

**AT FRIDAY'S CLOSE:**

Dow Jones	12,454	0.41%
S&P 500	1,317	1.39%
NASDAQ	2,837	1.78%
NYSE	7,534	0.95%
Russell 2000	766	1.02%
Oil	90.72	-1.28%
Gold	1,576	-0.93%

# STOCK WORLD WEEKLY

THE EXECUTIVE'S SUMMARY OF THE GLOBAL MARKETS

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## Prior Picks Take Off:

In our last issue of Stock World Weekly, we closed with the notion that the sell-off was getting a bit overdone and we decided to play this week for a bounce.

We expected Phil to recommend 3 stocks in his scheduled Tuesday TV interview based on what had been discussed in last week's Member Chat and our entry points were:

- CHK - \$14.36, now \$15.81 (up 10.1%)
- XLF - \$13.77, now \$14.02 (up 1.8%)
- HPQ - \$21.46, now \$22.33 (up 4%)

During the interview ([available here](#)), Phil did speak about CHK and XLF. He went also in the direction of BBY, which had become Phil's new love at \$18 that day. The trade idea from the interview was:

The XLF pick (top right) has the potential to return \$1.16 against a .16 net credit -

that's 725% on cash and 97% against margin over the next 237 days (131% annualized):

Phil mentioned WFR (\$1.60) and JPM (\$34.38) as long-term stocks he thought were undervalued. However, he also stressed extreme selectivity in picking stocks at this time as well as reiterating his "Cashy and Cautious" stance - a recurring theme for Members since the market topped out in April. Phil noted that most of our current trade ideas involve selling puts for cheaper entries on the stock, such as the CHK puts from our Twice in a Lifetime List (Members Only):

- CHK 2014 \$5 puts SOLD for \$1.25 for a net \$3.75 entry on CHK, worst case (76% off)

Those puts finished the week at \$1.10, up a quick 13.6%, but still playable if you don't mind owning CHK for net \$3.90. (It's currently trading at \$15.81). This is what we love about selling puts to make our initial entries on stocks. See Phil's classic post:

[How To Buy A Stock For A 15-20% Discount](#)

## Thank Google!

On the whole, it was a roller-coaster ride for the markets as we blasted off Monday after the Facebook-doomed Friday that was predicted the day before in the very aptly titled: "[Free-Falling Thursday – Facebook Faces Fatal Friday Follow-Through.](#)"

In last week's issue, we were done with the Long Put List except for the GOOG June \$540 puts, which had dropped to \$4.60 and became our last "fresh horse" to ride as protection. While the rest of the market did re-



cover, with the Nasdaq notably gaining 1.8% on the week, Google fell back to \$591 (down from \$624 on Friday). The Google puts popped back to \$13.50, up 191% on the week and NOW we are done with the whole list!

# Monday Market Movement – Mother and Child Reunion



countries which, while sharing common borders, have very different cultures and economies. That it would eventually face an existential crisis was foretold by numerous critics at the time of its creation. The euro has never been a real currency. It was and still is an experiment, fashioned and shaped by a generation with noble ideas and vision, but tied together by an unworkable structure.”

Referring to the picture on the left, Phil wrote:

*There's an image to inspire confidence, right?*

*First of all, Vlad the Impaler did not even bother to come, an historic snubbing of the G8. While I'm sure the other leaders slept better knowing that they didn't have to share a bathroom with a trained assassin, Putin did send his puppet, Medvedev to join such awe-inspiring global figures as Barroso, Van Rompuy, Harper, Hollande, Noda... stop me if I get to someone you've heard of....*

The Group of Eight (G8) met at Camp David over the weekend. [John Mauldin summed up the monstrous problem that the EU has become by quoting Doctor Frankenstein](#) as he pondered the beast he set upon the World:

“Why was China not at this conference?” Phil wondered, and it does seem odd to exclude the World’s second-largest economy from a Global Economic Conference just because they may have come a bit late to the big boy’s table. Actually, China is not that late. The G8 (originally the G6) came into being in 1975 [when a first meeting was attended by France, Germany, Italy, Japan, the United Kingdom, and the United States](#). Canada was added one year later, and Russia was added in 1997.

*"Had I right, for my own benefit, to inflict this curse upon everlasting generations? I had before been moved by the sophisms of the being I had created; I had been struck senseless by his fiendish threats; but now, for the first time, the wickedness of my promise burst upon me; I shuddered to think that future ages might curse me as their pest, whose selfishness had not hesitated to buy its own peace at the price, perhaps, of the existence of the whole human race."*

G8 Member	2011 GDP (\$Tn)	GDP Ranking
Canada	1.7	10
France	2.8	5
Germany	3.8	4
Italy	2.2	8
Japan	5.9	3
Russia	1.9	9
United Kingdom	2.4	7
United States	15.1	1
Sub-total	35.8	
Total World GDP	69.7	
G8 as % of Total	51.4%	

Doctor Frankenstein, it seems, had nothing on the EU, which Mauldin called: “a triumph of hope over reason, pieced together from very dissimilar

If the G8 leaders, representing developed countries, want economic growth (real or inflation included) they will have to continue the ongoing 'rob Peter to pay Paul' Government funding. They almost certainly will need further quantitative eas-

**Market recap:** The Dow and S&P 500 snapped a six-day losing streak and the Nasdaq posted its best one-day percentage gain this year. Facebook slid 11% in its second day of trading, but Apple [regained some shine](#).

