Shorting for Fun and Profit –Nah, Just Profit

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Fundamental Shorting

- A trade, using a put based on the fundamentals of a company and its stock
- A faster way to make money than going long
- Stocks go down on bad news much faster, and much further, than they go up on good news

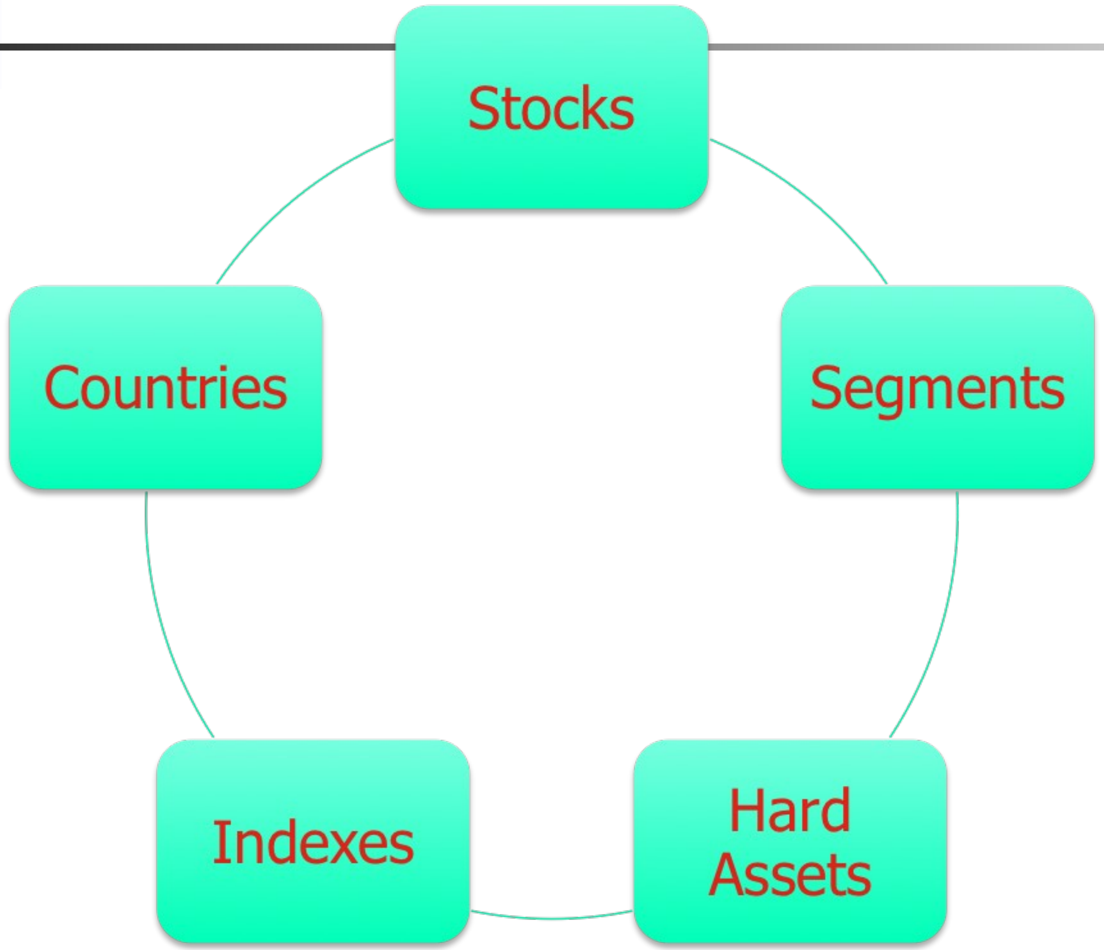
Fundamentals + Trading

- Not just for troubling times – fundamentals are forever
- Profits when stocks go down
- Profits when market segments go down
- Profit when indices go down
- Fundamentals can work for traders too

Why The Short Side

- Stocks fall faster than they go up, as do puts
- Shorts = contrarian = ahead of Wall Street
- In most markets, imbalance between put and call premiums
- Buy puts, sell calls, do spreads
- Do not sell naked calls

The Shorting Universe



When Do You Short

- When you see bad news others do not
- When the technicals are NOT against you (Shorting on technicals is for technicians only)
- The fundamentals are in place
- When Wall Street has too many optimists

