

RealMoney Silver - The Edge

Scott Rothbort, founder and president of LakeView Asset Management, LLC, is filling in for Doug Kass today. Email Rothbort at scott.rothbort@thestreet.com. Doug will return tomorrow.

Range-Bound Pattern Will Not Hold

Scott Rothbort
2/19/08 8:13 AM EST

Here are some interesting things to note as we prepare for the trading week. First, as opposed to the three-day Martin Luther King Day holiday weekend, when the overseas markets went into free fall for two days before the U.S. opened, this post-Presidents' Day three-day weekend is being met with positive returns overseas.

The markets in the colonies are looking toward a higher open. I bought some **Ultra Dow 30 ProShares** (DDM) on Friday as a trade to add to an already smaller position. I would be happy to let the latest trade go for a nice profit if I see an opportunity.

Range-bound trading has been the norm of late, with strong or weak opens tending to be met with reversals. At some point, this pattern will no longer hold and catch people leaning the wrong way as they expect a reversal.

Once again, I point out how much of a discount **BHP Billiton** (BHP) ADRs are selling to the fair value vs. the rallying BHP Billiton ORDs and the rising Aussie dollar. That spread will collapse sooner than later.

Oil and gold appear back on the march again. I think that gold will eventually tick at \$1,000 just as crude oil ticked at \$100 a few weeks ago. My gold play is **Yamana Gold** (AUY).

As my friend Craig the Jeweler and I discussed over dinner (while our wives talked on other subjects) on Saturday evening, however, we both believe that \$1,000 will be a cyclical high water mark. He notes two facts from his participation in the jewelry market:

1. Everyone he knows in the U.S. is melting down gold. The gold is being sold and then shipped off to Europe, particularly Switzerland.
2. He sees plenty of selling pressure materializing at around 950, but a blow off top at 1,000 is still quite possible.

Craig sees the big opportunities in diamonds, but that market is not and most likely cannot be commoditized for the financial markets. Thus, don't expect a diamond hedge fund to make headlines anytime soon.

Fidel Castro is stepping down as Cuban President, leaving his brother to formally assume his role. While I think that will have no impact on near-term relations with the U.S., I believe that it might have some short-term benefit for the Latin American markets. Either way, I don't think you can trade or invest on the happenings in Cuba, but it does make for a good story.

Position: *Long DDM, BHP and AUY*

Positive Signs From Europe

Scott Rothbort
2/19/08 9:38 AM EST

Swift intraday turnarounds in Europe could portend a positive bias in the U.S. -- even if we are met with some selling after the opening surge. For example, the German DAX was off 1% early on Tuesday (after a sizeable gain on Monday) only now to be in the green by 1%.

As I mentioned earlier, at some point, the "buy the dips, sell the rips" battle cry, as Doug likes to say, may become inoperative.

Trapped Longs Selling Into Strength

Scott Rothbort

2/19/08 10:50 AM EST

Some Bull Markets, Some Bear Markets

Scott Rothbort

2/19/08 11:42 AM EST

The bull markets are back. That's for minerals, materials, mining, energy, energy services, agriculture, infrastructure and health care containment.

The bear markets are also back. That's for banks, brokers and Internet names.

It's *not*

the time to sing that old CSN&Y refrain -- "If you can't be with the one you love, love the one you're with" -- unless you love the banks and are in the material stocks; that is for romantics and those seeking poor performance.

Do What You Know Best

Scott Rothbort

2/19/08 2:20 PM EST

Today's must read is by Ken Wolff, who penned [Your Only Comparison Is With Yourself](#). While I am not familiar with his methods, and if I were, I would not necessarily espouse his methods, his main message is loud and clear. Trade against yourself and nobody else.

I have two rules of my own, above my desk, that follow his thinking. No. 3: Stick To The Strategy/Model and No. 4: Don't Second Guess The Model.

Wolff's secondary message is not to take more risk to recoup losses, and don't compound mistakes. These equate to my rules No. 8: Don't Be Afraid To Take Losses and No. 9: Learn From Your Mistakes.

I have all of my students read Joel Greenblatt's *The Little Book That Beats The Market*. It is assigned not because I believe in Greenblatt's model. I assign it because he has developed a system for which he is comfortable with and has tested and executed in the real world with success. I could not execute Greenblatt's model, and frankly would not want to. It works for Greenblatt but not for me.

The lesson from Ken Wolff, Joel Greenblatt and myself is to focus on what you know and do best, and don't subject yourself to performance envy of others.

Blame It On Tech

Scott Rothbort

2/19/08 3:02 PM EST

Going into the last hour, the markets have erased all of the day's gains.

Techs are lower, energy and materials are higher, and most else is flat. That was after rallying just over 1% at the open, falling close to 1%, then rallying to retrace about three-quarters of the lost ground and now giving up the last rally attempt.

Techs are the culprit for the latest downfall.

Don't be fooled, the last hour can bring anything -- a rally, a selloff or just nothing. Stick to your knitting.

H-P Provides Some Hope

Scott Rothbort

2/19/08 4:28 PM EST

The last hour brought us a bunch of nothing. The day was in the hands of the traders. The bulls were disappointed, and the bears for two days running could not deliver a knockout punch. Both look quite timid these days.

The market looks toward **Hewlett-Packard** (HPQ), which just reported higher-than-expected results, with EPS of 86 cents vs. consensus of 81 cents and the

high estimate of 83 cents.

While the stock is higher after hours, I am not sure it will breathe much life into the horrible tech market. Also, let's not get too giddy until we listen in on the conference call. Have a good night and thanks for reading the Edge today.

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