## Inside PhilStockWorld Member Chat:

**Phil (10:04 am):** I'm bouncingly bullish as falling 10% in a couple of weeks is a lot but that's a long way from being a believer...

**FB \$34.15! \$33.50.** The way they are selling off is they hold a support and then dive hard when it breaks – this is a very poor indication that the stock is in serious trouble and attempts to bail it out are failing.

News (11:53 am): [Good Friday observation](#): The correlation between Euro and SPX has been strong. And yet, something funny happened today. Around noon, Euro surged and SPX dropped. You can see the divergence in the following chart. One of these two is lying. I guess it is SPX. For one, it is more difficult to manipulate the forex market which is many times bigger than the US equities market.

Phil's Trade Idea (1:38 pm): I mentioned GLW, CSCO and GNW last Wednesday as good additions to the TWIL List but I don't think I picked

specific entries on [Thursday](#). GNW is easy at \$5.02 – the 2014 \$5 puts can be sold for \$1.75 for a net \$3.25 entry. GLW was at \$12.70, now \$13.06, and you can sell the 2014 \$15 puts for \$3.90 as I really like GLW into the next Smartphone cycle.



## Testy Tuesday - All Better or Just Bouncing?

Russ Winter, of Winter Watch warned of "[Three Critical Industries Now in Serious Capital Destruction Mode](#)." Those industries are natural gas, coal production and electric utilities — all are operating well below the cost of production.

*Apparently coal companies drank the "sell to China forever" Kool Aid, and ramped up production. As a result of the over-production, coal company stocks have experienced a historic sell off and panic. Like shale gas producers, many coal firms are leveraged, and are now facing insolvency. In turn this has spread to electric utilities where marginal rates have collapsed. Many utilities are also now selling the marginal power below cost of production, and are thus destroying capital. And what are industrial users suppose to do? Ramp up production based upon the continuation of bargain prices as the three industries proceed to liquidate themselves?*

Despite the issues being faced by the natural gas sector, CHK remained Phil's favorite, with over one dozen different bullish plays mentioned in the past two weeks as the stock fell below \$15. In the morning post, Phil said:

*All three of my stock picks from this week's [Stock World Weekly](#) gave us the entries we were looking for and some nice gains yesterday as CHK opened at \$14.25 and finished at \$14.91 (up 4.6%), HPQ opened at \$21.42 and jumped to \$21.89 (up 2.1%) and XLF gave us our \$13.77 entry but is still playable at \$13.90 (up 1%) and, of course, our aggressive FAS Money move was to take advantage of the lagging XLF index.*

*Of course the more fun way to play XLF would be our trade idea from yesterday's Member Chat, which was to sell the Jan \$12 puts for .75 and buy the Jan \$13/14 bull call spread for .59, which nets a .16 credit on the \$1 spread so no cash committed (but about \$1.20 in margin) and a potential \$1.16 upside (725%) if XLF maintains \$14 through Jan expirations and the worst case is you have XLF assigned to you at net \$11.84, which is a 15% discount to the current price (see [How to buy Stocks for a 15-20% Discount](#)" for more on this strategy).*

CHK finished the week at \$16.08 (up 12.8%). HPQ finished at \$22.21 (up 3.6%), and XLF ended the week at \$14.01 (up 1.7%). The

leverage provided by the XLF option spread has already netted a 0.4% gain, up 25% in the first week (but don't get too excited, it's only 4 cents!).

More important than coming up with new trade ideas was identifying what it would take to get bullish and Phil wanted to concentrate on what he calls the "Bounce Levels" - the 20% and 40% retraces of a drop from their consolidation highs (see the PSW Strategy Section for more details on the 5% Rule). Anything less than a 2% bounce off the 10% drop (a 20% retrace) was going to be considered bearish and the levels we were looking for were:

- Dow – 12,750 (**12,540** is 20% retrace/weak bounce)
- S&P – 1,343 (**1,319**)
- Nas – 2,900 (**2,840**)
- NYSE – 7,720 (**7,560**)
- RUT – 780 (**765**)

As you can see, only the Russell finished over the line for the week and that kept Phil from being bullish into the weekend. The lines will be the same next week as long if the lows are not broken, but next week the bar is raised and it's the 40% "strong bounces" that need to be taken in order to move to a more bullish stance.



**Market recap:** Late-day selling picked up as the euro dove to lows on headlines from former Greece PM Papademos, who said a Greece exit from the euro is [being considered](#) and would have "catastrophic" consequences for Europe. A rebound in JPM [lifted bank stocks](#). Crude oil [slid 1%](#) to \$91.66 on [signs of progress](#) with Iran. NYSE decliners led advancers five to three.

### Inside PhilStockWorld Member Chat:

Cramer is pounding on that *BBY is the AMZN showroom theme.* BBY and AMZN both have \$50Bn in revenues but BBY drops \$1.2Bn to the bottom line and AMZN drops \$130M. This is total nonsense. BBY's on-line sales popped 20% this Q too! I don't have the breakdown but obviously AMZN sells a lot more than electronics and media than BBY sells, so they are not even direct competitors to that extent. The story that AMZN will make retail obsolete has been going strong since 1999 but, so far, retail is still around – especially at the AAPL stores, which are probably hurting BBY more than AMZN.