Rolling and Pressing

- Leveraging knowledge of one company, one stock, one segment
- Rolling – take profit, re-invest initial trading capital
- Pressing – put all the profit back in
- Pressing – doubling up as the situation merits more capital

A Position is Not a Trade

- Selecting a target is based on fundamentals, i.e. Citigroup at $35
- Positions are based on trading tactics
- Be aggressive but always play defense
- Press big winners when fundamentals intact
- Roll a position – withdraw profits – to preserve capital

Pressing a Position

Last Trade + 226% = $18.00

Second trade + 176% = $5.52

First trade + 100% = $2

The Rocket Fueled Trade

- Buying calls on a double inverse ETF
- Example: The SKF
- The index goes down 4%
- The ETF goes up 8%
- The call moves 60%-100%
- SKF itself has moved from 102-222 in eight weeks

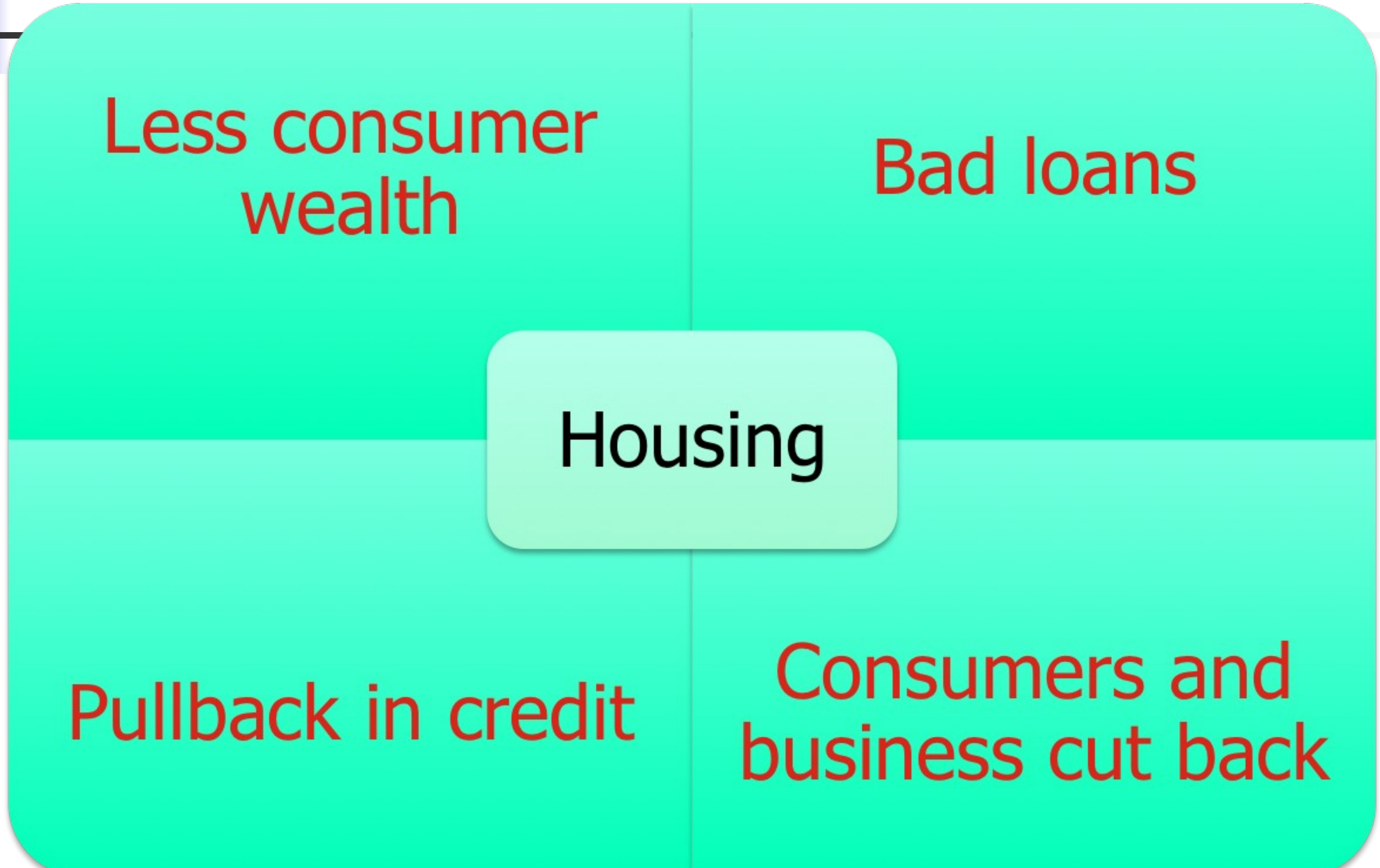
Today - The World According to Wall Street

