

Fade-Self... One Trader's Commentary

R.M.

Strategy

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“Cheap Money- Cheap Thrills”

*“Most men pursue pleasure with such breathless haste that they hurry past it.”
-Soren Kierkegaard*

This inaugural issue of Fade Self is dedicated to John “Jay” Norris- also known as the 2000 Year Old Clerk- my first boss in the industry & a man that taught me that “A broker knows the fundamentals, a trader knows himself.”

Equities- Buy High, Sell Higher aka Long & Nervous

That's the kind of trader I am and that's the game to be played in U.S. equities right now. I abhor being a stock bull, but it doesn't mean that I won't buy stocks. We've had historically cheap money now for nearly four years and the realization that things could stay that way for a long time is catching on (Read- Inverting Yield Curve). Cheap money has been good news for small caps- with the S&P Mid Cap and the Russell 2000 making all time highs in recent days. Meanwhile the stock index futures dog, the Dow, has doggedly rallied 477 points!! So the trade du mois is to buy the Russell/sell the Dow. Please be wary, however, because the quicker they rise- the louder the stampede when they run your stop. I will likely be an out and out bull (be it a pensive one) by mid-August. I'm looking for **S&P 1250, Dow 10900, Nas 1650, and Russell 710 by Halloween**. Please, write those figures down, as well as my phone number (866-629-9054)- and if they we don't make it by then call me and chastise me for my brazenness. Between now and mid-August don't be surprised if we give back everything we've made in the last week...and perhaps then some.

Treasuries- Flattening Greenspread

I like Alan Greenspan. He's not my favorite Fed chairman of all time mind you. Paul Volker is still the Heavyweight Champion of the U.S. Treasury in my mind, but Alan's a shrewd smart dude. Anyone who's owned a stock, bond, or washing machine for that matter, owes him dearly. But....he's in a hole. It's like the one they found Sadaam in- its dark, dirty, and unless you're one of his few trusted buddies- you don't have a clue he's in it. It took 26 years for the Dow to recover its losses from Black Monday and the ensuing depression. Its been 26 years since the Nikkei bubble burst and the Japanese economy is still foundering. I don't have to finish the analogy. Money will be cheap for a long time. The economy is inching towards recovering. Anyone who tells you they see inflation is....**mistaken**. Yes, prices have gone up in the last few years. A Big Mac value meal was \$3.18 when I was a Senior in highschool (so I'm dating myself a bit- but who eats Big Mac's anymore anyway- maybe it would provide more reference if I told you how much a salad was when I was a kid.) Is that inflation? NO, NO, NO. I don't want to have this discussion again- with anyone....There are really TWO types of inflation. The first and the only dangerous inflation is a psychological phenomena where prices are increasing because there is a fear that if money is not put to use today- it will be worth less tomorrow. (or in hyperinflationary environments- worthless by lunch) Key in on that idea- "If I don't put this money to use right now- I'll miss out on so much opportunity that I might as well not have the money." In my mind I picture post WWI Germany where workers would be paid at lunch so they could take their nearly worthless pay by wheelbarrow to the market to buy bread- because it wouldn't be worth the paper it was printed on by dinner. Ok, so this is an extreme. I'm making a point. It's really similar to 1979-80 when housewives were pawning their heirloom silverware for \$30, 40, 50 dollars an ounce! These are cases of prices being driven by psychology. The second idea of inflation is much more objective. When the dollar drops in value- everything priced in dollars must increase in price. That valuation is a purely rational decision. **It's not psychology. It's accounting.** That's why bonds are going to make more new HIGHS! We won't do it for another three months or so- but I expect 30 Year Bonds to go above 120.00. In the meantime I'd sell straddles. Look for trade as low as 113.00- with some violent whiplash occasionally to the upside.

I predicted a two handle decline in the 30 on June 27th. You got three. I'd say that we'll see another two or three handles in decline by the end of the summer. (113.29 by Sep. 1) I'd look for the NOB (notes over bonds) to stay flat in the meantime.

