

## AT FRIDAY'S CLOSE:

Dow Jones	12,119	-2.22%
S&P 500	1278	-2.46%
NASDAQ	2747	-2.82%
NYSE	7292	-2.30%
Russell 2000	737	-3.20%
Oil	83.23	-3.84%
Gold	1622	3.80%

# STOCK WORLD WEEKLY

THE EXECUTIVE'S SUMMARY | OF THE GLOBAL MARKETS

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In [last week's issue](#), Lee Adler warned us to watch that 1.70 yield on the 10-year as an early warning of investor panic and a pending market breakdown. 1,295 was Lee's line in the sand for the S&P and, as you can see from this week's chart, we failed that on Friday morning.

The Dollar breakout we had been watching last Friday was indeed real as we held a 2-year high of 83 as the Euro melted down to finish the week at \$1.243 after testing a panic low of \$1.228 on Friday morning. Needless to say, our bullish trade ideas from last week performed miserably, with the DIA July \$131 calls falling to .30 (down 63%) and TLT Sept \$110 puts falling to .65 (down 40%) at which point .60 was spent to "roll" the puts up to the September \$115 puts, which are now \$1.25.

As we predicted last week - it's just physics and, without outside stimulus, the market continues to get weaker and weaker - on its way back to S&P 1,200, according to Phil - unless we get stimulus and bailouts to the tune of spending \$10Bn for each S&P point over 1,200 between now and the end of the year. So S&P 1,350 will cost World leaders \$1.5Tn. Will they do it? That's the Trillion-Dollar question!

Of course, our general lack of faith in our World leadership is why we hedge (and why we remain "Cashy and Cautious"). We added some EDZ hedges in the last week's issue but our main hedge was outlined by Phil in the May 19th edition of SWW ([link](#)) where he laid out his theory for hedging first and then bottom fishing with the following comment from Member Chat on Wednesday, the 16th:

I'm fairly confident we can hedge against another 20% drop in the market so let's say we have \$100K to invest and we start by taking \$5,000 and buying 20 SQQQ July \$55/70 bull call spreads at \$2.50. That's \$5K spent on protection and we put a stop at \$1.25 (\$2,500) and now we're covered against a 10% drop in the Nasdaq moving SQQQ 30% up to \$70(ish) for \$30,000 on the spread.

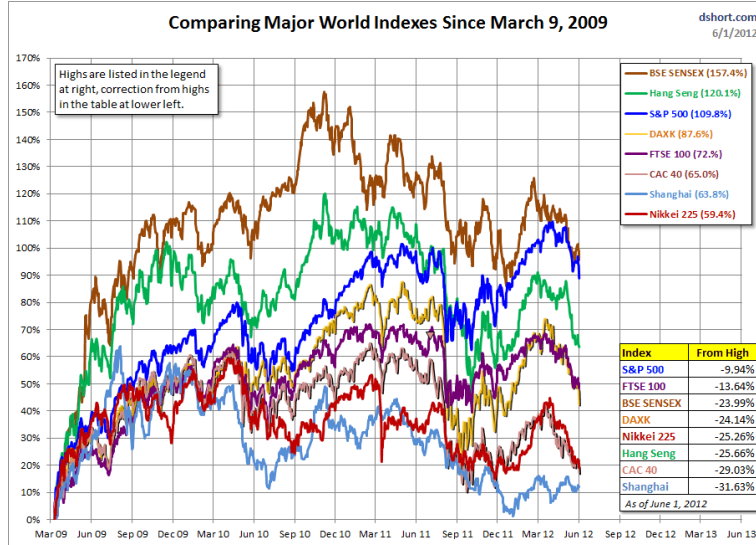
The Nasdaq is down 5% so far and SQQQ has gone from \$50 to \$58 (16%) and the July \$55 calls are now \$7.80 while the \$75 calls are \$3.10 for a net of \$4.70, up a neat 88% already for a gain of \$4,400 on our primary hedge on just a 5% drop in the markets - almost perfect protection against a 5% drop in a \$100,000 portfolio!

## World Markets Contraction

As Doug Short points out [this week](#), weakness is not limited to the American markets:

*The chart inset in to the right shows that six of the eight markets are in bear territory — the traditional designation for a 20% decline from an interim high, and the FTSE 100 slid further below the "correction" level (a decline of 10%) with the S&P 500 poised on the threshold of a correction.*

Many indices are now in negative territory for 2012 after a quick start that saw most of them rise over 20% in the first few months, highlighting the current volatility we are experiencing.



# Monday - A Day to Remember

The markets were closed in the US on Monday as we remembered our fallen heroes while indulging in the Memorial Day tradition of family BBQ!

In Europe Christine Lagarde, the new head of the IMF, managed to upset Greece in an interview with [The Guardian of London](#) over the weekend:

*Lagarde, predicting that the debt crisis has yet to run its course, adds: Do you know what? As far as Athens is concerned, I also think about all those people who are trying to escape tax all the time. All these people in Greece who are trying to escape tax. She says she thinks 'equally' about Greeks deprived of public services and Greek citizens not paying their tax.*

Easy for her to talk [because](#):

*As an official of an international institution, her salary of \$467,940 (£298,675) a year plus \$83,760 additional allowance a year is not subject to any taxes.*

Meanwhile, the banking system in Spain was reeling from the news that Bankia will need the biggest bailout in Spain's history. As Joseph Cotterill at [FT summarized it](#), there might be more to come:

*Bankia needs that €19bn notably as an equity crash barrier for its real estate exposure. Clearly however, this is also a bank with a small income problem and a blown-up loans business. El Pais reported on Monday that BFA is set to post the biggest loss in Spanish banking history when it makes final results for 2011. BFA-Bankia's president said during the weekend that the bank is getting an investment and not a loan from the government, and the exit point for that investment will be Bankia making a profit over time.*

**Really. Well carry on, Bankia.**

But have no fear, on Monday morning polls in Greece showed that the pro-austerity party (New Democracy) was leading in opinion polls ahead of the June elections. Since austerity has worked so well in Greece so far (not), this was enough to peg the dollar lower by

around 0.6% and spark an early rally in European markets. Unfortunately, by the end of the day, reality had set in and most indices finished down for the day.

