

Greetings from the Pirate!

Hey everybody, I hope this edition of Traders Edge Insider finds you well. I trust you're all itchin for the spring season to unveil and bring with it nice weather and good fortune. I could go for some spring skiing right about now, sportin nothing but a... Ah, almost let that slip out. Perhaps I'll share that thought with you guys another time... maybe even sooner than later.

Well, one thing March has most certainly delivered is the start of the dreaded "Sequestration" that the President, Congress, media and the markets have all been hyper-focused on since the latter-half of 2012.

Hmmmm...we were led to believe this would never be allowed to occur - that the ramifications were so bad and the effect on the economy and the market so dire, that all parties would be forced to forge an agreement that would avert such disaster.

Well, as is the norm, they didn't...and they were WAY wrong (as usual) in terms of the predictions of calamity that would immediately unfold were the unthinkable to occur. The earth is still rotating on its axis, Main Street remains open for business and the market didn't plunge off the proverbial fiscal cliff as forecasted... Instead, the major broad indices remain poised within easy distance of record highs.

Now don't get me wrong. I'm not making light of the draconian cuts, nor of the deepening quagmire created by those in Washington. They're all working double-time digging the hole deeper and ignoring the advice of the common man out there shouting, "Stop digging."

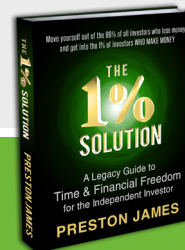
No doubt there is and will be a price to be paid. That said, I, and I assume most of you, recognize the shortcomings of our system and leadership...and we go on and we do what is logical - we adapt...just as we do in our trading.

Speaking of which, there's lots of people out there debating whether we're at a top from which we are set to tumble or instead ready to embark on the next phase of this bull market to who knows where. Well, I'm not gonna worry bout such matters. I've gone way out on a limb in the past to make predictions and definitely learned my lesson - the most important of which is "why make em."

This market will go where it goes. And we all have the opportunity to milk it no matter the direction...or lack thereof. So, why worry or get out in front of something that can't be controlled. Leave that for the gurus and kingmakers out there whose success is predicated on being correct... For the rest of us, let's do this the easy way and simply take our piece of what the market offers.

For now, I invite you to sit back, read and reflect on this month's edition of TEI. I'm sure you'll find it's packed with plenty of good, actionable info that will leave you in good stead as we move forward into 2013. Can't tell you what will happen, but I am certain there will be plenty of opportunity for profit!

— Preston James



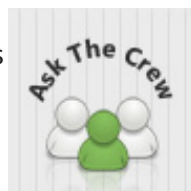
Preston James

-Author,
"The 1% Solution"

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Traders Talk

In this month's Traders Talk we're chatting with the Pirate himself, Preston James, the founder and chief honcho at Traders Edge...



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Monster's Perspective

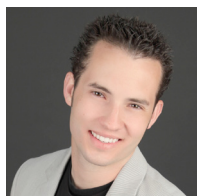
As I've stated for weeks, I believe we will indeed hit the draconian automatic-federal budget-cuts that are set to take place on Friday, March 1, 2013...



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Karson's Insight

The VIX recently sprung to life briefly and almost as quickly died back down. The question is how do you trade the rise and fall of volatility?



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Musings from the Editor

Well, we finally did it. Here we sit at and near record levels for the broad indices...



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Coaches Corner

Hi traders, trading fans and aspiring traders. Welcome back to another edition of Coaches Corner...



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Traders Talk:

TEI's Louis Horkan Interviews Preston "Pirate" James



In this month's Traders Talk we're chatting with the Pirate himself, Preston James, the founder and chief honcho at Traders Edge. Certainly no need for introductions.

Fact is each of us is here because of Preston's passion... for trading, the markets, teaching and life in general. He infects you with that passion and his enthusiasm leaves you pumped up and ready to go kick butt in the market.

But it's more than just showmanship and being a good marketer with the Pirate. He brings decades plus experience to the table and a reputation for cutting through the BS and telling you like it is. His is a simple approach to trading, based on years of experience observing that which truly drives price in the market.

Individual traders and industry professionals alike have come to him for years seeking what they can't find elsewhere - actionable training that cuts to the matter of booking profits. The fact he's still doing this speaks to his success in delivering that which so many have sought!

In this first of a two-part interview, Preston shares much about his humble beginnings in the market, tough lessons learned, the philosophy and approach that has served him well throughout his career and his belief that individuals can be taught to effectively trade proven strategies that will consistently bring them success in the market.

TEI: What's the background story behind the "Pirate?"

PJ: I don't spend a lot of time talking about it. It just kind of organically effervesced. I started teaching folks in the late '90s. Coincidentally, that's when the market started doing one of the most impressive ramp-ups I think it's ever done in history. You kind of get full of yourself because everything you're looking at is working out and turning into gold. A student at that time actually commented something to the effect, "This is like finding buried treasure." And at that time we were doing a lot of momentum things and uncovering stuff... finding things through non-traditional channels. And then you also had Oprah...

Sting, Prince...all these one-word things... Pirate sounded a lot more intriguing than just your given name. That's sorta how it got going.

TEI: When did you actually first get started in the market with your first trade?

PJ: 1993 was my first trade. I got interested in the markets when I studied and got a finance degree in college. Here in Salt Lake City, Fidelity has one of their big locations. It's probably because a lot of educated people get pumped out. This is pre-Internet and I really went to work for them to try to discover what I was supposed to have learned with a finance degree. I got licensed as a 63 and a 7 and found myself taking phone calls from people every day. We weren't advice givers and we didn't collect clients, we just basically took phone calls. You end up taking a couple hundred phone calls every day from all over the country, even the world, from people pledging their own money in their own accounts. I became fascinated, wondering, "What is this lady seeing in this stock this morning and what's this gentleman seeing in this other stock this afternoon...why that stock and why now?" You're probably not suppose to do this, but every so often with the big whales, the multimillion dollar accounts, you'd hear the person's voice on the line and punch up their account to see how they were doing over time. That whole world of prices and peoples' opinions flying around everyday...it really hooked me on how you do this and get ahead.

TEI: Caught the bug.

PJ: Absolutely.

