AT FRIDAY'S CLOSE:

Dow Jones	12,767	0.91%
S&P 500	1,343	1.03%
NASDAQ	2,873	1.29%
NYSE	7,664	1.07%
Russell	771	1.18%
Oil	$83.95	-0.28%
Gold	$1,629	0.30%

STOCK WORLD WEEKLY

THE EXECUTIVE'S SUMMARY | OF THE GLOBAL MARKETS

Inside this issue:

Finally we know what all that cash was for!

As we noted in last week's Stock World Weekly, we took advantage of the CNBC-inspired panic on the 4th to pick up our first 5 trade ideas for the virtual $500,000 Income Portfolio and followed that up on Tuesday with another 5 trades added (see chart below) and it turns out we nailed the bottom of the market and less than $100,000 of buying power deployed has already yielded an unrealized $7,940 profit in less than 10 trading days.

Our goal in the Income Portfolio is to generate a monthly income of $4,000 without dipping into the principal - often a necessity for people who are retired and trying to stretch out a fixed income.

Of course, some of our more aggressive trade ideas did quite nicely as well. Phil's "*favorite bull play*" from our "*Inside Chat*" section that Monday was the TNA June $41/47 bull call spread at $3, which made the full 100% two weeks as TNA finished the expiration period at $48.87 on Friday. The more aggressive suggestion to sell the $39 puts for $1.50 dropped the cash basis by 50% and raised the yield to 300% on cash - no wonder it was Phil's favorite bull play!

The suggested hedge of the AMZN $160 puts at $4 fell back to $3.60 on Friday - down 10% but accomplishing the goal of not losing too much in a major rally. The bullish spread on GOOG from Wednesday's "*Inside Chat*" got cheaper (ie. lost money) with 3 July $590/620 bull call spread falling to $7 (down $9 total) and 1 short $590 put rising $5 to $36 (from $31) for a net loss, so far of $12 which, on the whole, is not bad as GOOG has fallen from $580 down to $560.

The adjustment Phil suggested this week was simply to roll the $590 calls down to the July $575 calls (now $16.50) for $6 while the plan remains the same to roll the short call if necessary. A stop on the $620 callers was suggested at $4 with an eye towards selling lower calls (possibly the $600s) for $10 or better on a move up.

"*With a brand new, virtual $500,000 placed in our Income Portfolio for our second year with this popular set—we find ourselves 100% bullish at the end of week one*:" was Phil's commentary on "*The Week Ahead*" last week and we rode out a dip this Monday to a very sharp turn-around, bringing the markets to almost exactly a 5% gain since we called the bottom. Friday afternoon, Phil noted:

> This is 5% on the Dow from 12,150 (12,757), which was our early June low so going to be tough to pop this with no pullback. Other 5%s off the bottoms (non-spike) would be S&P 1,350, Nas 2,887, NYSE 7,665 and RUT 777 so I'm pretty sure those will cap our gains for the day.

We finished the week at Dow 12,767, S&P 1,342, Nasdaq 2,872, NYSE 7,664 and Russell 771 still bullish as we wait for the EU to pump us higher.

The Income Portfolio - Week 2

Income Virtual Portfolio - Current Position Recap

Options	Stock	Strike	#	Date	Traded	Now	%	-75%	-50%	-25%	Flat	20%	50%	75%	100%
Jul 12 Put	CHK	17	-10	6/4	$2.10	$0.92	56.19%	$3.68	$3.15	$2.63		$1.68	$1.05	$0.53	$0.00
Jul 12 Put	BBY	18	-10	6/4	$1.12	$0.42	62.50%	$1.96	$1.68	$1.40		$0.90	$0.56	$0.28	$0.00
Jul 12 Put	BA	65	-10	6/4	$2.02	$0.51	74.75%	$3.54	$3.03	$2.53		$1.62	$1.01	$0.51	$0.00
Jul 12 Put	DMND	19	-10	6/4	$2.15	$2.05	4.65%	$3.76	$3.23	$2.69		$1.72	$1.08	$0.54	$0.00
Oct 12 Put	AA	8	-20	6/4	$0.75	$0.46	38.67%	$1.31	$1.13	$0.94		$0.60	$0.38	$0.19	$0.00
Jan 13 Put	EXC	35	-10	6/5	$1.60	$1.55	3.13%	$2.80	$2.40	$2.00		$1.28	$0.80	$0.40	$0.00
Jan 14 Put	NLY	15	-10	6/5	$2.50	$2.23	10.80%	$4.38	$3.75	$3.13		$2.00	$1.25	$0.63	$0.00
Stock	RIG		1000	6/5	$40.41	$44.30	9.63%								
Jan 14 Call	RIG	40	-10	6/5	$8.60	$11.07	-28.72%	$15.05	$12.90	$10.75		$6.88	$4.30	$2.15	$0.00
Jan 14 Put	RIG	40	-10	6/5	$9.20	$7.48	18.70%	$16.10	$13.80	$11.50		$7.36	$4.60	$2.30	$0.00
Stock	SVU		5000	6/5	$4.45	$4.52	1.57%								
Jan 14 Call	SVU	5	-50	6/5	$0.94	$0.97	-3.19%	$1.65	$1.41	$1.18		$0.75	$0.47	$0.24	$0.00
Jan 14 Put	SVU	5	-50	6/5	$1.93	$1.98	-2.59%	$3.38	$2.90	$2.41		$1.54	$0.97	$0.48	$0.00
Jan 14 Call	CSCO	13	10	6/5	$4.40	$5.03									
Jan 14 Call	CSCO	18	-10	6/5	$1.73	$2.14	8.24%	$0.67	$1.34	$2.00		$3.20	$4.01	$4.67	$5.34
Jan 14 Put	CSCO	13	-10	6/5	$1.52	$1.28	15.79%	$2.66	$2.28	$1.90		$1.22	$0.76	$0.38	$0.00

