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The Daily Stock Report

January 7, 2008   Wednesday Evening

I wanted to start off tonight's report by explaining how I interpret all the talking heads on CNBC, financial columns on websites, articles, analysts and anyone else you follow.

First of all, the financial anchor people on CNBC are for the most part, not going to be helpful for you to make more money in stocks. CNBC has encouraged their anchors to go ahead and give their opinions for the sake of ratings. Steve Liesman, the economist-reporter is worth listening to, especially good during the October-November crisis. David Faber is interesting when it comes to reporting buy-outs, mergers and a few other stories like that. But the tendency is for reporters to be overly dramatic, panicky when the market is going down and elated and relieved when the markets are going up.

That is not what you need make money. You need to protect your state of mind to be uncluttered, calm and analytical. Be ready to act when the technical signals and common sense tell you to act with a lesser regard toward fundamental analysis.

As far as Jim Cramer, he is a really smart guy with a great research staff but the ideas on Mad Money show where he pushes buttons and makes sounds are difficult to develop a useful strategy that you can work with day to day. I realize the noises may be good for entertainment but you really shouldn't be trying to get a stock idea without having a cohesive strategy that works day in and day out. Cramer is most useful in his personal interviews on his website, thestreet.com, about a subject you may be researching. He is more thoughtful and calm.

CNBC's Fast Money show can be good but you can get information overload with 4-5 different people's strategy and opinions. Remember that you only have to make money with 1-2 ideas at a time to make large amounts of money. You are not trying to be a mutual fund manager, hedge fund trader, or some super trader in your mind. Your job is to be consistently profitable with 1 or 2 stock ideas a day—and they can be the same stocks you are working with for several days. I find that I trade better when the television is totally turned off unless it is panic city like we saw in October and November where new events kept snowballing from day to day.

It is a similar analogy to reading magazines vs. reading a book. Magazine articles are short and although some information is useful, it isn't usually complete. You can't learn how to fly an airplane by reading a few magazine articles but if you make a study at a subject by approaching it as process of learning thoroughly. And that isn't going to be done by taking a few tidbits here and there from one anchor's comments to an analysts (mostly worthless to us), to the next talking head. By the way, analysts are paid salaried people who went and got their MBA somewhere. They are not paid to be right about stocks. We are paid to by the markets by having a sound process that works, good stock ideas and good execution (your personal performance).

Most people hear an idea on CNBC and go out and buy it without looking at it on a chart or applying some common sense to it. And my last disrespectful comment is that most people are wrong at about the worst time when it comes to most anything related to markets whether it is real estate, stocks, foreign exchange trading, tulip bulb farming, whatever it is. Why is there an all-time high of $7.89 trillion dollars in the US in money markets and banks? It should be the opposite where most of it is in the stock markets on November 21, 2008 but people react with their emotions, not their brains.

Let's get started with the report tonight.

The market respected the technical indicators that support the idea of a mild and short correction that we discussed the last two nights. (I am not sure what the financial news anchors said – were they panicky and started asking different questions like "Why is the market going down?")

The **T2108 chart** I've shown you on the video report the last couple of nights only went down 2.4% today but the VIX went up 12.53%. That tells us there still are a lot of stocks that were unaffected by the 245 point drop in the Dow 30 or 3% on all the indices. It would be much more comforting to see this chart down to 50-60% of stocks above 40 day moving average before we buy but it is more likely to see stocks move back to a higher high before this 2108 chart drops that low.

We can have high readings in many indicators after a severe sell-off, like we have had in late November. The process of money moving into the market takes a lot longer than you think after a period of fear. As I have explained in a previous report in the last month or so, that the first group of buyers that go in is the smart money (that's us), then the hedge funds, money managers, mutual funds, then the retail investors who have been on the sidelines watching the market go up. This last group is the dumbest money.

Right after most of the retail investors are invested, then shortly after, the market corrects, which scares the last group out of the market, so they sell. Then the market goes back to higher highs, and the retail investors try again and most get whiplashed again. This is actually a study as well as my observation.

Do you realize that you "take money from others," primarily from the retail investors? That is why I have said so often that "the most educated and prepared consistently make the most money in financial markets." And that is one of my primary purposes in the remaining part of my life, to educate, prepare and provide you with stock ideas that have a good probability of making money. If I can benefit you and your family with my own experiences and knowledge about the stock market, then that is most satisfying.

The 693,000 jobs lost in December spooked the market when about 600k was expected and previous reports in the last week set up the thought that maybe things weren't going to be so bad. Wrong again.

The housing stocks dropped nicely today and should have another few days of gradual correction. A subscriber posed the question if **SRS** would be a good long trade, which is the Proshares Ultrashort Real Estate ETF. This is a good idea and easily could move into the mid to low 70s from its price of

$52.53 at the close today. **SRS** moved up 5.6% today alone. So if you can't get the housing stocks available to short from your brokerage firm, **SRS is a 2 to 1 leveraged ETF**, consider starting with a small LONG position. When you are long the SRS etf, you are effectively short housing stocks 2 to 1 leverage. Make this a really small position because it is emotional trading leveraged ETF's that is focused on one sector.

Oil prices did what was expected, a nice correction. **USO** dropped 10.68% today alone and should follow through on the downside tomorrow. **Gradual buying USO at $31 to $32 would be a good idea**, remember, gradual. Don't shoot your whole position allocation to this in one purchase because oil could drop lower, causing USO to get to $31 or possibly lower (not what I expect though). **This is the one position that we all should have in the coming months.**

<u>Intermediate Trade Positions</u>: New ideas: **SCHN**, Schnitzer Steel isn't correcting as hard as other stocks and should be considered as a long position. Look for a LONG entry point when the market itself turns up sharply the next several days.