TEI: So when you first started trading were you doing options or equities?

PJ: My first trade ever was an option trade. I'd learned options from overhearing people in elevators. And you had to know a little bit about them to pass your test.

TEI: Very little.

PJ: Yeah. I do remember seeing a fax that had come in to one of the representatives and it was about this guy named Jon Najarian, who went to Chicago to become a Chicago Bears linebacker. I was a linebacker at college, so I thought, "Man, that's really cool - another football player is doing these." It really struck me from the very beginning that there's got to be something there.

TEI: When you funded up your first account was it relatively small?

PJ: Really small. It was a \$3,000 account.

TEI: Are you one of the only people I've ever met that actually was able to carry that through or did you end up doing some damage to it?

PJ: Oh yeah. My first option trade was completely on a whim. Got married to the stock. Everyday just wondering where it was gonna trade. No idea when it announced earnings, no idea about trends, no idea about anything. I think it was a little news item I had seen. It was Comair Airlines, my very first option trade. I still remember the ticker symbol - COMR. I don't think it trades anymore. It went through a 3 for 2 stock split and didn't do much. I remember the options turned all weird. It was just an emotional mess.

TEI: You don't get many people that'll actually come out and admit that part of it, but it's a commonality for all of us. So you stayed with options from that point?

PJ: Yeah, pretty much, just having a small amount of money to work. If an IBM is \$150 a share, even if you can put all of your account into that, you're still at 10 shares or something silly like that.

TEI: When did you start to find you were hooked?

PJ: Early on I developed a real respect for the markets. People are kinda strange anyway, but when their money is on the line... speculating with their real money. There's a different dynamic to that than just kind of overhearing what a neighbor thinks about this

and that. I mean, when humans really put their money on the line, it's fascinating to me and I really respect it.

So that being said, as we got into the mid-90's you were seeing the Internet take root... There was some real stock market education taking fire at that time and we actually relocated up to Seattle... there was a stock market guru that was located up there. He was kind of the first. He had all of these bestselling books and tapes. But what really hooked me was that there was a woman who worked there that happened to buy some year-out call options on Amazon. Here is a stock that didn't have any real earnings and a P/E ratio that was sky high. It was just completely contrary to what you'd read in any investment book. She invested something like \$6,000 in these call options and then cashed them in for \$150,000. She was driving this super nice Mercedes and in her 20s. I thought, "There's something to this." My first option trade I was hoping for a 30 to 40 percent return. This was just astronomical.

TEI: So you went with the stock seminar company in Seattle. At that point it sounds like you were starting to get serious - believe you could find success.

PJ: Yeah, I just thought if I could get around some like-minded people who could talk about this everyday... it would be inevitable. I just figured if you stay in something, in any profession or any business endeavor, and you have some staying power, you're going to find the answers that you need. I ended up breaking off after a couple of years and doing my own thing, figuring I've got the answers. This is in the day and age where Dell is doing three 2-for-1 stock splits inside of a calendar year. I had a quick following because almost everything I said turned to gold. We're talking about 1999 into early 2000... It's probably the most unique two years that has existed - maybe ever.

TEI: That you're still in this all these years later is testament to the fact you must have started doing something right then.

PJ: Yeah, I think passion is a big key to things. Never feeling like you've arrived. Being willing to reach out and meet other people. I've called people up cold.

An author of a book that I just got through...call five different numbers and trace them down and ask them for an interview - I've done that. It's amazing how willing people are to share their journey and where they've come from. I think [there's something] to just kind of being that effervescent student and not feeling like you know it all.

TEI: Looking back to that period, what was the hardest lesson you had to endure?

PJ: I don't know if you'd ever heard of this, but it got some publicity at the time. At about mid-2000 we had gathered all kinds of customers, clients and friends - a customer appreciation get-together. By the time we did, all the euphoria had just gone away. The market was in this wicked sell-off. When I took the stage, the people are like, "Hey, you're the one that told us about all these things - what do we do now?" I said, "Folks, listen, this thing's going to bounce back. We're selling off, but all these things about the Internet are real... I'm going to make a prediction right now that by this time next year the market is going to be this certain level..." I basically made a prediction in front of all these people that I just love the most, whom had traveled to see me. I laid it down and said, "I'm so sure it's going to happen that if it doesn't, I'm going to ski down a mountain in nothing but a pink thong."

TEI: Wow!

PJ: Yeah. Well, it just got worse and it was nothing of what I predicted. In fact it was almost completely opposite. And so I paid off and it was called "Wrong in the Thong." Actually paid that off at the Canyons Resort, east of Salt Lake City. It was filmed and had some media pub - you know, "Stock guru cowers and pays off a bet gone wrong."

It was humiliating. And we kind of made a little seminar about it. I actually invited Tobin Smith, the "ChangeWave Investing" author. Jon Najarian came out. And Dan Zinger of Chartpattern.com - he had started an account with \$11,000 and turned it into \$23,000,000 in those same two-and-a-half years. I [basically] thought, "Well, let's make some hay out of this and

actually get some good stuff out of it." All the ashes and everything we went through there...That's your context. Is the market going to triple in value and then [trade to] a third its value every four years that we go along? It seemed like we'd gone through something super unique, so I was more determined than ever to glom onto some things. It was that whole "When the student is ready the teacher will appear" type of thing. I ended up meeting some people in the wake of that who really set me on a path that I've never looked back from.

One of the biggest breakthroughs for me was becoming aware of what I call the Market Cycle, which is very different than the actual economy that everyone hears about on the nightly news. That the market has its own cycles - and to trade alongside that. Other things I learned were trusting and becoming acquainted with price and volume, and doing that in a silent environment and not in a CNBC environment... Another thing I learned very well was becoming comfortable and buddying up to the "New High" list. That's when I became acquainted with the Nicolas Darvis book, "How I Made Two Million Dollars in the Stock Market." This was in 2002 and 2003.

TEI: So your approach was to read price and volume, and understanding and following the market cycle?