Current P&L	**$7,940.00**
Closed Positions P&L	$0.00
Portfolio P&L	**$7,940.00**

Monday Market Movement - Next Stop, Italy!

The focus was on Europe as markets reacted to news regarding the euro crisis, especially its effect on Spain and Italy. Fear that the crisis has "infected" the country's economy led them to sell Italian stocks and bonds despite recent good news regarding bailing out Spain's banks. The Borsa Italiana was Europe's worst performer Monday, when US stocks were also dragged down and investors flocked yet again to the safe harbor of American and German government bonds:

> ***Sergio Marchionne, the chief executive of both Fiat and Chrysler, was more blunt at the conference. "Somebody better do something before we get to the point of no return," he said.***

Ibex closed down 0.5%, CAC-40 ended down 0.3% while the DAX saw a 0.2% gain.

In the UK, the government has been making plans for one of the most radical regulatory overhauls that the country's banking sector has faced. Taking the next step in solving what it calls the "British dilemma," the government has proposed recommendations of how the country can support some of the world's biggest banks while also ensuring that they don't have to be bailed out with taxpayer money.

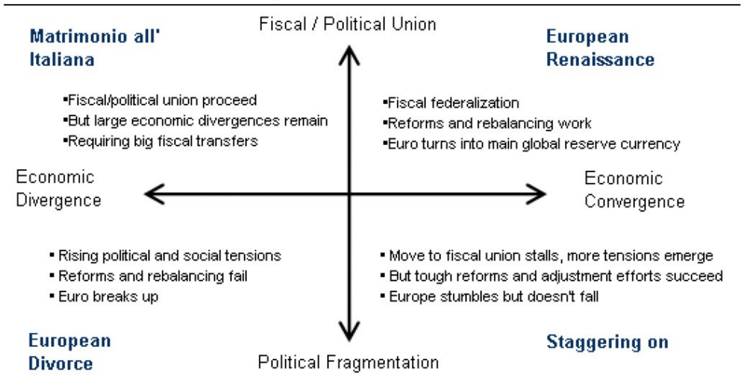
Cyprus Finance Minister Vassos Shiarly announced Monday that Cyprus urgently needed European financial aid to boost its banks' capital, making it the fifth euro-zone economy to seek help from the bailout funds. The sum calculated for the size of the country's bailout is not expected to exceed €4 billion - an amount that would not strain the resources of the bailout funds. No request for aid has been made yet, but the possibility of applying for the bailout mechanism has not been ruled out.

In the U.S., the Federal Reserve said Monday in its triennial Survey of Consumer Finances that a consequence of the recent economic crisis has been a drop in family net worth. With figures adjusted for inflation, "a hypothetical family richer than half the nation's families and poorer than the other half had a net worth of $77,300 in 2010, compared with $126,400 in 2007." The already existing decline in families' income accelerated further over the period as median family income fell to $45,800 in 2010 from $49,600 in 2007. Middle-class families, it was reported, had sustained the largest percentage losses in both wealth and income during the crisis, which limited their ability and willingness to spend.

Official statistics on Monday confirmed that Italy's economy contracted by a quarterly rate of 0.8% in the first three months of 2012, its worst contraction in three years.

In China, the central bank said on Monday that the country's banks had issued more than 793 billion yuan ($124 billion) in loans in May, up from $682 billion yuan in April, and greater than the 720 billion yuan expected by financial markets.7 These figures suggest that loan demand is being created by fast-tracked infrastructure projects, and that measures implemented to counter the country's sixth consecutive quarter of slowing growth may be taking effect.

The Future of Europe



Source: Morgan Stanley Research

Market recap: It took only an hour for stocks to wipe away early gains from euphoria over Spain's bank bailout, and selling accelerated into the afternoon as investors questioned the details and began to look to Greece's elections next weekend. Crude oil slipped below $83 as bailout news fizzled and the Saudis hinted at higher production. NYSE decliners led advancers nearly four to one.

Inside PhilStockWorld Member Chat:

Cash, cash, cash, cash is the way to play this mess. If the Dollar doesn't stay below $82.25 then there's nothing to be bullish about this morning as it means the Euro is going weak again just hours after a huge bailout – which makes perfect sense from a macro standpoint because $125Bn does nothing at all for Italy, Greece or anyone else or, as I said above – band-aids on bullet holes is all we have and the blood keeps flowing….

Zero - I'm hearing rumblings from Europe that the other bailout countries are asking why their bailout terms don't match Spain's — no real conditions — and that they should.

