LIBERTY TRADING GROUP'S

OPTION Seller NEWSLETTER

James Cordier, President,
Liberty Trading Group/OptionSellers.com

Option Writing Insights and Education for the High Net Worth Investor NOVEMBER/DECEMBER 2012

THE BIG PICTURE

Recent Volatility Opens Opportunities

We have witnessed a wide variety of market-moving events for commodities and the economy since September. The markets had to digest the presidential election, quantitative easing from the Fed, continuing economic concerns from Europe and weather issues. As we approach the end of the year, we see several opportunities in commodities that had price corrections within long-term uptrends, as well as a market that is facing very negative fundamentals that will likely keep a lid on prices for a couple years.

Concerns over the European financial crisis and weak corporate earnings have pressured the financial markets in recent weeks. This has also put pressure on many commodity prices. In all fairness, the markets had a strong rally leading up to the correction and much of the rally could be attributed to the latest round of quantitative easing from the Fed. We have seen this cycle repeat many times in the last few years, but the markets are maintaining an overall path of higher prices with typical corrections along the way.

The grain markets are coming off one of the worst droughts in history. With most of the crops harvested, attention will turn to export demand and South American weather. With tight stockpiles, next year could be a replay of this year where there is little room for any shortfall in production.

The energy markets have corrected from recent highs and unleaded gas remains the strongest market of the complex with tight supplies. Gold prices have also corrected and should be well supported on dips, as the groundwork has been laid for higher prices in the years to come.

We see several commodities this winter that will be directional trades, as well as other markets that have balanced fundamentals where we expect little movement.

Quote of THE MONTH

" No matter how great the talent or effort, some things just take time: you can't produce a baby in one month by getting nine woman pregnant."

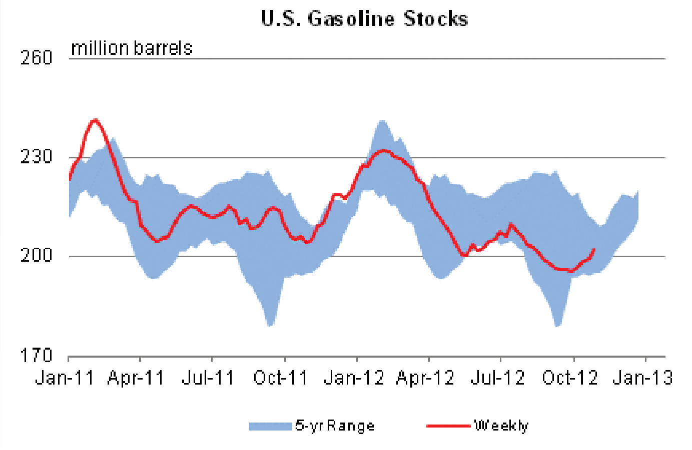
- *Warren Buffet*

by James Cordier, OptionSellers.com

FEATURE MARKET | UNLEADED GAS

Little Chance for Inventories to Build Before Demand Increases

The gasoline market has provided us with many good trading opportunities over the last couple years. The continuation of tight supplies in this market has allowed us to sell put options well below the market. The recent correction in the gasoline market is giving us yet another opportunity.