- Housing – prices stabilize next year, rebound in 2010
- Credit squeeze – more write-downs for 1-2 quarters. Fed to the rescue as needed
- The consumer – Home prices and Uncle Sam provide relief by Q4
- The markets – rebound in mid to late 2009

The Shulman View

- Housing – prices stabilize in mid to late 2011, rebound in 2012
- Credit squeeze – more write-downs for 3-5 years, Fed out of ammunition
- The consumer – tapped out
- Uncle Sam – stimulus woefully inadequate, $700 billion versus $15-$20 trillion
- No rebound in 2009, corporate earnings terrible, big surprise on Wall Street

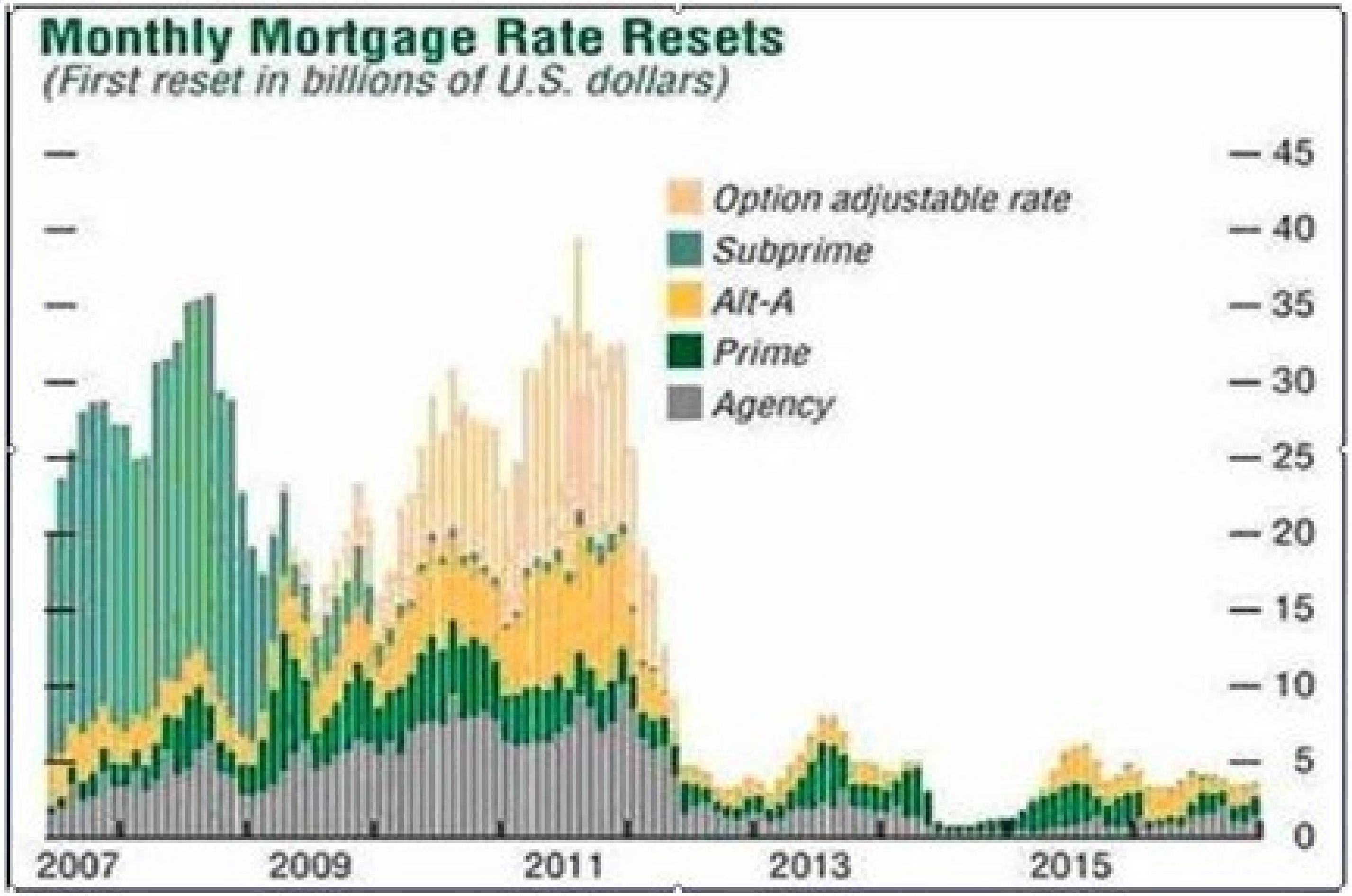
The Epicenter



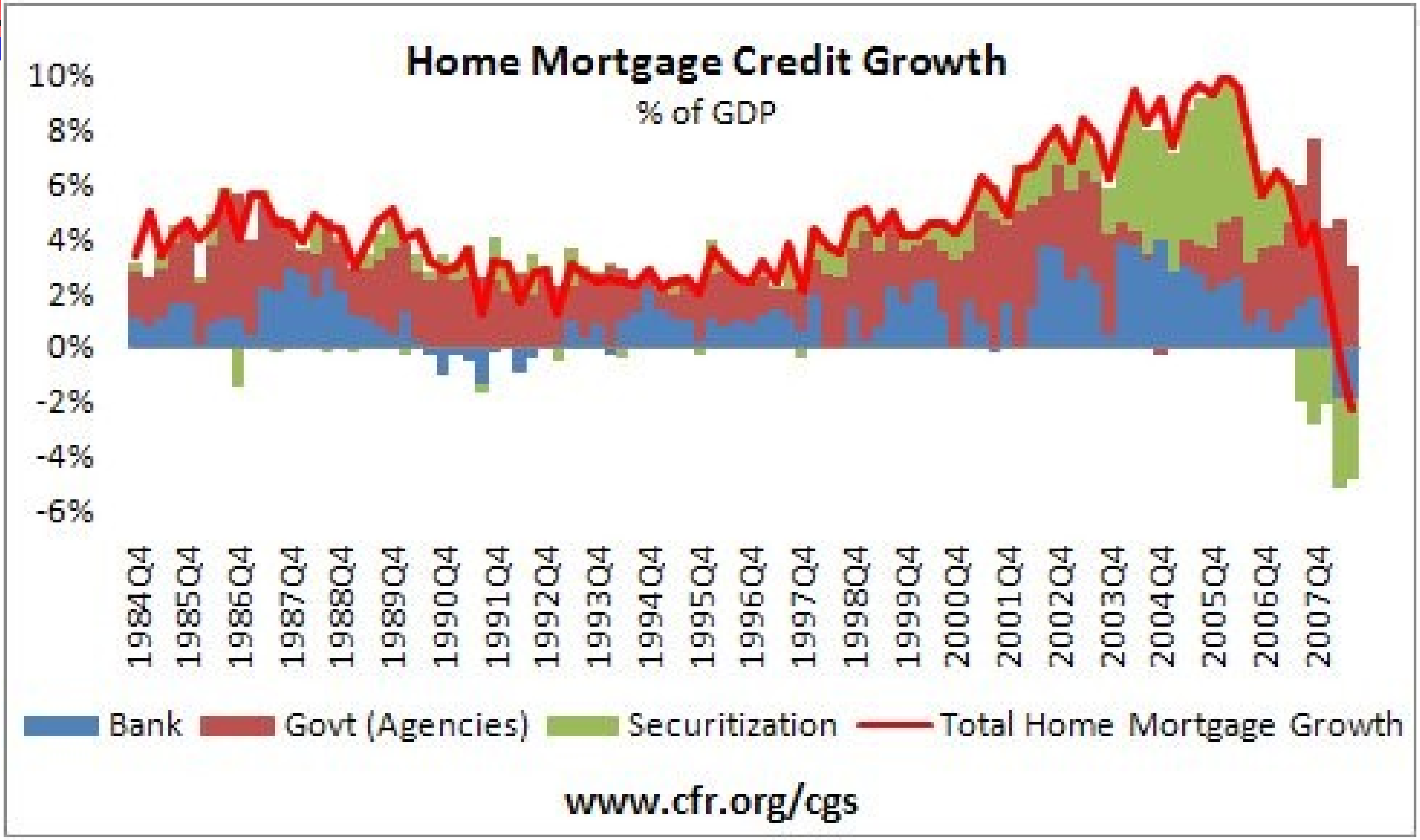
Housing – The Numbers

- Subprime mortgage defaults peaks 12/2008
- Next tsunami is option ARMs and Alt-As
- Foreclosure peaks in 2010/2011
- Inventories peak in early 2011, return to historical norms in 18-24 months
- Prices stabilize midway through inventory reduction, climb in 2012