Last week, the New York Times reported that larger companies are not taking chances and are [getting their money out of Greek banks](#) – showing a definite lack of confidence in the safety of their euro holdings:

*Vodafone, the mobile phone operator, and GlaxoSmithKline, the pharmaceuticals company, say they are "sweeping" money out of Greece and into British banks each evening. This applies not just to Greece but to most other euro nations, although Glaxo says it still keeps money in Germany.*

Matt Yglesias at Slate [explained the downsides](#):

*Something to note is that this is exactly what one of the downsides of leaving the euro would be. If Spain reintroduced the peseta, foreign firms would still sell some stuff to Spanish customers.*

*But they probably wouldn't want to leave many of their profits laying around peseta-denominated in Spanish banks, available as funds for lending to the Spanish domestic economy. Spain would end up capital-constrained and need to spend a lot of time worrying about its foreign exchange holdings. This is a real downside and not just something to gloss over. But the rub is that if you're going to suffer massive capital flight anyway, then the case for ditching the euro gets that much stronger.*

Adding insult to injury, the FT reported the price of olive oil is dropping in Europe. Can't Greece, Italy and Spain catch a break?

**Market recap:** Stock losses wiped out the previous session's gains on growing worries over [rising bond yields](#) in Spain and Italy and continued fears over Greece. The euro [dipped below \\$1.24](#), pushing the dollar higher and pressuring oil prices [below \\$88](#); copper also fell to [YTD lows](#). Yields on 10-year Treasuries [hit a record low 1.62%](#). NYSE decliners topped advancers nearly four to one.

## Inside PhilStockWorld Member Chat:

**Hedging/JFW** – First of all, always keep in mind that insurance is a bet you expect to lose. You don't buy life insurance hoping you will die and you don't buy health insurance hoping you get cancer so you get your money's worth. A hedge is an insurance play to mitigate your losses – if you have any.

One mistake people make is over-hedging. Another is hedging to the wrong time-frame, like buying term insurance to cover yourself in college, when you really don't need it. Why do we buy life insurance? Because we want to insure our family is compensated for our lost earning power should we die sooner than expected.

So, with your portfolio, if you don't have it set up with the expectation of earning money – what's the point of hedging it?

If you are talking about buying stocks that bring you no income and then "hedging" them by betting they go down when you really hope they go up – that's not hedging, that's betting against yourself. That's like betting \$10,000 on the Mets but then betting \$2,000 on the Phillies in case they win – it makes no sense. If you don't know who's going to win – BET LESS or DON'T BET AT ALL!



Christine Lagarde, the IMF's new head, says she has a message for Greece: "It's payback time: don't expect sympathy - Lagarde to Greeks".

Jonathan Franzen  
How to become a  
great writer: first, get  
out of your marriage  
Review



Fat? Me!  
Jessica Ennis  
bites back.  
Plus, her  
strange  
pre-Olympic  
routine  
Sport

Steve Backshall  
The Deadly 60 star  
of children's TV  
Family



Roasted carrot  
humus.  
and other tasty  
ways with carrots  
By Hugh Flemying  
Whittington  
Weekend



## Tricky Tuesday – Tempting Turn Up Tests Technicals – Again

Nothing like a roller-coaster ride to start the trading week!

The market started higher on Tuesday based on a rumor of more stimulus in China. But it turned out that it would be nothing like the stimulus in 2008. As Kate Mackenzie at [FT](#) wrote:

*So it's mostly the same old, same old — only smaller.*

*Which answers the question of why on earth China would want to build a new steel plant\* even though there was an estimated 200m tonnes-plus of excess annual production capacity last year and almost 100m tonnes of iron ore sitting around at Chinese ports (those shipments that can get through).*

*It's so 70 new airports can be built in the next five years, even though two-thirds of the existing airports are loss-making.*

*And new housing can be constructed, even though hardly anyone wants to buy the ones that are already being built.*

*And the railways.... well, you get the picture.*

[Also Sprach Analyst](#) went even further and chastised the China bulls:

*Better still, they have so much faith in the Chinese government to a point that the same thing being done by the Chinese government will surely not work for the US government. They loathe what the developed world has been doing, yet they hope the same thing will be done by the Chinese government for the sake of maintaining GDP growth.*

This is not likely enough “free money” to satisfy our markets. At 10:00 AM, the U. of Michigan Consumer Confidence survey came in much lower than expected, and sparked renewed faith that the Fed would start another round of quantitative easing (QE). Markets took off, the Dow added more than 100 points in less than 1 hour. It was short lived as no reaction from the Fed cooled down hopes for more “free money” and the attention of traders turned again toward Europe where the situation in Spain was taking a turn for the worse, as Phil pointed out in the morning:

*When (not if) Spain goes under, the EU banking system will be in serious danger of collapsing. In the meantime, don't be surprised to see Rajoy's request that the ECB begin purchases materialize or even another LTRO, of which there were market rumors last week. Another LTRO will simply*

*enable overleveraged Spanish banks to borrow money and use it to purchase even more unstable Catalan and Spanish Gov't debt. The noose is tightening and the stool underneath is looking less steady.*



Egan-Jones had earlier downgraded Spain claiming that the assets of its two largest banks now exceeded the country's GDP.

