PHIL'S STOCKWORLD
HIGH FINANCE FOR REAL PEOPLE | FUN AND PROFITS

Dow Jones	11,203	(+0.1%)
S&P 500	1,199	(+0.0%)
NASDAQ	2,518	(+0.0%)
NYSE	7,614	(-0.1%)
Russell 2000	724	(+0.7%)
Oil	81.98	(-3.5%)
Gold	1,352	(-1.0%)

THIS WEEK'S NEWSLETTER:

QE2 continued to impact the global economy, as the Fed conducted a total of nearly $31Bn worth of POMO operations this week, pumping a massive amount of capital into the coffers of the Primary Dealers in the hopes of providing "stimulus" to the moribund U.S. economy. The continuing Irish debt crisis and concerns about the viability of the Euro raised the Dollar, countering the opposing force of the Fed devaluing the Dollar via its POMO operations. A titanic struggle between these two powerful forces - fears for the fate of the Euro versus the devaluing of the Dollar - yanked the Dollar up and down all week. The Dollar is still the primary driver of the the equity and commodities markets, and the markets obligingly followed along in our well established pattern of "the Dollar pops and the markets drop; when the Dollar drops, the markets pop".

The rest of the world is grappling with the inflationary pressures created by the Fed, as prices of raw materials have risen sharply over the last few months, compressing the margins of manufacturers. Manufacturers face rising costs while demand for their products remains weak, so these costs are not easily passed on to consumers. Concerns about possible price controls on food and "more Draconian" measures to curb inflation led Nomura's Sean Darby to turn bearish on Chinese stocks. Chinese stocks were hit hard by this, with the Shanghai Composite index ending the week down 3.2%.

Meanwhile, the Fed is fighting deflation and purportedly trying to promote domestic growth via quantitative easing (QE2) though many are skeptical and see QE2 as a poorly disguised massive bailout for banks. The real effect of QE2 is to boost asset prices such as stocks and commodities, and weaken the Dollar. The effect of the weaker Dollar spills over into other countries. China is trying to deal with an already overheated economy and inflation that's currently running at 4.4% and threatening to go higher.

China and the U.S. are economically shackled together through the Yuan peg and our codependent trading relationship, resulting in the two largest economies in the world having a tug of war over the value of their respective currencies while the rest of the world runs for cover.

Europe is caught in the middle of this battle, and the resulting cascading cavalcade of credit calamities has a growing number of people openly questioning the very viability of the European Union. Bloomberg's Matt Lynn said *"The Euro has turned into a bankruptcy machine. Once the markets have finished with Ireland, they will simply move on to Portugal and Spain, and after that to Italy and France. There is a domino effect at work and, with each rescue, the fault lines within the Euro grow wider and wider. This process isn't going to stop until the euro is taken apart."*

In our opinion, the EU economies are too different to allow a single central bank to manage all of them. As Phil wrote, *"Interest rates are always wrong everywhere. How that expresses itself varies. In Greece, it was a fiscal crisis. In Ireland, a banking collapse. In Spain, a construction bubble that burst. In Germany, a massive trade surplus. But, like a river looking for the sea, it always comes out somewhere."*

If you're wondering why the Dollar spiked up during the week, even while the Fed was dumping billions of Dollars into the economy via POMO, keep in mind that the Dollar is the #1 currency people turn to for security, so when investors get panicky about Irish banks, they run to the safety of the Dollar. When the panic is averted, they abandon the Dollar and pile back into higher-yielding investments, including Euro-denominated stocks and bonds.

According to Societe Generale's Albert Edwards, QE2 is nothing more than a devious ploy to inflict rampant food price inflation on China in order to force them to revalue their currency. As Tyler Durden of Zero Hedge explained, *"In essence, Albert argues that the Chairman has raised the stakes on the global monetary game to such a level, that **he risks social discontent either in the US or in China, or both, should China refuse to blink in what has quickly become the most important game of chicken in the history of modern economics**."*

*And here is the kicker in today's Edwards letter: by risking commodity price inflation, which he realizes all too well is being exported to China first and foremost, Blackhawk Ben is simply forcing China to either unpeg or raise rates sooner rather than later. Of course, in the process he is also hurting 80% of the US population which actually does care about such things as food and energy costs. **In essence Bernanke has orchestrated a massive gamble, akin to a game of chicken (putting) popular domestic discontent against that of China. If China blinks first, the Fed wins; if the US does, and food riots break out in D.C. before Beijing, it is game over**."*

Not exactly the cheeriest of prospects, but when you have an entity like the Fed that is willing to wage these kinds of currency battles, distortions in the markets and social discontent are fairly predictable results. By being aware of this trend, we can make intelligent decisions about our investments, and position ourselves to not only survive but prosper.

