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The Traders Edge Insider

TradersEdge NETWORK

Print This Issue

Greetings from the Pirate!

Hi everybody and welcome to 2013. I'd like to start by thanking you each for continuing to be a part of the family here at Traders Edge, and in particular for your continued trust in the team and myself. I congratulate you on doing so and assure you that we'll work tirelessly to continue earning your loyalty…and more importantly to help you trade profitably.

As we start the New Year, the big news is obviously the temporary reprieve regarding the Fiscal Cliff drama that has dominated attention for some time now. While the markets rallied some in the wake of the deal announcement, what we've really ended up with is more questions than answers and little done to address the fiscal problems in this country that are very much real...systemic issues rooted within our government that we continue to believe might cause serious problems in the months and years ahead.

What this will mean for our economy both short and long-term, and in turn the markets here and abroad, remain to be seen.

Regardless of how things play out, you can bet the farm that our focus will remain on our task at hand of making money. No doubt you've heard me say it many a time, but it bears repeating - whatever occurs, we are going to trade what the market presents us with, just as we always do.

BTW…keep your eye out for some exciting announcements in the coming weeks and months…We've got some great things planned that you're sure to benefit from!

For now, I encourage you to read and reflect on this month's edition of TEI—you'll find it's packed with plenty of good info that will benefit and enlighten as together we move forward into 2013 - a year that promises great challenge and plenty of opportunity for profit!

— Preston James



Traders Talk

In this month's Traders Talk we're chatting once again with Karson Keith, a trader you all know and a mentor to many of you...



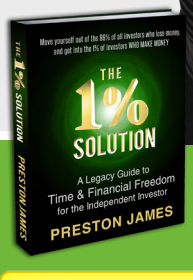
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Monster's Perspective

While I'm happy that a Fiscal Cliff deal got done, this deal without any address to government spending is indeed a very small deal...



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Preston James
-Author,
"The 1% Solution"

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TEI Insight

Happy New Years folks. It's now 2013 and we've somehow survived the Mayan calendar calamity, fiscal cliff, European debt debacle and myriad...



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Musings from the Editor

Well, the fiscal cliff came… and went…and in typical Washingtonian fashion, remains still ahead of us for the most part...



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Coaches Corner

As I was struggling to think of what to write about for this month's edition of Coaches Corner, I finally decided, "Hey, why not just talk about our current market situation?"



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Ask The Crew

Crew members tackle questions submitted by readers each month...



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Upcoming Events & Special Announcements

Urgent… Mark Your Calendar Folks…January 28th & 29th!

Can't spill the beans just yet, but we are working on finalizing details on an event that you can't afford to miss - something that is sure to boost your trading to a level few can achieve. Those are loaded words, but fact is this is one of those rare events that truly has the ability to change your life and secure your financial future!

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Traders Talk:
TEI's Louis Horkan Interviews Karson Keith



In this month's Traders Talk we're chatting once again with Karson Keith, a trader you all know and a mentor to many of you. In the first part of the interview, Karson shared quite a bit about his trading background, as well as insight regarding his straightforward philosophy on how to make money in the market. This second part is more focused on the strategies employed by Karson to consistently bank what can only be characterized as phenomenal returns. Additionally, he offers his views on the fiscal cliff drama and its impact on the economy and market, especially in regards to how that is likely to play out in the coming year. What's more, he shares the approach he expects to capitalize on in 2013.

TEI: Hey Karson, it's good of you to give us more of your time to complete this multipart discussion. How are you today?

KK: I'm doing fantastic. How about yourself?

TEI: I'm good as well. Getting right to questions and focusing first on market conditions, how much do the broad market conditions play a hand in what strategies you employ?

KK: Well, as with any good trader, you have to trade in whatever market you have. If you're trying to trade in some imaginary market it usually doesn't end very well. You have to know what's going on out there and you have to trade with whatever the market happens to give you. So I'm constantly adjusting to whatever the market conditions might be.

TEI: Do you pay close attention to the key levels on the broad indices in general and specifically when you're contemplating putting trades on?

KK: I don't pay close attention to them…I keep an eye on them. I tend to trade more arbitrage trades, more inefficiency in the options. So it is important to note those certain points, but it's not really my game. Usually I can take advantage of the pricing inefficiencies in the options, especially in the weekly options. But I do trade always being aware of what's going on out there with certain prices and support and resistance levels.

TEI: You've previously explained that you don't pay attention to most indicators because they simply don't work at this point. That said, do you pay any attention to formations, such as head-n-shoulders, flags/pennants/wedges, double/triple tops or bottoms, etc.?

KK: If it's anything a trader can recognize outside of mine and Jeff Augen's little world, then I don't use it. I don't even have them on my screen. If I could delete them off my computer I would, but they're built into the platform. I don't look at them at all.

TEI: Focusing on the Augen Indicators, can you explain what the Augen Indicators are for those who aren't familiar or who haven't witnessed them in action?