A quick and brutal sell-off gave back the QE sugar rush from the morning. Oil (crashing with the other commodities) lost almost \$2.00 getting back to \$90, a level last seen back in November 2011 before last week. The euro quickly dipped below \$1.25 for the first time since 2010. The afternoon turned into a slow melt-up that saw some of the indices rise above some of the key levels we track at PSW, bringing some optimism that we had started a bottoming process.

Not joining the party, Facebook was having trouble finding a bottom and RIMM crashed after hours following bad news about earnings. It is looking more and more like an acquisition target, and the price is getting better every day.

**Market recap:** Stocks were strengthened amid [speculation](#) of further stimulus in China and [weekend polls](#) in Greece showing a pro-eurozone party leading an anti-bailout party. The risk-on action was led by natural resource plays; meanwhile, Facebook [fell another 9%](#). The yield on 10-year Treasuries [slid to 1.72%](#). NYSE gainers topped losers better than two to one.

### Inside PhilStockWorld Member Chat:

**Phil: FB (Facebook - now \$29.19)/Burr** – I'd rather pick a horse that has one of my children's names at the Meadowlands on Friday than guess what FB will do between now and December. I can sell CHK Jan \$10 puts for \$1.40. Why on earth would I mess around selling FB calls to make \$1.35 in December when I would have no conviction on the position if it moved against me? What if FB pops back to \$34, still not the IPO price but a \$5 move should run the short calls up to \$2.50 (the price of the \$36s). What is the plan there? Will you take the \$1.15 loss or dig a deeper hole or ride it out? What is your conviction for shorting FB? As I have said numerous times this past month, with CHK I have an easy decision tree so I see any move down as an opportunity to buy more – THAT's the kind of trade you make long-term.

**Phil: CKH (Seacor Holding – now \$86.21)/Burr** – Not at the 2009 lows so not all that interesting to me as there are other things to buy. I don't know what its mix is with oil and gas but more gas = rough summer, most likely. This is a good sector, long-term but a lot nicer if you are PATIENT and buy it in a periodic bottom

so below \$80 and \$60 was the 2009 low which means \$87 is a good place to wait. On a side note – you seem to be involved in a stunning amount of stocks. I find more than 20 to be a tremendous, unmanageable burden for most people.

**GLD (SPDR Gold Trust Shares, now \$151.91)** Aug \$158 calls at \$2.90 were \$5 on the 18th and \$7.50 a month ago so a nice hedge against QE if you are bearish. I'm not a big fan of gold but a rumor can give you a quick \$1 (33%) and rumors are what it's all about this week with the month ending on Thursday.

## Will We Hold It Wednesday – Euro \$1.24 Edition



That little optimism at the end of Tuesday's trading session ended before the market opened with futures down close to triple digit in early morning trading. Renewed worries about Europe (a now almost daily affair) were sinking markets in Europe. Apparently we could not kick the can far enough yesterday! As Phil said in his post:

***If it wasn't for bad news, Europe would have no news at all!***

Still on the front burner, Spain. Again, its bond market is was too hot to handle for many so Spain now has to pay over 6.65% for its 10 year bonds. In comparison, Germany pays less than 1.3% and investors basically pay Japan to park their money there for a paltry 0.85%. This is the result of the realization that Spain will not be able to meet its deficit targets until at least 2014. [MarketWatch reported in the morning](#) that even the European Commission agrees:

***The European Commission is prepared to as European Union finance ministers to give Spain an additional year to meet the budget deficit target of 3%, according to a report in the online edition of El Pais on Wednesday. The newspaper said it had obtained a rough draft of the copy of the economic strategy for the euro zone set to be delivered by the***

***Commission on Wednesday. Media reports said it will issue specific recommendations for each of the 27 countries. El Pais said the EC wants to give Spain until 2014 to reach the budget deficit target of 3%, in light of its economic problems, but will also include draft recommendations on pensions, the financial system, taxes and labor reforms.***

Many think that this is still optimistic. There is little chance that the austerity programs being imposed in Spain and Greece will yield the growth necessary to make up the lost revenues.

And don't count on emerging markets to help out says [Finance Addict](#):

***Brazil, Russia, India and China. Four high-growth and highly exciting countries whose progress the world has been tracking since 2001. The stagnant and troubled economies of Europe and the U.S. are very much hoping that the BRICs will help lead us through the valley of the shadow of death, as they did the last time. But are we out of luck? [...]***

***Europe's a disaster, the U.S. is a question mark and the BRICs might be stumbling. Who cares about Facebook?***

The net result of the near panic in the markets; a 100 point loss at the open, the US 10-year bond falling to an all time low rate of 1.67%; the dollar making new highs not seen since mid-2010, and commodities crashing, with oil losing over \$2.00 and finishing below \$90. To think that T-Boone Pickens was promising \$150 oil just a couple of months ago. Maybe he has not been paying attention to the fact that inventories are at an all time high level!

[Bespoke](#) pointed out that the market has recovered in the afternoon almost every day for the last 10 days, but every rally effort was hit by more selling. The markets closed near their low of the day, not a comforting sign!

**Market recap:** Stock losses wiped out the previous session's gains on growing worries over [rising bond yields](#) in Spain and Italy and continued fears over Greece. The euro [dipped below \\$1.24](#), pushing the dollar higher and pressuring oil prices [below \\$88](#); copper also fell to [YTD lows](#). Yields on 10-year Treasuries [hit a record low 1.62%](#). NYSE decliners topped advancers nearly four to one.