Monday Market Movement - Meaty Beaty Big and Bouncy!

POMO! Every day this week. Monday's POMO operation resulted in $7.9Bn worth of liquidity being given to the Primary Dealers, with still another $28Bn scheduled to be shoveled out to them during the rest of the week. Remember, the quantitative easing (QE2) operation works as follows: The Fed buys bonds from a Primary Dealer (PD). The bonds get added to the Fed's assets. The PD has an account at the Fed and, with a keystroke, the Fed essentially creates money out of thin air and puts it into the PD's account. The PD can now use the money accredited to its account. (See QE: Greg Ip answers my questions.) Even with this fresh liquidity given to the banks, the best the indexes could do was rise modestly during the day, fade into the close, and end the day either flat or slightly down.

What happened with the Dollar? Hint: the markets were weak and closed slightly down. And sure enough, the US Dollar Index was up from 78.4 to 78.6, a 0.25% increase for the day. The Euro and the Yen were both down about 0.87% versus the Dollar, as investors shunned those, seeking out the perceived security of Dollar denominated investments.

Treasuries had a wild ride on Monday, with the 30-year note down 1.81% and the 10-year down 1.08% as yields spiked. Tyler Durden of Zero Hedge reported: *"Today's sudden spike in yields across the curve is being widely attributed to a conversation between Moody's Steven Hess, Senior Credit Officer covering sovereigns, and Market News, in which Moody's has given the point blank warning that a permanent extension in the Bush tax cuts may lead to a downgrade of the US, putting yet more pressure on the President... As the market has recently been running higher on expectations that a tax cut extension is pretty much guaranteed, today's announcement by Moody's pours cold water over yet another 'priced in' concept, which suddenly may not materialize. The net result: a smackdown in the 10 Year which is slowly migrating to all risk assets."*

> *"My GAMBLE of the morning would be the SPY $119 puts at .53, which have a .29 delta and should move very nicely if the S&P fails 1,200 but 1,205 should be the stop there for a quick .03 loss. Or better yet, wait until either the S&P fails 1,200 and take it as a momentum play or the RUT fails to hold 720 – which would be our canary in the coal mine for the day."* - Phil
>
> *The SPY Nov $119 puts went to $1.59 as of the close of markets Tuesday, for a 300% gain.*

Phil discussed the November Empire State Manufacturing Survey released Monday, saying it *"was a 200% miss, coming in at -11.14 vs +13 expected and down from 15.73 in October. Employment was chopped in half, down to 9.09 from 21.67, and new orders were off 300% at -24.38 from 12.9 a month ago. One thing the Fed seems to be right on is deflation as the TOTAL lack of manufacturing activity in the New York region led to a 2.6 decline in prices, down 500% from 8.33 in the prior month. When new orders are declining faster than you are contracting – it's a good bet next month won't be a good report either!"*

The Department of Commerce released its retail sales report, which showed better than expected results with October gaining 1.2% over September, higher than the expected 0.7% rise. However, removing auto sales, the gain was only 0.4%, less than the 0.5% expected.

As Phil said, *"Please, PLEASE keep in mind that this is all, FUNDAMENTALLY, BS and it is not at all safe to go long on this market at the moment. It's not safe to go short either with the Fed pumping in $110Bn a month but we are a very long way from having a stable base to build off as well."*

Tempting Tuesday - Getting in the Zone

The markets dropped sharply on Tuesday, with the Dow down -1.59%, closing at 11,024, the S&P down -1.62%, closing at 1,178 and the Nas down -1.75%, closing at 2,470. Commodities also plummeted, with oil down a whopping -3.3% to $82.08 and gold down -0.26% to $1,340.90. You may be wondering how the Dollar did. If you guessed "strongly up," you get a gold star. The US Dollar index went from 78.4 to 79.4, a 1.2% gain for the day.