PJ: Yes, it really was. Most people think becoming smart means to make everything complicated. I've tried to stick with the opposite. For example, if you looked at a chart of Yahoo...here's a peak, here's resistance and support, and here's the moving average... I guess it was the linebacker in me that said, "You know, it looks like there's four really big peaks every year in Yahoo." To find that this corresponded with the earnings announcement date... Not trading the earnings announcement, but just noticing that Yahoo has an average of a 60 percent run-up in the one-month period before their earnings announcement date. I'm like, "Can we just trade this?" "Are there options on Yahoo?" Could you for a lot less money get involved with Yahoo, not knowing anything else, and just buy a one-month-out call option and just try it? You don't have to understand what their EPS is or anything else. You could just trade these run-ups...just put all of this

technical stuff and everything else over there on the shelf for everyone else to worry about. Worked like a charm for about eight quarters there.

TEI: So keeping it simple and not complicating things is where you came to find real success?

PJ: Yeah. Also, after the whole “thong” thing, I came across a study in 2002 that was done in 2001. So 2001 is the dot com meltdown, and for extra measure, later in the year is 9/11. I believe it was in Briefing.com and they were talking about every time that a company had come out in 2001 and announced that their earnings were gonna be better than expected. It could be on the earnings announcement, but they were talking about a pre-announcement. They looked down the road about six months and the stock price was trading higher six months later than it was when the company pre-announced the better-than-expected earnings. I thought, “Wow, you’ve got to be kidding me. I mean if that worked in 2001, than in any other normal year that’s got to be something to really hang your hat on.”

Some years later I saw that Zacks Investment Research, based on the decades they had studied the markets, said that the biggest moves a stock would make would be in reaction to an earnings revision. Of course it can move up or down [depending on] if it’s revised down or upward. That was another simpleton thing. You can measure all the lines and do everything else, but really a company exists out there for its earning. And not just the earnings that it’s showing now. The market is always saying, “What have you done for me lately?”

TEI: So it’s fair to say there’s some wasted time doing a lot of the charting and things like that for longer-term trades, when in fact movement is really based on earnings announcements, pre-announcements and revisions.

PJ: Yeah, anything that helps color what a company’s earnings power is going to be... and the other thing to realize is that stocks trade today based off of what’s going to happen down the line. It’s always the future scenario being factored in, right now today, as far as what that company is going to earn. It goes to the concept of money - how fluid and how it moves and

how it attracts itself to the best, yet also safest return. It’s gonna be that way forever. The only time I can think when that’s not gonna happen with money is when it’s first printed, moving out of the printing floor, stacked neat and flat on a pallet. But as soon as it gets in and money is alive, man it just wants to leave something that’s unsure - it wants to attract and glom onto something that’s exciting and promising.

TEI: So a lot of what’s gone into the strategies that you talk about in The 1% Solution are event-related and are ultimately tied to a company’s performance?

PJ: It is. I’ve kind of thought about this in depth. You know engineers have a really hard time coming in. They’re trying to measure out every last thing, trying to be very scientific - what they visually see and what they can calculate. And I’ve really discovered over time that it’s more art than science. For example, a good CEO is gonna cut costs and grow revenue and is gonna be a great speaker and a great leader, forward visionary and all these things. But also, if they’re really smart, they’re a great manager of their stock price and they understand that things are not going to be rosy all the time. They also understand that their industry, however their company is positioned, is going to have a certain “S” curve, where it’s great to be us right now. Not that they’re gonna lie about their numbers, but when it’s time to do a stock split, they’ll time that stock split real nice around an earnings announcement, because obviously a lot of their pay is predicated on the stock price going higher. So they’re good managers of lots of things and in realizing time and place - of where they are at this time.

So that becomes a little bit of an investigative, detective game on our part. As an individual investor, what are they saying by doing these events when they are doing them? How can we read between the lines? There are some fun things that you kind of learn over the years and then you kind of gain an intuition. There is also realizing that there is time and place. It might not be a good time to be trading out there, if you’re gonna be looking at bullish things, if you’ve got a market cycle fighting against you. It’s no fun to fight money that’s leaving a market. It might be fleeing to somewhere else.

TEI: You mentioned earlier having an attitude of never feeling you've arrived. How important is it in your view that traders remain lifelong students with a constant desire to learn more?

PJ: I don't know how to do it any other way. It's the dynamic nature of players in the market. Think of what we've gone through. We've gone through a whole world where it was phone calls and letters - to emails and websites and instant information. Who doesn't want to stay on the cutting edge of the next company that's going to come out and do something better, faster, smarter, brighter, and disrupt the whole industry? I wake up every morning just fascinated and excited. "Where's money going next?" It might have not been that way just 20 years ago. To buy and hold a Walmart stock as they kind of keep opening more stores across the country. We're not just in another gear, we have industries that get created every couple years - brand new industries that they don't even know how to name now. I just think that's the nature of the beast, especially now. The name of the game [now] is stay open, keep your ears open, watch and learn. And not only just for new industries coming out, but also of course to better yourself...and maybe even unlearn a lot of things. I read all the Peter Lynch books back in the early '90s. Of course he was a real Fidelity fixture. For me to go to the mall today and notice a line in a store and make that an investment thesis in 2013...things have changed!

TEI: You said you started with options and have stayed with them ever since. What's the attraction for most people?

PJ: Options are super attractive to folks opening an account for \$5,000 or \$10,000. It puts a lot of things in your grasp. They give you options, as simple as that may sound. The earliest options were all about protection - protecting portfolios and things of that nature. The leverage is just insane. In talking from my directional trader days, there's nothing like buying an option on a \$250 stock that you have no business buying shares in, and yet cashing those in for over 100 percent gain, with the stock [only] moving 15 or 20 percent in value. You do that once and your eyes

are wide open. "How can we do this again?" Of course there's a time and a place to do all those things.

TEI: You've trained a lot of people over many years, including people that now work within Traders Edge as trainers themselves. What's your approach and how is that differentiated from other programs out there?