### Inside PhilStockWorld Member Chat:

**Phil:** AXP (American Express – now \$55.46)/Burr – See news, V just reported lower charges, that's what's driving lows and about 10 days ago, AXP, MA and V were the three stocks I wanted to keep as shorts from the Long Put List along with GOOG. I don't see AXP as such a bargain at \$55.68 that I'd want to double down on it at this price but, in the context of your spread if it's just \$1.75 and you do intend to stick it out long-term, then it's a good spot for it.

Oil is a huge drag on the Dow and the S&P. Just today, XOM is costing 15 Dow points and CVX is costing 20, that's about 25% of the Dow's drop on two stocks, the S&P is similarly affected. Transports oddly go down when oil goes down – it's stupid but consistent as the logic is low demand for oil means less Transport activity but generally it's the consumers that are much more flexible than historically thought and they are the swing users (flights are still full, rail traffic is up, trucking is going well unless you are YRCW).

**Phil:** LNG (Cheniere Energy – now \$14.38)/Jrom – I don't like it in general. It's very speculative based on our natural gas remaining cheaper than other people's natural gas long enough for it to recoup Billions of dollars it has to lay out many years into the future. COP is a much better way to play the space or, of course, CHK which actually produces the gas that LNG hopes to become the middle-man/distributor of.

**TZA (\$20.61) July \$19/24 bull call spreads at \$1.50, selling \$18 puts for \$1.05 for net .45 on the \$5 spread that's \$1.60 in the money to start. So a hedge like that returns 1,111% at \$24 on a 3x ultra that's currently \$20.61 so a move to \$24 would be up \$3.39 or 16.5% which would require 1/3 the drop on the Russell (roughly), or about 5.4%.**

## Thursday Thrust - Enough to Break on Through?

Sell in May and Go Away? Putting this old Wall Street adage into practice could have saved your portfolio from a sea of red. The S&P fell from its May 1 high of around 1415 to close the month at 1310, a monthly decline of 7.4%. Not a great month to be long US equities as money poured out. In fact, according to the [Wall Street Journal](#), investors ended the month by pulling their money out of stocks and fleeing to the safety of bonds:

*"Fund flow data show people keep pulling money out of the stock market and putting cash into bonds. Investors yanked about \$7.2 billion from domestic equity funds in the week ended May 23, according to data from Investment Company Institute, a mutual fund trade group. The net outflow marked the second biggest weekly decline of the year and the 14th straight week investors pulled money out of stock funds. Nervous investors are flocking from stocks as Europe's debt crisis intensifies."*

To make matters worse for the bulls, the ADP report released Thursday morning was less than stellar with the economy adding 133,000 jobs, less than the 150,000 forecast by economists. The report gave the bears more fuel as early morning gains in the futures market quickly turned into losses and plunged the market lower at the open. Adding more even fuel to the bearish fire was the Chicago PMI which dropped 6.22% to 52.7 versus expectations of 56.1. The S&P found support near 1300, while TLT briefly touched a high of 129. Additionally, the USD continued to defy gravity, rocketing north of 83.15 and gaining 5.8% since the beginning of May. However, with the increasing Dollar comes an increase in buying power. As Phil stated:

*"This is a BIG factor because it means ALL stocks should be 5.8% cheaper when you buy them with Dollars...Stocks, just like any marketable commodity, are priced in Dollars and if*



*the buying power of my Dollar goes up 10% then I should expect to be able to buy one share of CVX for \$97.50 instead of \$108 - the same way that, if I were in Paris and my Dollar went up 10%, my croissant should be 10% cheaper at my next breakfast."*

Although Phil felt comfortable bottoming fishing this week, he hasn't changed his opinion that the best place to be in an uncertain market is "Cashy and Cautious," especially when the buying power of that cash is increasing! As he mentioned on BNN, US equities may be the best place to park your money as the rest of the world is falling apart. In fact, [FT revealed reports](#) Thursday of a €100 capital exodus from the EU in the first quarter:

*"Madrid was dealt a double blow on Thursday after it emerged that almost €100bn in capital had left the country in the first three months of the year and the head of the European Central Bank lambasted its handling of Bankia, the troubled Spanish lender."*

*Data published by Spain's central bank showed €97bn had been pulled out in the first quarter – around a 10th of the country's GDP – as concerns mounted over Madrid's ability to contain its twin economic and financial crises, which have forced government borrowing costs to euro-era highs."*

Perhaps some of that cash will find its way into US equities and of course Europe could be "fixed" again tomorrow and send the Dollar lower, but then equities would have room to run and cash could be deployed.

**Market recap:** Stocks clawed back from early losses but still finished lower, as all three major averages closed their worst month in two years. Stocks, weighed by a raft of weak U.S. economic data (I, II, III) that sent Treasury yields to new record lows, bounced after a story (later clarified) suggesting the IMF is working on a "rescue loan" for Spain. NYSE decliners led gainers seven to six.

