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# THE OPTIONS ORACLE

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Expiration Week Alert

May 19th, 2010

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## Expiration Week Alert

This Friday marks expiration day for the May 2010 option chain. We are currently holding positions in the following companies; Etrade Financial (ETFC), Sunoco (SUN), Sunpower (SPWRA), SPDR Gold Trust (GLD), Potash Corp. (POT), Silver Trust (SLV), First Solar (FSLR), the Proshares Ultrashort Barclays 20+ year Treasury (TBT) and Oil Service Holders ETF (OIH).

This week we took profits in the XLE and DIA puts that we had and would up getting a better price than what was posted on the alert that went out Sunday evening. The market played right to our hand and it was nice to see green in the profit column. Now, we are repositioning our positions to adjust for the added volatility we have seen since last month's expiration day. The long shadows I'm finding at the bottom of many candles tells me the sellers are running up against some short term buying pressure. This is not a green light to start stacking up on long term bullish positions but it could be an opportunity to take in some quick cash to pay down the cost basis in some of our positions that took a small hit last week. Overall things are looking pretty good for us.

## New Market Curbs Being Proposed

In an effort to prevent another market sell off due to the "Fat Finger" effect, the SEC is proposing a new rule that would halt trading in a company's stock should the price drop 10% in 5 minutes. It's unclear as to how long the halt would last or whether or not this would even prevent a chain reaction from occurring, but we could see these curbs put in place as early as mid June. I would compare this to trying to stop an avalanche with a snow shovel because I'm sure institutions will come up with programs that would circumvent the system as they race ahead of the market to try to beat the domino affect in a real market collapse. This is just another reason why you should put your own risk management plan in place because by the time you make up your mind to sell, the professionals will have already beaten you to the market with the speed of light. Make sure you have your stop points identified

[Click here to read Reuters article](#)

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**Remember the Past or you will be doomed to repeat it.**



The chart above is the 3 year weekly snapshot of the SPDRs S&P Trust that was published in the last Expiration Week Alert for the April report. If you compare this chart to the most current chart of SPY you will see that we pulled back from the role reversal resistance level exactly as I said. If you still have a copy of the last report you should go back and read my words so you can see just how accurate the charts were. My exact words were as follows:

“The signals are still pointing towards weakness in the market and as we start to hear more news of the ever increasing pressure unemployment is putting on our economy, it’s only a matter of time before investors lose their hope for the return of a bull market any time soon. This is a classic example of an over-extended market so be sure to protect yourself from a downward correction. You do not want to get caught in a down market without having any stops in place, so be sure to protect your long positions.” *So now the question is...Did you have your stops in place?*

## Now let’s talk about our positions

The pages that follow will outline the positions we hold, along with the instructions of what we are going to do to manage risk over the coming weeks. The explanations of each strategy are highlighted in **blue text**.

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---

Below is a table that explains the abbreviated actions we mention for each option trade:

**BCO** = Buy Calls to Open

**SCO** = Sell Calls to Open

**SCC** = Sell Calls to Close

**BCC** = Buy Calls to Close

**BPO** = Buy Puts to Open

**SPO** = Sell Puts to Open

**SPC** = Sell Puts to Close

**BPC** = Buy Puts to Close

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We are currently holding the following positions:

**Long ETFC stock**

Action to be taken by Friday:

**Hold the ETFC stock position**

### **Explanation of Strategy:**

This is a position we've accumulated over the past year and a half, and one that was paid for with premium collected from the sale of other options. There is little to do with this position right now because we are still accumulating shares as we collect option premium from other positions each and every month. I wouldn't take all of your credits and apply them to this one position but I wouldn't be opposed to building a long term 'Buy & Protect' strategy with this stock either. Use your judgement and have fun with this one.



Sunoco, Inc. (SUN)

**Long Stock**

**Short May 31 Calls**

Action to be taken by Friday:

**BCC May 31 Calls**

**SCO Jun 31 Calls**

**For a 1.00 Credit**

### **Explanation of strategy:**

This is a covered call position that we wound up with after we were assigned on a short put position we took on back in December of '09. We are finally making progress on this one as we are now taking in another credit by rolling our short May 31 call position to the June 31 calls.

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---

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---

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---

Etrade Financial (ETFC)

We are currently holding the following position:

**Long Jan 2011 2.50 Calls**

Action to be taken by Friday

**Hold the position**

**Explanation of Strategy:**

On May 2<sup>nd</sup> we took some of the cash we had accumulated and purchased January 2011 Leaps in ETFC. These were cheap enough to include in our free stock accumulation plan even though they are leaps. We originally bought these for \$.80 and it does us no harm to hold on to them at this point because they will not expire until the third Friday in the month of January 2011. A lot can happen between now and then but the good thing is, we are not risking a lot in this position, so we will hold on to it.



Sunpower Corp (SPWRA)

We are currently holding the following position:

**Long Jan 2011 20 Calls**

Action to be taken by Friday

**Do Nothing. Hold position**

**Explanation of Strategy:**

On October 31<sup>st</sup> an alert went out to buy the January 2011 20 Calls for \$8.70. Then we were able to sell front month calls against this position in almost every month since. We have paid down the cost basis to almost zero so there is hardly any more risk left in this trade. For now just hold on to it and maybe we will be able to take in another credit should the stock rally before January expiration. If you have not followed along with us on this trade I would not initiate any new positions until the stock shows signs of a bounce off of support or a pivot point with a strong green candle.

