STOCK WORLD WEEKLY

THE EXECUTIVE'S SUMMARY | OF THE GLOBAL MARKETS

Dow Jones	12,596	(-0.3%)
S&P 500	1,338	(-0.1%)
NASDAQ	2,828	(+0.0%)
NYSE	8,372	(-0.6%)
Russell 2000	836	(+0.3%)
Oil	99.39	(+1.6%)
Gold	1,494	(+0.2%)

THIS WEEK'S NEWSLETTER:

JUST ANOTHER MANIC MONDAY - WHAT RECESSION?
Backlog of foreclosed homes continues to grow

TESTY TUESDAY - PLAYING IN OUR NEW RANGE
Microsoft buys Skype for $8.5Bn

WISHFUL WEDNESDAY - IF ONLY WE COULD HOLD IT
New POMO schedule released - weakest month of operations since beginning of QE2

THURSDAY FOOLISHNESS - BOUNCE OR BREAKDOWN?
TEPCO announces plan to build tent over Fukushima reactors

FRIDAY - WORLD TALK
European debt crisis back in the news

THE WEEK AHEAD

Just two weeks ago, the financial media was buzzing about the U.S. Dollar's steep decline and surging prices in commodities and precious metals. This week, the Dollar bounced, trading in a range from 74.4 to 75.8, over 4% higher than the lows visited earlier this month.

From a technical perspective, we wrote in Stock World Weekly (SWW) on April 10, 2011, *"The failure of the 76 level concerns us, but with Bernanke signaling his intention to end quantitative easing in June, we think the Dollar is ready to rebound, and we feel it is unlikely that the 72 level will fail to provide support."* Contributing to the Dollar's strength, the CME Group Inc., the corporation that operates the COMEX and NYMEX commodity futures exchanges, has been raising margin requirements for silver and several energy products. (Slow Relief at the Pump As Gasoline Decouples From Crude Oil) As Dian L. Chu of EconMatters noted, "Increased margin requirement could trigger liquidation contagion as traders may need to sell their profitable positions in other commodities or equities to raise cash in order to meet the new limits." Forcing traders to sell positions to cover margin requirements caused a "Dollar short squeeze" as Wall Street Examiner's Lee Adler, described it. *"Players needed dollars to pay off margin loans. Probably temporary. If the dollar rallies, it means the short squeeze is getting worse."* (SWW: Not Dead Yet, May 8, 2011)

What prompted the CME Group to raise margin requirements? Considering that inflation has become a worldwide problem, it is not farfetched to speculate that the Federal Reserve told the CME group to take action to bring commodity prices down. Bill Schmick, author of the blog "A few dollars more," posited:

"The Federal Reserve Bank has been targeting asset classes, such as the stock market, in their effort to spark a long-lasting economic recovery in this country. One fly in the ointment has been the spike in commodity prices, especially oil and food, as speculators borrowed money from the Fed at very low prices and made millions by betting on higher commodity prices.

"Oil had reached as high as $112/bbl. and gas prices at the pump were skyrocketing in response. A similar trend was underway in food. The Fed is under increasing pressure and criticism as core inflation remains quite moderate, but consumers and corporations were paying more and more for energy and food (two non-core inflation items). The Fed's Chairman, Ben Bernanke, has argued that prices for these non-core items are beyond their control. But are they?

"Is it beyond reason to speculate that the CME may have received a call from Big Ben over at the Fed? If the Fed can target an upturn in the stock market, how difficult would it be to engineer a deflating of the commodity bubble through the stiffening of margin requirements?" (A Windfall in Disguise?)

In theory, Bernanke's signaling that the Fed will allow the second round of quantitative easing (QE2) to end in June, without disclosing plans for QE3, should counter the Dollar's decline. Without the Fed buying Treasuries via the Primary Dealers (PDs), prices of Treasuries are likely to fall and yields are likely to rise. The Fed also released a relatively light Permanent Open Market Operations (POMO)

schedule for next week. Apparently, the Fed is trying to forestall further price inflation in food and commodities, notwithstanding its ongoing denials regarding inflation.

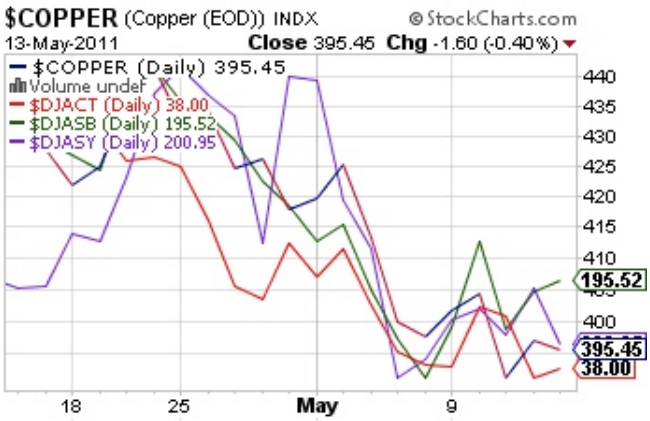
We have been observing a strong inverse correlation between the Dollar and equities, summarized by our catchphrase: "When the Dollar pops, the markets drop." The reason is uncertain, and this inverse relationship has not always been the case. Perhaps it is a function of how the Fed is influencing the markets, with its QE2 scheme of issuing money to the PDs (investment banks, such as Goldman Sachs and JP Morgan) to buy Treasuries; the PDs turn around and flip them back to the Fed. Presumably, the POMO money can be put to good use, for the PDs. Last week's POMO schedule prompted Lee Adler to predict, *"$11-15 billion in POMO and $16 billion in Treasury paydowns will hit the market over the next two days. There's more of a chance that the market will break on Monday [May 16] when the Treasury will settle $68 billion in new notes and bonds."*