Phil – That was bound to happen. You can't push the big countries around like the smaller ones and now the little PIIGS are pissed that they're getting shafted while Spain gets a pass. I have always said the Irish were suckers – they should have told the EU to shove it. What's that expression? "*When you owe the bank $100,000 and you can't pay – you are in trouble but when you owe the bank $100M and you can't pay – the bank is in trouble*."

WFR—You can sell 1 Jan 14 $3 put for $1.65 ($165) and buy 8 of the Jan 14 3/5 bull call spreads for .20 ($160) and that puts you in 100 shares of WFR at $295 ($2.95, now $1.70) but your upside at $5 is $1,605 so risking $295 to make $1,605 and starting with a $125 loss at $1.70 – it's a nice risk/reward profile for a long-term bullish play.

Testy Tuesday - Gotta Hold Those Lines!

News of the possibility regarding an SEC case against JP Morgan circulated in the early morning. The company's failure to disclose a major change in the way it measures risk will be the focus of the case as securities regulators investigate the company's recent multibillion dollar trading loss.

Across the pond, the U.K.'s National Institute of Economic and Social Research announced that the country's economy barely grew in the quarter through May after contracting in the previous three months. GDP grew 0.1% over the period, the same rate at which it declined over the previous three months through April. "Economic activity remains very weak," according to the institute. ***"We expect the U.K. economy to remain broadly 'flat' over the next six months."***

François Hollande's beginning as French president hit a speed bump as the country's government is in the process of revising its growth forecasts for next year. The president is awaiting the result of legislative elections, which must be a majority rule for his party in the National Assembly before his legislation can be pushed through. This delay has caught the attention of credit-rating firms; Moody's noted that the new French government has yet to dispel doubts over how it will deliver a strong recovery, and how this will impact its debt.

Spain took a major hit on Tuesday when Fitch downgraded 18 banks and the country's benchmark borrowing rate hit its highest level since the adoption of the euro. The initial euphoria elicited over the approval of a bailout faded to uncertainty.

Nevertheless, the European markets edged higher on Tuesday with the CAC-40 closing 0.1% higher, the DAX gaining 0.3% and the FTSE climbing 0.8%.

A 5.7% rise in core machinery orders in Japan was reported for April, higher than the median forecast for a 2.1% gain, a strong indication of an increase in capital spending.

According to a survey by Manpower Group, hiring managers in larger economics are reluctant to invest in staff until they see a rebound in demand for their goods and services. ***"Hiring has been put into only-if-necessary mode. They can spring back, but there were too many times in the last 36 months when they thought it was safe to go in the water and only found out it wasn't,"*** stated the company's CEO Jeff Joerres. Of the 41 major economies surveyed, hiring intentions compared to the previous quarter strengthened in 17, remained unchanged in 8, and were weaker in 16. The U.S. economy, while one of the strengthened economies, added only 69,000 jobs last month, less than half of what was expected.

US Employment Growth by State (Turbometrics.com)

In Iran, the international trade embargo and a series of trade and financial sanctions imposed by the UN and the US over its nuclear programs, have reduced the World Bank's previous prediction regarding its economy. In January, the bank had predicted that the country's $480 billion would grow 2.7%. In its report published Tuesday, the World Bank expected 1% contraction. The bank also cut its economic growth forecast for the Middle East and North Africa to 0.6% from 2.3%.

Market recap: Stocks pushed to session highs as dovish comments from the Fed's Evans offset worries about Spain's banking system. Today's move wiped out yesterday's losses, and volatile trading likely will continue ahead of Greece's key election this weekend. Crude oil rose for the first time in four sessions. NYSE gainers led losers nearly three to one.

Inside PhilStockWorld Member Chat:

When you buy premium, you should NOT be inclined to "*let it play out*" as you have nothing of value – especially when you are out of the money. You have to think about WHY the puts went up – because of a relatively rapid drop in TLT over a relatively short period of time that is now being extrapolated by others to mean this trend will continue and now they are willing to pay 30% more than you did for the same target.

As with any limited data set – these projections always seem good until you add another point to the graph and another and another and THEN you have a trend. So the faster you get a move (less data) in your favor that's larger than what you would have expected by being "on track" which, in the case of TLT would be a drop of $15 over 18 weeks or about $1 per week – the more anxious you should be about the trend reverting to the norm and the gains evaporating on you.

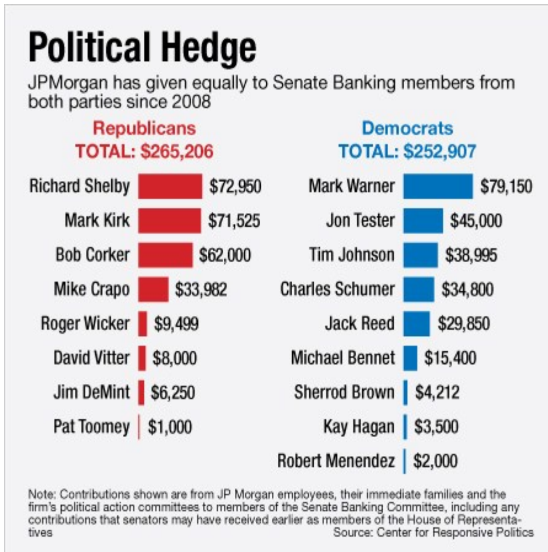
The simple way to summarize the above is "*ALWAYS sell into the initial excitement*." Yes, you can scale out – take the 30% profit for 1/2 and set a 10% trailing stop on the other half to lock in a 25% overall gain and even if the remaining half goes up 100% – you're still up an average of 65% on the whole thing so what are you really missing by being sensible?