PJ: Well, let me say that incidentally to me living in the confines of Salt Lake City, Utah, somehow, some way, this whole valley became the coaching mecca for every kind of infomercial and every kind of information product. I mention that because pretty much all of those coaching companies have just been obliterated - they're just gone. You can maybe blame that on the 2008 economic meltdown or whatever, but I think that they're gone because their information, over time, just didn't pass. It just didn't do anything for people. I joke about this with some of my colleagues here, but the serious thing is that anyone can glossary-you-up and come in and say, "Now we're gonna teach you what this and that is, and we're gonna teach you this strategy and that strategy." Okay, so you get into the meat of the teaching and [you're told], "If you think a stock is gonna go up, you wanna do this strategy, and if you think it's gonna go down, then you want to do this strategy over here." When you listen to that on the face of it, it just sounds so silly. "What do you mean, if I think a stock is going to go up? What does it matter what I think? How is this going to benefit me?" I guess if it's all so new and they're trying to process everything, that maybe it's down the line that they realize, "What does it matter what I think about anything?"

Where we've tried to be different is we kind of intuitively know that there's been a ton of people that have responded to the late-night infomercials and have read books - that have accounts open and who are pretty frustrated. And that's where we've swerved in. We haven't been the "first base all-the-way-to-the-end" company. We just figure there are enough companies out there basically screwing it up. And I guess it's kind of been confirmed over the years because they're not in business any more. I kind of wanted to talk to the person that's already had an account or two open and is about ready to quit.

TEI: They've gone through other training and you're there at the sight of the train wreck. They are disillusioned and looking for something real.

PJ: Yeah. We slap them upside the head lovingly when they need it and get them looking in the right direction. People are smart - they're educated. There are just amazing men and women in all these fields. They want to make a go of this. I mean, they really, truly want to do it and they've kind of just been glossaried-up.

TEI: So a big difference is the fact you're teaching real application of strategies. What else sets your approach apart?

PJ: If you want my true gut opinion, from early on most of us are just fed a line of bullshit. You know, you're gonna go to college because you're gonna get that job. We're fed a line of bullshit with religion. We're fed a line of bullshit from politicians. And even from our parents - people that you just love and trust dearly. They really don't know what's in your best interest, especially when it comes to economics and finance and money and things like that. That's one of the driving passions about even having a Traders Edge...just knowing that most of what people learn or are handed is complete bunk. If you think about it long enough, it can really piss you off. "The truth will set you free, but first it will piss-you-off" type of a thing. It's rooted in what freaking works. What you need to know, right now, to begin to evaluate what's really going on. Not what you think and not the experience you've had with a company and what you want to impose. But actually, how you need to plug-in to what's really going on and what the best tools are to get you on the right path. It goes way past, "Hey, if you think a stock is going up, do this strategy." That's kind of swear words over here at Trader's Edge.

TEI: What should a trader be looking for in a training program, be it Traders Edge or anywhere else?

PJ: I've always said there's a huge difference between being effective and efficient. I've found that especially [true] with all these devices we have. Everyone's managing their time and doing all these efficient

things. I describe it this way: Say you wanted to go up and see beautiful Snowbird Resort. Well, you could have the best fluid in your bottle, the best lightest bike and you could be in the best shape, but if you decided to go up Big Cottonwood Canyon, even with the best pace and efficiently doing everything great, your problem is you're in the wrong canyon. You have to go up Little Cottonwood Canyon to get to Snowbird Resort. You'd be doing a lot more effective things even if your bike was crappy and you forgot your water bottle and you didn't know how to ride a bike. You'd be getting closer to Snowbird doing effective things rather than just focusing on efficiency. There's been such a battle to become more efficient that effectiveness is almost cast aside. People are afraid of it because they really don't have it. You've gotta do effective things that really make a difference. Efficiency can come later, once you're focused on the right stuff.

TEI: In terms of it being a resource and helping traders, what's your vision for TEI going forward?

PJ: Great question. We've tried to stay open, teachable and curious. It's easy to have a few things figured out and then just kinda cross your arms and say, "Hey, we've got this. It's this way or the highway." Markets have changed. It's about 80 percent of institutional money that gets pushed around out there in the market. You, me and the other guy - the independent online investor - we are in the minority. That's presented lots of compelling little avenues. We don't want to rest on our laurels and have one note on the piano. Where things are leading us we are trying to stay open to... effective ways of getting people down the track.

TEI: Traders Edge just hosted a live trading seminar with Karson and Mike trading real time. Is that an example of what you're talking about in terms of staying open and going where you're lead?

PJ: Absolutely. That's the last thing I'd think that we would have done if I was talking to you two years ago. I'd probably have said there's no way we'd ever move there. But we crossed paths with Mr. Augen. And Karson, who's been coaching people left and right for years, picked up on some of the stuff that Jeff was

doing - and they've kind of fine-tuned things over here. And they're doing fantastically. It's another ray of light that's come down. I just thought it would never be possible to do that. I kind of poo poed watching the market every day, but for some people...they've gotta have the schedule for it and they've gotta have some aptitude for it. We've got some tools that are so cutting edge, it's mind boggling.

TEI: Weekly options are a major focus at TE and now you have the Augen indicators. How did all of that evolve?

PJ: It started when the weekly option product first got created. I personally had a lot of sleepless nights. I was trying and testing and tweaking. I was doing hundreds of thousands of dollars worth of option trades and watching things. The one fact that got me was looking at the premium of a 1-week option. I mentally added it up. "If I look at what a 1-month option is, the four weekly-premiums are, almost across the board, adding up to double what the 1-month premium is." This was as the market had tanked and I was really shifting to pretty much income-only strategies. As I looked at that and what I was paying for my protection, it was the same. And I thought, "Look at this new dynamic here. Basically, I'm able to double my returns without one thin dime of extra risk." I was fascinated with it.

That's about the time we crossed paths with Augen's book that dealt specifically with little quirky things about how options expire and all these little opportunities. I thought, "Wow, he has these opportunities once a month. Here are these weekly options that have come out and now there are four opportunities a month. A week flies by and you turn around and now it's the next week. I wonder what this Augen guy has to say about it." So when we first crossed paths with him, he was intently focused on how all of these opportunities are created - these inefficiencies that are created because of all of these big funds pushing money around. And that's when we first got to know him. I said, "Hey Jeff, let's do stuff every week." And so for the first bit, he and Karson were exclusively doing different option strategies to make money because of these inefficiencies.