The reason commonly cited for the Dollar's powerful move upward was the continuing European credit crisis in general, and Ireland's debt crisis in particular. Officials at the European Central Bank have been urging the Irish government to seek aid from the IMF and an European Union rescue fund. Ireland was resisting this aid because of the strings attached to IMF bailouts. Those strings could jeopardize its economic sovereignty and put it in a position where it might be forced to scrap the low-tax system that made Dublin so attractive to global corporations.

> *"Last Tuesday, I called it a critical bottom test for the Dollar at 77. A week later, we're up at 78.80, a very nice 2.3% move up and that has been accompanied by a 2.3% move down in the markets. As we expected this bounce (in the very least) our move last week was to short oil at $87.50 and copper at $4, as I outlined in the morning post. Also in the morning post I liked selling the PCLN Jan $450 calls for $16 and they dropped to $12 already for a nice 25% gain in week 1. I reiterated that trade idea for Members in the Morning Alert at 9:48 and we added the FCX Dec $100 puts at $2.75 as a non-futures way to short copper. Those shot up to $4.65 yesterday (up 69%), and we'll be done today if they don't fail $100 because more than 50% in a week is PLENTY, isn't it?"* - Phil

Inside Chat:

P78nyc asked Phil: *"What are your views on the Euro given everything that is going on there? Do you have any thoughts on a short Euro play?"*

Euro/P78 – I think Europe is in better shape than we are and the danger shorting the Euro is that they resolve their issues with the PIGS and then they shoot up on you. Also, Japan is trying to devalue the Yen and it may start buying Euros. Dollar longs are a way to play the Euro down and the Yen up so I still like those best but now the dollar is at 79, I'm only confident through 80, so not much to work with.

Keep in mind that Ireland is not Greece. Greece has always been problematic, but Ireland enjoyed having of the most successful economies in the world over the last 20 years. The continuing tensions between the interests of the European Central Bank and countries like Ireland, Greece and Spain are leading to serious concerns about the continued viability of the Euro, and this has been driving investors out of Euros and into Dollars.

Our preference continued to be cash, which is nice and flexible, exactly what we want. It can be hard to be in cash. Traders generally like to trade, and sitting on the sidelines waiting for some semblance of certainty can get pretty boring. On the other hand, it's better to be bored and sitting on a nice pile of cash than to experience the "excitement" of riding the market down while tied up in long positions that lose money daily.

Wanting to avoid the excitement of being over-exposed to a declining stock market, Phil summed up his position: *"Our question (this Tuesday) is - are we completing the move we expected down to our 10% lines or is this just stage one of a cascading failure?"*

World of Worry Wednesday - The China Syndrome

Wednesday was dull for the US equity markets which traded in a narrow range all day before closing slightly higher. The Hang Seng and Shanghai indexes both dropped after Nomura Holdings joined Goldman Sachs in advising investors to cash out of China because rising inflation is raising the prospect of state-imposed price controls. Nomura's Sean Darby said "*Command style economic principles generally mean much lower multiples over time on the sector and stocks.*"

Inside Chat:

Jabo asked Phil: *"Does 1180 S&P mean anything today? Is the POMO theory disappearing?"*

1,180/Jabo – That's the support level they want to hold (our 10% line at 1,177 is more important) as the round number crowd sees 1,130 as significant to the downside too. POMO is, I think, in the early stages of building and this is like when you go to fill your pool with a hose and you come back after a few hours and it looks like there's a puddle in the deep end and the kids go "Is that all?" It takes time for these things to take hold. It's a $1,000Bn injection and this week we have $35Bn of it. As you can see, the Gang of 12 WANTED to sell $29.9Bn worth of crap this morning and the Fed only bought $8.2Bn but that's BETTER than yesterday when the Gang wanted to sell $33.5Bn of crap and the Fed bought $5.5Bn so, as I said yesterday – what we have to do is see if there's a point at which the Primary Dealers (Gang of 12) are satisfied and become able to turn that money back on the markets and perhaps we can learn what that relationship is and use it to make better decisions down the road…

