

# MARKET STRATEGIES

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A Publication of Princeton Research, Inc. (<http://www.PrincetonResearch.com>)

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## July 13, 2009 Market Strategies Guide To Successful Trading

### INDEX OPTION RECOMMENDATIONS

We are holding our half position in the DOW July 88 put (**DAVSJ**) option bought several weeks ago. We took half profits two weeks ago. Place a stop loss at DOW 8,600 for this remaining half position. Take remaining profits at 7,800 or hold until expiration on Friday.

For investors it has continually been recommended that some puts are held to protect one's portfolio (portfolio insurance) against sharp market sell-offs. New and/or additional positions can be bought on the expected rally into August.

For those who have no put options to protect your portfolio we recommended the following options, especially on any rally: the DOW September 82 puts (**davud**) or the September 84 puts (**davuf**) and the QQQQ September 34 puts (**qavuh**) or September 33 puts (**qavug**).

For those of you who do not buy puts to protect your portfolio, there is an ETF that is the inverse of the DOW. The symbol is **DOG** and goes up when the DOW goes down and down when the DOW goes up.

### STOCK OPTION RECOMMENDATIONS

#### New Recommendations

**FXI**- China ETF- 36.87- we have played this one before and made money so we will try again. Has been consolidating the gains since March and has been making higher lows. Looks ready to break out so calls are timely. Buy the August 35 Call -**FXIH**- 3.25- for a move back to 39 and then higher. Place a stop loss on the option when the ETF closes below 34. Take half profits when the ETF is at 39.

**RNGC**- Regency Energy- 14.99- appears to have made a small top formation so puts are timely. We expect energy prices, especially natural gas, to stay weak which should hurt this company. Buy the August 15 Put -**DQGTC**- 1.05- for a move back to 13 and then possibly lower. Place a stop loss on the option if the stock closes over 15.50. Take partial (half) profits when the stock is at 13.50.

**GG**- Goldcorp- 32.99- appears to be making a descending triangle and looks like it will break the 32 support soon so puts are timely. Buy the August 35 Put- **GGTT**- 3.55- for a move back to 30

and then possibly lower. Place a stop loss on the option when the stock closes above 36. Take half profits when the stock is at 30.

## Option Comments

We took half profits on our XRTSD, QBYSA and COHTY put positions when initial targets were reached. We have 12 option positions expiring this Friday. We will hold them until expiration and will use closing prices on Friday for portfolio calculations.

## Previous Week's Recommendations

- All options count for 5% each for model portfolio calculations.
- When the option has doubled sell half the position.
- Stop Loss protection is offered with each trade.
- The cost of the option is the asking price (or the price between the bid and ask, whichever is more realistic) at the close the previous Friday or at the open on Monday.
- The options will be followed until closed out.

Option	COST	Date	Sold	Date	Profit/(Loss)
CSRHU	0.65	7/3/09			
COHTY	2.90	7/3/09	4.00 ( half )	7/7/09	38%
EPDTE	1.30	7/3/09			
TBTGX	2.00	6/26/09			
QBYSA	0.55	6/26/09	1.00 ( half )	7/8/09	56%
HQCHX	1.90	6/26/09			
CMGSQ	5.15	6/19/09	7.50 ( half )	6/24/09	23%
ENZGZ	2.10	6/19/09			
EDUSM	4.40	6/19/09			
DAVSJ	3.50	6/15/09	4.80 ( half )	6/22/09	19%
DZGGO	1.65	6/12/09	3.20 ( half )	6/17/09	47%
XRTSD	2.50	6/12/09	4.00 ( half )	7/8/09	60%
BNISP	5.00	6/12/09	8.30 ( half )	6/18/09	23%
NDQSC	1.30	6/05/09			
UPYSN	2.55	6/05/09	3.00 ( half ) 0.50 ( half )	6/10/09 6/26/09	( 31% )
STPSR	2.70	6/05/09	1.70 stopped out	6/10/09	( 37% )
GAGSH	3.10	5/29/09	5.30 ( half )	6/03/09	36%
UNHST	2.70	5/29/09	4.30 ( half )	6/11/09	30%
ZQNRO	3.20	5/22/09	1.50 stopped out	6/01/09	( 53% )
HQCFX	1.90	5/22/09	3.00 ( half ) 0.45 ( half ) on 6/ 18/09	6/02/09	( 9% )
DAVRD	2.00	5/18/09	Sold 2.00	5/28/09	0
QQQRI	2.18	5/18/09	0.85 stopped out	5/18/09	( 61% )
CQWEF	4.70	5/15/09	1.85 stopped out	5/22/09	( 60% )
QCYFD	1.45	5/15/09	4.20 ( half ) 4.90 ( half )	6/02/09 6/19/09	214%
DAVRI	4.80	5/13/09	2.40 stopped out	6/01/09	( 50% )
DZGFQ	1.85	5/8/09	3.40 ( half ) 1.20 ( half )	5/15/09 6/19/09	24%
IBBFM	2.90	5/8/09	5.50 ( half ) 6.30 ( half )	6/03/09 6/19/09	103%
COHRH	2.75	5/1/09	1.20 stopped out	6/01/09	( 56% )
XJZRL	1.87	5/1/09	1.10 stopped out	5/6/09	( 41% )

