



Exit Signs

The SmartStops.net Newsletter

Looking out for you.

At SmartStops.net, our goal is to help you protect your gains and improve your investment returns by enabling timely and informed sell decisions.

Economic news

IMF sees possible revival in early 2010. The economic outlook is looking bleaker than the International Monetary Fund has recently forecast but an upturn is possible in early 2010, IMF Managing Director Dominique Strauss-Kahn said.

There is a downside risk to the IMF's recent outlook, Strauss-Kahn said at a Organization for Economic Cooperation and Development conference on international competition policy in Paris.

The latest economic data "aren't going in the right direction," he said. "They're not looking so good; forecasts are looking worse and worse."

PPI rise eases U.S. deflation fears. U.S. producer prices rebounded last month for a wide range of products from energy and automobiles to prescription drugs, easing concerns of a deflationary spiral of lower prices and spending.

Meanwhile, the recession is still taking a severe toll on labor markets, as evidenced by a new record-high level of total jobless claims lasting more than one week to almost five million. Initial claims last week suggest another dismal employment report for February.

The producer price index for finished goods rose 0.8%, the Labor Department said Thursday, reversing some of the December's 1.9% plunge. Wall Street economists surveyed by Dow Jones Newswires had expected only a 0.3% rise. The PPI was down 1% from a year earlier.

The core PPI, which excludes food and energy, advanced 0.4% last month, well above expectations for a 0.1% rise. That was up 4.2% from a year ago.

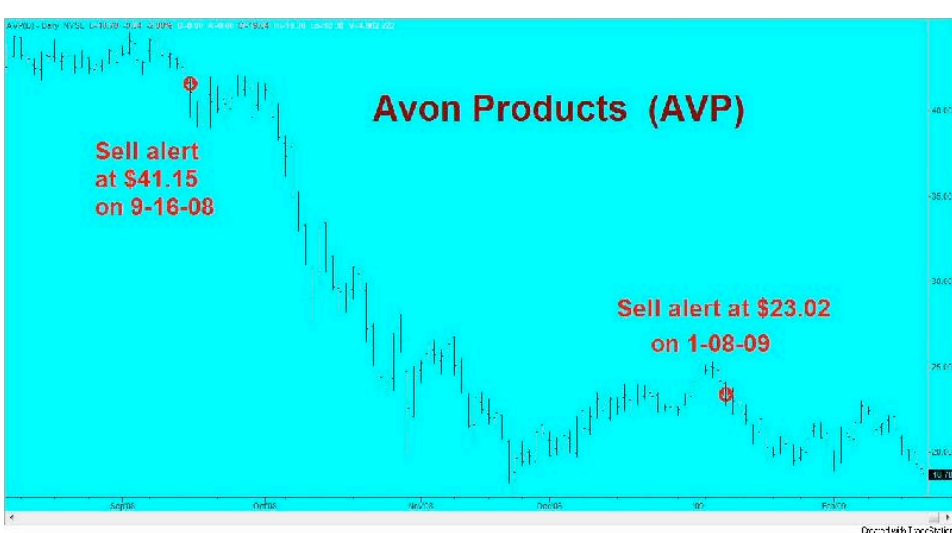


Stocks in the spotlight

Avon will cut up to 3,000 jobs. Avon Products Inc. (AVP) unveiled another round of streamlining, disclosing plans to cut another \$200 million in costs as the cosmetics company continues its years-long restructuring.

The new restructuring program will cut 2,500 to 3,000 jobs, including existing vacancies, globally over the next four years.

The original effort, begun in 2005, is expected to result in annual savings of about \$430 million by 2011-2012, with about another \$450 million expected to be saved beginning in 2010--\$200 million from product-line simplification and \$250 million from "strategic sourcing initiatives," pushing the total from the previously announced restructuring moves to nearly \$900 million a year, above prior expectations.

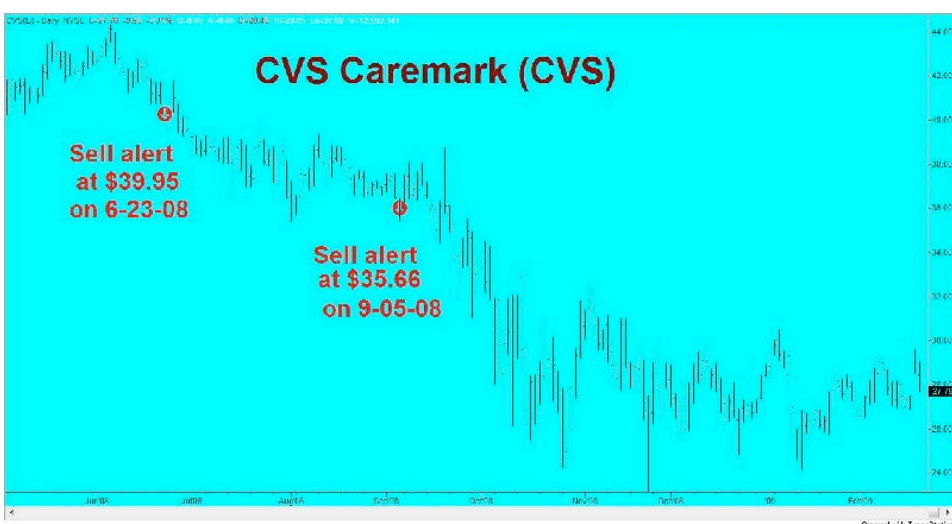


SmartStops comment. Like many stocks, AVP is nearing previous lows. Another SmartStops sell alert was triggered today at \$18.78, so we would expect to see new lows and another leg down soon in spite of any temporary chart support at the previous low.