Compare the number of times you'll kick yourself for not making another 35% to the number of times you'll kick yourself for being a dumb-ass and letting a 30% profit slip through your fingers and you'll begin to get a little religious about taking the profits…

Wednesday – Waiting for the Other Shoes to Drop

The S&P lost nearly 0.5% Wednesday at the open and then seesawed between gains and losses until slipping further negative in the afternoon session to close near 1314. Uncertainty regarding the European debt crisis and sluggish US data gave traders little enthusiasm. May retail sales fell by 0.2%, a decline for the second month in a row, while sales were also revised lower for April and March. All eyes were on James Dimon, as the Chief Executive of JP Morgan Chase testified before Congress regarding the company's $2 billion derivatives loss. According to the WSJ:

"Democrats pushed for tighter restrictions as part of the so-called Volcker rule, which seeks to limit banks' speculative trades. They argued that the J.P. Morgan misstep makes the case for implementing tough rules based on the Dodd-Frank Act, the law written in response to the financial crisis of 2008. Meanwhile, Republicans asked Mr. Dimon questions indicating that they supported the existing complex structure of big bank organizations and that higher capital buffers are a solution to the problem of big bank failures."



Despite concerns from lawmakers regarding regulation, Jamie was confident that JPM would produce a "solidly profitable" quarter. JPM shares traded nearly 4% higher after the two hour session concluded.

The turmoil in Europe continued to mount as the credit rating of Spain was hit by a dual downgrade. Both Moody's Investor Service and Egan-Jones downgraded Spain's rating to Baa3 and single-B, respectively. Both agencies cited the country's ***"worsening economic conditions as the primary reason for the downgrades"*** with Moody's seeing a ***"significantly higher probability Spain will need further support."*** The cuts came not even a week after Fitch downgraded Spain's rating to BBB, just above junk status. To make matters worse, the interest rate on Spain's 10-year bonds soared to 6.82%.

Money appears to still be flowing out of Greece banks:

"There has been a deterioration in the situation in the past few days; I estimate that between 600 million euros [$750 million] and 900 million euros have been leaving the system per day," said a senior banker at one of Greece's leading lenders. "As we approach the last few days before the elections I expect deposit withdrawals to rise further," he added. "And I wouldn't be surprised if by Friday we saw outflows of 1 billion to 1.5 billion euros."

Despite the bad news from Europe, in the US, the S&P is still in the green for the year. With the Greece election on Sunday, and the G20 meeting next week in Mexico, it seems traders are anticipating additional stimulus. Further stimulus has been Phil's entire bullish premise lately. Mark Hulbert recently opined on the issue:

"Investors appear to be betting that the Fed and European central banks now have no choice but to stimulate their economies to a much greater extent than previously planned. Since much of that additional liquidity would find its way into equities, the stock market responded favorably."

"To put it crudely: The news is so bad it's good."

The results of the G20 meeting and the Greece elections are

Market recap: Stocks sank to session lows during the final trading hour as news of increasing withdrawals at Greek banks and another Spain downgrade from Egan Jones spooked investors. Neither story is surprising, but headlines are driving a market unnerved by tomorrow's Italian bond auction and Sunday's Greek election. NYSE losers led gainers by more than two to one.

Inside PhilStockWorld Member Chat:

Can kicking – It's all can kicking and has been since 2009 but we're not going to sit out a 20% rally because it's based on bad economic decisions, are we? I have to plot two courses – one for the LONG-TERM, where we do look at those factors and keep an eye out for the icebergs we know lie somewhere ahead – and the other is to navigate the short-term moves and, currently, I see a bullish turn coming up as QE/Stimulus MUST happen – the alternative is unthinkable. Just because that alternative is put off by another round of stimulus doesn't mean it goes away, of course, but hopefully we don't fall asleep at the wheel when it is time to dodge those icebergs once they become too big to ignore.

Jamie Dimon is very misleading (of course). $350Bn invested at 2% to make $7Bn is nice and conservative but that's not the issue. The issue is that he set aside $10Bn to gamble with and lost 20% of it (at least) and the real question should be whether he should have done that with Federally insured funds (he should not). It's very simple but notice he keeps muddying the issue and none of the Senators are savvy enough to get past the BS (not in 5 minutes, anyway, even if they were inclined).

DMND - I like the Sep $16/21 bull call spread at $2.20, selling the $17 puts for $2.10 as a new play and you're at net .10 on the $5 spread that's $2.50 in the money to start with a break-even at $17.10 (rollable, of course), which is almost 10% down from here.

Thursday - Will a $3Tn "Redemption Pact" Be Enough to Save Europe?