Did AMZN make retail less profitable? Sure they did, as did WMT and COST but that's the game and BBY put CC and other DIRECT competitors out of business the same way – to treat them like they are worthless (\$6Bn) compared to AMZN (\$98Bn) is plain stupid and Cramer knows better – he's just a lying manipulative POS pumping AMZN and killing BBY for his Hedge Fund buddies. CASH doesn't mean 100% cash. I think we had a lengthy discussion about scaling in LIGHTLY. It's certainly the right time if you can still get those prices to hit a

few. Twice in a Lifetime was pointing out that you had a once in a lifetime chance to get those prices during the panic in 2009 – it lasted for about 2 days. Now we had it again last week and I'm sorry if my cautioning not to go gung-ho bullish on it was taken as not to go in at all. As I have often said – if you are not going to buy low – when are you going to buy?

**A long-term play on BBY would be the Jan \$18/21 bull call spread at \$1.25, selling the Jan \$14 put for \$1.10 for net .15 on a \$3 spread that's \$0.50 in the money at the moment (\$18.50). The risk is owning BBY at net \$14.15, which is a 23% discount to the current price. It has a p/e of about 4 at that level.**

# Whipsaw Wednesday - You're Lucky They Don't Charge You to Take Your Money!

We've noticed a pattern at PSW and that pattern is that, on weeks when the Government is having Treasury auctions, the market tends to sell off. This, of course, panics people into T-Bills at very low interest rates and allows the Government, which currently borrows over \$100Bn a month in order to stay on the deficit treadmill, to avoid facing reality for another 30 days.

We've also noticed that many of these market selloffs are triggered by negative Fed-speak. Could the Fed and the Treasury purposely be manipulating the market to scare people into buying T-Bills at low rates? We report, you decide. Phil predicted Whipsaw action for the day based on this theory at 8:32 am, and the note auction ended around 12:30 pm, and was announced at 1pm—here's what the chart for the day looked like:



It's not just the US. Germany held a 2-year note auction on Tuesday and sold \$6Bn worth of 2-year paper at 0% and the Swiss sold 2-year paper and did actually get paid 0.1% for holding people's money for the next 24 months—amazing! Phil commented:

*Of course the markets are crashing this week – the G8 has bonds to sell! If the markets are flying you're not likely to be so anxious to give your government free money to hold for a couple of years, are you? So this is a great week to take the*

*markets down and the US sold \$35Bn worth of 2-year notes at Depression-level lows (1.78%) yesterday and today we sell \$35Bn worth of 5-year notes and Thursday we sell \$29Bn worth of 7-year notes and THEN we have most of what we need to borrow to take us through the end of May...*

*...Come on folks, wise up to the game! You are lending money at 0% so your Government can make whole the people who lent them money for 30 years at 15% back in 1982. You are buying low to subsidize your Government that sold high to the top 1% of the Reagan Revolution, who took full advantage of the insane Government policies of the time (to borrow record amounts of money at record-high rates in order to subsidize tax breaks for the rich) to stick it to future generations (us, now), who would have to then subsidize their outrageous coupon rates.*

Former Secretary of Labor and PSW contributor, Robert Reich has become fed up with the Government's lack of action in improving the Jobs market and he offered "[The Commencement Address That Won't Be Given](#)" as grads pass \$1 Trillion in student loan debts:

*Members of the Class of 2012,*

*You're f\*cked.*

*Well, not exactly. But you won't have it easy.*

*First, you're going to have a hell of a hard time finding a job. The job market you're heading into is still bad. Fewer than half of the graduates from last year's class have as yet found full-time jobs. Most are still looking...*

*...This can't go on. If unemployment stays high for many years, if the wages of young college grads continue to fall, if the costs of college continue to rise and state and local spending per college student continues to drop, and if the college debt burden therefore continues to explode – well, you do the math. .*

**Market recap:** Stocks snapped back sharply from lows after France's Hollande and Italy's Monti voiced [support for euro bonds](#) and the Fed's Kocherlakota said a fall off the fiscal cliff [would argue for new QE](#). But the move could just as easily be explained by short covering after a period of weakness. Crude oil ended [below \\$90](#) for the first time since October. NYSE gainers beat losers seven to six.

## Inside PhilStockWorld Member Chat:

TSLA (\$31.25)/Yodi – I'm not negative, I love TSLA but I am POINTING OUT TO YOU the risk of betting on a company that essentially has everything riding on a single, complex product that has never been tested when there must be 20 or 30 massive recalls this year alone on existing models from 100 year-old auto companies. So, I am pointing out that betting on TSLA is betting that the company will be able to perfectly execute the production roll-out of a brand new automotive design on their first attempt. Personally – it's not a bet I would make, nor would I buy the car in year one. MAYBE it will all go perfectly and TSLA will justify their 50x earnings forward valuation (5x industry standard) because not only will nothing go wrong with the car but they will meet and exceed all of their production goals and grow into their valuation.