CVS Caremark: Net income climbs 17%. CVS Caremark Corp. (CVS) posted a 17% increase in fourth-quarter net income as sales and margins for the nation's largest drug-store chain rose, aided by strength in its retail operation while its pharmacy benefits management program was disappointing.

CVS also said its chief financial officer for nearly a decade will retire at the end of 2010.

"I feel comfortable with my decision, because the company is in a very strong financial position and is well positioned for long-term growth," CFO David Rickard said during a conference call Thursday as CVS discussed its fourth-quarter results.



SmartStops comment. CVS appears safe temporarily. However, the current SmartStops sell alert would be triggered if prices decline below \$25.50.

New lows for Buffet shares. Shares of billionaire Warren Buffett's Berkshire Hathaway (BRK.A) have fallen to their lowest level in more than five years today.

The Class A shares of the Omaha-based company fell 6.3%, to \$73,677.30 around midday today (Friday). That drop surpassed the previous low of \$74,100 in November. Berkshire shares closed at \$76,500 -slightly better than the low.

Berkshire's Class A shares are still the most-expensive U.S. stock, but they've lost more than half their value since setting a new high of \$151,650 in December 2007. That came after an exceptionally profitable quarter that was helped by a \$2 billion investment gain.



SmartStops comment. Our sell alert on October 8th might have saved Warren Buffet \$42,462 per share. (Good thing he doesn't need the money.) Mr. Buffet is no longer the richest man in the world. He should have used SmartStops. We published another sell alert today, so it looks like further weakness is in store.

Quick Facts

Dow 2,000,000 ??? The Dow Jones Industrial Average (DJIA) averaged a 5.3% compounded annual return for the 20th century. To achieve that return for the 21st century, the index would need to reach nearly 2,000,000 by 2100.

Good news of the week

Conference Board leading index rises. The composite index of leading indicators rose 0.4% in January, to 99.5, according to preliminary estimates released by The Conference Board.

The January figure follows a revised 0.2% rise in December, after a 0.7% decline in November. Over the six months ended January, the index has fallen 1.9%.

Half of the ten indicators rose in January. The positive contributors, beginning with the largest contributor, were real money supply, the interest rate spread, index of consumer expectations, manufacturers' new orders for nondefense capital goods, and manufacturers' new orders for consumer goods and materials.

Quick Tips

Determining market direction. Fortunately most of our SmartStops users should be loaded with cash right now. That's not a bad place to be. Chuck LeBeau, SmartStops Director of Quantitative Analytics, offers this advice for investors looking for the bottom of this market:

It is always safest to buy stocks in a rising market rather than trying to pick a bottom while prices are still falling. Obviously, by any measurement we can think of, the prices are still falling.

One measure that seems to help market technicians have confidence that a major bottom has been made is to wait for the market to take out a 30-day high. We will use the SPY (ETF for the S&P 500 Index) in our examples, but any major index will do. Right now that 30-day high would be at about 95.50 on the SPY chart. Another measure that usually helps is to wait until we are above the 120-day moving average. Right now that would be at 95.17. With the SPY at trading between 75 and 78 today, that means that it would take a very substantial up-move of 25% from these levels to confirm that the market is trending back in the right direction. That's not going to happen soon.

Unless you have some trustworthy method of picking the low of the market, the safest course of action is to be patient for now. The numbers referenced above will gradually move closer together over time and we won't have to miss the actual bottom by 25%. We will update this analysis from time to time in future newsletters.



Quote of the Week

"Bad companies are destroyed by crisis. Good companies survive them. Great companies are improved by them." --Andrew Grove, former CEO of Intel, after learning that the Pentium chip had a flaw and had to be recalled.

Do you have a SmartStops success story or tip to share?
Send us an e-mail and let us know!

We hope you enjoy *Exit Signs*. You are welcome (indeed, encouraged!) to forward it to anyone. Remember, at SmartStops.net, our goal is to help you protect your gains and improve your investment returns by enabling timely and informed sell decisions.

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The Q&A: What is "A Covered Call"?

A covered call is a short call option which is backed--or covered--by sufficient pre-purchased shares of the underlying stock.

An investor's risk is limited when selling (or writing) a covered call, since the investor already owns sufficient stock to cover the option if the covered call is exercised. By selling a covered call, an investor is attempting to capitalize on a neutral or declining price in the underlying stock. When a covered call expires without being exercised (as would be the case in a declining or neutral market), the investor keeps the premium generated by selling the covered call.

Selling (writing) a covered call is considered so safe that covered-call writing is permitted in most self-directed IRA accounts.

The opposite of a covered call is a naked call, where a call is written without pre-purchased stock shares to cover the call if it is exercised.

Definition courtesy of [Investor Library](#).

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