ENZFZ	1.70	4/24/09	2.60 ( half ) 1.90 ( half )	6/04/09 6/19/09	13%
NGHQC	2.65	4/24/09	2.60	5/15	( 2% )
DAVQF	5.20	4/20/09	2.60 stopped out	5/4/09	( 50% )
GGEE	3.00	4/17/09	6.00( half ) 8.40 ( half )	5/7/09 5/15/09	140%
QQQQI	2.60	4/20/09	1.65	5/15/09	( 37% )
STPQZ	2.00	4/17/09	0.50 stopped out	5/4/09	( 75% )
SZSER	2.52	4/10/09	1.25	5/15/09	( 50% )
TGTQH	2.40	4/10/09	0.45 stopped out	5/7/09	( 81% )
QCYEC	2.45	4/3/09	4.90 (half ) 4.60( half )	4/3/09	94%
QAVPF	2.13	3/30/09	0.50 stopped out	4/9/09	( 77% )
TGTPG	2.19	3/27/09	1.15 stopped out	4/2/09	(47% )
BNQDZ	2.30	3/20/09	2.30	4/17/09	0%
QAVPE	1.90	3/20/09	1.50 stopped out	3/23	( 21% )
XOKDC	4.40	3/13/09	7.50 (half ) 7.00 ( half )	3/19/09 3/30/09	65%
CHLDI	2.50	3/13/09	3.10	4/17/09	24%
QGJDV	2.10	3/13/09	3.40	4/17/09	62%
QCBDA	0.90	3/6/09	3.00 (half ) 4.00 (half )	3/13/09 3/30/09	289%
NDQDU	0.70	3/6/09	1.85 (half )	3/16/09 4/17/09	204%
FPADF	6.35	3/6/09	9.00 (half ) 10.35 ( half )	3/13/09 3/30/09	52%
DIJDL	4.80	3/9/09	9.40 (half ) 10.85 (half )	3/16/09 3/23/09	111%
FJJDW	2.95	2/27/09	4.80 (half ) 5.10 (half )		68%
TBTDT	4.35	2/27/09	0.80 stopped out	3/30/09	( 84% )
QBYDZ	0.70	2/27/09	0.50 stopped out	3/5/09	(29%)
XOKDW	4.35	2/27/09	2.60 stopped out	3/2/09	(40%)
GLDOV	5.50	2/20/09	8.30 (half ) 6.50 (half )	2/26/09 3/20/09	35%
ENZDZ	1.95	2/20/09	1.95	4/17/09	0%
DIJCS	5.05	2/23/09	2.90 stopped out	2/27/09	(43%)
TGTOF	2.40	2/13/09	4.05 (half ) 4.80 (half )	3/9/09 3/2/09	84%
BHPCH	4.70	2/13/09	1.00 stopped out	3/2/09	(79%)

**Note: Previous closed out option positions can be found in the February 23, 2009, January 19, 2009, September 15, 2008 and November 24, 2008 newsletters.**

## **New Stock Recommendations**

**TPI- Tianyin Pharmaceutical Co - 2.75-** a Chinese manufacture of modernized traditional Chinese medicine. The 2010 fiscal year started July 1 and the company expects revenues and earnings to grow 40% compared to 2009, has virtually no debt, lots of cash, sells at around 6-7 times estimated earnings and pays a dividend (yielding 3.5%). The initial target is 4.50 and then higher. Place a stop loss at 2.00

## MODEL STOCK PORTFOLIO

- Each stock is allocated a 5% share of the portfolio (unless otherwise indicated).
- We recommend a 10% position in ENZ and CAGC.