The Real Housing Story



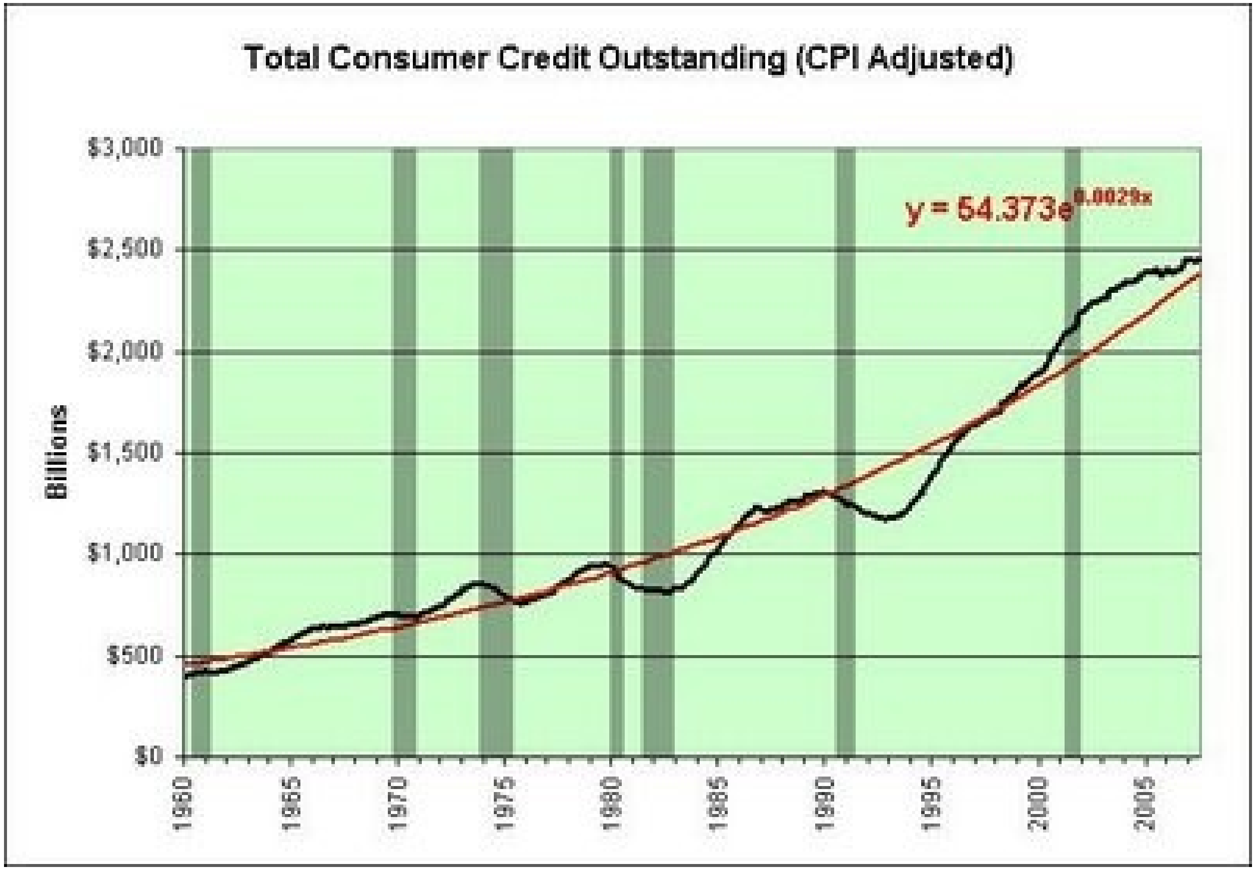
What Recovery?