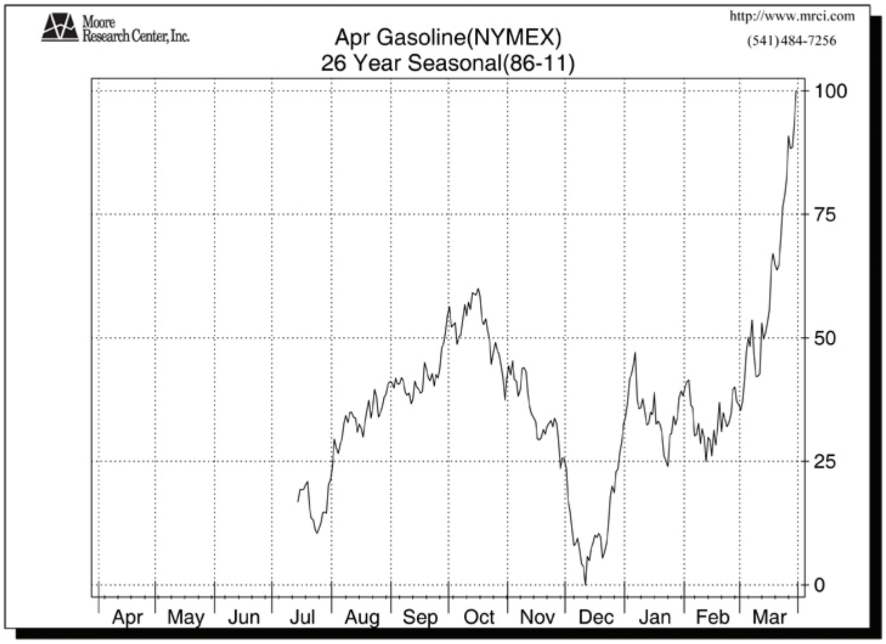
While we have gotten more efficient at producing oil in this country, there is a serious lack of infrastructure to process the oil into gasoline and get it to the end consumer. Gasoline supplies remain well below the 5-year average and they may remain at these levels for some time.

Need for New Refineries

There are many reasons why gasoline prices have remained strong in recent years, but the bottom line is that we aren't producing enough gasoline to sufficiently meet the demand. **No new refineries have been built in the U.S. since 1976.** The refinery capacity has remained steady for the last five years and has only increased 10 percent since 1985.

Environmental regulations are typically cited as the main reason for the absence of new refineries. We had **301** operable refineries in 1982 and today we have **144**. This makes it even more critical when refineries go offline for routine repairs, breakdowns, fires or weather. It is true that oil companies have expanded capacity at some existing facilities, but we do not have a large amount of new and highly efficient facilities that are typically found in other industries.

Larger refineries can account for several percent of the overall gasoline production in the U.S. When one goes offline, it can have a substantial impact on gasoline supplies and ultimately gasoline prices. This has been occurring more frequently in recent years as the aging facilities require more maintenance and are prone to more problems.



Distributors Drive Demand for Gasoline During Winter

The summer driving season ended in early September, which marks the end of the peak season for retail demand. However, demand at the wholesale level for gasoline is coming into season. This goes contrary to common thought, but gasoline futures prices typically bottom around December and move higher into May. This is actually when the driving season begins.

Continued on the next page

FEATURE MARKET | UNLEADED GAS

Little Chance for Inventories to Build Before Demand Increases *continued*

Distributors have to secure their gasoline supplies well ahead of the summer. They typically begin purchases of gasoline starting around December. A tight supply situation around this timeframe typically makes distributors more aggressive to secure supplies. With gasoline supplies well below their five-year average, price declines in gasoline will probably meet aggressive buying.

Middle East Never Goes Away

There has been a premium in oil and gasoline prices for nearly two decades due to issues in the Middle East and they probably won't go away anytime soon. Iran and Syria keep traders on edge and the supporting cast of other countries in the region force energy traders to err on the side of not pushing prices too low.