CHK (\$14.45)/Scott – I'd risk \$12,500 to make \$12,500 on that trade – **selling 100 2014 \$5 puts for \$1.25** and assuming you would be able to get out before they double up on you to \$2.50. The delta is about .10 so that's, in theory, a \$12 drop in CHK, although the Delta would increase. Still, CHK would have to drop

more than 30% in a day to blow past that stop and I don't mind an even risk/reward proposition on an event I consider unlikely (CHK falling below \$10). Even at -\$12,500, I'm obligated to buy 10,000 shares of CHK for net \$3.75 with CHK trading at maybe \$8, so I can't even say that I'd REALLY want to quit unless I was pretty damned sure CHK was going BK. If it's happening just because nat gas goes to zero over the summer, I'd be more likely to double down as I don't mind betting that won't last 3 years.



## Thursday Thrust - Enough to Break on Through?

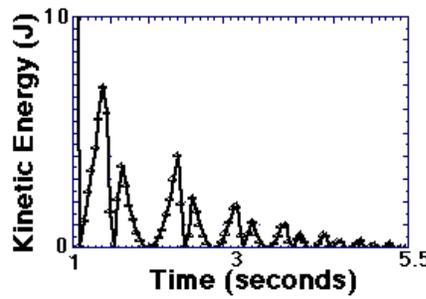
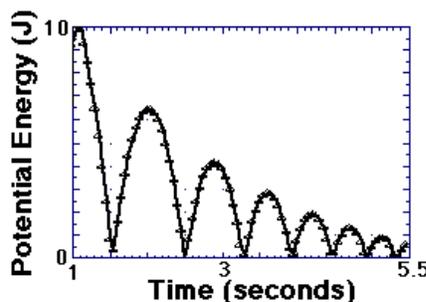
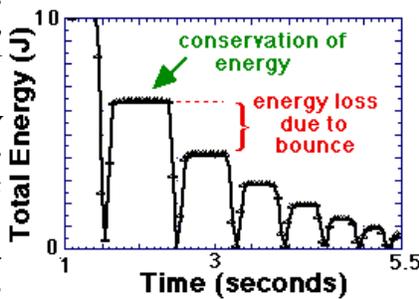
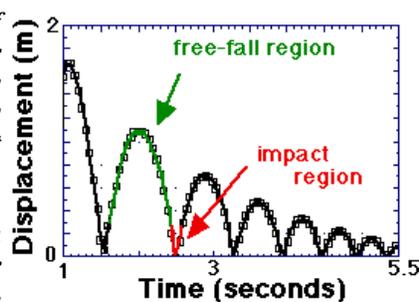
After having “whipsawed” back to just under our “weak bounce” levels, Phil was concerned that stocks did not have enough thrust to make it back over our lines for the week. In Wednesday’s morning Alert to Members, he wrote:

*Gotta clear the RUT, they stopped dead at the weak bounce and are just over at the open so now we look for the S&P to join at 1,319 but we really want to see 1,320 taken and held and all that is just a WEAK bounce that we expected for the week – not really a reason to get too bullish.*

Now we're all red of course but we don't lower our expectations every time the market gets weaker. Let's think about the pattern. Last time, about 5% higher than here, we bounced after a 5% drop and we hit our STRONG BOUNCE levels. They failed and we fell another 5% and now we're failing our WEAK BOUNCE levels and that, in physics is EXACTLY how it works as you lose kinetic energy (see Stock Market Physics)!

With our market bleeding kinetic energy (the energy that drove it's upward momentum) we need an outside force to act upon it in order to give it the energy to go higher again. That energy is MONEY in the markets and it can come in the form of data or news that improves sentiment – driving money in from the sidelines, as M&A activity the puts sidelined corporate or investor cash to work or it can come from stimulus, which artificially drives the other two.

Unlike regular physics, we can also rise on a reduction in gravity, which at the moment can be measured by the strength of the US Dollar, which is NOT constant but it's PRICE determines the VALUE of everything else. The Dol-



*lar is very strong today, at 81.85 and that's dragging US Equities and Dollar-based commodities down into a gravity well of lower relative prices. TA charts do not account for this but we need to consider that a 1% rise in the Dollar followed by a less than 1% drop in the Futures which holds the same floor (12,500, 1,300, 2,500, 750) in the Futures that we held on a weaker Dollar is PROGRESS – it's a sign of strength – albeit a small one.*

*So I'm certainly not saying to throw caution to the wind and we need to get more bearish if our Futures levels fail us because we could easily drop another 10% below this floor, maybe on the way to 20% further down. But, for now – at this point – we can play for the bounce as the Dollar tests 82 and the Euro tests \$1.26 and the Pound tests \$1.57 and the Yen tests 79 – all levels they really don't want to give up.*

*If the Dollar does go over 82, we're almost certain to lose our levels so keep and eye on that.*

Thursday’s action took us to a lower high, but the floor was raised as the “gravity” of the Dollar increased, which led us to play for a flatline into the weekend—it’s just physics!

**Market recap:** Stocks bounced off losses after Italian PM Monti said most leaders at the EU summit [backed joint eurobonds](#) and he'd push Germany to support them (good luck with that). Earlier, talk that China's biggest banks may [fall short of loan targets](#) was driving stocks lower. The euro tumbled to a [22-month low](#) near \$1.25; crude oil [eased back above \\$90](#). NYSE losers slightly outnumbered gainers.

### Inside PhilStockWorld Member Chat:

Let's buy 5 TLT Sept \$110 puts for \$1.08 in the \$5KP – why should the \$25KP have all the fun?