### Inside PhilStockWorld Member Chat:

**Phil: Buying Now (Time frame to buy now)/Tarpoon** – A LONG time horizon for a buy. I'm just talking about bottom-fishing from a cash and hedged position. It's good to take a poke at significant levels (1,300, 2,800, 12,400, 750, 7,400) and take the quick 20% loss off the table and then take another poke at 1,200, 2,500, 11,000, 666, 6,750) and another one 10% down from that. If we are deploying 10% of our cash and taking 20% losses each time, even 50% down from here we're only going to lose 10% but we'll still have 90% of our cash at S&P 650 and all we have to do is catch it right once and we'll make that 10% back very quickly. Or, we can not play and stay in cash and ignore the carnage – either way is good. (Very hard to follow, I'm tempted to delete this whole paragraph)

**Phil: Bearish/Rpme** – I think it's dangerous to be "bearish." Cash is bearish but at least you won't get burned by a bailout. Dollar just failed 83.15 and it's still a constructive bottom. See the post above for my theory on how well we're actually

doing – masked by a strong Dollar. I think so much bad news is baked in – it's only a matter of when (not if) we get more bailout money to play with. What's \$1.5Tn out of a \$60Tn Global GDP if it buys us another year? Nothing wrong with some speculative hedging, but I'm just not "bearish" given the current macros.

**XLF 2014 \$11/12 bull call spread is .65, 2014 \$9 puts can be sold for \$.60 for net .05 on the \$1 spread and worst case is you own XLF for net \$9.05 (35% off) while the upside is 1,900% and TOS says margin is net 0.90 so 100% return on margin at \$12 makes it a very nice way to play the Finan-**



## Friday Fake Out - The Bear Trap is Sprung!

The ugly start continued into an ugly morning with the report of a huge miss on the jobs report. Analysts expected a month over month increase of 150,000 jobs. The actual number was 69,000, less than half expectations. US unemployment increased from 8.1 to 8.2%. The data was missing the usual adjustment, as Jesse observed:

*"why put out a weak number when one could have statistically justified a stronger number? Besides 'sand-bagging' now with an eye to the second half of the year? There are an important set of central bank decisions coming up, including the FOMC meeting shortly after the Greek elections at mid month. This weak Jobs number gives Bernanke the cards he needs to play in responding to the evolving crisis. And you know what that means." (Jesse's Café Americain)*

Regardless of the data, PSW members listening to Phil were fortunate to have been "cashy and cautious," with some small upside bets from the Twice in a Lifetime List, well-hedged by plays that Phil covered on Wednesday, such as "TZA July \$19/25 bull call spread at \$1.50, selling \$18 puts for \$1.05 for net .45, along with EDZ at \$17.23 and SQQQ at \$51.80." As of the end of the week, SQQQ was at \$58.14 (up 12.2%) and EDZ was \$19.27 (up 11.8%) and the TZA hedge was already at net \$2.25, up 500% in just three days! "When you have your hedges in place, THEN you can bottom fish with impunity, and boy is the fishing good out there!"

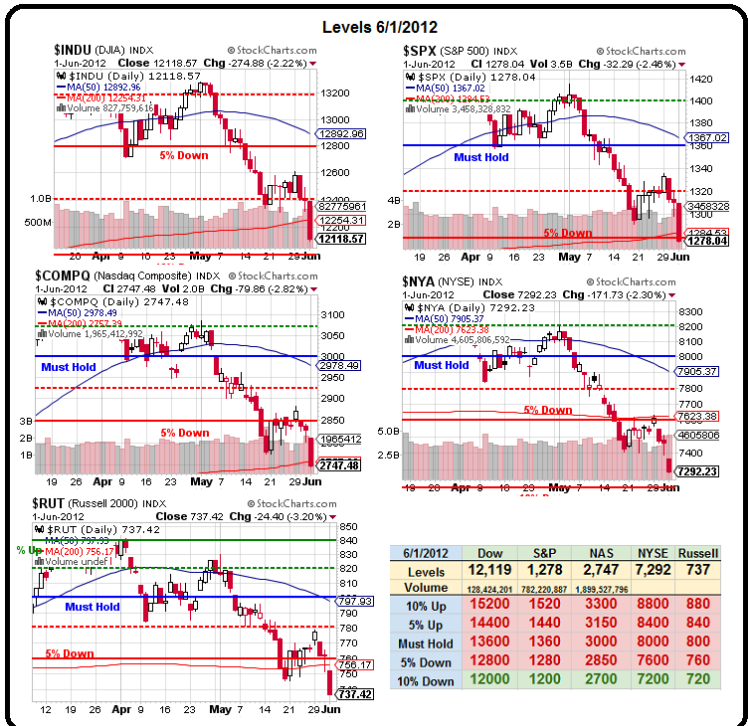
The panic caused Treasury Yields to slide, with the 10-year dropping to an all time low of 1.4387 percent ([Businessweek](#)).

Commodities continued sliding, with crude dropping another 3.8%. Nymex crude for July delivery lost \$7.63 per barrel this week, or 8.40%, to \$83.23. Year-to-date it is down 15.78%. Comex gold for June delivery gained \$51.60 per troy ounce this week, or 3.29%, to \$1620.50. (WSJ) USO dropped 3.62 on the day. XLF, chastened by further JPM inquiry announcements, dipped 3.71%, and, a sign of increasing panic, or hope that the bad news would lead to QE3, GLD jumped 3.88%, and ABX rose 7.3%.

All was not negative. At 10:00, the ISM report brought less ominous news, with an in-line report which gave a temporary reprieve to the markets.

Most of the stock market's losses came in the final day of the week. – The Dow Industrials were down 336.26, of which 274.88 points were lost on Friday, the Nasdaq was down 90.05 points, with Friday's decline of 79.86 points. YTD, its up 5.46%. The S&P was down 39.78 on the week, and down 32.29 points on Friday. This can turn quickly with rumor, speculation, or a turn of the helicopter prop.

The day closed out on a largely unnoticed negative note with Egan-Jones downgrading Italy to B+ from BB. Some of the indices are just above Phil's 10% lines, and below their 200 day moving averages.



