is correct in his assessment that, "Gold is attractive when real returns on cash and bonds are negative and falling." That was the case back in 2008; and the bull leg in the Gold run reflected just such - turning sharply higher into an accelerated run that culminated in the parabolic move to a record level in 2011. The opposite is now true.

The third issue goes to the notion that inflation is on the horizon, which obviously supports the argument in favor of a new rush to Gold. Yeah, yeah, yeah….the debasing of the dollar and destruction of buying power - that's all

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quite real and not something to make light of. But we're a long ways from that issue. In fact, we're still fighting the pull of negative growth and deflation.

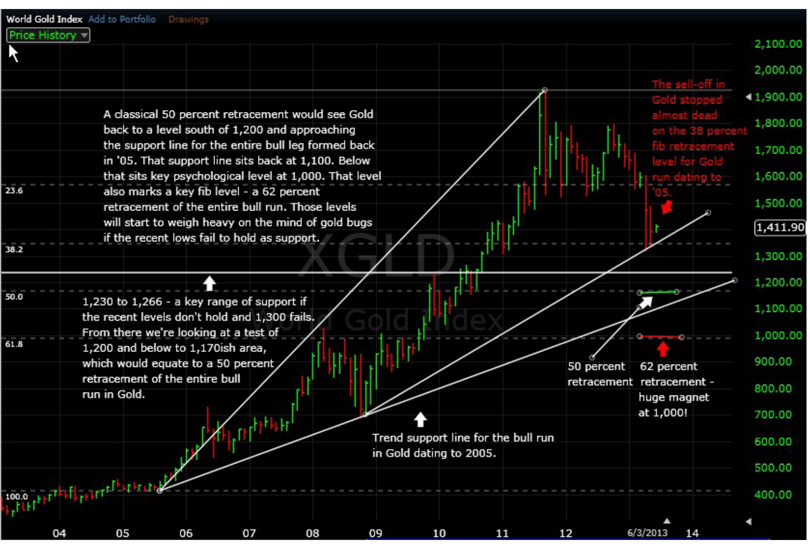
Moreover, the inflation-hedge argument gets bandied about by the gold bugs all the time, but there's more fiction than truth to that notion. I'm not saying we won't find ourselves in a barter system at some point, but it's gonna take something pretty spectacular to make that happen…nuclear war comes to mind. Short of that, go test out the viability of gold in a practical sense - try to buy a sandwich or a gallon of water with it. Fact is that argument sounds good but holds little water over any extended period.

K, I'm not here to hate on the precious metal. Nor am I an apologist for Dr. Doom. My job is to call em as I see em. With that said, I think it's worth taking a gander at the monthly and daily charts to better assess whether there's opportunity to be had on a reasoned basis at this point.

You tell me. Do those charts inspire confidence or give you just a bit of pause? I have no clue where Gold will go, but I do know what I feel can't be characterized as confidence. Barbarous Relic does indeed seem to come to mind. Take that as you will…..

Louis Horkan
Editor

Louis entered the biz in the late 80s and spent over a decade working as a trader, instilling him with unique insight into trading and the markets. In 1998 he switched gears to become the group editorial director for a large network of award-winning, trading-focused newsletters. In 2002 he became the founding editor-in-chief for two financial trade magazines—each served approx. 40,000 independent financial advisers nationwide. He's appeared on business TV, in the business press and on numerous biz-focused radio programs in the past. He writes market commentary and analysis most days and trades on a daily basis.



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Money Chasing You - Trading Success Stories, *cont'd...*

I just signed up for private coaching and I'm really enthused about this and can't believe how helpful, open and genuinely interested everyone is in helping folks like me get successful in trading options.

As Preston's business grows, it will be a challenge to keep that first name basis, feeling like you're part of the family thing going. I pray you folks never lose that "edge." In my experience, it's a differentiator for you against the rest.

Warm thanks and best wishes to the whole pirate crew -

E.N., IL

Coaches Corner: An MIT for a Bearish Market

By Beau Keenan

The coaching staff gets many questions from beginning students. One of the most common is what techniques can be used for trading in a bearish environment. The market continues to flex its muscles, but clients still ask this question; rightfully so, because they realize they will have to deal with a pullback at some point. Thus, I thought a good subject for this month's coaching article would be one of my favorite bearish strategies - the Inverse ETF MIT.

