

Addicted to Profits

David Skarica, Editor Volume XVI Issue XIII September 2014

NOW IS THE TIME THE TIME TO COME OUT OF THE SHADOWS

Dear Subscriber,

I am about to do something that I have never done in the newsletter. I am recommending out and out short sales. We are in the September to November period that is historically the most dangerous time of the year for stocks.

Now, if you short, I recommend full cash, no leverage. Sure, this makes the maximum profit only 100 percent but are you going to complain if these stocks fall 40-50 percent and you make 40-50 percent.

You can do whatever you want with these shorts. Some of you may want to buy puts, some just short. However, I think these stocks are good shorts at current levels. Note some of them are rather weird obscure companies. However, that is why I have been so quiet as of late. I have been looking for weird overvalued companies to short, as they are the ones that can drop even in a flat or upwards market.

Here is a list:

1. **BITA** - This is a Chinese on line auto retailer. Sort of like an Auto Trader. Firstly, I basically ignore the earnings growth in these companies. Accounting in China is such a scam and a fraud that you can't even look at numbers and take them seriously. At some point, when the bust comes, this will be exposed in many of these companies. What really interests me about Bita is its chart. Bita has seen a total textbook parabolic curve move higher. I have enclosed two charts, one of CROX,

one of FEYE; these are both parabolic curves that collapsed. Note that both of these stocks in just a few months lost about 60-70 percent of their value. This is classic parabolic curve action. Parabolic curves almost always collapse.

Short at 83, the stock could bounce to the late 80s; here I would use that to add. Stop 105.



BITA Bitauto Holdings Ltd. NYSE

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15-Sep-2014

Open 85.92 High 86.39 Low 80.70 Close 81.80 Volume 2.2M Chg -2.57 (-3.05%)

MACD(12,26,9) 4.190, 6.223, -2.034

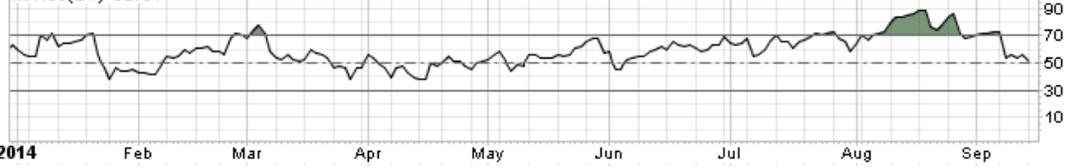
Support in the 75 to 80 range once that breaks really nothing to the 150 day moving average at 49