**EDZ (\$18.56)/DC** – It's always my favorite hedge these days. \$18.56 is nice and low for EDZ and you can set up the following hedges:

**EDZ July \$17/26 bull call spread for \$2, selling \$16 puts for \$1.20 for net .80 on the \$9 spread.** If you stop out at \$1 on the bull call, worst case is you own EDZ for net \$15.80, which is below the last top of range (around \$14) before it broke up.

**EDZ Oct \$18/23 bull call spread at \$1** is on the money so no need to sell puts (as you make 400% to the upside on just the bull call spread) unless they fall, then the **goal would be to sell \$10 puts (now .30) for \$1** as that's well below the \$11.50 low for the year and owning EDZ for net \$10 is a good hedge for the rest of the year.

**PBR (\$19.10)/ZZ** – They cut their dividend, which really cleared the decks of

investors but I do think it makes for a nice scale-in entry. **2014 PBR \$15 puts can be sold for \$2.20** – that's a nice net \$12.80 entry (33% off current \$19.20) against \$1.60 of net margin – can't complain about that and I'd do that for the new Income Portfolio.

*Now we're coming into the weekend so we certainly want to hang on to at least one hedge – even if we do get a stick!*

*S&P 1,310 now – not good if we can't hold this! Lining up with 12,400 on the Dow, 2,520 on Nas and 755 on the RUT. Dollar 82.47 – no wonder we keep slipping. Euro (\$1.2534) and Pound (\$1.565) priced for DOOM!!! 79.55 Yen to the Dollar (weaker) means we have a little Yentervention helping us along too.*

*That means we probably hold 1,310 as it's more currency related than a proper sell-off.*

## Friday Failure - Weak Bounce Levels Turn into Resistance

As we expected, there was not enough thrust to break over those weak bounce lines for the week. The Dollar kept getting stronger taking UUP to \$22.82 at Friday's close.

This matched the January 9th high that was a prelude to a dollar-driven rally in stocks, as the Dollar pulled back from 81.78 to 78.10 at the end of February. The 4.4% drop in the currency was matched by a 600-point move in the Dow from 12,400 to 13,000 (4.8%).

Now the Dollar is back to 82.40 and the Dow is back to 12,454. With the Euro in crisis it's going to be harder to knock the Dollar down. A stronger Yen could do it but the BOJ doesn't want a stronger Yen. It wants a weaker one and even [Fitch's downgrade of Japan's Sovereign Credit to A+ on Wednesday](#) wasn't enough to take the wind out of the Yen's sails. As Phil explained to Members on Friday morning:

*EUR/CHK at 1.2015 now - you can make money playing it to 1.2009 (but was better from higher) as Forex is 0.10 per 0.00001 per contract and trade in 10,000 lot sizes anyway so \$100 per 0.00001 is not bad to catch a move 1.2035 to 1.2009 (\$2,400 per lot). Usually, I would never touch futures but EUR/CHF has flatlined for the last 6 months, they made a very unusual move up and the SNB specifically said their policy hadn't changed — sounds like free money to me as we wait for them to peg it back.*

*So, Dollar was down to 82.10 but back at 82.22 now as Euro is rejected at \$1.26 (bad) and Pound topped out at \$1.568. Yen hit 79.8 to paint the Nikkei close at 8,625 (/NKD) and now back to 79.53 and 8,600 as they can't keep investors out of the Yen no matter how screwed up they make their economy. That's because you have outflows from the Euro, which is about 28% of all currency and every other currency (8%) to the Dollar (60%), Franc (1%) and Yen (3%). Since it's in the nature of old, rich folks not to put all their eggs in one basket — they split their money up and even if they go 90% Dollars and 10% Yen and Franc — it's a disproportionate amount of money being shoved into those very small holes*



*— that's the problem the BOJ and SNB are having — too much demand for their currency keeping them much stronger than they want to be and there really is no way they can fight it because more money comes in every day.*

*Now that the US is looking less screwed up than Europe or China (or Japan for that matter), we're starting to have the same problem of the Dollar getting stronger and stronger but, unlike the other two, we can do a pretty good job of absorbing the inflows, due to the relative size of our currency and, of course, our constant need for debt. Just this week, we printed \$100Bn in new money through our several TBill auctions. That's what it is — the Treasury takes a blank piece of paper, prints a note on it that says \$29Bn for 7 Years at \_\_\_ % and the auction fills in the blank as people exchange their hard currency for that piece of paper. The note is debt, of course but then the joke is that some of the people buying the debt are using Fed Funds, which are created out of think air and do expand the money supply.*

*The Fed creates money by A) Having no money B) Buying a TBill (usually through their primary dealers) C) Putting a debit on their balance sheet for the cost of the TBill (or cost of money borrowed from primaries) D) Collecting the newly printed TBill (as payment for their overnight loan) E) Putting a credit on their balance sheet for the TBill and now they are back to a zero balance AND they get paid interest and a profit (at future taxpayers expense) from their magical money creation scheme. That's how the Fed creates money and charges us for it at the same time — BRILLIANT!*

**Market recap:** Stocks stumbled in listless pre-holiday trading, with no news to ease fixation on Spain ([I](#), [II](#), [III](#)), where regional banks are struggling and government bond yields are shooting higher. Still, all three top indexes posted their best weekly gains this month, snapping a three-week losing streak. Advancers and decliners finished nearly even on the NYSE.