KK: Basically Jeff is a trading/programming genius of sorts. He's actually come up with his own algorithm - his own way of interpreting how a stock moves and determining how much strength is actually behind it. His indicators, which aren't broadly distributed, have worked extremely well for me, even in my option positions. Oftentimes I'll use the indicators to leg out of trades for even more profit than I already had in the first place.

TEI: What advantage do the Augen indicators give you?

KK: Well, every trader has their days that don't go so well. For example, say I do a butterfly position or a straddle position that doesn't work out the way I want. I refer to it as cheating my way out of it. I'll use the indicators to leg my way out of the position. So what would otherwise be a losing trade, I can turn into a winning trade fairly easily.

TEI: What type of time frame are they most appropriate for?

KK: Jeff originally designed them for longer-term trading. I wouldn't say long term, but somewhere in the realm of swing trading. As we've progressed they've actually turned out to be fantastic for day trading. So you can apply them to long time frames or really short time frames. It's quite phenomenal. The most lucrative is just getting in and out within short time frames.

TEI: What types of securities do they work best with?

KK: It's really simple - if it's liquid enough to trade, it will work. They seem to work better on things that are super liquid. Apple, the e-minis, any of the more liquid futures, the Euro and a lot of the main currency pairs. It seems like actively traded things work best. I can't really say they don't work on things that might be thinly traded because I don't' work with such things.

TEI: Does the indicator focus primarily on identifying high frequency or algorithmic trading activity?

KK: It picks up on algorithmic trading typically…but it also can help you gauge how strong a move is and more particularly when a move is coming to an end. Oftentimes that's our entry point when a downtrend or uptrend is ending.

TEI: Refocusing on approach, can you briefly explain the absolute importance of trading the markets seeking a statistical advantage?

KK: Well the reason I like to trade these advantages is simply because trading the market by itself, directionally, can be difficult – though we do it pretty well with the indicators. But it's usually in very short time frames. For me to put on an option position that I'm expecting a certain thing to happen over the next two weeks, that's very difficult. Any piece of news during that two weeks can completely change the dynamics of what I thought when I originally got into the trade. So you have to constantly be in tune with the market if you're going to do that. But there's much easier ways in my opinion to make money. You just take advantage of these price inefficiencies. Look at it this way, how do you price an option on Apple? Something that's going to expire Friday, say four hours from now. An ATM option is almost impossible to price that close to expiration. What's it's really worth? Well, no one really knows, right? Is Apple gonna move or not is basically the question. The volatility is priced in at somewhere around 38 percent, give or take. That's all they have to go off of. So arbitrages appear because the next week's option is nowhere near that price. The time decay is four hours and let's say it's going for five bucks. Well, that means it has $1.25 per hour of time decay. The next week's option doesn't have $1.25 of time decay per hour, right? So there are all kinds of inefficiencies just because that's the way the market is. It's impossible to price fairly. That's a much easier way in my opinion to make money than to try and guess the direction on stocks.

TEI: You tend to follow market cycle pretty closely, correct?

KK: Well I like to keep a pulse on things - I like to know what's going on out there. But really my main game is simply these inefficiencies. But you do want to know if we're having a big Fed meeting or some news that's about to hit or if a big name is about to report earnings - you want to be aware of these things. You either get out of the way or have a trade structured that takes advantage of it. But as far as the actual trades, for the most part, assuming nothing is going on, it's almost 100 percent statistical edge trading - inefficiency trading.

TEI: Given the importance of volatility in the markets and particularly in option trading, how closely do you monitor the VIX and how much does it influence your trades at any given point?

KK: Well, without getting into an hour-long discussion on why the VIX doesn't work, simply put, the volatility that I take advantage of is gonna be within the stock. I previously mentioned Apple's volatility. Depending on the day, it's somewhere around 38 percent…that's the price of the volatility on Apple.

The VIX is inefficient. People say it's a measure of risk. Are you kidding me? We're in the riskiest market that I can recall. Who knows where this thing's gonna go next. Every single whisper out of Obama or Boehner or anybody. Or what's coming out of the Fed. Any of that

and the market rallies 100 points or it drops 200 points. So why is the VIX down in the dirt? Because the VIX is not what people think it is. It's not an accurate measure. So to answer your question, the VIX plays almost no role in my trading.

TEI: We've had an extended period of low-volatility, range-bound markets for a while now. What's your favorite strategy for these kinds of conditions?

KK: I usually do a long or short butterfly, depending on the situation.

TEI: What other strategies have you used in the past year or so?