BITA (Daily) 8
MA(50) 69.25
MA(150) 48.99
Volume 2.17M, EF



2014 Feb Mar Apr May Jun Jul Aug Sep

RSI(14) 51.57



2014 Feb Mar Apr May Jun Jul Aug Sep

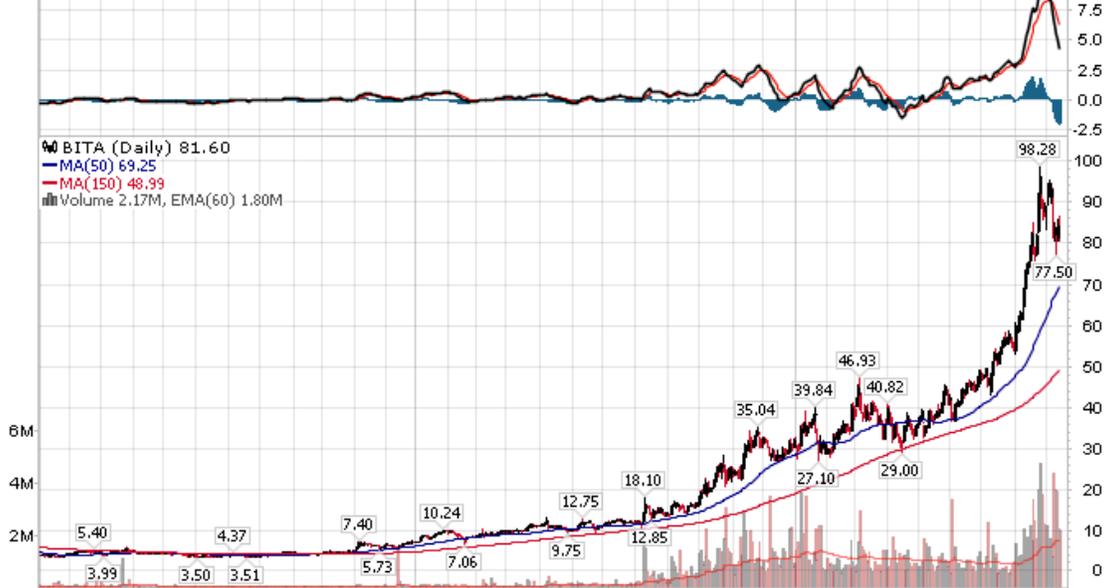
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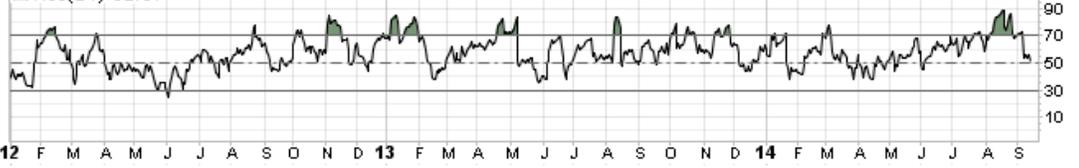
Open 85.92 High 86.39 Low 80.70 Close 81.60 Volume 2.2M Chg -2.57 (-3.05%) ▼

MACD(12,26,9) 4.190, 6.223, -2.034



BITA (Daily) 81.60
MA(50) 69.25
MA(150) 48.99
Volume 2.17M, EMA(60) 1.80M

RSI(14) 51.57





2. **VIPS** – Another Chinese high flier. This has one of the most ridiculous charts I have ever seen. The stock is up 5000 percent or 50 times since late 2012. Cheap money provided by the Fed and the madness of crowds can get you a long way. The company has gone from 100 million to 2 billion dollars in sales in two years. If something is too good to be true ... The stock looks like a penny stock scam chart. When promoters promote a penny stock scam, they usually “walk it up” with 2 steps up and one step back. I remember a few like that. The stock is a classic Algo hedge fund robot garbage chart (with the programs buying once the stock declines slightly). However, over the last few weeks, it looks like the stock might be starting to roll over. Both BITA and VIPS will benefit on the downside from the Alibaba IPO. Alibaba is being priced very expensively; it probably won't have a huge jump out of the gate. In addition, with the Alibaba IPO being about \$160 billion or so, that is going to dilute the hell out of the Chinese internet sector. Short at 210, Stop 230.



3. Wynn Casinos (WYNN NYSE) -- The casinos got really richly valued early in the year on the back of growth in Macau. Macau is slowing big time, not only not growing but showing year over year declines of sales of 6 percent in August. A crackdown on corruption in China has resulted in politicians and businessmen going to Macau a lot less often; the high rollers (a housing bust doesn't hurt either) are disappearing. This is a secular shift; even after the corruption probe ends in October, I do not expect this stock to come back the way it did in the past. WYNN's debt to market cap is 30 percent, a very high level. The stock broke support at 190 a few weeks back. It had a small bounce thanks to a buy reissued from an analyst at the always classy Goldman Sachs. The fundamentals of this thing are horrible: declining revenue growth in fastest market, huge debt, and a broken chart to boot.

Short at 185 Stop 210.