FXI, Xinhua 25 should be ready to buy the next couple of days, probably tomorrow. Gradual buying because if the market continues dropping, you will still have unused money available for this position. This stock probably gaps down because the Chinese markets are down sharply tonight as this report is being written.

<u>Swing Trades</u>: New ideas:

The nice thing you have an edge on doing swing or intraday trades with oil is you can see spot oil prices before the market opens and gives you an idea which way oil stocks are going to go. Take **COG** and **GDP** from last night's report. Those were obvious to short at the open. If you shorted these or other independent oil stocks, cover them tomorrow. There should be a follow-through on the downside. Note that GDP on the table of stocks should be covered at the open, any price should work because it likely opens down at the open. Covering it at the market will work since it has high volume.

<u>Day Traders/Intraday stock ideas</u>: **FSLR**, First Solar gave a weak drop and pop, watch this tomorrow for bigger drop. **RIMM**, Research in Motion, gave an excellent drop and pop; watch video. This should be good again.

Watch **AMZN**, Amazon.com tomorrow for possible drop and pop.

The oil stocks, the smaller independents could have a big turnaround tomorrow **IF** they have a good drop. The bigger drop, the bigger bounce.

NOTE: When I list several stocks from the same sector, like the housing industry for example, don't short all of them unless you are well diversified and it represents a small percentage of your total stock account (in that same account).
REPEAT: Keep an eye out for biotechs; they are building momentum and often do well in January.

Ticker Symbol	Type	Notes	Purchase Date	Open Price	Target Price
HWAY, Healthways	LONG- INT	Sold at open $11.50, 1-7-09; Watch	12-29-08	11.04	14-15
VRX, Valeant Pharm	LONG-INT	Sold 22.80, 1-6-09; wait and watch	12-29-08	22	?
K, Kellog	LONG-INT	Sold 45.09, 1-6-09; buy at 43?	12-29-08	42.39	47

IBM, Int'l Bus. Mach	LONG-INT	Sold 87.70, 1-6-09; wait for pullback	12-29-08	81.72	92
UTX, United	LONG-INT	Sold 54.60, 1-6-09	12-29-08	50.92	55
LLL, Level 3	LONG-INT	We missed this, sorry about that.	Wait next time		
USO, US Oil Fund	LONG-INT	Sold 38.36, 1-6-09; **repurchase lower!**	12-29-08	30.43	50-55
XOM, Exxon Mobile	LONG-INT	Sold 82.14, 1-6-09; repurchase lower	12-29-08	78.28	87-88
CVX, Chevron	LONG-INT	Sold 77.56, 1-6-09; repurchase lower	12-29-08	71.25	85
COP, Conoco Phillip	LONG-INT	Sold 56.53, 1-6-09; repurchase lower	12-29-08	49.51	58-59
BP, British Petrol.	LONG-INT	Sold 48.89, 1-6-09; repurchase lower	12-29-08	45	51
RMBS, Rambus	SHORT-INT	Not dropping yet; don't take anymore losses on this.			
FXI, Xinhua 25 ETF	LONG-INT	Sold @ $31.69, 1-6-09	1-2-09	30	40
PTR, PetroChina	LONG-INT	Hold; too late to sell now.	1-2-09	92.84	102+
BAC, Bank America	DELETE	Sold @ 14.27 1-6-09. DELETE	12-31-08	13.10	15-16
PLD, Prologis	?	Too strong to short; consider LONG	Wait & Watch		
DHI, D.R. Horton	SHORT-SWI	Change to Short swing trade.	1-7-09	7.84	
TOL, Toll Brothers	SHORT-INT	Change to Short swing trade.	1-7-09	21.86	
KBH, KB Homes	SHORT-INT	Change to Short swing trade.	1-7-09	14.90	
PHM, Pulte Homes	SHORT-INT	Change to Short swing trade	1-7-09	12.42	
LEN, Lennar	SHORT-INT	Change to Short swing trade	1-7-09	10.86	
AAPL, Apple Cmptr	DELETE	Sold @ 96, 1-6-09, don't repurchase.	12-31-08	85.97	95
CNO, Conseco	LONG-INT	Still a hold; no sell signal yet.	12-31-08	4.15	5-6
HOTT, Hot Apparel	LONG-INT	Might not come down much; consider			
AGU, Agrium	LONG-SWI	Sold 38.42, 1-6-09; watch POT and AGU	1-5-09	36.91	
FRPT, Force Protect	LONG-INT	Still hold position; not following mkt.	1-5-09	6.40	
AFFX, Affymetrix	LONG-INT	Speculative low priced; hold.	1-6-09	3.18	4.50
MDR, McDermott,	LONG-INT	Buy mid to low 10's	Wait & watch		
FCX, Freeport Mc	LONG-INT	3-4 more days before buying			
COG, Cabot Oil	Short-SWI	Cover tomorrow, should drop under $27	1-7-09	29	
GDP, Goodrich Oil	Short-SWI	Cover tomorrow at open, any price	1-7-09	32.73	

SWI (SWING): 2-7 days **INT**: Intermediate term position 8 days to several months. **Open Price**: price paid on opening long position or price sold on short position.

Thoughts: Best odds only, be decisive, aggressive, mentally flexible, stay in position size, don't overtrade and wait a little longer to buy and wait a little longer to sell. You will find that will make you more money on your trades. Trade what you see, not what you hope for.

Don’t trade unless the setup is there for you, then use the charts to tell you when the odds are heavily in your favor. Don’t force anything to work for you, let the setups develop and then take advantage of that. Be patient. Stay in position sizes without letting any intraday trade represent no more than 10-15% of your total account value. As you build your account, your position size percentage should get smaller and smaller to lower your risk.

Have a great day and I’ll talk to you tomorrow.

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