Increased liquidity in the hands of the PDs has artificially supported Treasury prices, holding yields down and

devaluing the Dollar. Dollars, losing value and earning no interest, naturally flow into commodities - as "speculation" - and equity markets ("risk on" trades).

Washington's blog estimated that High Frequency Trading accounts for up to 70% of trading volume. (What Percentage of U.S. Equity Trades Are High Frequency Trades?) We wonder whether the almost instant, opposite moves in the Dollar and equities are largely due to HFT programs running algorithms that simply buy stocks when the Dollar drops and sell stocks when the dollar rises. A "zig-zag" program, as suggested by Trader Mark. (POMO Hits the Markets)

If this trading pattern persists, a stronger Dollar would be a bad omen for both equities and commodities. According to Peter Hickson, global commodities & basic materials strategist at UBS, *"Momentum is going to be down … if you look at the technicals, I think there's probably another 10 or 15 percent down over the next couple of months."* (Commodity Rout Hasn't Ended, Wait Before Buying: Analysts)



Prices of key commodities are falling, as the chart of copper, cotton, sugar and soybean prices shows (above). Chinese demand for commodities is slowing, in some cases dramatically. While the nominal value of China's imports is increasing, this reflects higher prices. Volume data show that Chinese imports of key commodities such as copper, aluminum, soybeans and iron ore have fallen over the last year. (Financial Times - Chinese commodity imports are falling)

This week, we began tracking our *'New Watch Levels'*. The new levels are based on Fibonacci lines calculated using the recent consolidation and adjusting for the Dollar. (See chart on Friday's page.) Phil reviewed the $25KP virtual portfolio in a Member's Alert. The 25KP finished week 13 with a balance of $34,712 - a gain of over 38% since the portfolio began.

> "Over the past five months, SWW's resident biotech aficionado, Pharmboy, has made numerous biotech/pharma picks. We thought reviewing some of his positions would be helpful. Pharmboy obliged: *"Most of the stock and option plays were conservative bets on companies that have a drug or pipeline that I felt would provide a good return on investment in this volatile market. On January 8, 2011, I highlighted Merck and bought MRK at $37.30. I sold the Jan 2013 $40 calls and $35 puts for $8. Currently, Merck is at $37.08; the sold calls and puts are $6.35. Including the $0.38 dividend, we have a 3.6% return for 5 months of no work. The next week, I entered a net long position in GXDX. NVS bought the company a month later. That play was a huge winner (>300%). On January 30, I picked up IMGN. I entered a July $7/8 bull call spread and sold the July $7 puts, for a net $0.10 debit. It's a $0.90 gain...which is where it will end up in July, barring a disaster. We cashed out. Other notable winners are BIIB (bought a Jan 2012 $60/70 bull call spread and sold the $60 put for a net $0.90 on the $10 spread). Look at where BIIB is now! And MNTA (simple bull call spread of January 2012 $10/15 for $2.40, currently $4.20)."*

Just Another Manic Monday - What Recession?

U.S. equities and commodities rallied on Monday. News of S&P's downgrading of Grecian debt to "B/C" helped push the Dollar up in early trading.

5/9/11	Dow	S&P	NAS	NYSE	RUT
TODAY	12,684	1,346	2,843	8,478	843
PREVIOUS	12,638	1,340	2,828	8,426	833
% CHANGE	+0.36	+0.45	+0.55	+0.60	+1.20

Real Estate website Zillow.com reported that median home values, as measured by the Zillow home value index, fell 3% during the first three months of the year. Zillow's Chief Economist, Dr. Stan Humphries, explained, *"This marked a pace of decline not seen since 2008 when the housing recession was at its worst... The cumulative decline in home values since the market peak is now 29.5%."* (No Respite From Housing Recession in First Quarter)

Looking at a more current measure, Lee Adler reported, *"Listings price data collected from Housingtracker.net suggests a price bump of 4.2% in March and April. This data has correlated well with subsequently released sales price data. It suggests that the NAR's median sales price should rise to approximately $167,000 over the next couple of months. That would fall far short of the June-July peak levels of $182,000-$183,000 in 2009 and 2010. Those price peaks were aided by the home buyers' tax credits."* (Employment Numbers Not Good News For Housing)