The Other Epicenter - Credit

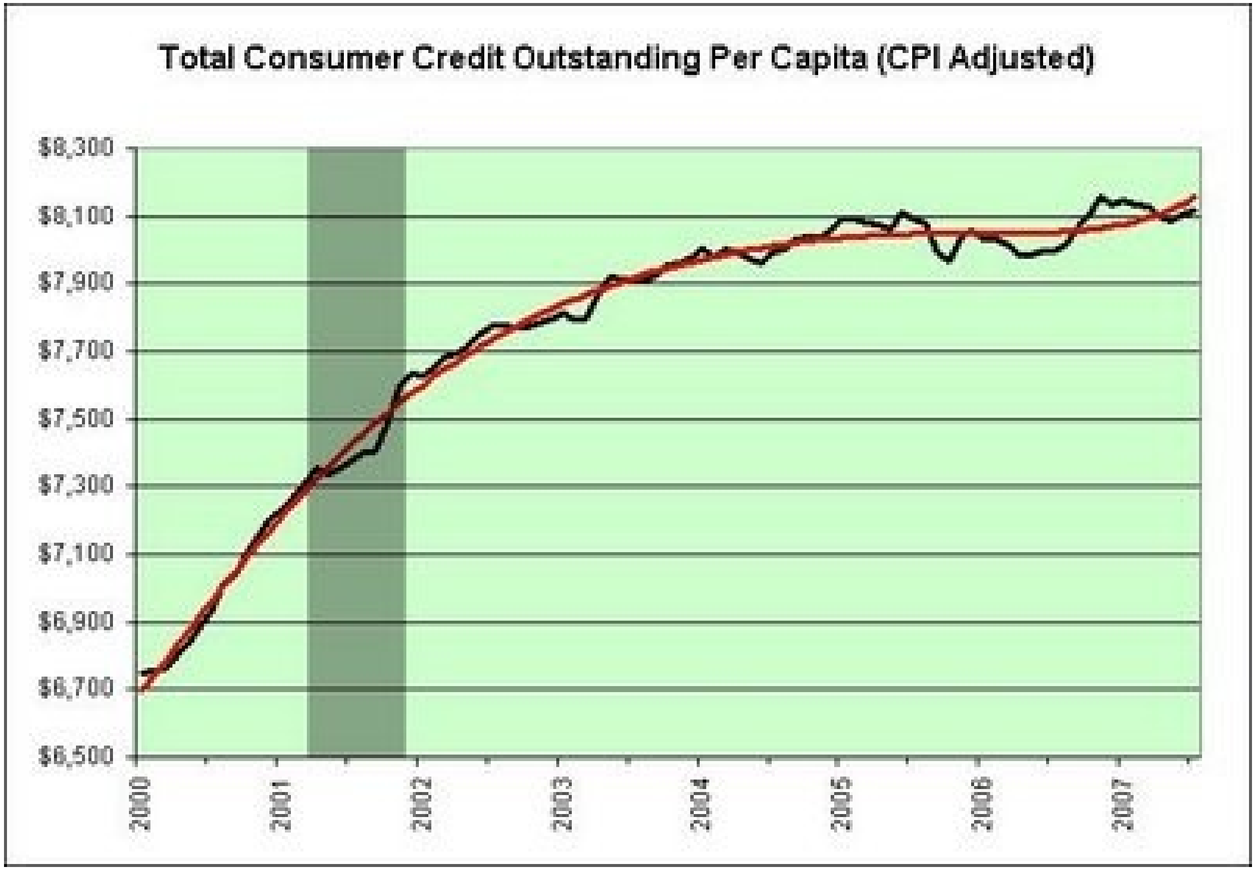
- In Latin, credere means “to believe” or “to entrust”
- Credit markets impaired
- Longer term – de-leveraging to take at least five years – we have lost $5+ trillion, more to go through the process of de-leveraging
- Far less credit available – permanently
- Key – the de-leveraging of the American consumer