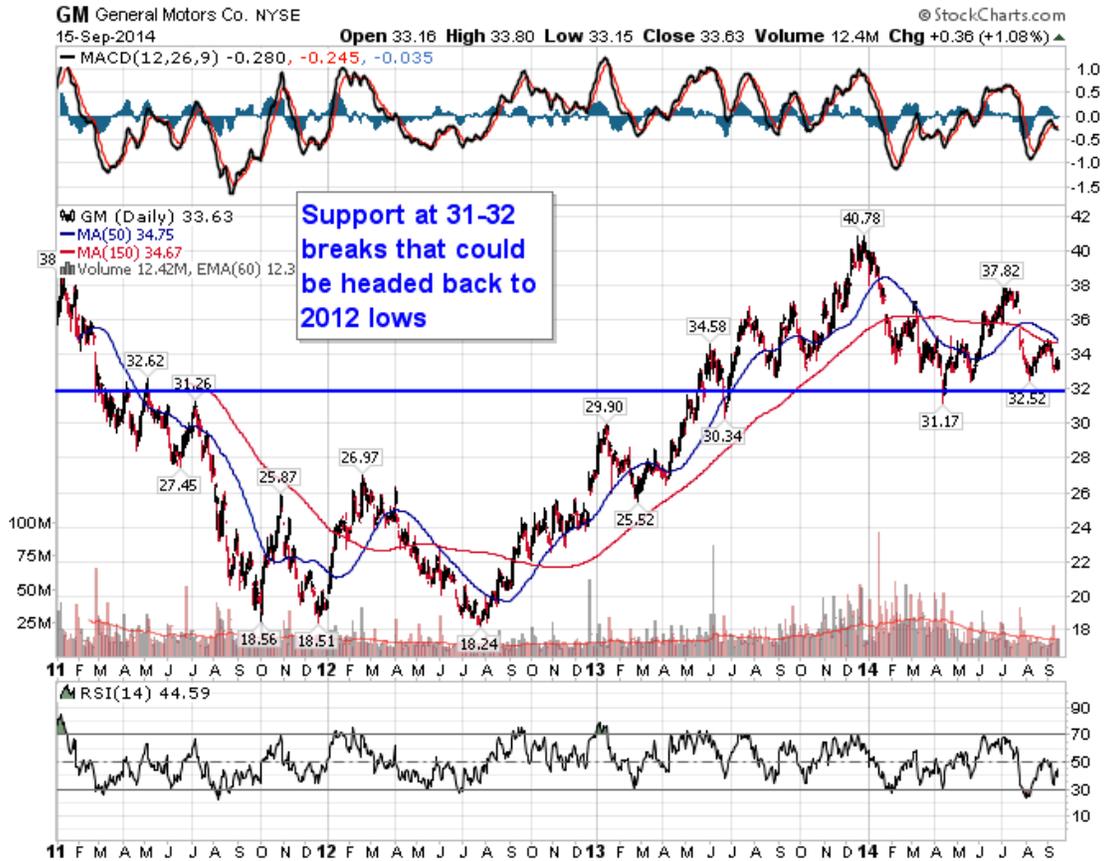
4. **Ford** (F NYSE) -- Now we get to our dollar shorts. The U.S. dollar index has had a huge rally. US multinationals were already at sky-high margins before this. They needed a low dollar to keep these margins and to keep profits inflated. I expect that Ford is not ready for such an increase in the dollar. The stock just broke support at 16.75.

Short 16.70 STOP 18.



5. **General Motors (GM NYSE)** – GM has been acting really poorly. Firstly, the company makes complete and utter garbage cars. They have a new set of recalls every week. They also still do not have a great cost structure.

Short 33.70 STOP 36



6. **Caterpillar (CAT NYSE)** -- This is a financial engineering stock. 19 straight months of year over year sales declines. Yet the stock is trading a few points within its all time high. However, it looks like it is really rolling over. What I like about this short is that it is a way to play a higher dollar, weak mining sector and bust in China housing. In addition, if you go and look at the big rollovers in the CAT stock in 2011, the 2014 chart now looks almost exactly the same.