And then we had kind of a happy discovery because he talked to us and said, "Hey do you guys want to see what tips me off to these different trades?" Here's a guy that doesn't sleep most nights. I mean he doesn't have kids and this is like his baby. We come to find out that hedge funds have sent their traders to go learn some of these little option anomalies from Jeff. And the funny thing is these hedge funds and big pools of money create these opportunities, but they can't turn around and do it themselves. So really, it's the individual trader...again coming back to what can you do from home that has an edge and make money in this market. We just uncovered this amazing opportunity that just exists. We at Traders Edge had no clue. And I think it's gonna exist forevermore.

TEI: So that opportunity using his indicators is going to stay out there because of the institutions and how they trade?

PJ: Yeah.

TEI: So you don't see the weekly option opportunities going away? That's something you're going to continue to focus on for the foreseeable future?

PJ: I don't. Talk to the Najarian brothers. Still to this day the weekly volumes outdo the monthly volumes. You wanna pick Apple, you wanna pick Amazon, you wanna pick almost any ticker symbol you look at that has weeklies compared to monthlies...there's so much action and volume happening.

TEI: You hear a lot of people who say it can't be done anymore in trading. What's your opinion on this?

PJ: Oh yeah, "There was a time for this, but it's not now. There's no opportunity in the market anymore." Yet as we're talking, the Nasdaq hit a 12-year high. I mean it's just amazing.

TEI: So in your view it can be done?

PJ: Absolutely. That being said, I do not think that everyone can fit in and do it.

TEI: Why do you think that's the case?

PJ: Probably some wiring issues - emotional wiring. If you ask anybody this question, "If you buy an investment and it goes up and you sell it, and then right after you sell, it runs up and does another double or triple, how would you feel?" They'll say it feels horrible. Then if you ask, "Now if you buy an investment and it goes down a little bit and you sell out, and then it just craters and goes down and smolders and turns into ashes, how would you feel?" They'd say they feel good. When you turn that around, people feel bad about making money and great about losing it. Some people can never ever square that.

TEI: And that influences their discipline even if they have a plan.

PJ: Absolutely. Some people and plans just do not mesh...any plan.

TEI: Well, if you don't adhere to it, it's really not a plan or a strategy...it's just words on paper.

PJ: Right. Look, the most dangerous person in the world is someone that's desperate and has a big account. They can't help themselves and it gets compounded when it's going the wrong way. There are bigger, dumber moves and you just can't help them. You can't be there to put your hand over theirs if they grip their mouse...there's nothing you can do.

TEI: What do you consider the biggest determinant to your success in trading?

PJ: I am really passionate about it. I probably have more passion about it now than I did last year and the year before. It's really finding something that you love to do. And what that does is leads you to inevitably meet other folks that are a lot better at it than you. I've always tried to remain teachable and curious and ask questions, even if I think they're dumb...There's knowledge that comes when you're passionate about something.

TEI: If you were sitting with a newer trader or somebody who's been struggling, your advice to them would be?

PJ: Well, one thing front and center is the whole options market. If they've been scared about options or been told that they're dangerous. Or that [roughly] 88 percent of them expire worthless. All these things. They need to realize how options can be both a protection and an income generator. They can be a way to trade, for example, a Priceline that's \$700 something a share. And when they realize that for \$9 they can control Priceline for a while. I saw a \$9 option on Priceline this morning and I thought, "That's sure a lot better than \$700 something a share." When they realize how versatile and powerful that whole realm can be, especially if they haven't done it before. We're in the day and age of options. This is option time, so whatever they have to do to just become more familiar. I don't know how you can operate in today's world without all the various array of options.

TEI: Anything else you'd like to add as we close?

PJ: This kinda goes back to the "Why you're doing this" and "What do you want Traders Edge to be" and things like that. I was just thinking this morning about how many wounded investors there are out there. They've pretty much been a spectator of a market that's really been strong. I mean the complete opposite of the fiscal cliff and all this stuff. In fact, the S&P just made a new 12-year high recently. And this morning I noticed that we may just be having a turn-down in our market cycle.

Here's the thing, there's a lot of well-meaning, educated, smart, amazing, beautiful folks out there that can't stand it anymore...all the money they've seen made and they're just now coming off the sidelines to get into the market. And it might just be at the exact wrong time. That just ticks me off for them. If they just knew a little bit...knew a little skill or two, where they could have caught this some months ago rather than now... And it doesn't have to be rocket science. If they could understand and just go along with us on the market cycle alone, and then know just a few skills on what to do during that time, what a better a place it would be for us 20 percent that are probably dwindling now, because it's the institutional folks dominating out there.

TEI: This goes back to your belief that the market is tradable. This is not some exercise in futility.

PJ: Absolutely. I wanna say there's more opportunity. There's never been a better time to be an online, independent trader like you, me and whoever's listening to this. Commissions have never been cheaper. The executions have never been faster or more dynamite. You can do it from anywhere - there's Wi-Fi everywhere... And yet more people are chased out and there's more frustration. You can't find the education. Even if you could, you're probably going to find a bunch of efficiency training... There's so much opportunity is my point...it's really something else.

Preston James

Preston James is a self-professed "stock market linebacker" who is proud of the notion that the only reason he graduated college was due to his football scholarship. His interest in trading began at a young age, actively trading his own accounts since 1996.

Specializing in cutting-edge strategies, volatile markets and small trading accounts, Preston's passion for trading has attracted a following of like-minded income traders seeking his help in taking their trading to the next level.

Preston is a noted author and speaker in the field of trading and investing, having published "The 1% Solution" and his controversial "Online Trading Manifesto." In spite of high praise from legendary floor trader Jon "Dr. J" Najarian and Tobin Smith of Fox News "Bulls and Bears" fame, Preston insists he is "no one special"... crediting only his passion and pig-headed determination as the reason for his trading success.



Upcoming Events & Special Announcements

Next Edition - Conclusion of our Conversation with The Pirate

Do yourself a favor and be sure to join us in the upcoming April edition of Traders Edge Insider when we conclude our conversation with the Pirate. Preston shares more of his insight garnered from decades of experience trading all types of markets and conditions. He focuses on effectively trading the many strategies formulated and routinely utilized within Traders Edge to seize upon opportunities within the market. Beyond entertaining, you're sure to find his sage advice timely and actionable.