**Market recap:** Stocks suffered their worst day of the year after woeful U.S. jobs data make it clear the economy "isn't just slowing down, it's pulling up the emergency brake." The Dow is now negative YTD, and the S&P breached its 200-day MA. Treasuries and gold were the day's go-to holdings; 10-year yields slipped below 1.5%. Crude oil plunged to \$83.23. NYSE losers led winners five to one.

### Inside PhilStockWorld Member Chat:

One of the members asked whether we are ready to go into the Income Portfolio and take entry positions on the TWIL (Twice in a Lifetime) list. That's a good question. Rephrased: "Should I take the money my mother needs to live on and gamble that this is the bottom and not the beginning of a global market collapse?" –NO.

**Phil:** We cashed out the Income Portfolio BECAUSE it was a difficult market to play and BECAUSE we were worried there would be a crash. Once we got to cash – we became HOPEFUL there would be a crash, so we could get cheap entries on a new batch but there's little harm in waiting. If the Fed steps in – then we have 3-6 months of bullish markets to play with. If the market collapses – Cash remains King.

**Phil: Income Portfolio/Bolt** – We would go with some shorter dates to generate short-term incomes and longer ones where appropriate. You should go back to April of last year in the Portfolio section

and see how we began last year's Income Portfolio – plenty of actual examples there.

**Phil:** SDOW is 3x Ultra-Short on Dow. July \$23/28 bull call spread is \$1.30 with SDOW at \$23.95 so a nice way to play a further move down in the Dow with a \$3.70 upside potential (284%) and with no margin requirement., Even in an IRA, you could put \$2,600 into 20 of the spreads, put a stop at \$1,600 (.80) and risk \$1,000 to make \$7,400 on a further downturn.

**Phil:** It's a bit disturbing that the VIX is not even indicating panic at 26.70. Last summer, the VIX was in the 40s before the market turned back up.

**Phil: Rumor/Exec** – I think we need an actual promise of action, rumors won't cut it with the momentum going like it is. This is what I said would happen if they waited too long but I can't believe they actually waited too long – the World is seriously run by idiots.

## The Week Ahead

Although the action on the week seemed disappointing, on the whole we have only just failed my target of Russell 750 and we did a lot more bottom-fishing this week in hopes it would hold but let's remember what I said to Members on Friday the 18th, which was featured last week and continues to be the mantra in this tough market:

Nothing is "cheap" if the G8 fails this weekend. They are all attractive but look where the indexes are – we could drop 20% and still be a mile over the lows of the last crash and why would these stocks be immune? It's a great list but I'd rather buy SVU over \$5 and know we're recovering than try to get in at \$4.74 when it can go lower. Same goes for the others – we'll know when it's time to buy – it's not time to buy.

Have I mentioned how much I like cash lately?

Cash has been very, very good to us as our buying power increases with the rising Dollar and, if we must play the markets - hedging first and bottom fishing later has been a good strategy so far. While we HOPE (not a valid investing strategy) that this is the bottom - we know that's a very hard thing to predict given the current Global dynamics so we remain **"Cashy and Cautious"**.

Into this Friday's weak close we added 4 more short plays: KO Aug \$65 puts at .50, T Oct \$28 puts at .45 and V Sept \$90 puts at \$2.15 and SDS July \$17/21 bull call spread at \$1, selling Jan \$15 puts for \$1.15 for net .15 credit, playing for the possibility of a major drop next week. A bit earlier in the day I suggested SDOW July \$23/28 bull call spreads at \$1.30, which have a \$3.70 upside potential (284%). This came AFTER we took (so far) unsuccessful bullish pokes around lunchtime with trades that we HOPE will work out - as it's not as much fun making money when the market is collapsing:

*TQQQ July \$43/47 bull call spread at \$2, selling BA Jan \$50 puts for \$1.90 for a net .10 credit*

*XLFX Jan \$12/14 bull call spread at \$1.20, selling \$11 puts for .55 for net .65 on the \$2 spread.*

Are we wishy-washy? Sure we are! That's why I prefer cash but, if you MUST play the markets - then try to stay balanced - as you've seen from the past couple of weeks - we can get whipsawed either way at a moment's notice so, bullish or bearish - it's a very tough market to play. If we get intervention - we should rocket higher but, if not, down we go, as it's very hard to stop the momentum at this point. So please - be careful out there!