The huge supply of homes in foreclosure is making problems worse in the housing market. Fannie Mae and Freddie Mac struggle to sell their enormous backlog of foreclosed houses without flooding the market and driving prices even lower. The two companies hold record inventory of 242,000 homes worth $24Bn. They are taking possession of new foreclosed homes faster than they can sell their current inventory. In the first nine months of 2010, they took in 319,243 foreclosed properties and disposed of only 210,105. (No Respite From Housing Recession in First Quarter)

As the backlog of unsold homes keeps growing, some analysts are predicting that Fannie and Freddie will need to turn to investors to unload inventory. Michael Slaughter, partner at New Providence Capital, declared, *"I think they're just [postponing] the inevitable. If they don't start with a systematic distribution of these properties to investors who have cash today and will buy them at the right price, they're going to end up selling the entire portfolio to Goldman Sachs or BlackRock at a tenth of what they can get for them today."* (Fannie and Freddie's Big Foreclosure Backlog)

Monday's Levels

5/9/11	Dow	S&P	NAS	NYSE	Russell
MONDAY CLOSE	12684	1346	2843	8478	843
5% LEVELS	12801	1365	2877	8694	856
4% LEVELS	12688	1352	2850	8611	848
2.5% LEVELS (MUST HOLD)	12505	1333	2808	8487	835
REF LEVEL	12200	1300	2740	8280	815

Testy Tuesday - Playing in our New Range

News that Microsoft agreed to buy Skype for $8.5Bn helped spark hopes for more consolidations among tech companies. The markets ended the day near session highs. The Dollar pulled back from 75 to a low of 74.6, and NYSE advancers led decliners three to one.

5/10/11	Dow	S&P	NAS	NYSE	RUT
TODAY	12,762	1,357	2,872	8,550	856
PREVIOUS	12,684	1,346	2,843	8,478	843
% CHANGE	+0.61	+0.82	+1.01	+0.85	+1.54

China reported a record trade surplus, over three times larger than forecast in April. Exports surged to a record $11.4Bn, exceeding the forecasts of all 27 economists in a Bloomberg News survey, growing by 30% to $156Bn while import growth slowed. Brian Jackson, strategist with Royal Bank of Canada, commented, *"This number will likely add to the pressure from Washington for Beijing to allow faster currency appreciation. But more importantly it should persuade Chinese policy makers that a stronger yuan can be tolerated by the economy and is warranted as part of their efforts to curb price pressures."* (China Exports Fuel Wider-Than Estimated $11.4 Billion April Trade Surplus)

The European debt crisis was in the news again this week. Demonstrators in Greece protesting austerity measures clashed with riot police. According to the EU Observer, *"Prime Minister George Papandreou is trying to keep his government intact in the face of increasing numbers of parliament members publicly voicing opposition to austerity measures."* Ireland floated a proposal to impose a *"temporary levy on funded pension schemes and personal pension plans...at a rate of 0.6% to the capital value of assets under management in pension funds established in the State."* It will be interesting to see how the Irish public responds to this proposal.

It is important to keep a perspective on how big or influential a topic is as compared to how much press it is receiving. Regarding the European debt crisis, Phil declared, *"Greece is on, off, on - who cares? Greece, Ireland and Portugal's combined total debt is less than Japan is spending to clean up its current disaster, which will only add 4% to its current $11Tn debt load against a $5Tn economy. If we're going to get upset about Greece's $120Bn debt, we may as well throw in the global towel on Japan. And don't even THINK about the US debt, which is 25% of the entire planet's GDP. The real danger of the Greek crisis IS solving it - because that will then free up the Cassandra crowd to focus on REAL problems like Spanish and Italian debt or US Municipal Debt (much of it hitting the fan in June), or whatever else will distract them from the real issues of Japan and America, and even the UK's $3.666Tn debt, which is 149% of their GDP."*

> *"We held onto our bullish stance from the weekend but covered with a couple of index puts that will be beat up this morning as the Dollar is slapped back down to 74.80 - but that's OK because 74.80 is the line we expected would be tested (yesterday's Member Chat). I used it as an example of how I could know the support line we'd hit on the Dollar using math, and not because I am psychic, as some Members have been saying."* - Phil

The U.S. Dollar closed Tuesday at 74.6, then climbed for the rest of the week, closing on Friday at 75.7.

Wishful Wednesday - If Only We Could Hold It

The Dollar moved up powerfully from a morning low of 74.4 to close at 75.2, a gain of nearly 1.1% for the day. Predictably, the markets dropped sharply. EIA Petroleum Inventories were up by 3.78M barrels, compared to consensus expectations of +1.2M barrels; Gasoline inventories were up by 1.28M barrels versus consensus estimate of -0.7M. Crude futures sank, with oil down 4.71% to $98.99. Trading in oil and gas futures was briefly halted.

5/11/11	Dow	S&P	NAS	NYSE	RUT
TODAY	12,630	1,342	2,845	8,428	841
PREVIOUS	12,762	1,357	2,872	8,550	856
% CHANGE	-1.02	-1.11	-0.93	-1.43	-1.75

The new POMO schedule was released for upcoming operations between May 12 and June 2. Every day will be a POMO day, except holidays and June 2. The total amount is for $93Bn, the lowest of any monthly QE2 schedule to date. Because QE2 is scheduled to end on June 30, this suggests the Fed may be serious about ending it. Perhaps the Fed is trying to wean the markets off POMO money.