Stock	Purchase Price	Purchase Date	Stop/Loss	Price/Date Sold	Profit/(Loss)
CMED	21.05	6/26/09	17		
S	5.15	5/29/09	4.00	5.25 6/15/09	2%
BCLE	0.0615	5/22/09	0.015		
CSR	6.26	5/15/09	5		
DUG	17.56	5/8/09	16	20 ( half ) 5/15 16 half 6/10/09	3%
SPNG	0.0197	5/1/09	0.013	0.03 (half) 5/14	
GG	27.01	4/17/09	25	30 (half) 5/6/09 36 half 5/26/09	32%
FXI	31.85	4/10/09	28	35 (half) 5/8/09	
AMED	29.97	4/3/09	26	35 (half) 5/4/09	
DUG	22.46	4/3/09	20	20 stopped out 5/4/09	(12%)
BOOM	5.23	3/6/09	4.00	14.18 half 4/20/09 22.65 half 6/08/09	252%
NGLS (10%)	8.67	11/28/08	6.00	.9.70 (4/20/09)	18%
ENZ (10%)	4.29	11/21/08	2.50		
CAGC (5%)	1.35	9/19/08	0.40	1.80 ( 6/01/09 )	33%
CAGC (5%)	0.75	11/17/08	0.40	1.50 (5/5/09)	100%
MTBR	0.09	6/29/08	0.02		

Note: Previous closed out positions can be found in the March 23, 2009 letter.

### Model Portfolio Comments/Changes

Some of our portfolio stocks are holding up very well. We will hold them until our expected cycle high in August. We lowered our stop on BCLE to 0.015. The stock has been very disappointing so far but we believe the fundamentals will start improving soon.

### TECHNICAL INFORMATION

In last week's letter we wrote that we expected a rally from the June 23/24 lows (at DOW: 8,260 (June 24), S&P 500: 888 and QQQQ: 34.80) into the end of June/beginning of July and after that rally we expected a selloff into our early/mid July cycle low.

This is exactly what happened with the market making intraday highs on July 1 (at DOW: 8,581, S&P500: 932 and QQQQ: 36.84) and then making intraday lows on Wednesday July 8 at: DOW: 8,087, S&P 500: 869 and QQQQ: 34.30. The DOW and S&P 500 broke their May 15/21/26 lows at 8,221 and 879, respectively, while the QQQQ held above it's late May low of 32.95, which is a possible bullish divergence.

The question now is, is the early/mid July low in? The option put/call ratio was over 1.0 on the CBOE four days in a row (and 5 out of the last 6 days) last week while the total (on all exchanges that trade options) put/call ratio was over 1 two days last week. Those numbers show an extreme amount of pessimism which is bullish. Also, the short term advance/decline oscillator is oversold, so a rally/consolidation is more likely now than further selling.

This week is option expiration week which often has a bullish bias because the shorts and option writers frequently get squeezed. The DOW has broken down out of a head and shoulder top giving a minimum downside objective of 7,800. The S&P 500 has also formed such a top formation. We have a short term cycle due in late July so a possible scenario is that we rally/consolidate this week and then make a bottom (lower or higher than made on July 8) the following week. From that bottom the market would then rally into our mid August intermediate cycle. Closes above the July 1 highs would suggest that the early/mid July low is in and the rally into August has started. However, breaking the July 8 lows this week would indicate that the cycle low will likely be made this week. Below the July 8 lows there is support at the April 28 lows at DOW: 7,939, S&P 500: 847 and if these levels are broken then there is support at the April 7 lows at 7,750, S&P 500: 814 and QQQQ: 31.21. We still expect higher prices into our intermediate cycle in mid-August, whether we get a sharp pull back first or not. A pullback that breaks the support at DOW: 7,750 S&P 500: 814 and QQQQ: 31.21 would show market weakness much greater than we expect at this time. The parameters to watch are thus very clear and let the support and resistance levels govern your trading and your stops.