More news so bad it's good! Weekly jobless claims rose to a seasonally adjusted 386,000 versus expectations of 376,00. Jobless claims have now totaled over 380,000 for the past three weeks as claims from two weeks ago were revised higher to 380,000 from 377,000. Additional job losses drove the US unemployment rate up to 8.2% in May, its first increase in almost a year. Across the Atlantic, there was more trouble for the EU as Spanish yields rose again to record highs:

"The interest rate — or yield — on the country's benchmark 10-year bonds rose to a record 6.96 percent in intraday trading Thursday, its highest level since Spain joined the euro in 1999 and close to the level which many analysts believe is unsustainable in the long term."

The problems in Europe aren't limited to Spain and Greece as Egan-Jones illustrated by downgrading France's credit rating to BBB from A. The downgrade will likely make it harder for Paris to borrow money as Egan-Jones expects investors to demand a higher interest rate. Europe isn't the only nation facing growing economic problems. Bloomberg reported that Credit Suisse Group AG and Deutsche Bank AG reduced estimates for growth of the Chinese economy:

"Credit Suisse cut its estimate to 7.7 percent from 8 percent, while Deutsche Bank lowered its forecast to 7.9 percent from 8.2 percent. The predictions indicate the weakest growth since 1999 and compare with a 9.2 percent expansion last year. Corporate profits are falling, deflation is looming and the nation faces years of 'weak' growth, Credit Suisse economist Tao Dong said."

Despite US and global debt concerns, the U.S. markets rallied Thursday with the S&P closing over 1% in the green near 1,329. Rumors of more stimulus appeared to have speculators salivating as Reuters released a report suggesting central banks are ready to intervene:

"The central banks are preparing for coordinated action to provide liquidity," said a senior G20 aide familiar with discussions among international financial diplomats. His statement was confirmed by several other G20 officials. Separately, British finance minister George Osborne said the government and the Bank of England will act together with new monetary policy tools to tackle tightening credit and financial market conditions triggered by the euro zone crisis.

Stimulus was also the word in Britain as Bank of England Governor Mervyn King announced the U.K. would enact a policy to provide long-term funding to banks to encourage lending. Reuters reported:

"The government and central bank will flood Britain's banking system with more than 100 billion pounds ($155.43 billion), seeking to pump credit through an economy struggling to escape recession under the 'black cloud' of the euro zone crisis."

The S&P bounced off the 1300 area for the fourth time in slightly over a week. Could it be consolidating prior to a strong move higher after the G20 meeting in Mexico? This might be the case next week if world leaders come up with a practical solutions to the world's debt problems. A coordinated worldwide stimulus might kick the can further down the road, while saving the markets today.

Market recap: The monkey market went wild in the final hour of trading on rumors that G-20 sources said central banks were prepared for coordinated action after the weekend vote in Greece, shrugging off concerns about soaring Spanish bond yields. Meanwhile, the U.K. unveiled measures to insulate itself from the euro crisis and bolster its banks. NYSE gainers led losers more than two to one.

Inside PhilStockWorld Member Chat:

We're obviously bullish across the board, not because of the charts but because, like the end game in chess – I see less and less possible moves for the EU other than massive stimulus. Sure, they could do nothing and let the whole thing fall apart but that's like looking at a chess board and saying "*well I could do nothing and be mated in 3 moves or I could do something and try my best not to lose the game.*" How many HUMAN BEINGS sit there and do nothing – don't even try? And how many people who rise to the roles of national leadership are the type of people who would give up without trying?

It might be hopeless, it might be unwinnable, but at least they are going to TRY to do something and believe me, the unused firepower available to the G20 is still MASSIVE. Take Japan, for example, they are 220% of their GDP in debt and still they wake up every day and go to work and make Toyotas and eat sushi in boxes for lunch, etc. The rest of the World is not even 120% of their GDP in debt so the G20 essentially have $60Tn to spend before we all catch up to Japan and THEN things will probably be hopeless or maybe by then Japan will be 400% of their GDP in debt and we can make the same argument for the next $200Bn we'll need to kick the can down the road for another decade.

ALU - Why not BUY 30 Jan $1/1.50 bull call spreads for .25 ($750) and those make $750 at $1.50 and you don't lose anything unless ALU goes lower than $1.30? All they have to do is flatline for you to get paid in full.

Fabulous Friday Finish in the Ides of June

Friday morning the markets opened up on rumor and anticipation for coordinated banking intervention. This was fostered by a report from Reuters of a ***"Senior US/G20 Official" that "central bankers are on standby to ensure enough cash is flowing through the financial system."***

The word from Mario Draghi was that the European Central Bank (ECB) ***"will continue to supply liquidity to solvent banks where needed."*** .

Despite the too-close-to-call vote in Greece on Sunday, Moody's cutting of Dutch Bank ratings, and the rising Spanish and Italian Sovereign bond rates, Central Banker Bulls had the momentum. The UK took a page from the US playbook and ***"announced plans to flood banks with cheap funds in an attempt to jump-start lending to British households and businesses and to fend off potential financial problems at big U.K. lenders."***

The Economist points out that Greeks are now preparing for the worst:

"In the meantime, uncertainty over the election result has frozen the economy. Many people have simply stopped paying their bills, hoarding cash as they wait to see what unfolds. "I have plenty of customers with enough deposits to meet their bills who choose not to pay," says one banker, before admitting that he is holding off on his kids' private-school fees just in case."