### Inside PhilStockWorld Member Chat:

On the bullish side — I'm encouraged that the Dollar was at 80.60 at the open as the EU tested \$1.25 on whatever silly thing spooked them even more than they were already spooked. The Pound touched \$1.565 and held that and the Yen touched 79.50 (too strong) and held that and good old EUR/CHF is back to 1.2010 so things are all on track again at the SNB.

Oil is encouraging at \$90.77, gold is \$1,565 so no major QE rumors it seems, silver is \$28.24 and copper is still \$3.4475. Nat gas failed on yesterday's big inventory build (usual in summer-time) and is down at \$2.60 again but CHK doesn't care and is testing \$16. **Gasoline is \$2.8188, rejected at \$2.835 and we discussed going long early this morning on /RB at 2.815 for a ride to \$2.85** so you didn't miss much and \$2.82 makes a good on/off line for bull plays. I'm pretty confident in this one.

So — bullish Dow trade was the promise from the morning and that's going to be **DIA July \$131 calls at .80**, which have a .20 delta so every 100 points the Dow gains is 25% in your pocket. That's fun for a day trade and not too risky over

the weekend as a drop in the Dow would pump up the VIX and probably keep them from losing the whole .20 per 100 on the way down.

**Jerconn asks:** "Phil, do you like TNA for an upside play, or is the DIA 131's your upside play?"

**Phil responds:** "TNA/Jerconn — The logic is based on the Dow being 5% below the S&P (our leader) vs. the others trailing by 2.5% so, if we begin to rally and line up, the Dow would seem to have the most ground to make up. Also, as a rule of thumb, when I look over the Dow components and begin salivating, my doggie-brain tells me it's time to buy the Dow and I see AA \$8.50, BA \$70, BAC \$7, CAT \$90, CSCO \$16, GE \$19, HPQ \$21.50, INTC \$25.50, JPM \$33.50, MCD \$90, MSFT \$29, PG \$63, UTX \$73 and XOM \$82 — excuse me I'm drooling again... ☺"

# The Week Ahead

Courtesy of Lee Adler of the [Wall Street Examiner](#)

The Treasury had a heavy calendar last week. The market will face a big Treasury settlement this Thursday as a result. The need to pay for that supply will play a role in the market probably on Tuesday, Wednesday, and possibly Thursday, or with a delayed reaction on Friday. However, balancing that is the ongoing Treasury buying panic, mostly driven by the flight of European capital into the US. The 1.70 level on the 10 year is the key benchmark to watch in determining whether that capital flow will be sufficient to send Treasury yields crashing further. The recent linkage would suggest that if yields do break down, stocks will go with them, with 1295 being the benchmark to watch on the S&P.

On the other hand, with no new long term supply offered next week, once the May 31 settlement is put to bed, the pressure on the market will ease until mid month at least. With nothing to sell, the Primary Dealers and their number one client, the US Government, will not be adverse to a small uptick in Treasury yields coupled with stocks coming off the cliff ledge and moving higher....

Next week could be a little rougher, probably Wednesday and especially Thursday when the market must settle the new Treasury paper. There's sometimes a delayed reaction the day after the settlement if the market was firm leading into it. The end of month settlement can be particularly problematic because the Fed has only been helping out with the mid month settlement. That's when it has settled its forward MBS purchases each month, probably due to the benchmark 10 year and 30 year paper settling at that time. The Fed is apparently not as concerned with the 2, 5, and 7 year note settlements at month end and has let the market handle them without its help.

The market has done just enough to stay above major support over the past few days but it hasn't created much of a safety cushion (or whoopee cushion) and it still faces several layers of resistance at 1320, 1335, the 1340s and 1350s that it must cross to be in the clear for a bigger move up. While short term indicators have turned bullish, intermediate indicators have yet to do so.

Get regular updates the machinations of the Fed, Treasury, Primary Dealers and foreign central banks in the US market by clicking on this link to try [WSE's Professional Edition risk free for 30 days!](#)