Traders Edge Mentoring Program

In our continuing effort to provide comprehensive training for traders, TE recently expanded its mentoring program. This past December we began offering a new destination excursion option in St. Louis, Mo. Traders 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 traders 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.

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Monster's Perspective: Who's Afraid of Sequester?

As I've stated for weeks, I believe we will indeed hit the draconian automatic-federal budget-cuts that are set to take place on Friday, March 1, 2013. I thought rather than buying into the hype, we should examine the facts. First and foremost among those facts, which like gravity are indisputable, is that after the sequester hits, our bloated government will still be spending \$15 billion more this year than last year. Let me repeat - AFTER the sequester we are set to spend more, not less. This would indicate to most that there is NO BELT TIGHTENING whatsoever in the sequester!

When the government has automatic spending increases built into the budget, which according to my calculation is \$100 billion, then the \$85 billion in cuts still leaves you with an INCREASE of \$15 billion! So, please Mr. President, please Leader Reid, please Speaker Boehner, don't feed us the garbage that we will lose the protection of the greatest military on earth. It makes each of you look dumber than usual.

This sequester has been heading at us for more than a year. Yes, Congress pushed it back to March 1st as part of the fiscal cliff deal at the end of the last Congress. Nonetheless, both Republicans and Democrats knew this was heading our way, and as is obvious from their inaction, they've each been rooting for it. The fact that the President and both houses of Congress are indeed willing to "suffer" the harsh cuts (again, no cuts folks, we're still spending \$15 billion more after sequester) is a strong indication that the sequester merely gives both sides cover to avoid being called-out for particular cuts that would be negative for their constituents.

The biggest losers in this battle will likely be the same groups that were so adversely impacted by the recession of 2008. Debacles like the sequester and the recession gave cover for employers, public sector and private, to cut older, more expensive workers. Moreover, they were able to carry out cuts to racial and gender groups that would not otherwise have been possible. Government

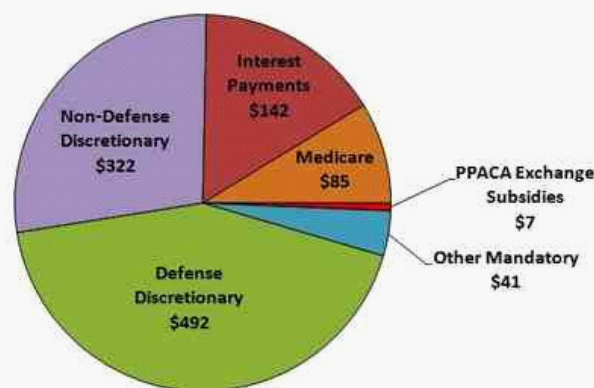
By Jon "DRJ" Najarian



figures confirm this, showing that roughly 552,000 non-farm payroll jobs have been lost since President Obama took office, from January 2009 to the present, and that 73 percent of those losses have been from women.

This graphic provides a breakdown of where these sequester cuts will hit. It should be noted that this represents the period 2013 to 2021:

SEQUESTER CUTS BREAKDOWN (2013-2021, IN BILLIONS OF \$)



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.

Karson's Insight: Trading Volatility Spikes

By Karson Keith



The VIX recently sprung to life briefly and almost as quickly died back down. The question is how do you trade the rise and fall of volatility? It is very difficult to trade the VIX itself simply because the options have European expiration, so even if the option ends up \$20 in the money, it will be priced as if it is only slightly in the money.

The better way to trade a spike in volatility is to use an option position that benefits from the collapse in volatility. In other words, it is very difficult to know when a spike is going to happen, but it is easy to identify after it has occurred. When volatility has risen sharply it is very unlikely that it will continue to climb at the same pace, resulting in a minor collapse in volatility.

My favorite way to trade a spike in volatility is with a long butterfly. The price of the butterfly at the peak of volatility will be much lower, therefore making it cheaper to purchase the long butterfly. Once volatility drops back down the long butterfly (which usually makes money from time decay) makes money very quickly. I was able to do this twice in the past week. Both of the positions made 0.40 plus in a matter of 30 minutes. Usually I would have to wait a couple of days to make that much on a long butterfly while waiting for time decay to melt away. You can do this with 5, 10, or even 15 dollar spacing on the butterfly, depending on what stock you choose to do it on. I did it using AAPL options. No particular reason

I chose AAPL, other than it was what was on my screen at the time. You could easily do this with SPY or anything else that shows a spike in volatility. Remember that the spike in volatility doesn't need to be across the entire market - it can be on an individual stock.

I am putting together additional in-depth training videos on this topic. They will be available on the StockWizKid membership site under the "SWK Training" tab.

Happy trading!

Karson Keith

Karson Keith's interest in trading started at a very young age. By age 13, he began trading and managing his father's money. Today, his passion for trading has attracted a following of like-minded income traders seeking his help in taking their trading to the next level.

Karson specializes in cutting-edge options strategies, volatile markets and small trading accounts. He not only has single-handedly grown several small accounts into large portfolio margin accounts within just a few months, but he has also helped countless people achieve the same results.



Upcoming Events & Special Announcements, *cont'd...*

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...

Musings from the Editor: An Eye for Gold...

Well, we finally did it. Here we sit at and near record levels for the broad indices. On cue, every talking head and everyday Joe is offering barroom-type prognostications on whether the markets are headed higher or about to drop like flies at a Raid factory.

Not surprisingly, much of the talk and comparisons are centered on 2007, when the INDU and S&P traded to record levels, eclipsing those set during the dot com craze. From there, we all know what occurred - the mother of all bubbles began to burst after having gorged on free money dating back nearly a decade to the late 90s.

So, given that Tom, Dick and Harry have had a go at it, I figure it's my duty to jump in and set the record straight - tell you where this baby's really heading so we can all just get on the same page, book our profits and take the rest of the year off.

K, here goes - tapping into the most accurate proprietary system ever created for calling markets. And the answer is..... snake eyes... *%&\$*%*& ...these damn dice are good for nothin...

I'm sorry; I admit I can't really predict the future...sorta fuzzy on much of the past, truth be known.

Fact is I don't like predictions so much and I certainly don't wanna be forced to do something crazy, like... hmmm, I don't know...say skiing down a mountain in a thong - pink... or any other color, for that matter. Wait, I think that's been done before...