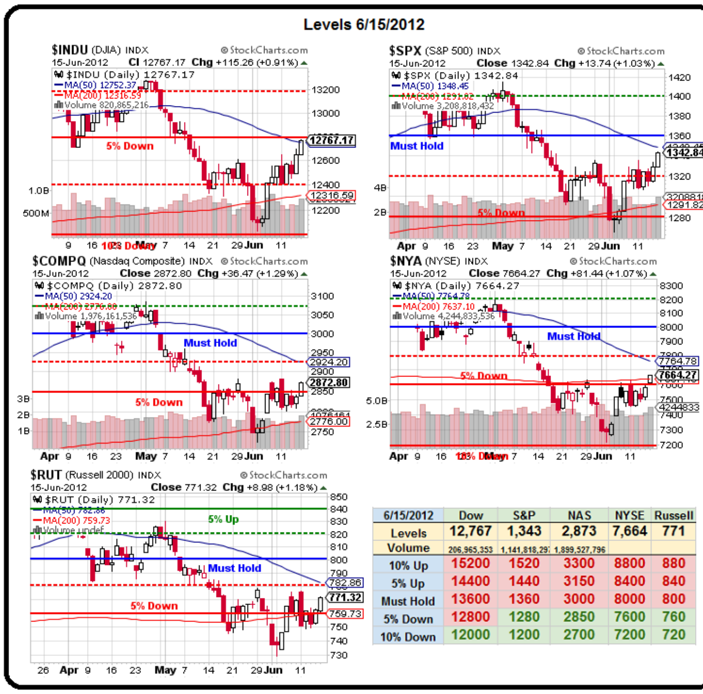
Stocks gained momentum as the day went on. Negative economic reports, including a terrible Empire State Manufacturing Survey, and a miss on Consumer Sentiments, provided just a momentary hiccup in the action mid morning. By noon, expectations for more quantitative easing and a drop in the dollar below 82 kept the rally on track for a surprisingly calm quadruple witching day.

Merger and acquisition news also helped to bolster the indexes as Microsoft agreed to acquire social media company Yammer for 1.2B.

The Hong Kong Exchange agreed to buy the London Metals Exchange for £1.39B.

The Wall Street Journal reported that the ***"U.S. attracted $28.7 billion in foreign direct investment between January and March, the 12th consecutive quarter of positive flows."*** Foreign direct investment in the U.S. in 2011 totaled $234B, a 14% jump year over year (Y/Y) with two-thirds of the cash coming from Europeans seeking a money haven from their region's crisis.

In company news, unconfirmed sources indicated Microsoft would make its own tablet based on Windows 8, a move likely to leave its PC OEM partners shaking their heads.



6/15/2012	Dow	S&P	NAS	NYSE	Russell
Levels	12,767	1,343	2,873	7,664	771
Volume	206,965,353	1,141,818,29?	1,899,527,796		
10% Up	15200	1520	3300	8800	880
5% Up	14400	1440	3150	8400	840
Must Hold	13600	1360	3000	8000	800
5% Down	12800	1280	2850	7600	760
10% Down	12000	1200	2700	7200	720

Market recap: Stocks ran to session highs on optimism over potential coordinated action by global central banks after Greece's elections. All 10 S&P sectors closed in positive territory, led by techs and energy. Even weak data on U.S. manufacturing, industrial production and consumer sentiment were seen as boosting chances for QE3. NYSE gainers led losers five to two.

Inside PhilStockWorld Member Chat:

I have a good feeling about today – rather than not wanting to be long in the close – I would think the average fund manager will be terrified to miss something on Monday so we can expect some speculative betting. If nothing happens over the weekend – THEN we might have a nasty disappointment sell-off next week but the G20 is Monday and Tuesday so I am feeling good about taking a few bullish chances into the weekend.

Phil, QE makes sense as reason to get long?

Traders hate to miss big moves. No one in their right mind would bet the farm on it but it is reasonable to make an aggressive bet with some cash as we could have a huge pop next week. We could also have a huge drop but if you are a stock buyer – then it just means you'll DCA in and wait and the key is you'll still "outperform" the S&P as long as you have dry powder to average down. What's very dangerous to a fund manager is when the S&P makes a big move up and they miss that – how do you catch up once you fall 2% behind? But Don't go too crazy, this blimp could still burst into flames…

Disaster hedges – Same as last week! TZA nice and cheap at $20.45 so July $22/28 bull call spread at .95, selling anything for $1 against it (like USO Aug $29 puts at .90) gives a very nice upside but only if we really head down – it's true disaster insurance with a 5% deductible essentially.

The Week Ahead

By Phil

I feel like a kid who made a Christmas wish and got exactly what he wanted - so much so that we have to worry that we may be dreaming. We cashed out at almost the dead top and then went back in at the dead bottom (so far) and already the markets have popped 5% off the lows and our "*speculative*" bullish bets are flying!

