THE MARKET AGNOSTIC

"Trading the markets in front of us"

MAVERICK TRADING

January 2011

A Look Back at 2010

Welcome to our inaugural monthly newsletter for the Maverick Trading community. In this edition, we will simply highlight the past 12 months of activity in the firm. In future issues, also look for individual trader spotlights, strategy tips and pertinent information about the trading group.

We had another great year at Maverick Trading in 2010 and would like to thank all of our traders for their contributions. Overall, the firm had another profitable year and the Trading Room trades beat the markets again by posting a 54% return in a simulated portfolio mirroring the Trading Room trades. This created an alpha (return of a trader minus the return of the market) of close to 40%.

2010 began with a bang as we capitalized on bullish momentum from 2009 and posted nice returns in January, mostly by commodity and solar names. SOLF was one of our biggest gainers of the year as the stock went from $8.50 to over $12 in the first two weeks of the year. Our long calls performed nicely as the stock gained nearly 50%. Bullishness ended by February, when the first of the European Debt crises began to unfold, with Greece moving toward bankruptcy and the ECB needing to provide liquidity and emergency loans. The European debt situation proved to be a recurring theme in the markets in 2010 and is likely to last into 2011.

After a 10% selloff, the markets then began a miraculous climb, with the S&P running from 1050 to 1220 from February to May. The amazing thing about this three month run was there were no periods of more than two down days in a row. During this run, we referred to the market as "bulletproof" where any bad news was ignored and the market continued marching higher. We had some great trades during this period, specifically in the retail/restaurant sector where CMG and PNRA brought nice gains. After this extended run in the markets, European Debt fears came back with a vengeance with rioting in Greece and worries of the PIIGS (Portugal, Italy, Ireland, Greece, Spain) being the next countries to default on their sovereign debt. The summer proved to be typical of summer trading with low volatility and lower volumes. From June through September, we saw a listless, range-bound market with no ability to put in decent directional moves. We traded market neutral strategies but were only able to produce meager gains, at best. It is during these times that traders just need to "grind it out" and produce whatever returns the market offers. We talked a lot about volatility and the effects during this time.

In early September, an upward bias in the market developed as manufacturing improved while housing and employment stayed mired in recession-like numbers.

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FX in 2010

2010 had several major circumstances that created a relatively skittish trading environment for currency traders, the most dramatic being the weakness of the Euro due to an unprecedented failure of several major economies within the European Union. This, of course, was bad news for the economies of Europe, but the disparity between the falling value of the Euro and the strength of the other major currencies made for some great opportunities to capitalize on these trades.

The effect of this weakness also aided in the British pound being the second weakest major currency of the year. Several of our traders focus heavily on GBPUSD, so again, there were some phenomenal trades on these crosses. Along with the weakness of the European currencies, the Japanese Yen showed tremendous strength, while the U.S. dollar seemed to simply waffle indecisively for much of the time.

Another major factor that affected currency trading in a somewhat indirect fashion is that of emerging economies, such as China, India and Brazil, which only suffered minimally from the financial crisis and able to really thrive in 2010, pushing around some of the stability and strength of the other major players.

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Maverick FX Continued

2010 Year in Review

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Options in 2010

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The U.S. reported the lowest number of existing home sales on record, showing the intense weakness remaining in the U.S. housing sector. However, because of manufacturing strength, the upcoming elections and the Federal Reserve's hint in August of another round of stimulus, we began our year-end rally that took the S&P from 1050 to 1250 for a nice 19% run. The Republican election win and the release of an $800 billion bond purchase program from the Fed gave the market a much needed boost. Better-than-expected Christmas sales also contributed. During this time, we focused on the retail sector and experienced solid gains in DECK, LULU and CROX as the institutional money continued to flow into retail.

The market closed the year on a high note and we see the bullishness continuing through the first part of 2011 with the commodity sector likely being the outperforming sector during this time. We do expect there to be a test to the markets in early 2011 and it will most likely be spurred by the economy of China.