We are in a secular bear market that appears to be far from over and we expect lower prices later this year. However, every bear market has several good rallies that can last from a few weeks to a several months and are definitely worth playing. We are in one of those rallies (which could even be called a cyclical bull market in a secular bear market) now.

The support and resistance levels to watch now are: S&P 500: support is at 869, then 847, then 826 and then 814 while resistance is at 927-932, then 956 and then 1008 for the QQQQ: support is at 34.30, then 32.95, then 32.08, then 31.21, then 29.65 and then 28.98 while there is resistance at 36.84, then 37.23, then 38.00 and then 40.00 and for the DOW: support is at 8,087, then 7,939, then 7,791 and then 7,759 while there is resistance at 8,581-8,614, then 8,878 and then 9,026-9,088.

## **CYCLES**

We had an intermediate-term cycle due in late February/early March (plus or minus a week) and the low came in on March 6/9. The next important cycle was due in late April/early May (plus or minus a week) and it came in on May 6/8. T

he cycle following that one was a short term cycle in mid/late May and a triple bottom low came in between May 15 and 26. The next short term cycle was due in mid-June (plus or minus a few days) and a low came in on June 23/24. An intermediate cycle is due in early/mid July and the low could have come in on July 8.

Next there is a short term cycle late July which we expect to be a low if we rally this week. The cycle after the late July cycle is an intermediate cycle in mid-August (plus or minus a week), which we expect to be a high.

## MARKET LABORATORY – WEEKLY CHANGES

<b>Dow</b> 8,146.52 -134.22 -1.62%	<b>Nasdaq</b> 1,756.03 -40.49 -2.25%	<b>S&amp;P 500</b> 879.13 -17.29 -1.93%	<b>Transportation</b> 3,111.16 -47.58 -1.51%	<b>Russell 2000</b> 480.98 -16.23 -3.26%	<b>Nasdaq 100</b> 1419.84 -26.44 -1.83%
<b>Gold</b> 912.20 -18.50 -2.0%	<b>Silver</b> 1264.5 -76.3 -5.7%	<b>Crude</b> 59.89 -6.84 -10.3%	<b>Heating Oil</b> 153.35 -16.41 -9.6%	<b>Unleaded Gas</b> 1.6505 -.1403 -7.8%	<b>Natural Gas</b> 3.373 -0.242 -6.7%
<b>VIX</b> 29.02 +1.07 +3.8%	<b>Put/Call Ratios OEX</b> 90/100's -38/100's	<b>Put/Call Ratios CBOE Equity</b> 80/100's +5/100's	<b>Bonds</b> 120-23 +1-25 4.20% -0.12%	<b>10 Yr Note</b> 118-225 +1-275 (3.30 -0.21%)	<b>Copper</b> 221.15 9.40 -4.1%
<b>CRB Inflation Index</b> 233.51 -12.35 -5.0%	<b>Barron's Confidence Index</b> 66.9% -0.8%	<b>S&amp;P100</b> 412.29 -7.81 -1.86%	<b>5 Yr Note</b> 116-165 +1-013 2.22%-0.20%	<b>Dollar</b> 80.30 00 flat	
<b>AAll Confidence Index</b>	<b>Bullish</b> 27.9% -9.9%	<b>Bearish</b> 54.7% +10.1%	<b>Neutral</b> 17.4% -0.2%	<b>M1 Money Supply</b> +11.1%	

## FUNDAMENTAL NEWS

All ten sectors posted losses again led by the energy sector (-3.8%) and basic materials (-2.9%).

The industrial sector fell 2.7%. Health Care and Consumer Staples fared the best falling just 0.3%. Alcoa ( AA: \$ 9.34 ) – 5.3% on the week, led off with earnings which at first glance were better than expected and shares rallied above \$ 10 initially, until they disclosed their aim was to cut capital expenditures 50% in 2010 the same as they did in 2009. This caused selling in their apparent lack of confidence in the future.