Of course, there isn't even a proper deal yet in Europe but the fact that they did drop $125Bn on Spain last Monday and are certainly ACTING as though there's plenty more where that came from is an encouraging step. Our bullish premise remains that things are so bad that it's a GOOD time for more stimulus and that the G20 leaders (who meet Monday and Tuesday in Mexico) are not completely insane and will come to the rational conclusion that, without additional stimulus and bailouts, they will be known as the people who were asleep at the wheel when the Global Economy went off the rails. Remember John Boehner? Enough said…

No, I take it back, not enough said. Only 65 Republicans backed HR 3997 on September 29th, 2008 and the Dow dropped over 700 points that afternoon, from around 11,150 to about 10,350. By the time they realized they had made a huge mistake and 91 Reps finally voted for an amended HR 1424 on October 3rd, which was a Friday, it was already too little– too late and the momentum took us down another 2,000 points by the following Friday (10/10).

For want of a Trillion, 10 Trillion Dollars of market cap was wiped out of the Dow, pension funds crashed, banks failed the World went into chaos. While the pundits on TV may have forgotten and are foaming at the mouth to do it all again - I can't believe our World leaders have a taste to repeat the mistakes of the past so quickly.

It is MUCH cheaper to nudge the economy along when it's teetering on the edge of a cliff than to try to catch it after it's already fallen over - this is very elementary logic and a lesson that's been taught to all the World's leaders very recently.

Woe unto all of us if they have already forgotten.

Still very bullish but also very cashy and ready to turn on a dime if the G20 fails us because it's a long, long way down from here!

Mon, June 18	Tue, Jun 19	Wed, Jun 20	Thu, Jun 21	Fri, Jun 22
China May Property Prices	**Japan** Leading Index **1:00 AM**	**Japan** All Industry Activity Index **0:30 AM / 0.1%**	**Switzerland** Industrial Production (YoY) **3:15 AM / 0.0%**	**China** HSBC Flash PMI Manufacturing
Japan BoJ Monthly Economic Report **1:00 AM**	**Great Britain** CPI (YoY) **4:30 AM / 3.0%**	**Germany** PPI (MoM) **2:00 AM / -0.2%**	**Germany** PMI Manufacturing **3:30 AM / 45.2**	**Switzerland** KOF Institute June Economic Forecast **3:00 AM**
3-Month Bill Auction **11:30 AM**	**Great Britain** CPI Core (YoY) **4:30 AM / 2.2%**	**Germany** PPI (YoY) **2:00 AM / 2.2%**	**Germany** PMI Services **3:30 AM / 51.5**	**Germany** IFO Business Climate
6-Month Bill Auction **11:30 AM**	**Gemany** ZEW Survey (Economic Sentiment)	**Great Britain** BoE Board Minutes **4:30 AM**	**Euro-Zone** PMI Composite **4:00 AM / 45.5**	**Germany** IFO Current Assessment **4:00 AM / 112**
Australia BoA Board June Minutes **9:30 PM**	**Euro-Zone** ZEW Survey (Economic Sentiment)	**Great Britain** Jobless Claims **4:30 AM / -3.0K**	**Euro-Zone** PMI Manufacturing **4:00 AM / 44.8**	**Germany** IFO Expectations **4:00 AM / 99.8**
	US Housing Starts **8:30 AM / 720K**	**Switzerland** ZEW Survey (Expectations) **5:00 AM**	**Euro-Zone** PMI Services **4:00 AM / 46.4**	**Canada** CPI (YoY) **8:30 AM / 1.5%**
	4-Week Bill Auction **11:30 AM**	EIA Petroleum Status Report **10:30 AM**	Initial Jobless Claims **8:30 AM / 385K**	**Canada** CPI Core (YoY) **8:30 AM / 1.9%**
	Japan BoJ Board Minutes **7:50 PM**	FOMC Rate Decision **12:30 PM / 0.25%**	Markit US PMI Preliminary **8:58 AM**	American Petroleum Institute Monthly Report **10:00 AM**
	Japan Trade Balance **7:50 PM / -¥583Bn**	FOMC Releases Projections (Economy and Fed Funds Rate)	Philadelphia Fed Survey **10:00 AM**	
		Bernanke Press Conference **14:15 PM**	US Leading Indicators **10:00 AM / 0.1%**	
			EIA Natural Gas Report **10:30 AM**	

Legend

- Credit Market
- Equities Market
- Energy
- International
- Fed Speak

Diagonals (Calendar Spreads) Strategy Overview (Part 1)

A Substitute for a Covered Call

Retirement investors are faced with fewer choices when it comes to trading options. In any account, selling naked options to generate premium ties up a lot of capital as the naked options have to be cash secured. In retirement accounts, one may sell naked puts, but they must be secured for their full value, and naked options are generally not allowed. Considering these restrictions, a strategy used by many investors in retirement accounts is the covered call – buy the stock and sell calls against it to regularly collect income. If the stock pays a dividend, this adds to the income.

In a standard account, broker-provided margin can be used for the stock purchase, reducing the capital required to purchase the stock by half. For example, buying 1000 shares of GE at $20 will tie up only $10K in a standard account (without portfolio margin), but in a retirement account, no broker-provided margin is available and therefore the same GE purchase would require the full $20k. This means that returns as a percentage of capital invested can be twice as high in a standard account. What if we could generate the same kind of returns in a retirement account and still participate in the upward movement of the underlying stock? We can by using diagonals with LEAPs as a stock substitute. LEAPs are long dated options (18 to 24 months) that decay very slowly until the last months before expiration.

How do we structure a diagonal?