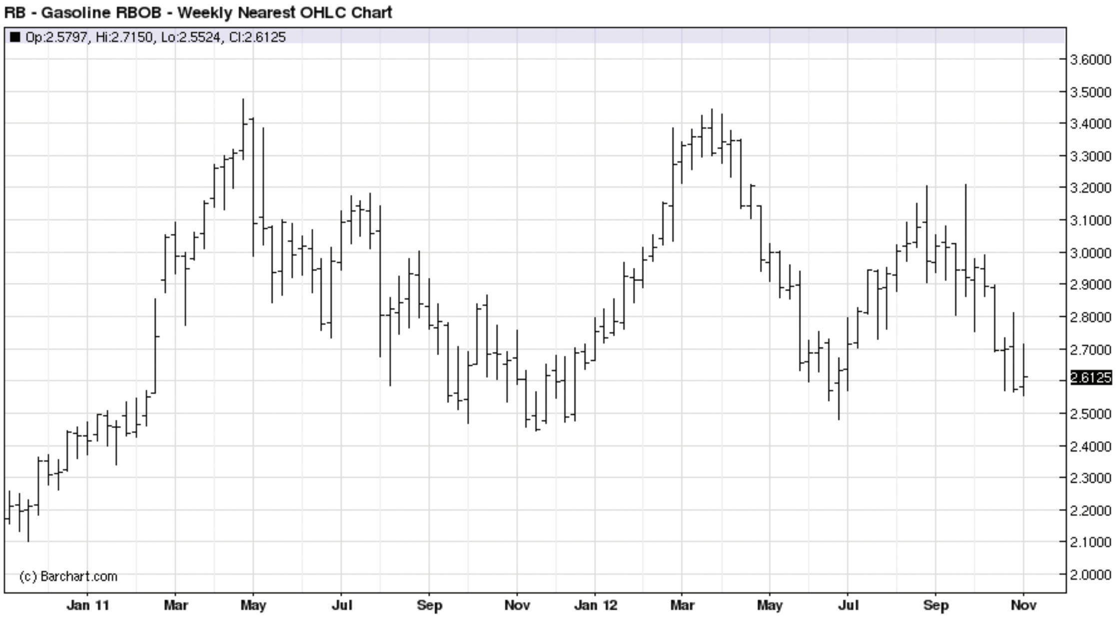
The Dollar and Inflation

The price of oil and gasoline tend to move inversely to the value of the dollar. It appears unlikely that the massive debt problems in the U.S. will be resolved or even addressed anytime soon. This should continue to have a negative long-term effect on the dollar.

The price of crude oil moves in conjunction with the level of inflation or sometimes the expectations of inflation. Trillions of dollars have been spent in recent years to stimulate the economy. The easy money policy will most likely continue fostering inflation and thus support energy commodities going forward.

Conclusion and Strategy

Hurricane Sandy and overall weakness in financial markets has caused a correction in unleaded gas prices. Demand should drop in the short-term from the storm, but prices should ultimately return to previous levels as demand returns to normal. There shouldn't be a significant build in inventories, as the drop in demand will be met with a drop in supplies, as refineries have been shutdown during a large portion of the decrease. These events usually have a short-term impact on the fundamentals and things quickly get back to normal.

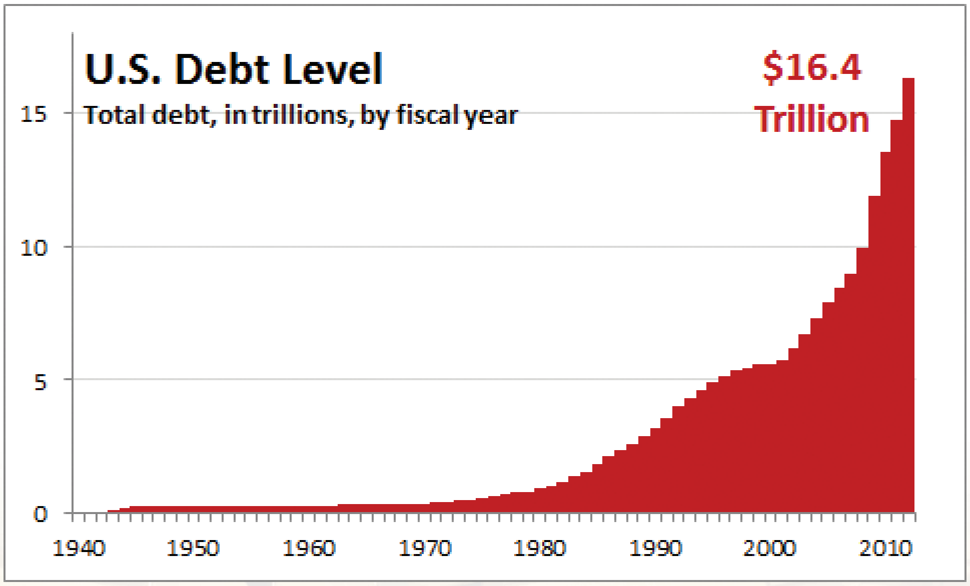


Gasoline prices should remain well supported into the future. Gasoline futures prices have traded between $2.50 and $3.50 for nearly two years. With the market trading at the low end of the range, this should provide an excellent opportunity for a put selling strategy. We will be targeting contracts in the March-April timeframe for selling put options on gasoline.