KK: Earlier in the year I actually did a lot of back spreads - like back spreads for a credit – blow-up trades as I like to call them. Basically we're just looking for a move in the stock. I still do a little bit of that with the short butterflies. But now the market has evolved in a way that the long butterfly position, particularly over the weekend, makes most sense. It's strictly a statistical trade, offering a statistical advantage. Even if the stock makes a move, which I don't want to have happen, I still end up getting out of the trade for maybe a small loss, but usually somewhere around break even or in some cases, a small profit. Now that's without legging out or doing anything fancy. But when I'm right - and I use the term "right" loosely - and the stock doesn't move and it stays within the range over the weekend, you walk away with a nice profit. So it's strictly just a statistical advantage trade. That's just the pricing inefficiency of the option due to the fact it's impossible to price that fairly. Over the weekend, at least for the stocks I trade, happens to be the window where this inefficiency takes place. I've really milked that to the tune of over a thousand percent return for the year. It sounds ridiculous, I know. You wouldn't even believe me if I told you that, right? But I have a track record that a third party put together for me. So, it's a phenomenal return playing an advantage like that.

TEI: What's your thought on trading longer-term trades, like more traditional option trading?

KK: Longer term, like month-to-month - I would say you're doing the wrong thing. You have to trade with what the market gives you. It is what it is and right now trading month-to-month, there's just no way. I mean if you could do it, fantastic and more power to you. But as far as my own personal trading, there's no way. I have much better ways to make money. Trying to predict what's going to happen a month from now in this market, there's no way. One little piece of news can completely change the whole thing.

TEI: You talked last month about the Stock Wiz Kid service. Can you share just a bit about your approach in the service for those who aren't familiar?

KK: Well, basically Stock Wiz Kid is centered on what I'm doing in my own trading. It's pretty straightforward, pretty simple. Here's what I'm looking at, here's what I'm gonna do and these are a few reasons why. It's a skill that's acquired over a long time. As for rules, as people would like to call them, they are almost intangible and hard to put into words. I wouldn't say my approach is intuitive, but instead just drawing on experience. The trades I put on there are my actual trades. The people that get it and follow along tend to love it. And I love doing it, so I can't complain.

TEI: Do you like trading specific known events, such as earnings, stock splits, conferences, etc.?

KK: Absolutely, I love predetermined things. Something that's set in stone - here's the time and here's the date. You want to talk about inefficiencies in pricing. When you know Apple's going to report earnings or they're going to release a new iPhone or whatever it might be, the inefficiency is just unbelievable. You can take advantage of things several different ways. I've been doing long butterflies going into news…just before the news. Now remember that with a long butterfly you don't want the stock to move. But I'm doing long butterflies going into an event that will most certainly move the stock. That sounds crazy but it's a complete arbitrage trade. You have to see it…many of my members have seen me actually trade this and made a lot of money along with me. These are ridiculous

arbitrage trades where the amount of risk is literally zero and the reward is borderline unlimited. So, any time there is a news event, I absolutely love it. It's my favorite thing to trade.

TEI: When do you tend to enter these type trades and how long do you hold?

KK: I usually start putting on and taking off positions typically about three days before the event. Not long before the event. That's when the highest amount of inefficiency occurs. Sometimes, depending on what it is, I'll hold over and other times just for the period before the announcement happens. It really depends on what's going on.

TEI: You've had a lot of success with Butterflies in this past year. Do you expect it to continue to be a profitable trade strategy?

KK: Yeah, the thing with butterflies is they are really simple. The long butterfly benefits from time decay, while the short butterfly benefits from movement, other than some arbitrage setups, which are fantastic - but you have to wait for news events and things like that. Are they evergreen? Will they work in any market? Sure, because they're on both ends of the spectrum. So one or the other is gonna be working. It's either you're looking for a movement or you're not looking for movement. Pick one or the other.

TEI: Why do you think you've had such success trading butterflies and how does your strategy differ from most others?

KK: Most people put on a long butterfly a couple of days to expiration. The option is about to expire and I think it's going to finish within the range and I'm going to make my money now. That's perfectly fine for the standard retail investor who doesn't really know what they're doing. The market's very efficient at pricing that trade though, and for that reason I don't like that trade. So I do a long butterfly going into the weekend, a week prior to the expiration. In fact, the bad time to do a long butterfly is the last couple of days when most people typically do a long butterfly. On the other end of the spectrum, since that's a bad time to do a long butterfly, then naturally it's a good time to do a short butterfly. So that's usually the window I'm doing short butterflies. Now it's not every single week, at least with the short butterfly. You need the right circumstances or certainly the right amount of credit on the trade. So I wouldn't say it's as consistent an inefficiency as with a long butterfly. Now the long butterfly - I think I've done trades every single weekend for seven or eight month now. I don't think I've missed a single one.

TEI: Can you explain your Pinning strategy briefly?

KK: There's lots of movement based around strike prices. Apple will move to a strike price and you'll notice several times it'll hit that same strike throughout the day and then move to another strike price, especially on an expiration Friday. So, basically there are all kinds of trades you can structure around them. I'll be honest, I've kind of become borderline lazy. I use the indicators now rather than trying to guess when a stock is pinning to a strike price or when it's about to move to another strike price. I used to do it the hard way, but then I started working with Jeff and using the indicators. Now, using the indicators, it's extremely clear when the stock is truly pinning or getting ramped up to make a move from a strike price. Long story short, I cheat and use the indicators.