Phil posted an offer for new subscribers: *"To make sure you don't miss our next trade idea - today I will give you one that can knock 20% to 69% off the $695 Annual PSW Report Membership: You can buy 10 QQQ May $60 puts for $1 and sell 10 QQQ May $59 puts for $0.48 for net $0.52 ($520) on the $1 ($1,000) spread (it's the net that matters, not the price of each leg). The maximum gain on this trade is $480 if the Qs finish below $59 next Friday and, if you stop your loss at net $400 (.40 per contract) that limits your potential loss to $120. Because if this trade loses money, let me know and I'll give you 50% off an annual PSW Report Membership, which will save you $347.50. If this trade does work - you are honor-bound to subscribe, of course!"*

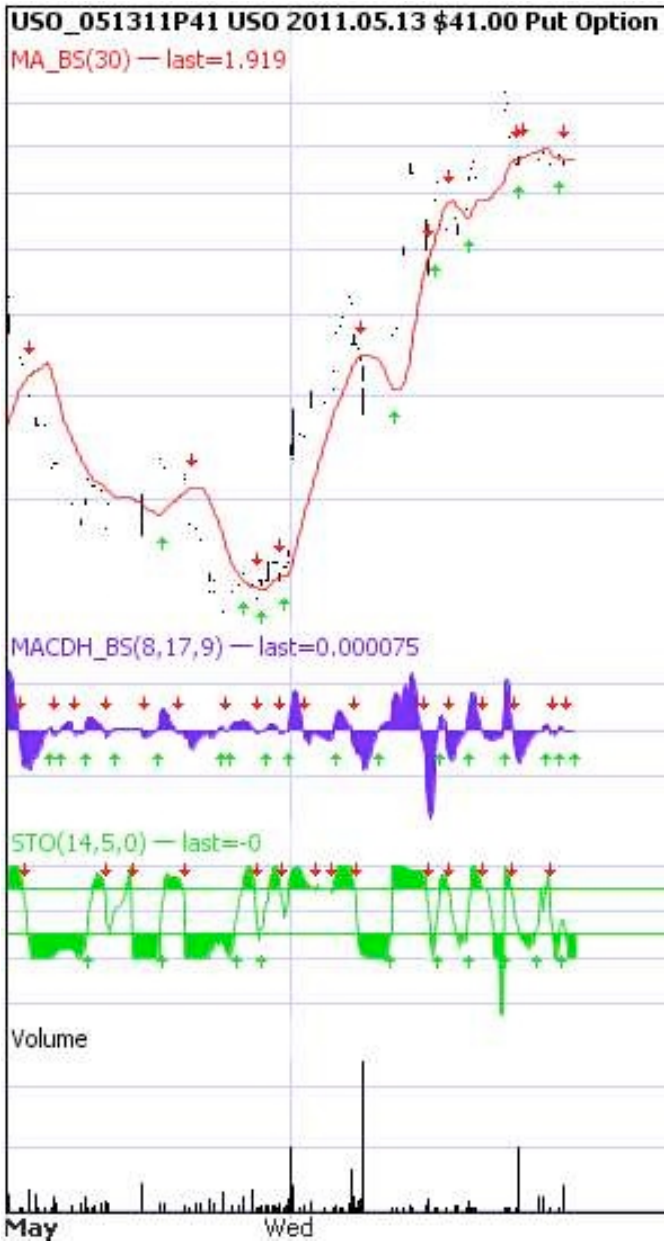
On Tuesday afternoon, Phil had suggested buying the USO May $41 puts at $0.95. These finished the week at $1.89 but topped out at $3.05 on Thursday. Another trade idea, on Tuesday morning, was TBT weekly $33 calls at $1.55. These missed our goal of $2.15 but hit $2.05 for a 32% gain. Phil wrote, "When you wonder what kind if idiots would be buying 10-year notes at 3% when a gallon of gas was $1.40 ten years ago and now $4 – that idiot is you. Originally, that idiot was a bank but banks aren't allowed to lose money - that's what taxpayers are for!"

> *"We are expecting, between now and Friday, that the indexes will form a pattern that will look like the "M" in the McDonald's arches (chart to left). The indexes should come back to their retracement levels, as the Dollar heads over 75 (still 74.80). Of course, we have many ways to make money playing that chart pattern for our Members (we are already short the indexes from yesterday's chat), but the idea here is to give you a quick idea of how to use options trades to enhance your returns." - Phil, early Wednesday morning.*

Thursday Foolishness - Bounce or Breakdown?

Thursday was a volatile day, with stocks opening on a down note but recovering to close higher. The US Dollar peaked early in the day at 75.6, but dropped to 75.2 by the end of the trading session.