Short 106 STOP 115



7. **Plug Power** (PLUG NYSE) -- This was a former high flyer. A hyped up battery type company. The stock ran on the Tesla craze It is nearing important support at 5.00 a share. Makes no money, will probably never make any money.

Price 5.15 STOP 6.50



8. **500.com** (WBAI NYSE) – Carson Block, the famous short seller, recently said he had a small position in this. It is a Chinese gambling company. The stock went public last year and blew off to 52 dollars a share and fell back to 28 in the spring. It had a failing rally this past summer and now looks like it is rolling over. Block has not done a write-up on the company. I would suspect, like most Chinese companies, the company has terrible corporate governance and shady accounting.



Price 33.00 Stop 40.00

9. **Delta Airlines** (DAL NYSE) – The airlines have had huge runs since the Fed started QE 2. The Airlines as a whole have been on a rampage. Mergers, bankruptcies have allowed to them to streamline costs. It has also reduced competition and allowed them to jack up rates, while still giving us lousy service (no food, no problem). Delta is universally loved on the Street; all 20 analysts have buys on the stock. Board members were dumping stock back in the spring when the stock was north of 40 dollars a share. The stock also looks to be making a big topping formation. This is a classic phase 3 top. We have crosscurrents for the company. On the one hand, lower oil prices really help it. However, on the other hand, there is slowing international traffic, which is the higher profit margin traffic. It is building a large top.

Price \$39 Stop \$45



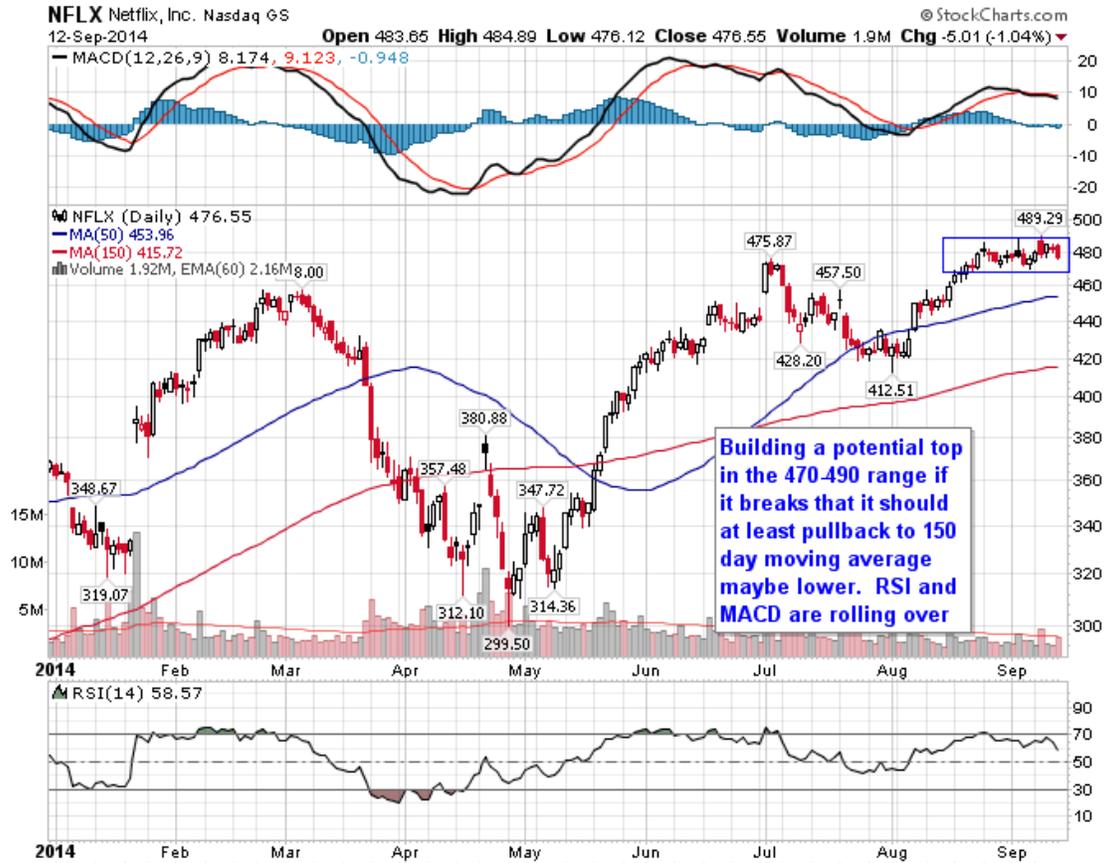
10. **Twitter (TWTR)** – This is a stock I have been very patient on. I initially shorted this via put options in my trading service and it has been my best trade to date. I have been awaiting a re entry. Many people think that Twitter is going to be like Facebook and after stumbling out of the gate, it will go onto new all time highs. The difference is Facebook has a more profitable model and trades at a lower valuation (17 times earnings versus 35 times revenues).