TEI: Do you trade pairs and what can you offer on that strategy?

KK: Pairs trading is fantastic. Especially with the indicators. But even independent of the indicators you can tell when a stock is outperforming or underperforming the market, right? If the DOW is up a hundred points and there's a stock that's down a couple percentage points, clearly it's underperforming the market, right? So you can do pairs trades structured around things like that even independent of the indicators. If you use the indicator, obviously you've got a tremendous advantage. It's kind of a slower-paced way to make returns, but as far as consistency goes, it's off the scale. The odds are so high in your favor that you're going to be correct. It's difficult to compete with the accuracy of a properly structured pairs trade.

TEI: What is a strike force trade?

KK: Really the strike force is just the forces around the strike prices. I'm kind of Star Wars fan so I like to use the force of strike prices to my advantage. But you can structure any trade you'd like around these strike prices, whether it's a pinning trade or a blow up trade. For example, say Apple moves from one strike halfway to another, it's usually a pretty good bet that it'll actually make it all the way to the next strike price.

TEI: Before closing, let's focus a bit on the drama that has everyone's attention now. As we sit here today, there's been no resolution on the Fiscal Cliff issue. You've talked at length about it with Jeff. Can you share your thoughts on what will occur and how that will effect trading short term?

KK: Well, I'm first in line to short the market. We're headed for a cliff - one cliff or another. This is not an understatement to say we have analyzed to death the different scenarios that our country can go through. Every single one of them, sooner or later, ends up being a catastrophe and the market falls. Let's pretend that they raise the debt ceiling to infinity and we buy our own bonds. Essentially we sell bonds and we're the ones that buy them. Eventually we get downgraded, right? A downgrade is not a good thing for the market. That's one scenario…kind of the "push it out in time" scenario – it gets us a little bit further down the track. Say the tax cuts kick in. They don't extend the tax cuts; well guess what? Everyone in America sees their paycheck get smaller. Guess what that means? That means less spending. Guess what less spending means? The market is gonna fall, right? Basically any way you slice it, we have to cut a trillion dollars out of the economy. A trillion dollars! Take a trillion dollars out of the economy and the stock market goes down - I don't know how else to put it.

TEI: What is your outlook for 2013 in terms of the macro picture – do you expect more of the same from this past year or do you think trading dynamics are gonna shift and it's gonna be a new game?

KK: Sooner or later we have to pay up and the market's going to pay the price. It's going to fall, there's no doubt in my mind. When that happens just depends on the event. They might push this thing out. It might be six months from now. Or they might just bite the bullet now and let the tax cuts kick in. Everyone's check is smaller and there's less spending. Simply put, it's gonna be a crash. I really think it's gonna be a strong crash. Where's the bottom of the crash? Well, I'll tell you when we're at the bottom. I'll cheat and I'll use the indicators. There's no way I can tell you when the end of the crash is gonna be. For now though, we're not in a crash yet. So I'll keep doing my butterflies and making some money doing that. Once we're in a crash, it's gonna be a completely different story.

TEI: Hard to predict obviously, but just gauging on what we do know now, how do you expect to make money in the coming year?

KK: The way I look at it I have one year left of trading. I plan to just short the market to death all of the way down, trading the entire crash. If I do any trading after that point it would be 100 percent because I love to trade, but it definitely won't be for financial gain.

Karson's interest in trading began at a very young age. By the age of thirteen 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 has helped countless people achieve the same results.

A natural teacher, Karson has a unique ability to take complex strategies and break them down into simple, actionable formats. This makes the exclusive benefits of highly skilled, profitable trading not only accessible to traders at all levels, but possible for even the beginner to succeed!

Monster's Perspective: The days after the "Fiscal Cliff" deal

By Jon "DRJ" Najarian



Happy New Year to all and Happy New Year indeed.

While I'm happy that a Fiscal Cliff deal got done, this deal without any address to government spending is indeed a very small deal. And while we still have the debt ceiling ahead of us, we can't deny the bulls their day. This is why I didn't say go short the market, rather just go to cash.

I thought the risk was we could see up to a 50 point S&P rally, and indeed, we were 50 points above our low print during the regular hours on Monday December 31st.

The S&P 500 was at $1,443 when I said go to cash (12/21) and since trading to $1,398 (all figures in cash S&P 500) we've made it back to $1,453, a gain of a whopping 10 points or just 0.7 percent. That's pretty thin gruel my friends.

I know many of you thought the goal of the deal to dodge the Fiscal Cliff was to prevent a series of steep spending cuts and tax increases on the middle class from automatically taking effect in the New Year. But you'd be wrong, as part of the deal was, as it always is with Congress spending our money, all about pork! In this case nearly $68 billion in pork as tabulated by Congress' Joint Committee on Taxation!