5/12/11	Dow	S&P	NAS	NYSE	RUT
TODAY	12,696	1,349	2,863	8,456	848
PREVIOUS	12,630	1,342	2,845	8,428	841
% CHANGE	+0.52	+0.49	+0.63	+0.33	+0.82



TEPCO issued a press release confirming that one of the reactor cores at the crippled Fukushima Dai-Ichi nuclear power plant is more seriously damaged than previously thought. Fuel rods in the core of reactor #1 are fully exposed, and melted fuel has dropped to the bottom of the pressure vessel. According to Paul Padley, a physicist at Rice University, *"This is probably going to be a much more difficult cleanup than they originally planned for."* He also noted that the Japanese government and Tepco *"have consistently appeared to be underestimating the severity of the situation."* (Japan Reactor-Core Damage Worse Than Thought)

This announcement was followed by Friday's report that TEPCO will construct "giant polyester covers." These tent-like covers "will soon be placed around the damaged reactor buildings at Japan's Fukushima nuclear complex to help contain the release of radioactive substances into the atmosphere, the plant operator said Friday. Tokyo Electric Power Co. will install the first cover at the No. 1 reactor, the focus of recent stabilization efforts, starting next month. (Japan to Cover Damaged Nuclear Reactors with Giant Tents)

> *"Report Members can profit from my early morning trade ideas like yesterday's [Wednesday] call on the USO May $41 puts - it was right in the first paragraph of the morning post! We had picked up the trade in Member Chat Tuesday afternoon, buying the $0.95 puts, but I still felt it would be a good pick-up at the open on Wednesday. Here's the chart (left) - you can decide if this kind of information would be helpful to have in advance."* - Phil

Friday - World Talk

Equities traded solidly lower on Friday. A growing divide between two factions in the European Union pushed the European debt crisis into the limelight. Greece, the IMF, and Germany are on one side of the issue, with France and the European Central Bank (ECB) on the other side. The debate is about agreeing to some form of debt restructuring for Greece, due to the "dramatic worsening of Greece's situation." Greece, Germany and the IMF favor restructuring, France and the ECB do not. (EU, IMF ready for Greece restructure; ECB, France against)

5/13/11	Dow	S&P	NAS	NYSE	RUT
TODAY	12,596	1,338	2,828	8,372	836
PREVIOUS	12,696	1,349	2,863	8,456	848
% CHANGE	-0.79	-0.81	-1.21	-1.00	-1.40

We have often discussed the Dollar lately - what it's actually worth, and why it is an important factor in our investing strategy. This week's INDU versus UUP (Dollar proxy) chart (below) shows the inverse correlation between the Dow and Dollar continuing, although the steady bounce in the Dollar surpassed the mild, jagged overall weakness in equities. Regardless of short-term noise, the prevailing trend appears intact. As long as the correlation persists, we can use the direction of the Dollar to help us plan trades.

"This is one of the keys of expanding long positions as time goes on - we keep plowing our realized gains into doubling down and rolling options, and now, when we generate $4,461 - we consider it a slow week. Don't forget, we started with $25,000, and this week we earned $4,461 - that's 17%!

Notice what we do. We roll our option positions out in time and deeper in the money whenever possible. Thus, at the very least, we keep ourselves in a position to sell calls against our long positions [stocks or leaps] to generate income. At some point, we do need to be lucky on some of our longs, or we just have to cut them loose for other opportunities. I already see $2,550 coming our way next week when our POT caller expires worthless. GMCR looks bad - but better than last week!" - PSW Alert - $25,000 Portfolio

The Bureau of Labor Statistics released the Consumer Price Index Summary on Friday, showing prices increased 0.4% in April, in line with expectations. Perhaps surprisingly, the University of Michigan consumer sentiment index climbed to 72.4, higher than expectations of 69.5, and its best reading in two months.

Cisco was in the news this week. After releasing earnings that beat expectations, its share price dipped after CEO John Chambers announced that Q4 will continue to show weakness. Chambers pledged to implement changes to turn the company around. Following the news, several analysts cut their ratings on the company. S&P analyst Ari Bensinger and

Canaccord Genuity analyst Paul Mansky lowered their ratings from buy to hold.

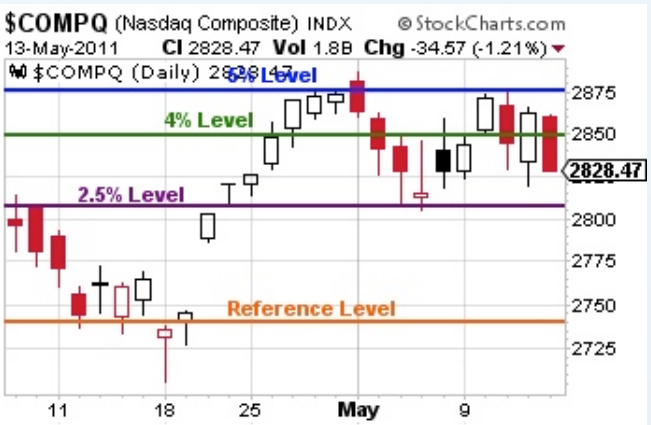
Henry Blodgett, CEO and Editor-in-Chief of The Business Insider, wrote a scathing article criticizing Chambers. *"At a base level, a company's chief executive is responsible for two things: A strategy to create shareholder value, and the company's execution of that strategy. For the past decade, Cisco's John Chambers has failed at both.*