Mon, June 4	Tue, Jun 5	Wed, Jun 6	Thu, Jun 7	Fri, Jun 8	Legend
Euro-Zone Sentix Investor Confidence 4:30 AM / -30	Australia BoA Rate Decision 0:30 AM / 3.5%	Great Britain PMI Construction 4:30 AM / 54.5	Japan Leading Index 1:00 AM / 95.1	Great Britain PPI Output (YoY) 4:30 AM / 3.2%	Credit Market
Euro-Zone PPI (MoM) 5:00 AM / 0.2%	Germany PMI Services 3:55 AM / 52.2	Euro-Zone GDP (YoY) 5:00 AM / 0.0%	Switzerland CPI (YoY) 3:15 AM / -1.0%	Great Britain PPI Output Core (YoY) 4:30 AM / 2.3%	Equities Market
Euro-Zone PPI (YoY) 5:00 AM / 2.7%	Euro-Zone PMI Composite 4:00 AM / 45.9	Euro-Zone Household Consumption (Q1) 5:00 AM / 0.1%	Switzerland Unemployment Rate 1:45 AM / 3.0%	Trade Balance 8:30 AM / -\$48.5B	Energy
Factory Orders 10:00 AM / 0.2%	Euro-Zone PMI Services 4:00 AM / 46.5	Germany Industrial Production (YoY) 6:00 AM / 0.9%	Great Britain PMI Services 4:30 AM / 52.4	Canada Unemployment Rate 8:30 AM / 7.3%	International
3-Month Bill Auction 11:30 AM	Euro-Zone Retail Sales (YoY) 5:00 AM / -1.1%	Euro-Zone ECB Rate Decision 7:45 AM / 1.0%	Great Britain BoE Rate Decision 7:00 AM / 0.5%	China CPI (YoY) 9:30 PM / 3.2%	Fed Speak
6-Month Bill Auction 11:30 AM	Germany Factory Orders (YoY) 6:00 AM / -3.8%	Productivity and Costs 8:30 AM	Initial Jobless Claims 8:30 AM / 380K	China PPI (YoY) 9:30 PM / -1.2%	
Australia AIG Performance of Service Index 7:30 PM / 39.6	Canada BoC Rate Decision 9:00 AM / 1.0%	Fed's Tarullo Speaks 10:00 AM	EIA Natural Gas Report 10:30 AM		
	ISM Non- Manufacturing 10:00 AM / 53.5	EIA Petroleum Status Report 10:30 AM	Fed's Lockhart Speaks 11:00 AM		
	4-Week Bill Auction 11:30 AM	Fed Beige Book 2:00 PM	Fed's Kocherlakota Speaks 1:15 PM		
	Fed's Bullard Speaks 2:15 PM	Fed's Lockhart Speaks 2:15 PM	Fed's Fisher Speaks 3:30 PM		
	Fed's Fisher Speaks 7:00 PM	Fed's Williams Speaks 3:30 PM	Japan GDP Annualized 7:50 PM / 4.5%		
	Fed's Evans Speaks 7:30 PM	Fed's Yellen Speaks 3:30 PM	Japan GDP (QoQ) 7:50 PM / 1.1%		
	Australia GDP (YoY) 9:30 PM / 3.2%	Australia Unemployment Rate 9:30 PM / 5.1%			

## Options Strategies - Iron Condor Strategy for Retirement Accounts (Part 2)

### How Our Approach is Different

First, we DO NOT recommend trading ICs one month from expiration as violent market movements in the last month before expiration often cannot be mitigated. Rather, we recommend trading 7-12 weeks from expiration. Though time decay (i.e., theta) degrades more slowly at this distance from expiration, and volatility may move against your position, you still have the ability to adjust and sufficient time to achieve a winning trade, or at least break even. It is also worth noting that with more time we are able to create larger wing spreads for our ICs.

Second, we ARE NOT looking for home runs. We do not intend to realize all of the credit or even half. If we receive a credit of 15% of margin ten weeks from expiration, and are able to make 5% within two weeks (33% of the total credit), we will gladly take that 5% and call it a day. It is tempting to stay in the trade, but what might happen if you stay in this trade? Suppose you go from being up 5% to down 5% within the next two weeks, meaning six weeks from expiration. You would be kicking yourself for not having taken profits earlier. Remember that you can't go broke making a profit!

Third, we WILL NOT make trades according to the calendar date. This means we do not expect to make 12 trades per year, or any other specific number for that matter. When we trade will depend on market conditions, especially volatility. As a general rule, if we see volatility break above two standard deviations from the 30 day simple moving average, we will consider entering a trade. This means we will be entering trades on "down days." The heightened volatility is beneficial because it will provide you a greater credit and broadens the "wing-span" of the trade. If volatility reverts to the mean, you may be able to quickly exit the trade, perhaps within just a day or two. If volatility increases (the market continues to go down) you will, with the time remaining before expiration, be able to adjust if necessary and hopefully ride out further market turbulence.

### Criteria for Entering a Trade

Now let us describe criteria, or determining factors, for entering a trade. These guidelines are not hard and fast, but if we do deviate from them it will only be by a small amount. You will never see us recommend selling an IC one month from expiration! The criteria are as follows:

- **Days from Expiration** – Seven to 12 weeks
- **Volatility** – Two standard deviations above the 30 days simple moving average
- **Entry on a "Down Day"** – The down day will need be two standard deviations below the 30 day simple moving average

### Trade Specifications

The following are a list of specifications for the trade.

- **Trade size** – This is the amount of margin you are willing to put at risk. While we are focused on mitigating risk and aim to avoid losses to principal, it must be recognized that the IC is not without risk. You could theoretically lose all but the credit you receive, so please apportion the capital you put at risk accordingly.
- **Credit received** – For our trades, we are looking for a minimum 12% credit, hopefully more. You should not accept less.
- **Delta** – As a general rule we trade with a delta of 10. Depending on the state of the market (how it is trending, volatility, distance from resistance/support levels) we may recommend lower or slightly higher delta trades. We will not recommend deltas above 12 when initiating a trade.
- **Trading Index** – We will generally trade options on the S&P 500 Index (SPX) or the Russell 2000 (RUT) index. The SPX is less volatile and will likely require fewer adjustments, but you will also receive less credit. The opposite can be said about the RUT.

**Distance Between Bought/Sold Options** – In our scenario, there was a 10 point distance between the bought and sold options. If we are trading the RUT we will likely recommend 10 or 20 points between the two options. You receive a slightly higher credit relative to margin for the 10 point differential, but if you need to make adjustments, you will be trading twice the number of contracts than using a 20 point differential (thus increasing your transaction costs). If we trade the SPX we will recommend buying/selling options at the "quarter" marks (i.e., 100, 125, 150, 175, 200...), as they are more liquid and you are likely to get better fill prices. With the SPX, the distance between sold/bought options will therefore be 25 points.