Yup, lawmakers gave the green light this week to extending dozens of business and industry tax breaks, like a cost-recovery program that will save the owners of "motorsports entertainment complexes" (thus dubbed the NASCAR Pork Chop) about $70 million over the next two years.

A tax credit for construction of renewable energy projects, like wind turbines and biomass, geothermal and hydro power generation, for one year. It's projected to cost about $116 million, the committee said.

That may seem like a drop in the bucket, but here's the kicker: While the extension to qualify for new projects covers only 2013, the actual tax credit itself is good for 10 years. That means new projects that break ground in 2013 will be able to claim the credit for the next decade, at an overall price tag the committee put at slightly less than $12.2 billion.

An arcane provision of corporate tax law, called active financing income, that lets U.S. corporations defer taxes on some income they earn from their overseas subsidiaries. That provision will cost the U.S. Treasury more than $9 billion this year and $1.8 billion next year.

Tax breaks for Hollywood producers who shoot their movies and TV shows in the U.S., at a cost of about $430 million through 2014.

A program that sends most federal taxes collected on rum produced in Puerto Rico and the U.S. Virgin Islands back to those territories to subsidize domestic production. Bar tab: $222 million over two years.

A tax break worth about $15 million a year for asparagus growers hit hard by cheap asparagus imported from Peru.

$4 million in tax breaks over the next two years for people who buy "2- or 3-wheeled plug-in electric vehicles" — in other words, electric scooters, Segways and the like.

On a positive note, we noted in my Blog this week that I had read recently that Warren Buffett has agreed to purchase $2.5 billion of SunPower's solar projects in California. If the Oracle is buying more solar, it might mean the subsidies are back; at least that's my read. FSLR and SPWR would be key stocks to watch.

Back in August, I was convinced that the spot VIX was doing exactly what it should have been doing back then and that it was revealing something very significant. Remember that the spot VIX measures the range of puts to calls trading in the market, and the range at the time was narrower than it was for some time. That narrowness is what the low VIX reflected.

I said at the time, "That doesn't mean there's no fear in the market, it simply means with all the fear in the market, big money investors expect the market to be stuck in a range."

Like me, optionMONSTER's Chris McKhann has been examining trends in the VIX in detail over the past months and just yesterday (January 3rd) he wrote a very insightful article for our website (**http://www.optionmonster.com/education**) as he tried to answer the question, "Where is the volatility (trading)?" Chris forwards the opinion that "those who trade volatility through delta-hedged positions usually care more about prices. As such, they were probably hesitant to pay a large premium of implied volatility (cost of the options) over the historical volatility." It is hard to disagree with him. The article is well worth reading.

With the Holiday Season behind us, and even with the bumps ahead of us, I hope that 2013 gives us a year of Good Trading.

Regards,

Jon "DRJ" Najarian

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.

Print

Money Chasing You - Trading Success Stories

Hi Preston,

Talk about effective!!!!

Bought your 1% solution about 3 weeks ago and poured through it cover to cover while on a family holiday.

Thought "this makes sense, why wait for the share price to tell you whats going on? Why not see what the big guys are doing and copy?" So off I went, new found enthusiasm and naivety intact, with my 1% solution under my arm.

OMG, WOW, fantastic, brilliant (is there any other description I can put in here?)! 2 weeks, trading 2 stocks, 4000USD. That's PART-TIME... MAYBE 45 MINS PER DAY about 3 days per week only.

In fact, last Thursday it was like watching a "waterfall of profit" coming into my account (that was the day I took $2500USD in about 20 minutes). So you've got a massive fan over here in Scotland!

Question: How do I take this to a new level and get trained and coached in being REALLY GOOD AT THIS?

Very kind regards from your newest scottish fan.

M.W.

continued p. 13

TEI Insight: Still Waiting…

By Louis Horkan



Happy New Years folks. It's now 2013 and we've somehow survived the Mayan calendar calamity, fiscal cliff, European debt debacle and myriad other issues. And the net effect is that we find the broad markets sitting a little higher than a month ago…but certainly not far from the previous mark and nothing to be breaking out the bubbly over.





Continuing on the flip side, bears are going to want to see a test and failure at what had been the resistance lines of the aforementioned consolidation zones. If that were to occur, the obvious play would be a short to test the lower end of those zones…representing more of the same type of sidewinding consolidation activity witnessed throughout the second half of 2012…and more coiling of energy seeking to be released.

As you can see from the daily charts of the INDU and SPX, the broad markets have managed to actually break above the respective consolidation zones we've spoken about for some time now. The near-term target on the long side of the market is now the September to October triple-top highs, which the SPX actually traded to within spitting distance of just last week. The INDU has displayed a bit more of a drag, but it remains within 2 percent of its recent high. . .