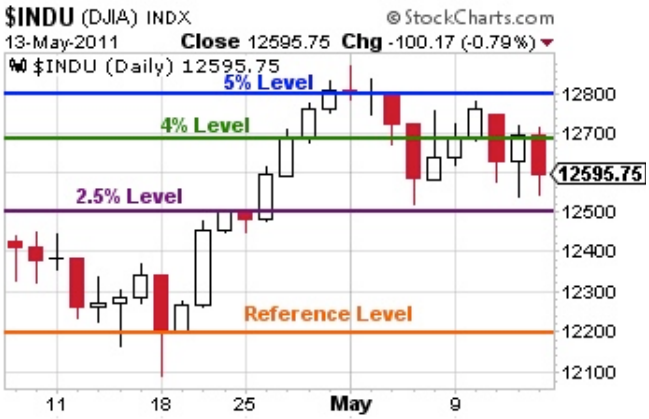
"Maybe Cisco's problems are intractable. Maybe the networking equipment business will never grow at a compelling rate again. Maybe the company's best strategy to create shareholder value is to massively cut costs, buy back boatloads of stock, and pay a huge dividend. Regardless, it's probably time to give someone else a try at the helm." (The Truth about Cisco: John Chambers has Failed)

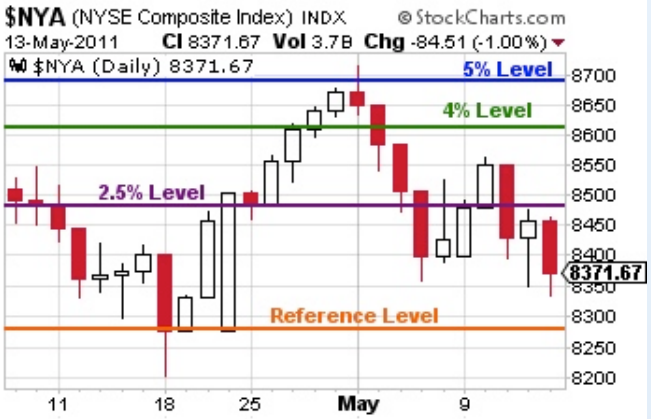
We disagree, and discuss why we're bullish on Cisco in "The Week Ahead" (next page).

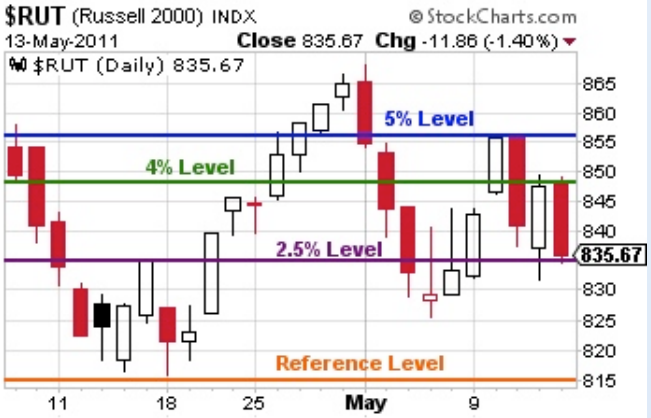
Friday's Levels

5/13/11	Dow	S&P	NAS	NYSE	Russell
FRIDAY CLOSE	12596	1338	2828	8372	836
5% LEVELS	12801	1365	2877	8694	856
4% LEVELS	12688	1352	2850	8611	848
2.5% LEVELS (MUST HOLD)	12505	1333	2808	8487	835
REF LEVEL	12200	1300	2740	8280	815





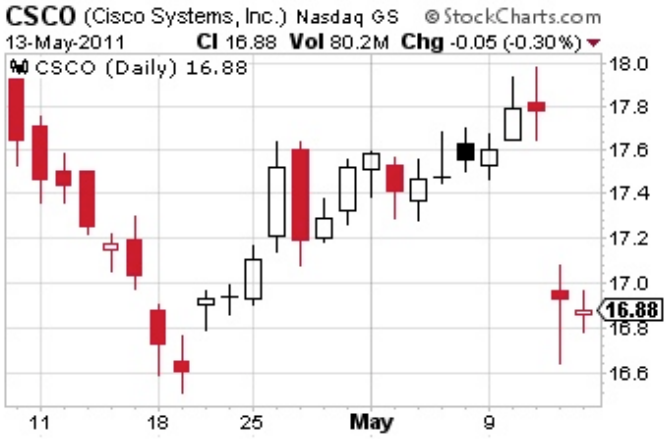




The Week Ahead

The threat that the U.S. government will hit the debt ceiling of $14.3 trillion Dollars loomed over the markets last week. Secretary of the Treasury Timothy Geithner warned of the consequences of inaction in the face of a possible government shutdown. (Geithner warns: Failure to raise debt ceiling may impact seniors.)

