



February 1, 2009 Sunday Evening

**We are approaching a very dangerous situation with the stock market** especially for anyone who is long. The Dow30 is looking the weakest of the three major indices and is likely to see more weakening as banking and financial stocks are continuing to weaken in the last few sessions. Three more stocks on the stock list are marked for sale at the open tomorrow to reduce risk and prevent losing profits already made. This isn't an environment where we can hang onto any losers with stubbornness thinking the market is going to bounce to recapture our losses in stocks like FXI, PTR, COP and USO.

Speaking of stubbornness, I've made a couple of mental errors by hanging onto the Chinese stock **PTR**, PetroChina and not selling **USO**, US Oil etf on this last top at \$34. I've hung on to the oil stocks with the assumption we are in a bottoming process yet **USO** is down 8.7% from my \$32 purchase price. We are at the support level where if **USO** breaches below this \$28.50 level, your alarms should be going off signaling a new leg down. It is possible we may have a pop up in oil and gas tomorrow to a small extent because of the looming strike with 24,000 oil and gas refinery workers in the USA and other countries.

The forecast made a few days ago that the market "should make its way back up in a gradual way" should have made some progress by now but instead the two big down days is painting a picture that could be breaking down to lower lows in the overall market.

The financial markets are waiting for some clues of economic data or price action that will encourage buying or continued fear and concern. We are still getting negative earnings from the 4<sup>th</sup> quarter 2008, as expected, so we are likely at a height of concern for the markets for a couple of weeks.

**Here are some road signs to be watching for:** S&P-500 is 825 and if it goes below 800, look out below. The NASDAQ Composite below 1425 could mean 1370 and the Dow30 is in danger trouble now at 8000 where an important support level is at 7,904.

**This is a time when high amounts of cash is good to have on the sidelines.** The ideal scenario is the market heads down and retests the November 21<sup>st</sup> lows so we could put our money to work on the long side. It would also allow the few shorts to mature that we have (AAPL, JPM, GERN, Sure we won't make money but we can avoid losses while we wait until the market sets up for another high probability opportunity to buy long. The sector that is most likely to be first to give us another good opportunity is the banking sector but for now, it is a watch and wait.

This isn't a bad thing that the market is heading down, it is just that we are "in between" a high probability entry point for either a short or long, **the next one being a long swing, probably in the financial sector first.**

No matter which direction the stock market goes, we can make money either way, we just have to wait for conditions with sectors or individual stocks that put the odds heavily in our favor.

**Oil** could take a period of weeks before it completes a bottoming process. We are looking for \$35 to be a support level but it is likely to move up before dropping that low. We will be reviewing later this

week a basket of oil stocks that will benefit if oil follows the forecast of higher prices. Eventually oil is going to move up, it is just a matter of time.

**Intermediate Trade Positions:** **New ideas:** **Keep waiting and watching the banking stocks, WFC, BAC, USB, C, JPM, and GS** for potential LONG swing or intermediate positions. We are looking for this group to have sharp downward moves that may approach the recent lows with **BAC, USB** and **C**.

**FCX**, Freeport McMoran, is a copper manufacturer and this is the best in the group but is not ready to buy. We are trying to see if this gradual uptrend continues. Watch and wait.

**Swing Trades:** **JPM**, JP Morgan short sale opened on Friday should get under \$23.  
**GERN**, Geron rebounded the last 2 days to its first high of \$8.50, then pulled back to close at \$7.84. This was a good opportunity to add to the short position. Typically these drift lower after this type of re-test but these bullshorts are always dangerous.

**Day Traders/Intraday stock ideas:** There were no intraday trades on the long side Friday. Continue to watch **ICE, BLK, CME, POT, MON, MOS, AMZN, FSLR, BIDU, WFC, JPM** and any high volume, high volatility stocks.

**NOTES: Try to be patient, this is the time to be watching and waiting on the sidelines with most of your money in cash.**

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
<b>HWAY, Healthways</b>	<b>LONG-INT</b>	<b>\$13.25 stop; probably remains bullish</b>		<b>11.04</b>	<b>14-15</b>
K, Kellog	LONG-INT	Sold 45.65 on 1-29-09; <b>DELETE</b>	1-14-09	43.33	47
IBM, Int'l Bus. Mach	LONG-INT	Sold 90.55, 1-27-09; bad sell; <b>Buy @ 88?</b>	1-8-09	86.14	92
LLL, Level 3	LONG-INT	Stopped \$78.98 1-29-09; <b>buy on dip</b>	1-13-09	77.92	
<b>USO, US Oil Fund</b>	<b>LONG-INT</b>	<b>Treating this price level as support</b>	<b>1-8-09</b>	<b>32.00</b>	<b>50-55</b>
<b>COP, Conoco Phillip</b>	<b>LONG-INT</b>	<b>Hold</b>	<b>1-8-09</b>	<b>53</b>	<b>58-59</b>
<b>FXI, Xinhua 25 ETF</b>	<b>LONG-SWI</b>	<b>Should move up slowly; hold</b>	<b>1-15-09</b>	<b>25.25</b>	<b>29</b>
<b>PTR, PetroChina</b>	<b>LONG-INT</b>	<b>Selling at open tomorrow.</b>	<b>1-15-09</b>	<b>78</b>	<b>88</b>
AGU, Agrium	LONG-SWI	Sold \$34 1-27-09			
MOS, Mosaic	LONG-INT	Sold \$37 1-27-09	1-9-09	40.37	
FCX, Freeport Mc	LONG-SWI	Sold 24 1-27-09	1-14-09	24	
MO, Altria Group	LONG-INT	Let drop for a while; watch, 8.3% div			
GS, Goldman Sachs	LONG-SWI	Sold 77.75 1-26-09; <b>heading down</b>	1-14-09	75.88	82
PXJ, Oil Service ETF	LONG-INT	Sold \$11.97 1-26-09; <b>bottoming</b>	1-15-09	10.50	
C, Citibank	LONG-SWI	Sold \$3.99 1-29-09; <b>watch closely</b>	1-16-09	3.60	5.50
RMBS, Rambus	LONG-SWI	Sold 1-26-09 at \$9; <b>DELETE</b>	1-16-09	9.00	11+
<b>BNI, Burlington Nth</b>	<b>LONG-SWI</b>	<b>Selling at open.</b>	<b>1-16-09</b>	<b>64</b>	<b>74</b>



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