In terms of that stored energy seeking somewhere to go (and getting us clear of this damned zone), we need to look bigger picture at the monthly charts.





Close inspection paints a clear picture, as we've pointed out on numerous occasions in months past. The upside target is obviously the Fall highs, followed by 14K and then the record high near 14.2K for the INDU, and 1,500 followed by the record high of 1,576 for the SPX, respectively.

Were we to break down and lose the consolidation zone support, both indices would be targeting their respective November lows. Failure there and suddenly it's looking like a test of the lower support areas of the recovery channel that dates from the 2009 market collapse lows. Quite a ways off, to be sure, but were the downside momentum to build to the point that we break the November lows, that coiled energy we've spoken about so much would suddenly ramp up the pucker factor amongst market bulls and we could see a quick trip down.

For now though, while the markets have made some upside progress, the ground we find ourselves occupying has been chewed up previously in battle and the side-winding trend has yet to be broken. The real issue of who's in control has yet to be answered and the stored energy of this coiled market has yet to be released. With the fiscal cliff mess behind us (sort of) and earnings season set to start, perhaps we shall finally get just such a release…..

We shall see….

~LH

Musings from the Editor: No More Dog Being Shakin by the Tail…

By Louis Horkan



Well, the fiscal cliff came…and went…and in typical Washingtonian fashion, remains still ahead of us for the most part.

Yup – true to form and as was largely expected, the leaders in DC kicked the can down the road a bit. Not far, mind you – just a couple months.

As unbelievable as it would seem, and it surely defies logic, the "entire" den of thieves (aka POTUS and Congress) managed to pick the pockets of their constituents via new taxes (including an increase in the payroll tax that most directly hits the middle class – the very peeps the POLS are working hard to serve…supposedly), throw their largest corporate contributors some juicy bones, spit in the eye of small biz (yet again), place full blame on the "other side"…and most impressive of all – avoid imposing spending cuts…or for that matter, limits of any sort on themselves. In fact, while a raise for VP Biden and members of Congress was discussed, the only thing they failed to address at all was the issue of spending. But they are gonna get back to the issue….soon! Riiiiiggggghhhhttttttt.

Wow, can't really make this stuff up…

Given that backdrop, you'd think we'd remain stuck in the mire and very much still held hostage to the machinations out of the beltway…for some time to come.

Well, YES…and… NO! Twisted, I know…but give me a moment and I'll make the case.

Yes, we are still stuck, and the situation is bad and sure to get worse. The media will continue to feed on this and the POLS will continue to fling arrows and grandstand on the entire situation. And we will become even more fatigued with the process. Get ready for Debt Ceiling Borrowing Limit Part Deux…

More importantly, we'll continue to see real damage done to our fiscal situation, including the wholesale debasement of our currency. And a lot of smart peeps will continue to warn and say we're gonna pay a steep price for all of this at some point…and they are right!

From that standpoint, we are in serious trouble, no doubt! And the truth is we are theoretically in decline and on a path from which we can't diverge. Our days as **The Lone Superpower** are numbered.

Pretty dire stuff, huh? YES, indeed!

But……there's a silver lining here. We actually have something working in our favor – the very nature of POLS…and the relative nature of how the market views things. As such, we have to keep things in perceptive and remember all is not gloom and doom.

First up, the nature of POLS. True to form, the POLS did exactly what was expected of them all along – they were guided by their own sense of self-preservation and found a way to make things work…just enough…at the very last minute. Sleight of hand parlor tricks designed to fool and buy time…but not fix

Now lots of peeps are gonna be predicting this is gonna backfire immediately...resulting in a serious slowdown that will see us stumble into recession in the coming couple months. And it's hard to argue with their logic. In my view, we are already slowing and the coming earnings season could be a tough one given the year-over-year comparisons that companies are gonna be facing. But you have to temper that with the fact that the bar has been lowered so much already that

many will actually beat expectations – the typical Wall Street earnings charade. Whatever the outcome, this is a "relative" matter and not something catastrophic. I'll come back to "relative" shortly.

Which brings me back to the nature of our POLS. It never pays to underestimate the power of a politician seeking to save their own skin… In fact, we've seen this very script play out in the recent past over in Europe with the sovereign-debt situation. They have been kickin the can down the road and seemingly tip-toeing on the edge of disaster for the past several years now. The situation remains dire still, yet they've avoided collapse and at this point have somewhat miraculously managed to create a perception that they've come up with the proper prescription to the whole mess and are now putting their house in order. Mind you, I said perception…

So how does that help us? I said this was gonna be twisted…but no less true. Should we expect anything less out of our elected leaders than those in Europe? Certainly not! They've always obliged and will do so this time around and at every point necessary in the future.

Trust me, they will muddle and mess things up, but this isn't about what they are capable or incapable of – it's all about understanding the simple fact that we can count on them to act in their best interest to save their hides and cushy positions. Translated, that means do nothing most of the time and kick the can down the road when absolutely forced to do something.