Lee Adler of the Wall Street Examiner, commented on POMO, the debt ceiling, and how the government is planning to pay its bills. In his discussion, the term "paydown" refers to a payoff of outstanding debt by the Treasury. It is the return of capital to lenders (investors or holders). With Treasury bills, much of the debt is held by the Primary Dealers, so the paydown results in cash coming back to the PD's accounts. Lee writes, *"The markets stumbled through this week in spite of having plenty of POMO and $16 billion in Treasury bill paydowns on Thursday to stoke the speculative fires." "But alas, a minor problem looms. The Treasury will issue $68 billion in net new debt on Monday that the market must pay for. The Treasury says it's $72 billion. For some reason it is not accounting for $4 billion in 30 year bonds supposedly maturing that day. My surmise is that these bonds were previously called.*



"Either way, it's the biggest net settlement since last November 15... So there could be some pressure in [the Treasury] market as well as stocks early in the week ahead. Some of that adjustment seems to have begun on Friday. Paydowns will return next week as only bills will be auctioned. That combined with POMO should give the markets a firmer tone later in the week. Then the supply bogeyman will return going in to the end of the month...

"The Fed's custodial data on FCB [foreign central banks] holdings through Wednesday suggested that the foreign central banks took their foot off the gas pedal. They had it floored for the past 4 weeks. If this is the beginning of a reversal in their short term buying cycle, that would be bearish for both Treasuries and stocks.

"Supply will be light next week with a net paydown of around $15 billion scheduled for Thursday, delaying the debt ceiling drop dead day to May 31 when the next round of notes, bonds and TIPS will settle. The TBAC [Treasury Borrowing Advisory Committee] says that will amount to $61 billion. This thing is up to John Boehner now. Like Newt's great political blunder in 1994, will this be Boehner's boner? It's in his hands." (Lee Adler, Markets Look to Boehner)

Cisco remains one of our favorite companies. It's the dominant vendor of computer networking equipment, with over $40Bn in sales and net income of $7.7Bn in Fiscal Year 2010. We believe it is an exceptional long-term value, especially in the $16/share range. While some analysts suggest replacing CEO John Chambers, we are encouraged by his willingness to acknowledge his mistakes and take proactive steps to correct them.

Demand for network bandwidth is certain to grow over time. As consumers, we will want ever-higher quality movies, ever-more complex games, ever more elaborate social networks, better graphics and better software for our digital devices. "Big Data" - huge amounts of data ranging from millions of real-time data feeds to medical imaging to streaming video - will require expertise to effectively transport from place to place. That Cisco is profitable, pays a dividend, and has an unmatched degree of experience in this key market, makes it a company whose stock we would like to hold as a long-term position.

On Thursday, Phil posted three option strategies for constructing a long position in CSCO: *"As we go down, it's going to be Blue Chips, Blue Chips, and more Blue Chips. You can go back and read our crash-time articles from March of 2009, when we began bargain hunting in earnest, but it's companies like CSCO that I will be favoring - Blue Chip companies that are in a rough patch.*

"CSCO is $16.85 and you can buy 100 shares and sell one 2013 $17.50 put and one 2013 $17.50 call for $3.90 (combined) for a net $12.95/15.22 entry. This strategy offers a 35% profit if your stock is called away at $17.50. While you wait, CSCO pays a $0.24 dividend for another annualized 1.8%."*

(*Note: if you buy 100 shares for $16.85 and sell a call and put for $3.90, the entry for the first round of shares will be $16.85 minus $3.90, or $12.95. If CSCO is above $17.50 at expiration, the stock will get called away and the put will expire worthless. The profit will be $17.50 - $12.95 = $4.55 or 35% (plus dividends). If the stock is below $17.50, the sold call will expire worthless, and 100 shares of stock will be "put" to you for $17.50, resulting in your owning 200 shares for an average price of ($17.50 + $12.95)/2, or $15.22 - a 10% discount from the current price.)

> *"Just because you're retired, doesn't mean you can't manage your own money. On a $500,000 account, you can save $10,000-$15,000 a year by managing it yourself. Is that worth skipping one round of golf per month?"*

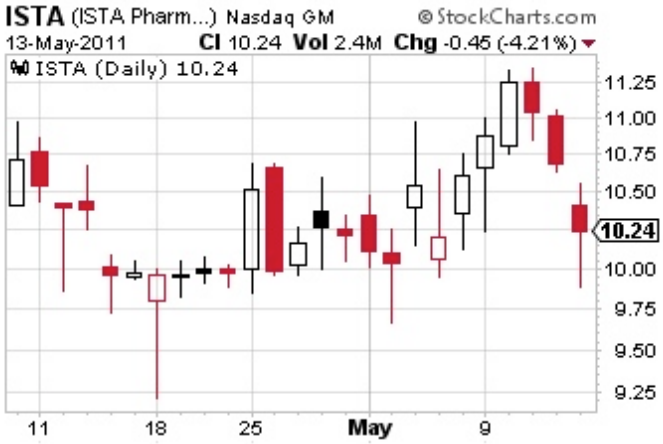
Phil continued with another strategy, *"Artificially, I like selling the 2013 $17.50 puts naked for $2.90, and I also like the 2013 $17.50/$20 bull call spread at $0.80. You can pair 4 of the bull call spreads (cost of $320) with one short put ($290 credit) and your upside is $1,000 for net $30 in cash, and about $600 in margin. Worst case, CSCO is below $17.50 at expiration, and 100 shares are put to you - you'll acquire 100 shares of CSCO in Jan 2013 at net $17.53.*