If you're fairly new to trading then it would be a good idea to study up on these trading vehicles known as exchange traded funds. In simple terms, ETF's are funds made up of a basket of stocks, generally in a common sector or index, that typically behave like a normal equity. Some ETF's are derived to sell short their counterparts, meaning they will actually increase in value because a certain sector is falling - these are known as inverse ETF's. For example, the FAS is an ETF that tracks the financial companies on the Russell 2000 and the FAZ is an ETF that sells short those very same financial stocks. For traders, this means we don't have to worry about the headache of shorting in our accounts and can trade bearish strategies on these underlying assets.

One of my favorite bullish strategies is the MIT (Master Income Trade) because it's a collar trade that manages all possible movements of your underlying asset better than most techniques. The trade consists of buying stock, selling calls out of the money for numerous weeks, and buying puts months out in time. The stock allows for capital gains to the upside, the calls gain on neutral and bearish movement, while the puts cap risk to the downside.

Applying this technique to inverse ETF's during a bearish market allows you to profit immensely if the market cooperates, and it hedges risk extremely well in cases where the market doesn't cooperate so well.

The Inverse ETF MIT is applied much like the normal MIT; however there are two common characteristics of a market pullback to compensate for when structuring your trade: 1) It tends to move or swing quite a bit, and 2) it usually lasts a short term - generally a couple weeks to a couple months in duration. Hence, you need to structure your trades accordingly:

1- Buy the stock in 100 share increments - 100 for each contract of options you'll be using on the trade.

2- Sell weekly calls at least two strikes or more OTM. You need to get a 1 percent rate of return or better for your weekly calls, which can be calculated by dividing one week's worth of sold call premium by the cost of the stock. You will need to allow for more swing room to accommodate the big moves that happen during a sell off.

3- Buy two-month out puts with two weeks of sold call premium to accommodate the short-cycle we normally encounter with such pullbacks. The shorter-term puts (close to ATM works best) will give you better protection in the event the market whipsaws back up. If the market is still moving down after the two months you can always roll the puts out further to extend the trade if you'd like.

The trade is then managed just like a normal MIT, but you should expect it to be shorter in duration. If you'd like to learn more about MIT basics, feel free to contact us. I hope you'll find this technique aids in your confidence to tackle the market in any cycle.

Beau Keenan

Beau Keenan has been an active trader for six years. He graduated from BYU's Marriott School of Business with a degree in corporate finance, but found his passion in trading. During that time he's traveled the country coaching individuals on the markets and how to trade equities, options, futures and foreign currencies. He enjoys teaching and since joining the Traders Edge Network has personally worked with hundreds of individuals. Beau is a husband and father of two young children. He enjoys the freedom he has to do lots of other activities, from traveling to building businesses.

Ask the Crew: Crew members tackle questions submitted by readers each month

Q: Just need some clarity. On Friday I did a short butterfly and took in a credit. On Monday I took a hit on the buy back. Are some days better than others for short butterflies?

A: A short butterfly over the weekend is not an ideal time frame to trade it. I like my entry to be Monday-Wednesday. Thursday and Friday have too much time decay.

Q: I need some help in the math dept. After looking at all these different trades I've done over the years -- in either a short or long butterfly with a $10 strike difference, what is the absolute total risk one can have?

A: The short butterfly risk = the amount of space between the strikes – the credit received. So let's say I can get a $2 credit for the $5 spaced short butterfly. This would give me a risk of $5 minus the $2 credit. So $3 is at risk. The long butterfly is simple. The most you can lose is the amount you pay for it. So if I pay $2 for the long butterfly then the most I could lose is $2. The stock would have to move way out of the range for this to happen.

Q: What's more important, entering the trade at the strike price, or waiting for the credit? And if your credit is not in reach, do you enter a market order?

A: The amount of credit is not extremely crucial in this situation. It is more important to be near a strike. Obviously you still want to get an okay credit though, so a market order is not the way to do it. I always do limit orders to enter and exit.

Our goal is to cover ground that will benefit the entire community… so get busy sending in those questions...

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Money Chasing You - Trading Success Stories

Experienced recent trading success or have a lifestyle success story as a result of your trading?

We would love to hear it!

Please email them to: alicin@tradersedgenetwork.com

Comments, Questions, Contact Us

Hey Gang, when we say we value your presence in the Traders Edge Network, we really mean it! It's not really a network, or for that matter much fun, without each of you participating… Please don't hesitate to send us your thoughts, comments, suggestions, criticisms or questions. PJ

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