No, truth is I'm not here to make a prediction. Actually just wanting to plant a quick thought for you to hang on to as we progress over the coming weeks, months, the latter-half of this year and into next. While everyone else is focused on the equity indices trading to new highs, I myself think we'd be well-served to keep an eye out on gold.

By Louis Horkan



Why?

Good question!

As most of you know, gold is much more than a precious metal. Without going into boring detail, fact is it's the singular tangible storage unit of value recognized and freely exchanged the world over. People see it in many different guises - proxy on the dollar and alternatively on the economy (here in the U.S. and globally), as a hedge against inflation, as an alternative reserve (every treasury in the world has some gold bricks housed within their coffers), yadayadayada... It's an aspirin for all sorts of economic and monetary ails and woes.

Fascinating stuff! ZZZZZZZZZzzzzzzzzzz.... Not so much!

What I'm actually inching toward is the fact that gold has provided a fairly decent "tell" on the markets in times past. We need look no further for an example than the current bull market in equities that emerged during what many consider the height of the financial meltdown in early 2009.

Looking back, equities seemed headed into the ground early that year and few were buying into the notion we were gonna experience a V-shape recovery right about the time all looked lost. Back then, Tom, Dick and Harry were all silent, not wanting to be the first out to tell investors all was hunky dory...

But while the "talking class" were conspicuously silent during much of that year, there was in fact a clue out there for those looking - a "tell," if you would.

Gold actually bottomed in the latter half of 2008 and then began to rally sharply months in advance of the turn in equities. Thereafter, it led equities and most other assets (sans the US dollar, which was taking it in the shorts for all sorts of reasons) on a northern trek. For gold, that run was nothin short of parabolic over

the course of three years, during which time it traded from roughly 700 to a record high in September 2011 (intraday) above the 1,920 mark.



So Gold beat everyone else to the top... 17-odd months in advance of the broad equity indices in the U.S. Ancient history now, right? So why bother and what possible lesson might we take from this?

Two main points. First is the fact that the metal has been bouncing around in a consolidation zone since setting the record high. Always teasing at another run for the glory, yet seemingly stuck and looking for some catalyst to propel it higher.

Which brings me to the second point. What was the original catalyst for the run in Gold? Ask 100 talking heads and you'll get thousands of convoluted answers. Ask everyone else and you'll get the simple truth - free money given out by our Fed and those from most other developed economies of the world.

In mentioning this, I'm not commenting on the merit of such action... just the fact it occurred. Given that Fed officials the world over were broadcasting the fact they'd go to extraordinary measures to save us all from calamity - a defacto backstop - traders understood they could put on a directional bet and basically let it ride with impunity... which they did big time, culminating with the Sept '11 record.

Why didn't the rally continue, given the policies that propelled it remain in place still? Again, ask a cadre of talking heads and you'll get even more convoluted answers as to why Gold backed off and has been consolidating since. Ask everyone else and the answer seems pretty obvious - the parabolic picture on the chart got to looking pretty scary... the ultimate game of "musical chairs," much like we experienced in equities dating back to the dot com period.

Okay, so what about now? The period of consolidation since that time has certainly changed the complexion on the chart and a run-up from this point would seem sustainable. Yet there remains hesitation and a lack of conviction on the part of gold bugs to embark on a new run... at least for now.



Looking at the chart, it seems clear that traders no longer believe they can trade the long side of Gold with the impunity of the past. Why? The lack of a clear catalyst... e.g. an accommodative environment going forward.

Which brings me back to the "tell," that gold might provide - might in fact be providing now. Namely, an emerging recognition that the breaks on the gravity train are about to be put to heavy use. As in, the day of reckoning approaching...e.g. higher rates, a hawkish monetary policy and inflation.

Which begs the question - how have equities fared during such periods?

Am I predicting these record levels are unsustainable and we're about to see the equity market in the U.S. crater? No, not even close. I'm not in the prediction business. I simply trade whatever the market gives me. I'll leave the predictions to Tom, Dick, Harry and the rest of the talking heads.

Whatever they're out there saying, you might wanna keep an eye on Gold...just say'n.

~LH

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.



Money Chasing You - Trading Success Stories

I have been day trading since July of last year because I saw your webinar last June and joined after the first 5 minutes when you said there were a few slots avail. I thought well if the software works then I can do okay and pay for it with my trades. How naive I was at the time. I started trading a portfolio of 5K because that's all I could risk (I'm a single dad). I only traded about a total of 30 days from July to Dec and made 18K with the indicators. I commuted 3 hours a day and worked 10 hour days during the same time frame. So I took some time off work in January and decided to just trade and I have used just the indicators on the web login and nothing else and made enough to replace my job for 6 months. I have since left my job. I am now trading full time and am doing well. On the last webinar (Feb. 14) I traded during that hour and listened to Jeff and earned over 4k!! I haven't tried the butterfly trades yet and am eager to learn them but I am still not 100% sure how they work and want to learn more without putting money into it (paper trades obviously). I made about 300K in the last 5 years working my job and in 7 months with the indicators I have made nearly 40K (22k of that in the last 3 weeks) net after a meager 5k investment.

Thanks again for all that you both do to help us little guys in the market! Now I get to spend a huge amount of time with my daughter and getting outdoors mountain biking, hiking etc. (after the market closes of course) because of this software. I can't say thanks enough!

Cordially,
R. Schmidt

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Coaches Corner: Loaded for Bear

By Jon Wirrick



Hi traders, trading fans and aspiring traders. Welcome back to another edition of Coaches Corner. For this month's edition, I wanted to address a common question. It's a question I recently received from some clients of mine. They asked, "What advice do you have for the turn in the market? We were doing well with money presses and put credit spreads. How do we choose stocks and what strategy works best for the bear market?"

Great question. First of all, I don't necessarily agree that we have a bear market as of yet. The market cycle as of today is C- on the Nasdaq and B on the S&P 500. C- is neutral, leaning toward distribution, while B is accumulation. The Dow, Nasdaq and S&P 500 all remain in intermediate-term uptrends above their rising 50-day moving averages. Sequestration is presumed to begin tomorrow, March 1st, and anything can happen, but until we have a 2-grade move down in the market cycle, and the markets break support and begin trending lower, I wouldn't classify us as in a "bear market."