Mon, May 28	Tue, May 29	Wed, May 30	Thu, May 31	Fri, Jun 1	Legend
USA Memorial Day Equity Markets Closed	Switzerland UBS Consumption Indicator 2:00 AM	Switzerland KOF Leading Indicator 3:00 AM / 0.41	Germany Retail Sales (YoY) 0:00 AM / 0.3%	USA ICSC Chain Store Sales	Credit Market
Japan Jobless Rate 7:30 PM / 4.5%	Germany CPI (YoY) 8:00 AM / 2.1%	Europe Business Climate Indicator 5:00 AM / -0.67	Switzerland GDP (YoY) 1:45 AM / 0.0%	USA Motor Vehicles Sales	Equities Market
Japan Household Spending 7:30 PM / 2.5%	Germany CPI – EU Harmonized (YoY) 8:00 AM / 2.2%	Europe Consumer Confidence 5:00 AM / -19.3	Germany Unemployment Change 3:55 AM / -7K	Switzerland SVME PMI 3:30 AM / 47.4	Energy
Japan Retail Trade 7:50 PM / 6.0%	S&P <u>Case-Shiller</u> HPI 9:00 AM	Challenger Job Cut Report 7:30 AM	Europe CPI Estimate 5:00 AM / 2.5%	Germany PMI Mfg 3:55 AM / 45	International
	Consumer Confidence 10:00 AM / 69.5	Pending Home Sales 10:00 AM / 69.5	ADP Employment Change 8:15 AM / 135K	Europe PMI Mfg 4:00 AM / 45	Fed Speak
	Dallas Fed Mfg Survey 10:30 AM	4-Week Bill Auction 11:30 AM	Personal Consumption 8:30 AM / 2.9%	Great Britain PMI Mfg 4:30 AM / 49.7	
	3-Month Bill Auction 11:30 AM	52-Week Bill Auction 11:30 AM	GDP 8:30 AM / 1.9%	Europe Unemployment Rate 5:00 AM / 11%	
	6-Month Bill Auction 11:30 AM	Fed's Dudley Speech 1:00 PM	Fed's <u>Pianalto</u> Speech 9:30 AM	Canada GDP (YoY) 8:30 AM / 1.9%	
	Japan <u>Nomura/JMMA</u> Manufacturing PMI 7:15 PM	Fed's Fisher Speech 1:00 PM	Chicago PMI 9:45 AM / 57	Non-Farm Payroll 8:30 AM / 150K	
		Japan Industrial Production 7:50 PM / 13.7%	EIA Natural Gas Report 10:30 AM	Unemployment Rate 8:30 AM / 8.1%	
			EIA Petroleum Status Report 11:00 AM	ISM Manufacturing 10:00 AM / 54	
			China PMI Mfg 9:00 PM / 52	Construction Spending 10:00 AM / 0.4%	
			China HSBCPMI Mfg 10:30 PM		

# Options Strategies - Iron Condor Strategy for Retirement Accounts (Part 1)

This article describes the overall strategy for entering and exiting an iron condor trade as well as the mechanics of adjusting the trade when necessary. The approach we present here can be applied to unrestricted money accounts, or retirement accounts, but the risk mitigation element of this strategy is specifically aimed at retirement account investors. But let's start by answering a basic question – why are we trading the iron condor (IC) in the first place? If we follow established guidelines for the IC, which will be detailed later, we can realize the following benefits of the IC: 1) a trade that is relatively low risk, 2) a trade that has a high probability of success, 3) a trade that puts you on the winning side of time decay and volatility, and 4) a “limited” or “defined” risk trade that is allowed in retirement accounts (depending on broker).

## Basic Definition of an Iron Condor

Let's start with a simple definition of an IC. An IC is a credit spread where one strangle is sold closer to the strike price, and another is bought further from the strike price, thereby constraining the risk of the sold strangle. While this definition is accurate, a better way to think about an IC is to focus on the two sides of the trade – the higher call side and the lower put side. A notional example would be as follows:

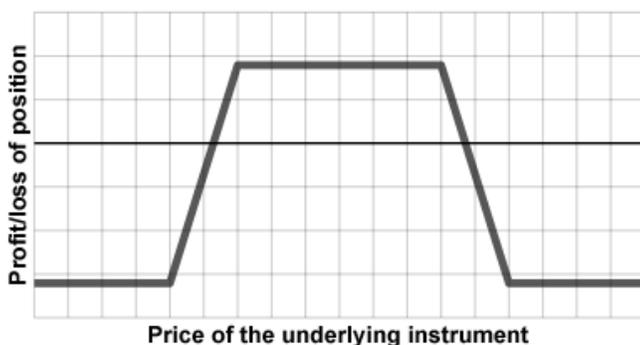
The Russel 2000 (RUT) is currently at 1000

We sell a call 100 points higher than the current RUT mark, and buy another call a further 10 points higher

We sell a put 100 points lower than the current RUT mark, and buy another put a further 10 points lower

The resulting IC looks like this:

- Bought call @ 1110
- Sold call @ 1100
- Sold put @ 900
- Bought put @ 890



Note that you receive a credit for this trade, and though I have described selling the two wings separately, it will be easiest for the beginner to sell the IC in one trade. Another crucial point is that, depending on your broker, you should be able to utilize the margin for one wing to count towards both wings. Thus the above trade would have a margin requirement of 10, not 20, as the trade could not possibly expire in

two places. If you cannot combine the margin for the two wings, we recommend you use a different broker.

## Margin at Risk, Credit Received, and Potential Loss

Using the example above, let us describe the margin at risk, credit received, and potential loss if the trade goes against us. We will assume this is a trade of 10 contracts (actually 10 for each bought or sold option), with each worth \$1000 of margin. This means that our trade has a margin effect of  $10 \times \$1000$ , or \$10,000. We will assume you receive \$1 credit for each contract, which really means \$1 multiplied by 100 (number of options per contract), or \$100 per contract. Multiply that \$100 by 10 (the number of contracts) and we have \$1000 of credit received. If this trade expired in the money (i.e., above 1100 or below 900) your total loss would be margin at risk minus credit received, or \$10,000 – \$1000. In other words your potential loss could be as high as \$9000. We propose using strategies to mitigate risk, such that this will hopefully never occur, but it is important that traders understand what they are risking when entering any trade.