The fiscal cliff is proof positive of this. They created it themselves…a self-imposed diet of draconian austerity that was supposedly so unpalatable to all parties that resolution was an absolute surety – much like our policy of mutually assured destruction throughout the Cold War era.

Yet in the end they simply passed measures (after the deadline, no less) extending the deadline by a couple months. Laughable. Even more so is their feigned argument that this is about the American people. This has never been about ideology or a higher purpose or serving their constituents and certainly not about putting our fiscal house in order. And the whole "we don't want to leave this mess for the next generation" rhetoric that gets bandied about by all sides…. Pllleeeeaaaaasssssseeeeeeeeeee.

Granted, that probably sounds a bit jaded…

But in fact I'm actually an optimist and I view their recent actions as proof I can count on them to act in a certain manner. When the "stuff" hits the fan, our leaders (throwing the Fed in there as well) will absolutely wait till the 11th hour and then find a way to kick the can down the road. Whether you believe it or not, there is comfort in that. Very much like the wild horse that will run you right up to the abyss but stop at the edge due to an inherent instinct for self preservation. We aren't going off a cliff any time soon…fiscal or of any other sort.

Which brings me to the relative nature of how the market views things. While our house is a mess in many regards, the fact is we just came back from the brink of financial meltdown - that's not rhetoric or an overstatement of any sort. And the picture hasn't improved much in the intervening years since the near implosion. Make no mistake, our debt and spending problem is a serious issue that is not going to get solved…EVER – especially by the very peeps responsible for the problem to begin with!

But the market understands this and factors the reality that our decline will come in measured tones and over a long period of time. Simply put, we aren't going away any time soon. And we remain the best game in town from a relative standpoint…for now and a fair amount of time going forward.

Like I said, twisted….but no less true!

Now you can bet there will be peeps out there who interpret this to be a prediction of some sort of pollyannaish scenario – trust me, I ain't been hittin the Cool Aide…at least not that flavor.

What I am talking about is getting back to normal market activity. Corrections and rallies and the occasional crash and some irrational exuberance mixed in.

Bottom line, while there are many issues to be dealt with still and we are far from being divorced from the actions of the POLs, both here and abroad, we do seem to be heading away from the constant barrage of catastrophe-driven distress in the markets that has most definitely prevailed over the past five years. Sure, that could change in a heartbeat, but there's no denying the growing sense that we have entered more-normal market conditions - familiar territory where we worry most about the Fed, inflation, earnings, innovation and the types of things the market and it's participants are used to dealing with on a daily basis.

Don't know about you, but I'm ready for Wall Street to start leading once again as opposed to being shaken by the POLS…scuse me – I meant the tail.

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.

Print

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

Hi I'm very exited to be part of the 'family' and feel privileged to have Mr. Jeff Augen (and of course Karson Keith) as mentors/coaches. The webinars have blown me away already, I hope that I can capitalize on all of the excellent information and advice.

Thanks!
U.W.

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

Be sure to keep those dates open (Monday Jan 28 and Tues Jan 29th) and to watch for the coming announcement of this exciting one-of-its-kind event!

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…

Coaches Corner: Finding the Edge

By Jon Wirrick



As I was struggling to think of what to write about for this month's edition of Coaches Corner, I finally decided, "Hey, why not just talk about our current market situation?"

First of all, I never want to trade just to trade. I always need to make sure that I have an edge. Trading without an edge is gambling, period! For me that edge comes from finding out what the institutional traders are doing and jumping on board. I don't want to trade against them, I want to trade with them. They are responsible for the vast majority of the market volume and therefore the market direction.

I liken trading against the trend of the market to standing in front of a moving freight train and thinking that it's going to turn around for you. Most likely you're going to be squashed like a bug!

Fortunately, deciphering their sentiment is fairly easy to do given that institutional traders leave track marks when they trade. We can see this in a couple of different ways:

1) Follow the accumulation/distribution rankings in IBD.
2) Observing the trend of the market.

The market can only move thee ways - up, down or sideways. When the institutional traders are accumulating, the market rises. When the institutional traders are distributing, the market falls. So I can be bullish, bearish or neutral.

It's important to remember that three out of four stocks move the direction of the market and it's safe to say that closer to 100 percent are heavily influenced by the prevailing market cycle. Moreover, when the market is trending up or down it is easier to trade than when it is not trending.

So, where's my edge if we're not trending? Whose coattails do I ride - the bulls or the bears? I first need to figure out which way we are heading. Since most stocks trade with the market, the single biggest thing I can do to tilt the odds in my favor is trade with the market and not against it.

Historically, the November through April time frame is the best time to trade. As a matter of fact, according to the "Stock Trader's Almanac," over the past 60 years the Dow Jones Industrial Average has made all of its gains between November 1st and April 30th. According to the Almanac, a $10,000 investment in 1950 compounded to $527,388 for the intervening November through April periods compared with a $474 loss for the corresponding May to October periods.

