



# What's New?

January 28, 2010

## KEYS TO THE BEGINNING OF A RECOVERY:

1. **The Real Estate market must stabilize. If not reversing, at least not continuing to fall. *NEW HOUSING STARTS UP this past Spring and Summer because of seasonal factors but inventory still huge! The Nationwide COMMERCIAL COLLAPSE IS JUST BEGINNING!***
2. **Unemployment must stabilize. If not reversing, at least not continuing to rise. Last report was lower! IT'S ACTUALLY WORSE as a "%," Back to near 10% - BUT IT CONTINUES TO MOUNT @ OVER 250,000+ weekly.**
3. **Corporate Earnings (profits) must stabilize. If not reversing, at least not continuing to fall. *SOME POSITIVE SIGNS but mainly in TECHNOLOGY.***
4. **Banks must begin to make loans again (especially to small businesses and potential home owners...albeit under ancient premises of buyers being qualified and of all things, a down-payment! Lots of "hoopla" from the mega banks, but it appears that there's no real progress. They're "hoarding" any cash they can get their hands on. And now here comes the Regional problems compounded by PRIME loan and Alt-A resets!**
5. **The DOLLAR has to decline. *It's started for REAL!***
6. **Auto sales must stabilize at some NEW level. *Maybe started!***
7. **The consumer must get "back in the game of consumin'" *NO WAY!***

**ANALYSIS OF THE ABOVE: No Real Hope YET! -1/282010**

## 5 Questions to Ask Yourself Before You Buy Another Stock

After looking like they wanted to move higher (early last week), the markets broke sharply at the end of the week on news of China's efforts to curtail bank lending.

Not only have the major indexes broken below their 20- and now 50-day moving averages., but we've also seen the indexes break below their long-term uptrend lines that have been in place since the March 2009 lows.

## **Be Ready to Make Your Next Move**

*The Tycoon Investor gives you a plan of action. If this is the beginning of a new downtrend, then the action to look for is a rally in the Dow Industrials (Symbol: INDU) back up to 10,500, followed by a break back below 10,200.*

*If you see this happening, you are going to want to jump ugly on the short side. That's a very low-risk/high-reward trade if the action plays out that way.*

*The key here is to remain mentally flexible. Don't try to predict the next move; just make sure that you have a game plan for how to play the next move once it becomes evident.*

*An opportunity doesn't cease to exist once it's been confirmed. Remember that most investors are loath to reverse their opinions.*

*They make the mistake of allowing their opinions to override the market action.*

*This means that, once we see a confirmation of the sell signal, many, many, many people will ignore it.*

## **Don't Let This Happen to You**

*As the selling intensifies, more and more people start to wake up to the change that has taken place in the market and then start selling.*

*This selling further accelerates and extends the down move until we finally reach the capitulation point where all the people who have been hanging on finally quit in disgust and sell at the bottom.*

*Conversely, what happens if we rally, break, go short and the market takes off again?*

*That can happen, especially when we are in an environment of such heavy government involvement in the markets. That's why sell-stops are so important.*

*Remember -- this is an odds game. Trading with the odds is what separates speculation from gambling.*

*We place the trade when the odds are in our favor, and take the trade off the table when the odds reverse. Our stop-loss being hit is our cue to close the trade and move on to better opportunities.*

*Most people can't trade like this because they want to take their profits quickly and their losses slowly. But to take that next leap in your investing, you've got to find a way to rewire your approach.*

## ***Bigger Isn't Always Better***

***It might take three, four, five or more attempts to catch a big trend. But once you catch that trend, the money you make will easily pay for all of the small losses that you took.***

***This is why position sizing is so important. If you are betting your whole wad every time you trade, you will end up blowing out.***

***Even with a 90% win rate, you will ultimately go bust if you trade too large.***

***Take a look back and examine the trading strategy you are attempting to employ. Get a general idea of how often the signal you are using is successful.***

***Also get an idea of the average gain and the average loss usually seen when employing your favorite trading signal. Try to describe, as specifically as possible, the exact details of the trading signal you are using.***

***Write it down. This way, you can compare signals among different securities accurately.***

***You don't want to employ amorphous and undefined trading signals that are open to interpretation. They must be black-and-white.***

***Once you've gauged your win rate and average gain vs. average loss, you can begin to determine just how big a position you can take without blowing your account up.***

***Treat trading like a business, because there are so many amateurs out there that - if you bring even a modicum of process to your trading -- that's oftentimes enough of an edge for you to make a living out of the market.***

## ***A Little Planning Goes a Long Way***

***Ignore tips and tipsters; lasting wealth rarely comes about this way.***

***Just ask any of the people caught up in the whole Galleon insider-trading mess. (Federal prosecutors are saying that this could be the biggest hedge fund insider-trading case in the United States.)***

***You've got to bring a well-thought-out game plan to your trading. Whether you use technical analysis, fundamental analysis or a balance of both, you must have***

***a process that tells you what to buy, when to buy, how much to buy, when to take a loss and when to take a profit.***

***That's the bare minimum; if you can't answer those questions, then you need to put your money in a money-market account and get busy educating yourself.***

### ***'Process' Comes Before 'Profits'***

***Once you have your initial process down, start paper-trading, get a feel for dealing with market volatility, make notes of your emotional state, and keep a detailed log of all your paper trades, attendant charts and the reasons why you got in and out of the trade.***

***To get really good at this takes work, but the good news is that you don't need Ph.D.-level intelligence to make money in the market.***

***It mostly comes down to mental discipline and following your investment process.***

***It's not going to happen overnight, but it won't happen at all if you don't start. You must take control over your own finances because good money managers and brokers are just too difficult to find.***

### ***Become Your Own Best Advocate***

***Wall Street has failed us; we cannot put our trust in them anymore.***

***Unless you happen to be buddies with a world-class fund manager, the next move is your own. If you're looking for a great place to start, we have a wealth of investor-education articles on this site, so take some time and dig on through.***

***The most-important thing you can do is to start thinking about investing as a business rather than an amusing hobby or an alternative to winning the lottery.***

***Remember, it all starts with having a process that answers the following questions:***

- 1. What to buy (or sell)?***
- 2. When to buy (or sell)?***
- 3. How much to buy (or sell)?***
- 4. When to take a loss?***
- 5. When to take a profit?***

***Once you can answer these questions, then you can determine which investment vehicles best suit your process. It could be stocks, Exchange-Traded Funds, stock options, ETF options, futures or futures options.***

***Seize the Day, and the Returns Will Follow***

***Remember, take your time -- there is limitless opportunity in the global financial markets.***

***Prepare, paper-trade, adjust, paper-trade some more, adjust again, paper-trade even more ... and then finally start trading for real.***

***When you start trading with real dollars, make sure that you trade small, really small.***

***The goal is not to get rich on these early trades; the goal is to validate your thinking, build some confidence, stick to your rules and, as the markets begin to validate your process and you start to see the kind of returns you want, start to ratchet up your trading size.***

***I know it seems like a lot, but if you stick with it, it will become second nature.***

***Anyway, what's the alternative? Have Joe Broker manage your money? I would not think so!***

**-END**

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**[www.fedderngroup.com](http://www.fedderngroup.com)**

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