## How Most People Trade Condors

Now let us look at how ICs are typically described and traded especially in unrestricted cash accounts. After this description we will emphasize the differences of our approach for retirement accounts and why we think it's safer, and has greater returns over the long run. In general ICs are sold approximately one month from expiration, with the expectation of either letting the options expire (with hopefully a credit to your account) or with the an exit made within the last week of the trade. The frequency of trades is generally once per month, giving you 12 trades per year. The sold wings will have a delta (percent chance of expiring in the money) of between .5 and .15 (from now on I will drop the period and simply use whole numbers, in this case “5 or 15”). Meaning that on the day they are sold, they will have a 5-15 percent chance of expiring in the money (something the trader DOES NOT WANT) on either side of the trade at expiration. The credit generated will be lower for lower delta trades and higher for higher delta trades.

Now to the disadvantages of this approach. The biggest disadvantage of trading one month from expiration is that you have little ability to adjust your position (vertically rolling trades up or down for the same expiration month) if it goes against you, especially as you approach the last two weeks towards expiration. A second disadvantage is that the trade is done without consideration of market conditions. Are we in a strongly uptrending or downtrending market? Are we at a five year high or low? Is volatility relatively high or low? Where are our wings relative to support or resistance levels? When our primary criterion for entering a trade is the date from expiration, other considerations by definition become secondary.

*To be continued next week in Part 2.*

# Biotech Corner

Courtesy of Pharmboy



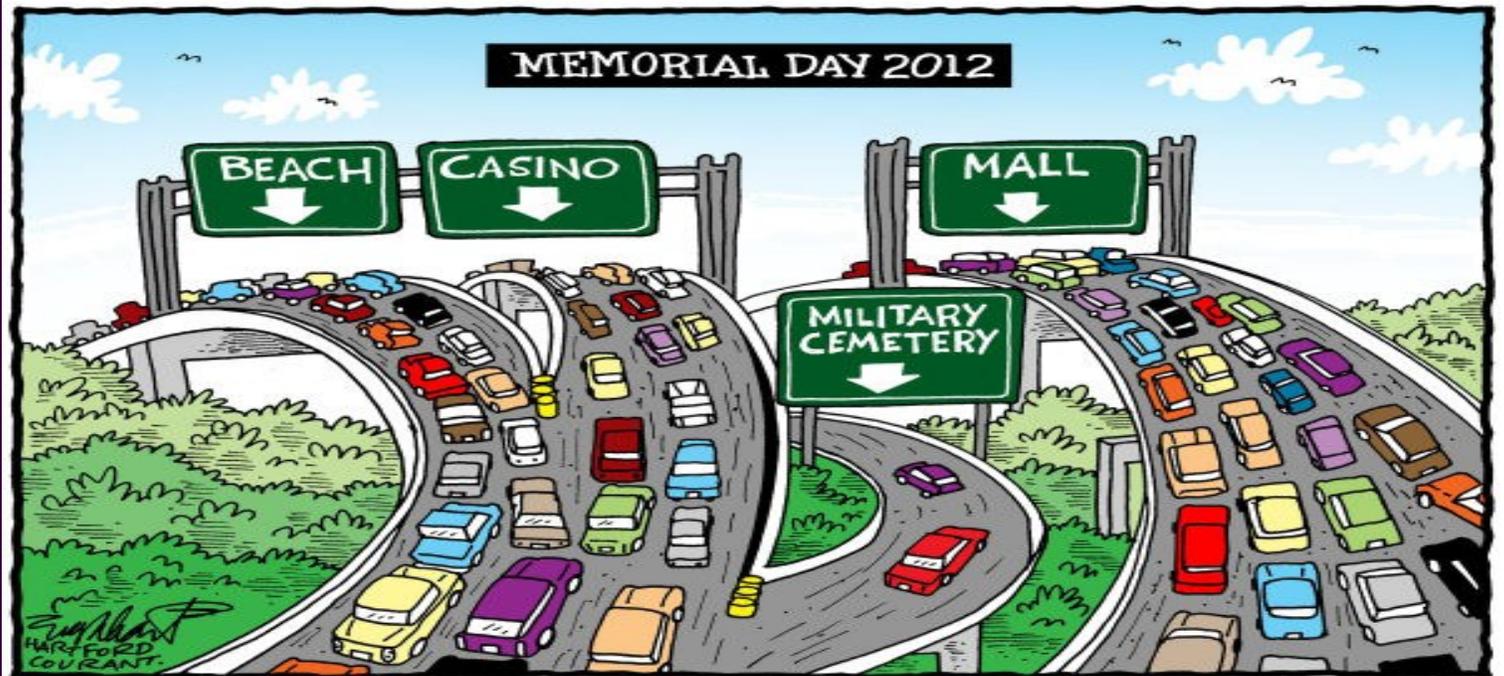
Of the many companies on our watch list, one continues to stand out for long-term, value-oriented investors - Bristol Myers Squibb (BMJ, \$33.09).

Bristol Myers Squibb lost its patent protection on Plavix. It is now in the grip of the FDA for its backup candidate, a potentially safer alternative, Eliquis (apixaban). JNJ/Bayer just received a no go on expanding their use of Xarelto from an FDA panel, and BMJ is

up next, at end of June.

For BMJ, I like buying 100 shares at around \$33, and selling a January 2013 \$32 call and a January \$32 put for \$4.70 combined.

A riskier portfolio position that could yield dramatic results is YM Biosciences (YMI, \$2.14). It is a staple in my portfolio. If its drug shows the same results in Phase 3 clinical trials that it did in



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