### Adjusting the Trade

If things worked out perfectly, we would never need to adjust our ICs, and hopefully, using volatility and time to our advantage, adjustments will be rare. The primary condition for adjusting the trade will be when the delta for one side of the condor approaches or goes above 30. In this case we would want to vertically roll the condor down or up, depending on which side is above that point with the objective of getting our wings once again closer to deltas of 10. We may recommend adjusting the moment the wing nears, but if the market is moving quickly we may wait (though not very long) for a pullback to get a more advantageous price. We will issue alerts indicating the parameters of the roll, including the minimum or maximum amount you should receive or pay for each side. In adjusting trades our primary objective is to protect our principal and if the market is volatile we may look to exit as soon as we reach a break-even point.

*To be completed next week in Part 3.*



## Biotech Corner

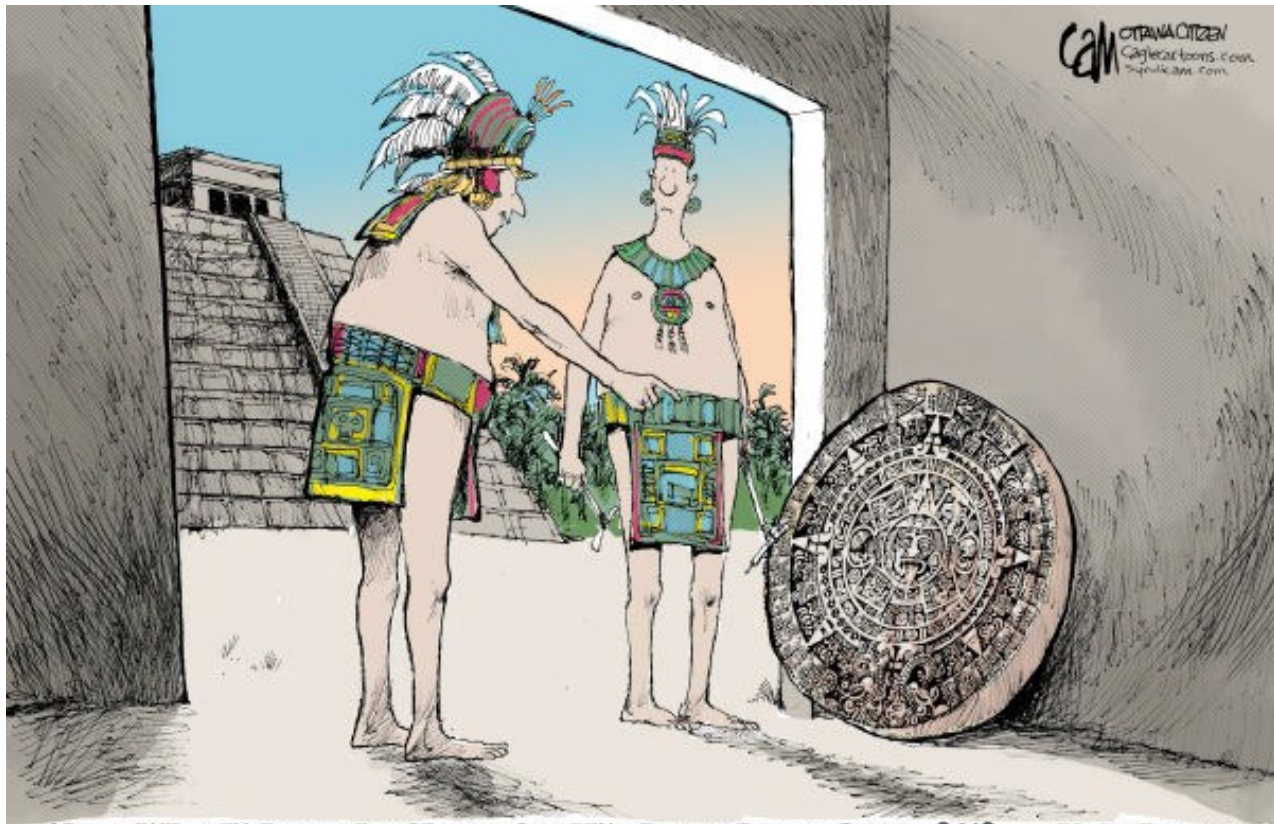
Courtesy of Pharmboy

The biotechs have been holding their own over the past few weeks, and the market is now negative for the year, but many of our biotech holdings are still in the green. [ASCO](#) is being featured this weekend, and several of the companies we have in our virtual portfolio are presenting at this cancer meeting. One that we have held over the past few years is featured again - ImmunoGen, Inc. (IMGN—now \$13.89). Their technology is a drug that is tethered to a monoclonal antibody, and it has shown some very good results in fighting breast cancer (read about it here). I like buying 100 shares of stock and selling the January 2013 \$15 calls and \$13 puts for \$3.85 or better.

**13.89** -0.12 (-0.86%)

Jun 1 - Close  
NASDAQ real-time data - Disclaimer  
Currency in USD

Range	13.63 - 14.02	Div/yield	-
52 week	9.17 - 16.20	EPS	-0.89
Open	13.64	Shares	77.30M
Vol / Avg	588,641.00/420,513.00	Beta	1.74
Mkt cap	1.07B	Inst. own	82%
P/E	-		



"SO RIGHT IN THAT CORNER, STICK IN SOMETHING ABOUT A COMPANY IN 2012 NAMED FACEBOOK THAT RELEASES THE MOST SUCCESSFUL IPO OF ALL TIME.. JUST TO PLAY WITH THEIR HEADS."

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