Metals- Sometimes Life's Non-Ferrous

And so is my trade rec in the metals. Buy copper. Wait on everything else. China, China, China. How convincing does the argument have to be? If you DON'T have some type of investment that is making you money from the black hole of consumption that China is- then what's your problem? It reminds me of the guys who walk around reading the front page of the Wall Street Journal all day long. You know the type. They've probably never even opened an issue up. These guys know that there are opportunities abounding- but they don't have the boldness (not my first word choice) to figure out HOW to take advantage of it. If you are taking advantage of it- good for you- read no further- hell unsubscribe! But if you ARE NOT- then start asking questions. Call your stockbroker, your money man, call me! I had my first buy signal in copper at 67 cents. If you would have had the discipline (and in futures that is the name of the damn game) to buy 1 contract and just hooooooooooooold it. You'd be up about **\$36,400**. On a one lot. And if you're reading this- you don't shoot one lots. So just imagine. That's what CAN happen if you buy the trend. The disclaimer is....if you are a big EGO guy and thought you could pick the top of the market at any time along the way- well you can probably spot your margin mans number on caller ID.

Gold and silver bugs. Just wait. Things are going to get still cheaper before they get WAAAAY expensive. Not Hunt Bros. expensive, but the metals hype will be back by the end of 2005. If you like to buy weakness (which I absolutely disdain) I'd have limit orders at 417.90 in August Gold and 657.00 in Sep. Silver. As far as Platinum and Palladium- unless you're short mining stocks- stay way. No liquidity in the futures. They're **high-brow, low-life** markets. Either way- its bombs away.

Energies- Be Anything But Short

In a long term bull market like Crude there is no reason to be short. Don't be a hero. Instead, play it like you would a dependable growth stock such as Microsoft in the late 90's. Try a buy-write strategy. The way I see it- no legitimate investor has any business shooting for more than 36% annual returns. Ok, so that comes out to 3% per month, right? On a 100K account, trading a one-lot in Crude, that's a \$3.00 move. Now, if you could just catch an average of \$1.50 per month in Crude- you'd make 18% on your account. Now, since Crude broke \$30.00/barrel 36 months ago there has been only two months when it finished lower on the month than it opened. So the odds (trend) is in your favor if you just buy one contract on the first that you will have a profit on the last day of the month. Couple this with the money you can earn by being a short a call \$2.50 cents from the money. You'll earn an average of \$70 dollars per day on time decay. That gives you a buffer of \$2100 to begin with. So, you're up 2.1% for being in the game with a 94% (34 of the last 36 months) probability of being profitable on top of the 2.1%. So, to make your 36%- you really only need to make an average of 90 cents a month in Crude. What is the average move in Crude per month over the last year and a half? **92 cents. Just an idea.**

Currencies- Upon Re-Valuation

I've been a dollar bear long the dollar for almost 3 months. I've eased considerably off of my bullish dollar positions (short Swiss, Euro, Yen) and am focusing on getting long the Canada. The only large position I currently own in the FX is the Mexican Peso. "You boys like Mex-i-co?!" Well, I like the Peso. What a trend- and the liquidity is equivalent to the Aussie in the Globex. The only drawback is that it's a baby of a contract- just \$50 per point- with an average range of about 5 points. It can be outright boring- but I take pride in being a boring futures trader. I want my clients to be downright bored to tears. So, I don't buy bottoms or sell tops. I'm no hero. A good trader derives no positive or negative emotions from the act of trading. When trading is boring- you're likely to be compelled by ration- rather than emotion. The unfortunate fact is that in futures ration seems to be more in short supply than any commodity I know.

As far as numbers go, I think we will see the Euro increase in volatility over the next few weeks- reaching as high as 127 and as low as 118. I think the forex is going to be a market only a sushi chef could love- for about 2 months. Choppy? (author cringes and wonders if he should just stick to trading)

Still reading...or just skipping to the last page?

Well, if you've made it through my whole rant I thank you. I've decided to do this because enough of you decided that you are attracted to the way that I trade and wanted more information about how I think. I hope that anyone who has watched my trades or has read my reports in the past realizes how passionate I am about what I do. I'd appreciate it if you would give me a try. I prefer to work with \$100,000 or more to start, however I'm confident that I can earn your trust with \$50,000. As for the title of the newsletter- it's my most basic trading principle.

Fade-Self (fād-sēlf) *verb.*

1. In trading- to take objective conscious action that is directly in opposition to the trader's gut instinct.

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