So what can we do when we do get into a bear market, or "distribution market cycle?" There are several options. We will examine a few including shorting stock, buying puts or put spreads and selling calls or call spreads.

The most basic thing we can do is sell stocks short or short the market. A simple strategy could be to find the weakest stocks in the weakest sectors to trade to the downside. For bearish trades I tend to look for stocks decisively breaking key areas of support. This could be in the form of a breakout on an expanded-range day on big volume or a breakaway gap.

There are advantages and disadvantages to selling stocks short. The main advantage is the simplicity. You just sell the stock with the goal of buying shares back later to cover at a lower price. The stock has to be available to sell short, so you'll need to check with your broker. You would also have to have the ability to sell short. Not everyone has the trade authorization to do this. Unlike

buying stocks long, where you have limited risk and unlimited reward, when you sell a stock short you have unlimited risk and limited reward.

When you buy a stock long, the price paid is the most you can lose, given the stock can fall no further than zero. Meanwhile, there is no limit to how much you can make as the stock could theoretically rise to any price. Alternatively, when you sell a stock short you make money if the stock drops and you lose money if the stock goes up. Since the stock could rise to any price, your risk is theoretically unlimited. Because of this, selling stocks short can be very margin-intensive.

Another option would be to buy a put. This strategy gives you the most leverage and inverses your risk/reward. You would now have limited risk and unlimited reward (until the stock gets to zero). I only buy puts outright when I feel I have a great entry and I am considerably bearish on the stock at that moment. Buying options is a fairly low-probability trade. When you buy a put you have a 1 in 3 (some say 1 in 4) chance of making money. The stock has to drop. It cannot go sideways or up. It also has to do this within a limited period of time. If the stock drops too slowly, you can also lose due to time decay. Volatility can also affect the put premium. If implied volatility rises it would help the put. If implied volatility falls, the put would decrease in value if all other variables remain the same.

You can reduce your risk on buying a put by selling a lower-priced put. This would reduce your risk because it reduces your cost basis. Your maximum risk on a debit-trade is the debit itself. In turn, you would also limit the amount of money you can make on the trade. You would now have limited risk and limited reward. Your maximum gain would be the difference between your strike prices, minus the debit.

Selling calls is another bearish trade. Selling an at-the-money to slightly-out-the-money call theoretically

gives you a 2 in 3 chance of making money. If the stock stays at the current price or drops, the call would expire worthless and you would keep the call premium. If the stock were to go above the strike price you sold, you'd have the obligation to deliver the stock at the strike if the buyer of the call were to exercise their right to buy the stock. Your breakeven at expiration would be the strike price you sold, plus the credit received. Your risk would again be theoretically unlimited. Because of this the margin requirements can be large. Many traders are not authorized to sell naked calls by their brokers.

There is a way of taking advantage of the call selling strategy that reduces your risk, and therefore your margin. You can do this by hedging the call you sold by purchasing a higher strike price call. This is called a bear call spread. The call you purchase limits your risk to the difference between the strike prices, minus the net credit received. This is one of my favorite ways to trade the downside. I get a higher probability of success with limited risk.

There are plenty of additional ways of profiting from a bearish market. Some people even prefer trading to the downside. Stocks tend to fall faster than they rise. There

is an old saying that stocks take the stairs up and the window down. This is because of fear and greed. Greed causes stocks to go up - the desire to make money. Fear causes people to exit. Between the two, fear is the more powerful emotion. Greed is powerful, but if you yell "fire" in a crowded theater, people will literally break down walls to get out of there. Some other ways of profiting in a bearish market are to do short call or long put diagonal spreads. One could also do bullish trades like money presses on the inverse ETFs. VXX, SDS and FAZ are some of my favorites.

For more information on these and other strategies, please contact the Trader's Edge office at (801) 733-4190 and get signed up for some 1-on-1 training. You can also come out here to St. Louis and sit down with me 1-on-1 for a couple of days.

Jon Wirrick

Jon is an active trader and private coach to Traders Edge Network investors needing help learning to apply a consistent trading method. Through his mentoring, he has helped hundreds of people change their financial situation through trading in the financial markets.



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

Great learning sessions with all three of you!

Jeff, Your suggestion to not take too seriously a loss when trading with real money helped me loosen-up just a bit, and I made a money-making trade after your suggestions...(ask Mike Curtis how upset I used to get when I made losing trades). Thanks for your advice, Jeff.

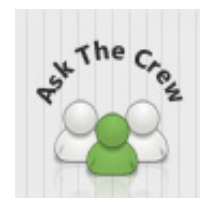
Preston, excellent videos - My secret, Unfair Advantage (VIDEO) and For Freedoms' Sake. When you compared learning and trading options using Karson's and Jeff's Trading Indicators with the money and time it takes to open a Subway Franchise. What great insight you gave me Preston!

Karson, I finally seemed to "catch on" in your training webinar where you drew out your favorite indicator. Your 3 descending peaks finally seemed to register and it helped me trade into profits using my money rather than paper trades

Thank you all for your splendid advice.

W. Robinson

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



Q: My brokerage can do spreads and straddles but I don't see where they can do butterflies... is that a problem? Can I still set them up manually?

A: You won't need to access margin for the option trades but you will use what's called maintenance requirements, which can be done in any qualified retirement account or cash account. Unless you're trading the E-mini futures or currencies with the indicators, as those do require margin.

Q: I am new to your indicators. I have a couple of questions. When you put orders on using the E-mini, what is the symbol that you use? Also, when you place a long or short, are you buying the shares or are you buying options?

A: We use the ES (The S&P contract). An E-Mini is an electronically traded futures contract (not an option) on the Chicago Mercantile Exchange that represents a portion of the normal futures contracts.

[Read more here](#)

Q: I am very interested in joining the Swing The Ax indicators. I have mainly trade Forex and ask if the system and indicators are workable on spot Forex market EUR/USD?

A: The spot rate in Forex currency trading is the rate that most traders use when trading with an online retail Forex broker - so yes.

[Read more here](#)

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



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

[SEND EMAIL](#)