The activity during the month of January is something else I'll be monitoring. Why? "The Stock Trader's Almanac's" flagship indicator, the January Barometer (created by Yale Hirsch in 1972) states that as the S&P goes in January, so goes the year.

The January Barometer came into effect in 1934 after the 20th Amendment moved the date that new Congresses convene to the first week of January, with the Presidential inaugurations moved to January 20th. The long-term record for the barometer has been fantastic, sporting an 88.7 percent accuracy rate, with only seven major errors in 62 years. However, in the 62 years since 1950, only two of those errors occurred when the S&P 500 was positive in January, equating to an incredible 95 percent accuracy rate!

So what's happening in the market right now? At the time of this writing IBD's accumulation/distribution rankings have us at C- on the NASDAQ, which is neutral to slightly distribution-biased, while the S&P 500 is ranked B-, equating to a neutral to slightly accumulation-bias. It seems to me this averages out to neutral.

A quick look at the S&P chart shows neither higher lows/highs nor lower lows/highs, which would indicate we're trendless. So I see us on hold, given that the market's not giving us a strong bullish or bearish bias and neither side is tipping their hand for now. With such a backdrop, do I want to be doing many intermediate to long-term trades right now? No, I don't have an edge until the market tips its hand.

That said, obviously the fiscal cliff situation puts us in a unique situation. If and when the market turns down, I do want to take advantage of that. I'm following Jeff and Karson to do this; and I'm also watching for the market to show me it's going down. In the meantime I'm hedging myself with some trades on VXX and SDS. If the market starts trending higher than I will want to take advantage of that, likely with some money press and MIT-type trades.

Now it's worth noting here that despite the lack of clarity, even in choppy, uncertain market conditions there are opportunities. On an individual basis there are always stocks that undergo sudden heavy accumulation or distribution phases. How do we determine this? They show us. When a stock rises on heavy volume, it's under accumulation. When it falls on heavy volume, it's under distribution.

I'm constantly on the lookout for any stocks making sudden strong moves. I'm particularly interested when a stock moves to a new high or new low, either by way of a gap or a breakout. These sudden moves show the stock being accumulated or distributed by the institutions. When this happens I can jump on board, even if it's just for a very short-term trade based on this quick momentum.

How these situations play out over the longer-term is often influenced by market conditions. Since I don't have a sense for that right now, I'll just have to take advantage of the short-term. This can be day or swing-trading. A day trade means you're in and out of the trade within the trading day; I'm not holding the position overnight. A swing trade means typically anywhere from a day to a week or so. I consider an intermediate-term trade to be anywhere from a couple of weeks to a few months.

Whether day, swing or intermediate, I still want to have an overall market bias and try to trade the majority of my positions accordingly. Even though we don't have an intermediate-term bias, I can often build a short-term bias by simply evaluating our shot-term momentum.

Previously I wrote about implementing various strategies and the importance of matching the correct strategy to the direction of the stock. I frequently like to utilize spreads as a way of reducing risk when I place one of these trades. For short-term swing trades of this nature I can sell a call spread if I'm bearish or sell a put spread if I'm bullish. This gives me a higher probability of success. I just have to make sure that I keep my risk in proper alignment and I've found that stops are critical in these trades.

Bottom line, when the market is trending I like to take advantage of that trend, typically using intermediate-term strategies. When the market is choppy and not giving me a directional bias, I do shorter-term day to swing trades and get in and out. That way I can capture short-term momentum without being exposed to the market over a longer period when I don't have a directional bias.

Hope this helps a bit… And remember, only trade when you have an edge - never trade just to trade!

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.

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



Q: Karson recently posted (that) he was happy to hear about several folks who made a profit on the AAPL trade by "legging out." What does this mean and how do you do it?

A: Legging out means they closed on part of the position at a time. So when AAPL got to a low, they closed the put side at a high price and then when AAPL got to a high, they closed the call side of the trade. This way they were able to get top dollar for each piece of the trade. (The people I was referring to used the indicators to help them make the right decisions.)

Q: Curious about your recommendation on the limit price (or going with market) for long butterflies. I have found that there is quite a big spread between bid and ask. When buying or selling these butterflies, where should we set the limit price between the bid-ask spread to strike a balance between ensuring the trade executes and maximizing profits?

A: I usually put a limit order in at a slightly worse price then the mid-point. It usually takes about 5-10 minutes to fill my position, but a little patience usually pays off.

Q: Regarding 'Collars' on the selling call side, how do you determine the strike and the month? Could you do this on weeklies?

A: You could certainly do this on the weeklies. I usually like to get 4-6 chances to sell premium. So on the weeklies I will go about 6 weeks out to buy my put and sell calls each week up to then.

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

Print

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