One of the biggest events of the year came in the form of the new legislation known as the Dodd-Frank Wall Street Reform and Consumer Protection Act, which essentially put a new watchdog over retail derivatives such as Forex and deleveraged the market significantly and changed the way many FX traders were operating.

Maverick FX had a streaky year overall. There were periods of feast and periods of famine, but one thing we always preach is that if you stick to the game plan and do things correctly, you will come out on top, which is exactly what we did.

To highlight the performance of Maverick's FX division, here are some key statistics:

Total pips for 2010: +2054

Average pips per month: +171

Best month (May): +552

Worst month (December): -57

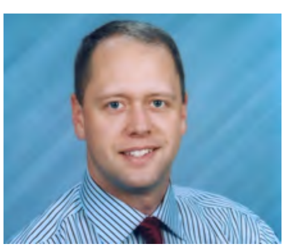
The markets were irritable in the last quarter of the year and we had to weather the winter storms, however, because we stayed true to the system and managed our risk diligently, it wasn't so bad as to become the Donner Party and cannibalize the firm. *Haha.*

Moving forward through 2011, look for Europe to remain determinedly weak as their financial woes are potentially going to be a slow and protracted fix. Several of their economies seem to be still standing on the precipice of complete collapse.

Also look for the fluctuation of commodity prices really throw currency values around, and then look for the U.S. dollar to build value around a growing U.S. economy.

This being said, remember to always trade the market directly in front of you and only enter high-probability trades.

Trader of the Month



Darren Fischer is Maverick's Trader of the Month for January 2011. After 13 years in the U.S. Marine Corps, Darren has had a varied career in the financial world, with forays into Real Estate, institutional capital raising, a stint as the National Investing reporter for Examiner.com, and finally back to his true passion of options trading.

Darren graduated in 2000 from University of Washington with a Bachelor of Arts Degree in Political Science.

Darren is bullish on gold and silver throughout 2011 and foresees profits in a series of vertical spreads.

Darren lives near San Diego with his wife and enjoys brewing his own beer.

Tactic of the Month

Bull Call Spread

Vertical Debit Spreads (Bull Call and Bear Put) are some of our bread and butter trading vehicles here at Maverick. These spreads are short-term, directional positions where Theta is hedged. Let's put a spotlight on the Bull Call Spread here.

Using Maverick's SET guidelines (Stop, Entry, Target), it is easy to construct these positions to take advantage of bullish moves and anticipated target price of the underlying stock, maximizing the anticipated gains while maintaining solid protection.

Execution consists of buying an ATM or the first ITM call and shorting an OTM call at or near your anticipated target. The advantage of this strategy is that a portion of the deterioration of the EV of each long contract is offset by the premium gained from each short contract.

The disadvantage is that gains are limited and if the underlying moves far beyond your price target, your max gain is limited to the depth of the spread.

Despite the Theta hedge, this is still a directional position and should be liquidated if the underlying triggers your stop.

Vertical Spread (Bull Call)

- Bull Market from Top-Down Approach
- Bullish Chart Pattern in stock
- Strong Fundamentals (GER > 70)
- Underlying price at least $25.00
- Optionable

Execution

- Long ATM or first ITM call option
- Sell OTM strike at or near target price
- Front month expiration for both contracts
- Net Δ > .25
- Max debit < 45% of spread

Maintenance

- Monitor underlying for Stop & Target prices
- Exit when stop or target price triggered
- Liquidate on expiration day regardless

Example Position PCP

- Current PNC Price: 142.17
- Long Feb 140.00c
    - o Δ .60
    - o Entry Price $5.25
    - o IV: $2.17
    - o EV: $3.08
- Short Feb 150.00c
    - o Δ .22
    - o Entry Price: $1.10
    - o IV: $0.00
    - o EV: $1.10
- Net Δ : .38
- Spread: $10.00
- Debit: $4.15
- Spread % (Debit/Spread): 41.5%
- Probability of B/E: 76.0%