"If you want to be less nervous, selling the 2013 $15 put pays $1.65 and that covers buying two 2013 $17.50/$20 bull call spreads for $0.80 for a free possibility for $500 in profits, if CSCO is trading at or above $20 at expiration. The worst case scenario is if CSCO is below $15.00 at expiration. In that case, 100 shares of CSCO will be put to you for $15.00."

"So don't worry, we have no shortage of ideas for what to buy on the way down and we are in NO HURRY to buy anything until/ unless we get more than a 0.5% bounce in our indexes (at least 3 of 5), and none of it matters until we are back over those 4% lines. Anything else and we are still heading down and you'd better have some of those disaster hedges,..."

Shares of CSCO have barely changed in price since Phil's recommendations on Thursday. CSCO closed at $16.88 on Friday.

We also have another trade idea from Pharmboy. Pharmboy writes, *"This is an all-or-nothing call option play on an ophthalmic company, ISTA Pharmaceuticals. The company has several marketed products for ophthalmology, and data is due out for its bromfenac ophthalmic solution for dry eye. There was a lot of activity around the June $10 calls and puts on Friday, as well as some big bets on the stock. Phase 2 data suggests that the bromfecac solution for dry eye worked well. If you want a risky play, I like buying a few June $10 calls for $0.75 or better. This is a one way ticket, a win or lose gamble, on positive data."*



On Saturday, May 14 Phil posted "Investing for Income - Part 3 - Investment Protection" in which he discusses a virtual "Income Portfolio" designed to produce $4,000 a month in income from a virtual $500,000 portfolio. This is intended to be a "low touch" retirement portfolio that can be readily managed by anyone, even busy people with little interest in the stock market. It's designed for those wishing to learn how to get more out of their savings than they can with more conventional investments.

An example of one trade we recently did in the virtual Income Portfolio was to sell Intel (INTC) puts. *"It's a low-touch, but not a no-touch, portfolio. One of the things we do to make a little extra cash with our*

sideline margin is sell puts in companies we really want to own at the net strike (if put to us). One of those trade ideas was selling 20 INTC May $20 puts for $0.75 ($1,500) on April 12. We bought the puts back early for a dime, making an early $1,300 profit. Now, how much effort did it take to make $1,300? And what were the mechanics of the trade?

"INTC was at $20 at the time and we wanted to buy it for net $19.25. That was not to be. INTC flew up after earnings, but as a consolation prize, we got to keep $1,300 for doing nothing (selling puts). INTC didn't go straight up, and the puts didn't go straight down. On April 18, we had a 33% loss in the puts as they hit $0.99 when INTC dropped to $19.50. You need to get used to drawdowns when you sell puts. The price of the stock may drop and the price of the puts may rise, but it's not a loss until you panic and buy the puts back - that's a lesson from the $25KP!

"If you stick to stocks and positions that you really believe in for solid, fundamental reasons, and you are willing to accept a long-term ownership of the stock as a fallback, there are always ways to adjust ownership plays. ***It's the trades where you make bets that make you the sucker who BUYS premium that can't be fixed. Those we avoid like the plague in our retirement portfolios."***

Next Week's Economic Calendar

Monday 16	Tuesday 17	Wednesday 18	Thursday 19	Friday 20
8:30 AM: Empire State Manufacturing Survey	7:45 AM: ICSC-Goldman Store Sales	7:00 AM: MBA Purchase Applications	8:30 AM: Jobless Claims	
9:00 AM: Treasury International Capital	8:30 AM: Housing Starts	10:30 AM: EIA Petroleum Status Report	10:00 AM: Existing Home Sales	
10:00 AM: Housing Market Index	8:55 AM: Redbook	2:00 PM: FOMC Minutes	10:00 AM: Philadelphia Fed Survey	
11:00 AM: 4-Week Bill Announcement	9:15 AM: Industrial Production		10:00 AM: Leading Indicators	
11:30 AM: 3-Month Bill Auction	11:30 AM: 4-Week Bill Auction		10:30 AM: EIA Natural Gas Report	
11:30 AM: 6-Month Bill Auction			11:00 AM: 3-Month, 6-Month Bill Announcements	
			11:00 AM: 2-Year, 5-Year and 7-Year Note Announcements	
			4:30 PM: Fed Balance Sheet and Money Supply	
POMO DAY ($1Bn - $2Bn TIPS)	**POMO DAY ($5Bn - $7Bn)**	**POMO DAY ($1.5Bn - $2.5Bn)**	**POMO DAY ($1.5Bn - $2.5Bn)**	**POMO DAY ($6Bn - $8Bn)**

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