FEATURE MARKET | GOLD

Four More Years Reinforces Fundamentals for Gold

Gold has been one of the better markets for us to trade in the last 10 years, as the fundamentals have been very bullish and they keep getting better. With the re-election of President Obama, the fundamentals have been reinforced once again. It appears the easy money policies over the last four years will continue.



Let's be realistic here. It is highly unlikely that Obama is going to wake up one morning and make a radical shift to tackle the debt problem. Nothing over the last four years or during his campaign provided any hope that things will change. Much of the same is taking place around the world - it is a global trend. You have to look no further than Europe to see similar action. Their problems have come to the surface, but it is only a matter of time until we are there if we stay on the same course. Unfortunately, the odds say our politicians will continue business as usual.

The federal debt has surpassed **$16 trillion** and the Debt-to-GDP ratio has passed the critical 100 percent mark at ***103 percent***.

A good portion of the $4 trillion in debt in the last four years has been attributed to stimulating the economy. The Federal Reserve has also been playing their part in printing money to stimulate the economy. A complete financial meltdown may have been averted in 2008, but economic growth has been very sluggish since, even with all the money thrown at the economy.

As we know, the staggering federal debt is a serious problem. It means we have to continuously sell more Treasuries to finance the debt. And what's the best way to payback a massive debt? Keep interest rates low, devalue your currency and create inflation. The logic is pretty simple. We make payments with artificially low interest rates and with a currency that is worth less over time. This will ultimately lead to higher inflation rates over time.

The wheels have been set in motion many years ago for higher gold prices. The funny thing is that the fundamentals keep getting better over time. The debt keeps growing at an increasing rate and we are on the third round of Quantitative Easing (QE) from the Fed. Other countries around the world are doing similar things and some are even worse than us. It is almost like the politicians are in it so deep that there is no quitting. What we are left with is <u>a situation where it requires more and more money just to maintain the status quo of a stagnant economy.</u>

It is no wonder why investors have been flocking to gold as a safe haven investment. It seems like every year that goes by, there is more of a reason to buy gold. Even though the price has increased dramatically during the last decade, it has been a fairly steady move higher. We have yet to see any type of blow-off top or irrational move to unthinkable levels that normally marks a long-term top.

Investors have been driving the demand for gold over the last decade, while jewelry demand has been fluctuating. China has become the largest producer of gold in the world, while South African production is in a state of severe decline. **China will soon surpass India as the largest buyer of gold,** making it the largest producer and user of gold.

As the largest creditor nation, China has the luxury to invest in whatever they please. They have become the largest importer of gold in the world and they are purchasing gold mining companies around the world, including the U.S. They obviously see the long-term value in gold given the