The big gainer was Treasuries, which gained nicely on the week even with an avalanche of \$ 170 billion of new supply hitting the market. Everyone who bought treasuries at the auction came away with nice profits for the week. The bid-to-cover ratio was 3.28 ( that is 328 bids for every one accepted ) which was the highest over the last year since mega government financing was needed.

## ECONOMIC NEWS

The CRB commodity Index fell 5.0% led by crude which fell 10.3%. Gold, copper and silver were also lower as deflationary pressures abounded.

Otherwise, the economic news was mostly positive. The ISM Services Index for June was 47%, above expectations of 46% and the May figure of 44% and almost back to the 50% midpoint level which is the crossing level between expansion and contraction.

The Initial Claims figure was 565,000 people filing for jobless benefits in the week ended July 4<sup>th</sup>. It was an improvement well below the consensus of 603,000 even though largely discounted because of the shorter holiday week. However, it was the first reading below 600,000 since January although it hardly had an effect on the markets.

Even better was the Trade Balance which fell to -\$ 26 billion. The red negativity showed much improvement over the - \$ 29 billion expected and heartened by better exports, which rose to \$ 123.3 billion from \$ 121.4 billion, while concomitantly imports fell from \$ 150.2 billion to \$ 149.3 billion. The ratio of exports to imports was very encouraging as export prices ex-agriculture rose 0.8%, while imports ex-oil rose just 0.2%.

The net exports figure as a component of the GDP should be solidly positive for the second quarter and should help the decline of -2% widely expected to be less than forecasted.

Finally, the Michigan Sentiment Report at just 64.6 was decidedly negative down from a consensus of 70.0 and the prior number of 70.8. The outlook portion fell to 60.9, which reflects the thinking that consumers will be saving much more and spending less.

## **THIS WEEKS ECONOMIC NUMBERS AND MEDIA DATA**

<b>MONDAY</b>	1400 hrs: June Treasury Budget ( -\$97bil compared with +33.5bil last year ) Hearings begin on the Supreme Court nomination of Sonia Sotomayor. Treasury Sec Geithner meets with British officials about jump starting global growth. A hearing is held in Miami to force Swiss Bank UBS to reveal names of Americans presumed to have hidden \$ 15 Billion in assets.
<b>TUESDAY</b>	08:30 hrs June Retail Sales ( 0.4% vs 0.5% ) 08:30 hrs PPI ( +0.8% vs + 0.2% ) CORE ( +0.1% vs -0.1% ) Goldman Sachs reports earnings prior to the open. Intel reports after the close.
<b>WEDNESDAY</b>	08:30 hrs: June CPI ( + 0.6% vs +0.1% ) CORE ( +0.1% flat ) 09:15 hrs June Capacity Utilization ( 67.9% vs 68.3% ) Industrial Production June ( -0.6% vs – 1.1% ) Crude Inventories ( 7/10 NA vs – 2.90mln bbls ) 14:00 Minutes available on the Fed's June meeting
<b>THURSDAY</b>	08:30 Initial Unemployment Claims ( 7/11 N/A vs 565K ) 09:00 Net Long Term TIC Flows

	10:00 Phila Fed ( -5.0 vs -2.2 ) Former Treasury Secretary Hank Paulson testifies on his role in the Bof A takeover of Merrill Lynch JP Morgan, Google and IBM report earnings
<b>FRIDAY</b>	08:30 Housing Starts ( 530K vs 532K ) Permits ( 523K vs 518K ) General Electric, Citigroup and B of A report results

## **LEGAL DISCLOSURE**

### **Rule 17B requires disclosure of payment for investor relations**

Princeton Research has received about \$ 2,500 per month from MTBR with asterisk. MTBR is reviewing a contract which would pay \$ 2,500 per month plus some restricted shares. The main principal of Princeton Research has obtained his own shares amounting to 2,500,000 shares.

Princeton Research has received 550,000 restricted shares from BCLE in exchange for investor relations services.

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