Growth Ends

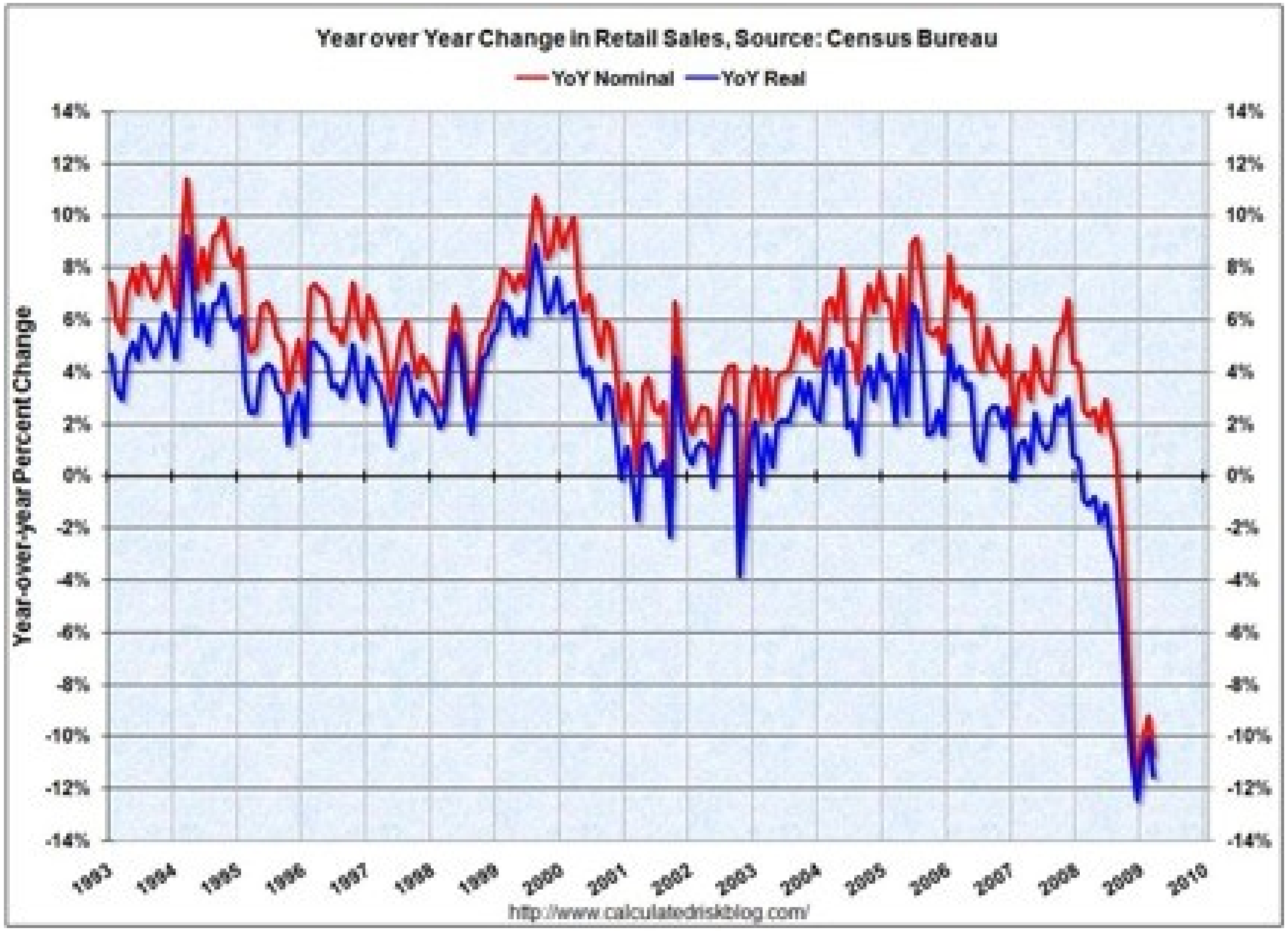


Total Consumer Credit Outstanding (CPI Adjusted)
y = 54.373e^0.0029x
Billions
$3,000
$2,500
$2,000
$1,500
$1,000
$500
$0
1960
1965
1970
1975
1980
1985
1990
1995
2000
2005

Should We Be Surprised?



So Does Consumer Spending



Corporate Earnings

- The longer term driver of markets
- Markets/stock prices regress to the mean
- Question #1 – what will earnings be?
- Question #2 – what is the correct multiple?

Earnings

Falling Earnings Estimates for the S&P 500 for 2008

S&P Analysts estimates for earnings

Date	Earnings
March 2007	$92
December 2007	$84
February 2008	$71.20
June 1, 2008	$68.93
July 25, 2008	$72.01
September 30, 2008	$60
October 15, 2008	$54.82
February 20, 2009	$26.23!!!
April 10, 2009	$14.88!!!!!!

What Looks Good

- Be a contrarian, play bounces, rallies, Wall Street optimism
- The financials – broke and broker
- Consumer spending stocks/ETFs
- Selected homebuilders and cousins
- Selected tech

About ChangeWave Shorts

- Market neutral approach
- Up 50% in 2007
- Up 56% plus in 2008
- Only "shorting" advisory designed for individuals—puts only

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