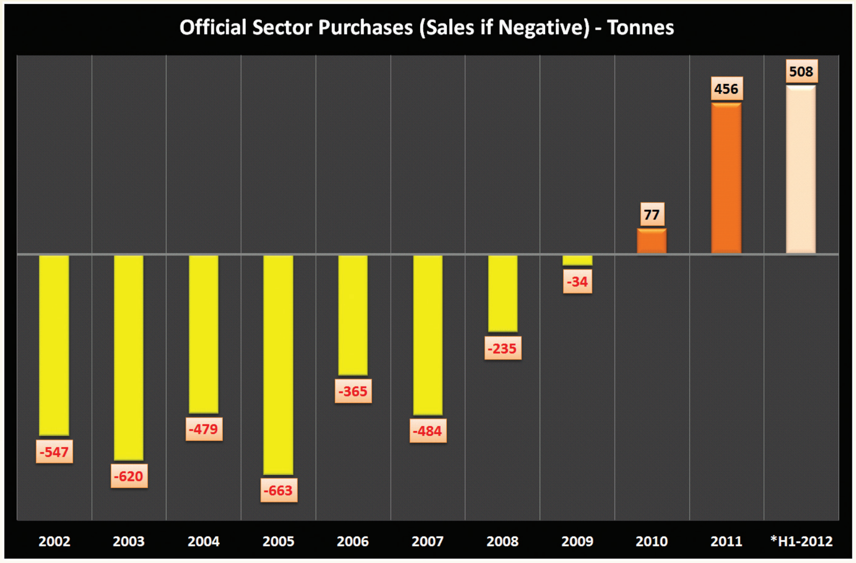
Continued on the next page

FEATURE MARKET | GOLD

Four More Years Reinforces Fundamentals for Gold *continued*

global economic environment and the trend is likely to continue.

One of the most distinct patterns in recent years is the increase in central bank purchases of gold. They were net sellers for a long time, but they turned into large net buyers in recent years. This trend probably won't change in the near future, as the world's economic problems grow. The main motivation for gold investment by the creditor central banks and sovereign wealth funds is that they are nervous about holding their reserves in hard currencies. Gold is becoming the world's go-to reserve currency.



Conclusion and Strategy

Corrections in the gold market have been relatively shallow over the last 10 years. There have also been periods where the market traded sideways for a long time before it advanced higher. Gold has corrected nicely off the highs and we feel this offers an excellent opportunity to reestablish long positions by selling gold puts well below the market. We will be pricing put options with strike prices \$200 to \$300 out of the money.

INTRODUCTION To FC Stone

Some of you may know that we have a new clearing firm - **INTL FC Stone.** We are proud of our new relationship and we wanted to tell you a little about them.

INTL FCStone Inc. is a Fortune 500 company, providing customers across the globe with execution and advisory services in commodities, capital markets, currencies, asset management and more.

INTL FCStone's subsidiaries have commodities clearing roots dating back to 1924. They are a regulated Futures Brokers in the United States, United Kingdom, Australia, Argentina, and with other regulatory agencies around the world. They are a recognized industry leader in servicing floor traders, commercial and institutional clients, professional trading groups, asset managers, hedge funds, and Commodity Trading Advisors. Their staff of highly dedicated industry professionals are focused solely on providing timely and efficient order executions, direct market access, consistent value added service, and precise clearing and reporting.

The entire management team has direct, hands-on futures industry experience, and is dedicated to superior service and total accountability.

Some Facts:

- Ranked #51 on the 2011 Fortune 500 list of largest U.S. Corporations
- Executive management has significant ownership
- More than 10,000 customers in more than 100 countries through a network of 30 offices around the world
- 729 Employees
- Traded more than 29 million contracts in the 12 months ended September 30, 2010
- Traded $47 billion in physical metals for the 12 months ended September 30, 2010

A N N O U N C E M E N T S

We have been working diligently in the last few months to partner with a new clearing firm. This firm is FC Stone. As you can see from the information above, they are one of the larger and more distinguished clearing firms in the business.

We are excited about our partnership with FC Stone and we look forward to many years of quality and uninterrupted service.

Our Minimum Account Size is $100,000.

New Accounts
US 800-346-1949 • International 813-472-5760

Past performance is not necessarily indicative of future results. Futures and options trading involves risk of loss. Only risk capital should be used.

LIBERTY TRADING GROUP
The Place for Yield Seeking Option Writers
401 East Jackson Street, Suite 2340, Tampa, FL 33602
800-346-1949 · 813-472-5760 · www.OptionSellers.com

* Seasonal Charts courtesy of Moore Research Center **Fundamental Charts CourtesAy of Hightower Research ***Price charts courtesy of CQG, Inc.