Ireland's banking crisis was the story of the day, as European finance ministers worked on possible aid packages, and the U.K. dropping hints that it might be considering providing its own loans in a separate aid effort. UK chancellor George Osbourne said *"Britain stands ready to support Ireland in the steps that it needs to take to bring about ... stability."*

In response to the Irish banking problem, European Union President Herman Van Rompuy gave a speech Wednesday morning where he said *"We're in a survival crisis... We all have to work together in order to survive with the euro zone, because if we don't survive with the euro zone we will not survive with the European Union. But I'm very confident we will overcome this."*

As the Telegraph reported: *"(Van Rompuy) is admitting that the gamble of launching a premature and dysfunctional currency without a central treasury, or debt union, or economic government, to back it up – and before the economies, legal systems, wage bargaining practices, productivity growth, and interest rate sensitivity, of North and South Europe had come anywhere near sustainable convergence – may now backfire horribly.*

"Jacques Delors and fellow fathers of EMU were told by Commission economists in the early 1990s that this reckless adventure could not work as constructed, and would lead to a traumatic crisis. They shrugged off the warnings.

"They were told too that currency unions do not eliminate risk: they merely switch it from currency risk to default risk. For that reason it was all the more important to have a workable mechanism for sovereign defaults and bondholder haircuts in place from the beginning, with clear rules to establish the proper pricing of that risk."

The current crisis is demonstrating that these concerns are quite valid, and now they are going to have to be dealt with. The big question now is whether the Euro survives the process.

Bond yields shot up dramatically, as the "Bond Vigilantes Ride Again", according to Barron's Randall Forsyth, who said *"The European sovereign debt crisis continues to deepen as the EU appears to be preparing a bailout for Ireland, whether it wants one or not. From the rise in bond yields to the European crisis to the threat of EM capital controls, each disparate development is disinflationary. So, these market forces are thwarting the Fed's expansionary efforts. In other words, Bernanke & Co. seem no match for the bond vigilantes."*

The Mortgage Bankers Association released their weekly mortgage application survey, which showed that loan application volume was down considerably from the week before. As Phil explained, *"Mortgage Applications were down 14.4% this week as the 30-year fixed went from 4.28 to 4.46% – that's all it takes to grind housing to a halt – how do you think they'll feel about 8% mortgages? Consumer prices were up just 0.2%, which is not good for producers, who are getting hit with huge increases and simply can't pass the pricing along. Housing Starts were down with Mortgage Apps at -11.7% and it's no wonder with October Hourly Earnings down 0.1%."*

The nature of the forces moving these markets creates a situation that does not lend itself to making intelligent, long-term decisions about investment positions. In these circumstances, "hit and run" plays are the best way to trade in this market. While we remain fundamentally bearish, it is simply not wise to fight the Fed, at least not every day. Our position at the moment is that cash remains the best way to go. Make a quick trade here and there, get in and then get out and back into cash.

Inside Chat:

Jrom asked Phil: *"USO puts here Phil? Big drawdown did nothing with oil except get them back to almost even. You stated that they still have to move 1000s of contracts by Monday so we should see more of a sell off in oil yes?"*

USO/Jrom – They had a pretty good draw-down so once they are done selling December contracts they may pop into Jan so I do think they go lower from the physics of the sale but starting way down here does not make for fun entries compared to where we were last week. Maybe the $36 puts at .92 as they have almost no premium as long as oil is below the $82 line or just play the Futures strictly below the line.

The USO $36 puts finished the day at $1.30 for a 41% gain.

Inside Chat:

Phil posted: QID $13 calls for .22 were .34 yesterday so I like those as a spec on the Nas falling along with oil and everything else.

Amatta asked Phil: *"What is the stop on the QID play?"*

QID/Amatta – It's a do or die kind of play. If it goes down to .11 it might be worth a DD if we still think there's a sell-off but these are just expiration week craps-roll kind of plays.

Leon asked *"Phil, would you kill the QID play (I entered the Nov $13 calls at .22 as you suggested) at the end of the day or keep it overnight?"*

QID/Leon – As long as it's a small gamble, it's worth it overnight as this is not a very good day in the markets after such a major sell-off but keep in mind it's a do or die play tomorrow.