As with the covered call, we need an instrument to sell premium against. In the standard covered call, you buy the stock. In our case, we will buy LEAP calls expiring in 18 to 24 months. For example, imagine that we like Oracle long term, we will start by buying 10 January 2013 LEAP calls with a $20 strike. They sell for around $7.35 so we need $7350 to get started. We'll get to how to choose strikes later. Oracle trades at over $25 as we write, so 1000 shares would tie up $25K in our retirement account and $12.5K in our margin account. So this approach frees between $5-15K to pursue other investments! But we also pay $2.15 in premium for that! But the longer dated options decay a lot slower than the short dated one and this is the principle behind the trade – we buy slow decaying options and we sell fast decaying ones against them.

Next, we will sell short dated calls against the LEAPs. For example, the September $25 calls currently trade around $1.68 of which $1.48 is premium. They expire in 25 days. You end up with the position shown below.

In this case, you have about 10% of downside protection and close to 30% protection on the upside. Determining the strike to sell will depend on your outlook for the stock between today and the expiration date. The ideal scenario in this case is for Oracle to finish around $25 as this where we collect the most premium. Taking into account the decay of the LEAP, we would earn about $1400 against the initial investment of $7350. This is obviously an ideal scenario and things don't usually work out that well! And the VIX is quite high as we write which also boosts options prices.

Our Approach

This strategy is not new and has been employed by others. But in many cases, aggressive positioning and a poor choice of the underlying stock leads to problems. Here are the differences in our approach:

Stock choice – Many are attracted by volatile stocks such as Apple, Google or Amazon for this setup because they have juicy premiums every month. But the reason the premiums is high is that they are quite volatile. No amount of premium selling can make up for stock being cut in half! It would be wiser to stick to less volatile stock, trading the lower yield for more capital security. It is of course also possible trade an index to further reduce volatility.

Continued in Part 2 next week.

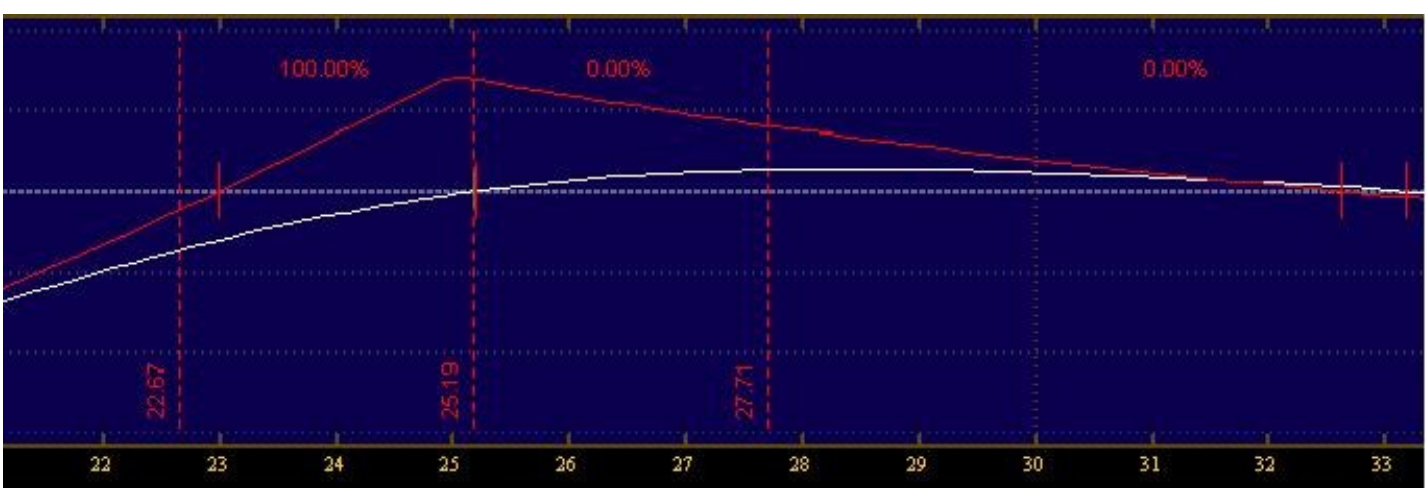


Figure – Profit graph for selling September $25 calls against January 2013 LEAPS (Oracle)

Biotech Corner

Courtesy of Pharmboy

Infinity Pharmaceuticals, Inc. (INFI) engages in the discovery and development of medicines for difficult-to-treat diseases. The company's lead product candidates include saridegib (IPI-926), an oral molecule with the potential to treat a range of cancers by disrupting malignant activation of the Hedgehog pathway; and Retaspimycin HCl (IPI-504), a heat shock protein 90 (Hsp90) inhibitor. The company has a strategic alliance with Purdue Pharmaceutical Products L.P. and Mundipharma International Corporation Limited to develop and commercialize pharmaceutical products; and a development and license agreement with Millennium to discover, develop, and commercialize pharmaceutical products targeting the delta and/or gamma isoforms of PI3K, including IPI-145. Purdue Pharmaceutical Products is planning to conduct Phase II studies of IPI-940 in pain. I like buying the stock in here and selling the January 2013 $15/12.5 strangle for $3.90.

Happy Father's Day