Price \$52 Stop \$58



11. **Netflix (NFLX)** -- Typical over valued, over hyped technology company. Trading at over 100 times earnings, it is very pricey. However, they have big growth and have not fumbled since 2011, hence the big multiple. I have a Netflix account and really am not that impressed by it. I do enjoy Trailer Park Boys and a few of their homemade shows. However, most of what they have are crappy B movies or A movies that are about 30 years old. I mean they recently added Bill and Ted's Excellent Adventure! The stock looks like it is making a top between \$470-\$490 a share.

Price \$478 Stop \$510



12. **NASDAQ Inverse Fund (QID)** – Not a short but an inverse fund. However, if you are one that believes, that between now and year’s end, there is a good chance that the market rolls over or tops, this is a simple way to play that belief. If, say there were was a 10 percent drop in the NASDAQ, this fund should rally about 20 percent; if there was a 30 percent drop similar to March 2000, this fund would increase about 60-70 percent. This is a good way for a small investor to participate in potential pullbacks in the market.

Price \$44 No stop (sell in October or November; this is a pure hedge against a potential market decline into the fall) .

13. **YY Inc., (YY NASDAQ)** _ Another Chinese internet play. Over 4 billion market cap. The stock like most of these Chinese names had a manic run then sold off into may and has rebounded. The stock is now coming off its early September high. I would look for a bounce to the low eighties before shorting. Considering we have two other Chinese names on this list if it doesn’t bounce that is fine .

Short \$80 Buy Stop \$95

14. Alcoa (AA NYSE) Alcoa began to soar right after it was kicked out of the Dow which is not surprising as that often can be the case. The stock has gone from 8 to 18 in just the last year or so. However, it seems to be building a top from 18 to 16. In addition, being a multi national and base metal company it will be hit this quarter by the higher dollar.

Short \$15.90 Stop \$17.50

15. Organovo (ONVO NASDAQ) – An obscure 3D printing company that prints human tissues and the like for operations. Lots of regulations and lots of R and D and over head. The company raised a lot of money in the 3D boom last year. They have about 10 million in revenues and a near 600 million in market cap. The printing is in its very early stages. They more than doubled their shares outstanding with the raises last year. The stock has started to roll over. However, it got over sold and is bouncing. Because I have a lot of short at the moment I only want to short this on strength.

Short 7.50 (if it gets there) Stop 8.50

Other shorts to look at Apple \$101 Stop \$105 , Yelp \$82 Stop \$90 , Facebook \$77 Stop \$85, Tesla \$278 Stop \$290

The positions above are ideas for shorts. I own puts on most of them see disclaimer at the bottom of this issue. You can either directly short them or purchase put options that are 10-20 percent out money, which expire in the November to January. In my next issue I will again show you why we need to be worried about a major market decline despite mass complacency.

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