The QID $13 calls at .22 topped out at .32 for a 45% gain.

Thrilling Thursday - The Luck of the Irish

It started with a conference in Tokyo, where JP Morgan's head of Japan Rates and Foreign Exchange research, Tohru Sasaki gave a speech and said that the Dollar may fall below 75 Yen next year as it becomes the world's "weakest currency" due to qualitative easing by the Fed. *"The U.S. has the world's largest current-account deficit but keeps interest rates at virtually zero,"* Sasaki said at a forum in Tokyo. *"The dollar can't avoid the status as the weakest currency."*

The Dollar fell overnight and the markets jumped up sharply at the open and held their gains through the day. Phil commented on the econo-drama, *"Isn't this the greatest scam? Hold a meeting of high net worth investors and drop a bombshell like that as if you have some inside information on US policy which, of course, Japanese investors believe JP Morgan does have. Follow it up with absolutist statements that would make even the strongest dollar bulls take pause and you have yourself a little dollar dust-off as the dollar fell from 79 to 78.50 between 3:30 and 4 am (a huge move for a currency). I'm more interested in the fact that it held 78.50 than the fact that it fell (after) a dire negative statement made by the head of FOREX Research as the 2nd largest bank in America. Really JPM? Is that all you've got?"*

> *"Look what's happening in Ireland. They don't want to borrow more money, they don't have any unmet debt obligations but the bondholders are nervous and now that Bill Gross has picked up his 2:1 ratio of foreign debt, he is pulling on EU strings to make sure they guarantee his debt, which makes his high-interest bonds that he picked up during the uncertainty (that he caused) far more valuable. So he gets to control the events and first lend the Irish people money at usurious rates and then force the Irish people to borrow from others to remove the risk factor from the bonds he bought. It's a great scam, you get to economically enslave a nation without firing a shot…"* - Phil

Inside Chat:

Phil posted: PCLN - Another chance to go short on them. If you take 1/2 of a small position on the Dec $430 calls at $9.20 (selling them short) then the plan would be to roll those to 2x the $450s (now $4) if they break over $425.

The PCLN Dec $430 calls ended Friday at $6.50, for a profit of $2.70 per option.

Meanwhile, Ireland's central bank Governor Patrick Honohan said that he expected that Ireland will, in fact, end up accepting a rescue package worth "tens of billions" of Euros from the IMF and the European Union rescue fund to help stabilize their banking system. Honohan's comments were interpreted by investors to mean that Ireland's financial problems soon be resolved, encouraging them to move back into Euro-denominated investments. This also helped to push the Dollar down, providing additional impetus to Thursday's bull market.

The Philly Fed business outlook was released Thursday: 22.5 vs. 5.0 expected and 1.0 prior. While the markets took this as extremely bullish news, Phil cautioned *"Keep in mind this is just opinion and has nothing to do with actual activity... The last time the Philly Fed was this high was last December and we totally tanked after that."*

Flip, Flop and Friday - Options Expiration Spectacular!

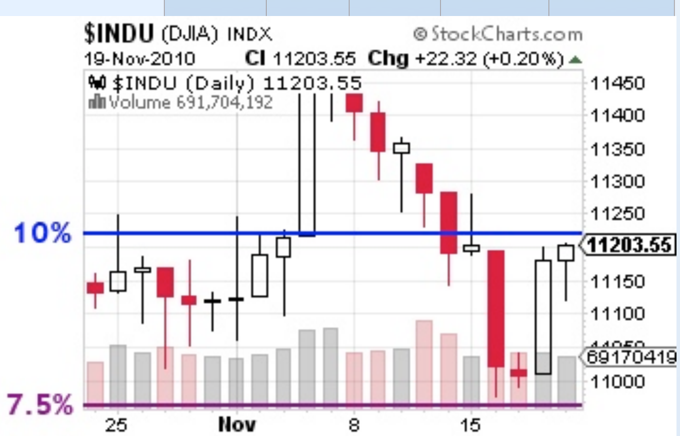
Fed Chairman Ben Bernanke (AKA "The Bernank) gave a speech Friday at a European Central Bank conference in Frankfurt, where he defended his policy of quantitative easing while implicitly criticizing China's policy of keeping its currency weak.

In his speech Bernanke said *"Globally, both growth and trade are unbalanced. Because a strong expansion in the emerging - market economies will ultimately depend on a recovery in the more advanced economies, this pattern of two-speed growth might very well be resolved in favor of slow growth for everyone if the recovery in the advanced economies falls short."*

As reported by Bloomberg, *"After the speech, Bernanke spoke during a panel discussion and responded to audience questions, saying that the use of securities purchases for monetary policy affects asset prices 'quite significantly.' He said he's 'quite skeptical' of the criticism that central bankers are 'pushing on a string."*

Watching Must Hold Levels

11/12/10	Dow	S&P	NAS	NYSE	Russell
BREAKOUT LEVELS	11500	1220	2600	7750	725
UP 10% (MUST HOLD)	11220	1177	2420	7500	700
UP 7.5%	10965	1146	2365	7280	672
UP 5%	10710	1123	2310	7140	666



Bernanke then subtly dropped a bombshell: Fed officials are *"unwaveringly committed to price stability"* and don't seek inflation higher than the level of *"2 percent or a bit less" that most policy makers see as consistent with the Fed's legislative mandate."*

Phil had a classic response to Bernanke's comments: *"WHA-WHA-WHAT? Keep in mind that WE are the only country on the planet Earth that is still pretending inflation is under 2% and he's (talking about) China, where inflation is 4.4% so what do you think happened?"*

While Bernanke was giving his speech, the People's Bank of China announced it was again increasing the ratio of required reserves in Chinese banks by 50 basis points, the fifth increase this year, in a move estimated to freeze liquidity of about 300 billion Yuan (approx. $45bn Dollars.) The stated objective is to "enhance liquidity management and moderately regulating credit supply."

"Friday's move will raise the deposit reserve ratio for other large financial institutions to 18 percent and for small and medium-sized institutions to 16 percent. Analysts said the increase exceeded forecasts as it targeted over-liquidity in the banking system and looming hot money inflows caused by the United States' quantitative easing policy." - Xinhua News

Phil commented on this, saying *"Fortunately, PSW readers are well aware that any indication by The Bernank that the money spigot may one day run dry handily trumps a 0.50 increase in the reserve requirement of Chinese Banks."*

In Friday's article Phil mentioned six specific trade ideas from Thursday's Member's Chat, involving IWM, CMG, PCLN, DIA, TTM and NABI. Phil commented on these trades, saying *"That's how we do things intra-day, we shorted IWM, played CMG to peg $230 (and as long as they open there we can kill the trade with a nice profit without waiting all day), shorted PCLN again, did a spread but short on the DIA as we didn't think they'd drop too much today and played TTM and NABI long but hedged. People have been asking if we do stock trades and the easy answer for that is if we are shorting PCLN or CMG with short calls or going long on TTM or NABI – THAT is a short and long call on the stocks. Stocks are simply less fun to trade in this kind of market, options help us mitigate our risks as well as provide good leverage we can use while keeping ourselves mainly in nice, flexible cash while this crazy market tries to sort itself out."*

We are also continuing to monitor Phil's "Beta 3" pattern on the Dow (below), a pattern that appears to be the result of algorithms being run by high frequency trading programs (aka "trading bots"), and which we have highlighted in red on the chart. If this pattern continues to hold, then it is reasonable to expect that the markets are due for a correction any day now.

Inside Chat:

Alik asked Phil: *"I have a couple of strategic questions. First, you expect a market collapse the next week. On what? (Europe, China, municipal bond crisis, some very bad US economic news…). My second question is that you expressed an opinion in May that the fair value of Dow is 10700. More recently, you expressed opinions that the fair price is 10200. What is the basis behind these estimates?"*

Market collapse/Alik – I do not "expect" one but I do see a better than remote possibility on any of the things you mention (and I think I said so in the morning post). We saw this week how a little issue in Ireland totally spooked the global markets – this is the same kind of fear and relief cycle we were having on 2008 as the bank crisis was on again and off again on a weekly basis. A lot of people got trapped and burned in that crash so my attitude at the moment is "better safe than sorry." As to your essay question on valuation – it's based on earnings and outlook, of course. We are NOT in an expanding economy. Corporate input costs are rising and they are not able to pass those costs along to the consumer. While 10,200 is the "fair" price for the Dow, that is based on the dollar at 85 so, at 78, 11,200 is about the right price and pretty much everything depends on which way the dollar moves.

The Week Ahead

Why do we pay so much attention to the Dollar, the Fed, QE2, commodity prices and how the world's financial markets react to macroeconomic events? Because positive correlations in asset prices, and negative correlations between commodities and stocks and the value of the Dollar, are unusually strong. (See James Hamilton's Commodity inflation, for example.) We've been pointing out the inverse relationship between the S&P and the Dollar for weeks. In "Why Your Stock Portfolio Is Acting Like a Commodity Basket," Jason Zweig discusses reasons for the parallel ups and downs in commodity prices and equities:

"[T]he correlations between stocks and commodities—the extent to which their prices move together—are in many cases the highest they have been in nearly 30 years.

"This year, about 40% of the weekly movements in the S&P 500 index can be explained by weekly fluctuations in energy prices, says Michele Gambera, head of quantitative analysis at UBS Global Asset Management. That is twice the level of similarity over the past five years and roughly 20 times the level of the past two decades...

"Some of the linkages between stocks and commodities are looking bizarre. This Thursday, the monthly correlation between sugar futures and the S&P 500 hit 67%, more than 10 times its level just six days earlier, says Howard Simons, strategist at Bianco Research. That is the third time this year that the linkage between sugar and stock prices surged above 60%—much higher than their long-term average of under 20%

"How on earth did sugar and stock prices get stuck together? Sugar, says Mr. Simons, is now both an "energy commodity" and a "growth story," since much of the Brazilian crop is used to produce ethanol. That gasoline additive is linked to crude-oil prices, which in turn are sensitive to monetary policy and global economic growth—the same factors driving stock prices.

"But there is another, less visible force at work, Mr. Simons says. Algorithmic trading programs, or "algos," automatically buy and sell a wide variety of assets based on mathematical models. An algo doesn't know or care why two assets are moving together; it merely is programmed to recognize that they are doing so. As soon as a computer places bets that such a linkage in prices will persist, other traders—computers and humans alike—tend to take note and follow suit. That can be true, Mr. Simons says, whether or not a correlation is driven by fundamental economic factors.

"We've gotten to the Frankenstein point where algos are self-programming, and they evolve to chase these relationships," Mr. Simons says. "That's created a sheer wall of money that is forcing other people's behavior into the same pattern."

We have a trade idea this week from PSW member and resident biotech expert "Pharmboy", who is bullish on Celldex Therapeutics (CLDX). On Saturday Celldex announced that its experimental vaccine for the the most common type of brain cancer met its main goal of extending survival time for patients without a progression of the disease in a mid-stage trial. Buying the stock at ~ $4.80 and selling the $5 Feb11 Calls for 80c or better yields an 18% return if called away in February. To increase the yield, selling the $4 Feb11 Put for 55c or better increases the potential total return to 27% IF the stock finishes over $5 by Options Expiration.

There will only be three full days of trading next week. We at Stock World Weekly wish all of you a safe and happy Thanksgiving.

Next Week's Economic Calendar

Monday 22	Tuesday 23	Wednesday 24	Thursday 25	Friday 26
8:30 AM: Chicago Fed Nat. Activity index	8:30 AM: Q3 GDP report	8:30 AM: Durable Goods Orders	Thanksgiving Day	NYSE Early Close
11:00 AM: 3 and 6 Month Bill Auctions	10:00 AM: Existing Home Sales	8:30 AM: Personal Income and Outlays	All Markets Closed	4:30 PM: Fed Balance Sheet
1:00 PM: 2-Year Note Auction	10:00 AM: Richmond Fed Manuf. Index	8:30 AM: Jobless Claims	Happy Thanksgiving!	4:30 PM: Money Supply
POMO DAY	**POMO DAY**	10:00 AM: New Home Sales		