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---

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SPDR Gold Trust (GLD)

We are currently holding the following position:

**Long Jan 2012 100 Calls**

Action to be taken by Friday

**BCC May 112 Calls**

**SCO Jun 113 Calls**

**For a \$.50 Debit**

## Explanation of Strategy:

On November 27th we bought the January 2012 100 calls as a strategy to protect our portfolio against higher inflation down the road. We sold the May 112 Calls against the long Leap position to take in a credit to our account then the ETF rallied from there. Today we are going to roll up our short strike price in an effort to capture more of a profit on the long leap and stick with this position. **Right now we are up 4.9% on this trade.**

Potash Corp (POT)

We are currently holding the following position:

**Long Jan 2011 115 Puts**

**Short May 110 Puts**

Action to be taken by Friday

**BPC May 110 Puts**

**SPO Jun 110 Puts**

**For a 1.80 Credit**

## Explanation of Strategy:

On January 1<sup>st</sup> an alert went out to buy the January 2011 115 puts in Potash for \$21.40. On top of that, we set up a trade to sell the January 2010 105 Puts for \$2.00 in an effort to lower the cost basis of the long puts to \$19.40 which placed us in a diagonal put spread. We continued to sell the front month puts in an effort to pay down our cost basis from the credits received. This month will be the same. The \$1.80 credit we take in will lower the cost basis of the Leap puts we own to \$6.95. They are currently trading around \$22 giving us a nice \$15.05 profit so far. **This gives us a 70% profit since January.**

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iShares Silver Trust ETF (SLV)

We are currently holding the following position:

**Long Jan 2011 13 Calls**

Action to be taken by Friday

**BCC May 18 Calls**

**SCO Jun 18 Calls**

**For a \$.42 Credit**

### Explanation of Strategy:

This started off as a bullish combination spread that we initiated on January 29<sup>th</sup> when we bought the January 13 Calls for \$3.80 and sold the March 15 Puts for \$.40. The net debit on this spread was \$3.40. Since then, the stock has rallied leaving us with a long call position that is now worth \$5.80. The best part about this position is that we now have an opportunity to collect another credit which helps us pay down the cost basis even further on the leaps. **So far we are up 89% since January.** Not so bad for those who made this their first option trade.

First Solar Inc. (FSLR)

We are currently holding the following position:

**Long Jan 2012 95 Calls**

**Short May 115 Calls**

Action to be taken by Friday

**BCC May 115 Calls**

**SCO Jun 115 Calls**

**For a \$5.00 Credit**

### Explanation of Strategy:

This started out as is a bullish credit put spread that we initiated on February 13<sup>th</sup>. We sold the March 110 puts and bought the March 90 puts for a credit of \$4.60. We then added to this position by purchasing the January 2012 95 Calls for \$28.50 on February 25<sup>th</sup>. The stock rallied after that and we continued to add to this position by selling the March 110 Calls for \$3 on March 6<sup>th</sup>. On March 17<sup>th</sup> we rolled our short March 110 calls to the April 110 calls for a \$3 credit. On April 14<sup>th</sup> we rolled up our short strike price to stay as close as possible to the at-the-money strike price. We bought back the April 110 calls and sold the May 115 calls for a small debit but we are still very much ahead in this position because we are now rolling to the June 115 calls for a \$5 credit. **We're now up 71% on this trade since February!**

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---

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ProShares Ultrashort Barclays 20+ Year Treasury ETF (TBT)

We are currently holding the following position:

**Long Jan 2012 50 Puts**

**Short May 48 Puts**

Action to be taken by Friday

**BPC May 48 Puts**

**SPO Jun 48 Puts**

**For a .10 Credit**

## Explanation of Strategy:

This was a nice addition to our position when, on April 10<sup>th</sup>, we bought the January 2012 50 Puts for \$8.00. We had to pay up a little bit more than what was posted on the alert because the market moved on the opening of the market and we didn't want to miss the trade. The stock has moved lower since we have initiated the position but we are still able to stay with this position and collect a small credit. We will make more of a profit should the stock rally to the 48 strike price so keep an eye on this and watch for my alerts.



Oil Service Holders Trust (OIH)

We are currently holding the following position:

**Long Jan 2012 124.10 Calls**

**Short Jun 124.10 Calls**

Action to be taken by Friday

**Do nothing with this for now but see next page  
for instructions on how to add to this position.**

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## Addition to the OIH calendar spread

Alert Type	<b>Addition to OIH Position (Part I)</b>
Stock Name	<b>Oil Service Holders Trust</b>
Ticker/Symbol	<b>OIH</b>
Current Price	<b>\$107.95</b>
<b>Action: Sell Puts to Open</b>	<b>SPO Jun 109.10 Puts</b>
Sell Price	<b>\$6.10</b>
<b>Note:</b>	<b>This will give us an additional credit</b>

Alert Type	<b>Addition to OIH Position (Part II)</b>
Stock Name	<b>Oil Service Holders Trust</b>
Ticker/Symbol	<b>OIH</b>
Current Price	<b>\$107.95</b>
<b>Action: Buy Puts to Open</b>	<b>BPO Jun 94.10 Puts</b>
Buy Price	<b>\$1.60</b>
<b>Note:</b>	<b>This long put will hedge the short put from part I</b>

### Explanation of Strategy:

We currently have a calendar spread we are working in OIH where we are long the Jan 2012 124.10 calls and short the Jun 124.10 calls. This is a time spread that will allow us to profit as the June calls go through time decay. The additional trades that I've suggested will allow us to take in a net credit of \$4.50. This is a bullish trade that will allow us to profit as the stock moves higher to the moving averages. I've attached a chart of OIH so you can see why I am taking a more bullish stance in the Oil market. Keep in mind we will be able to roll with this trade should OIH drop a little bit more due to the added volatility premium in the front month options. Support is found around the \$100 level but we will have to keep an eye on this should it break lower.



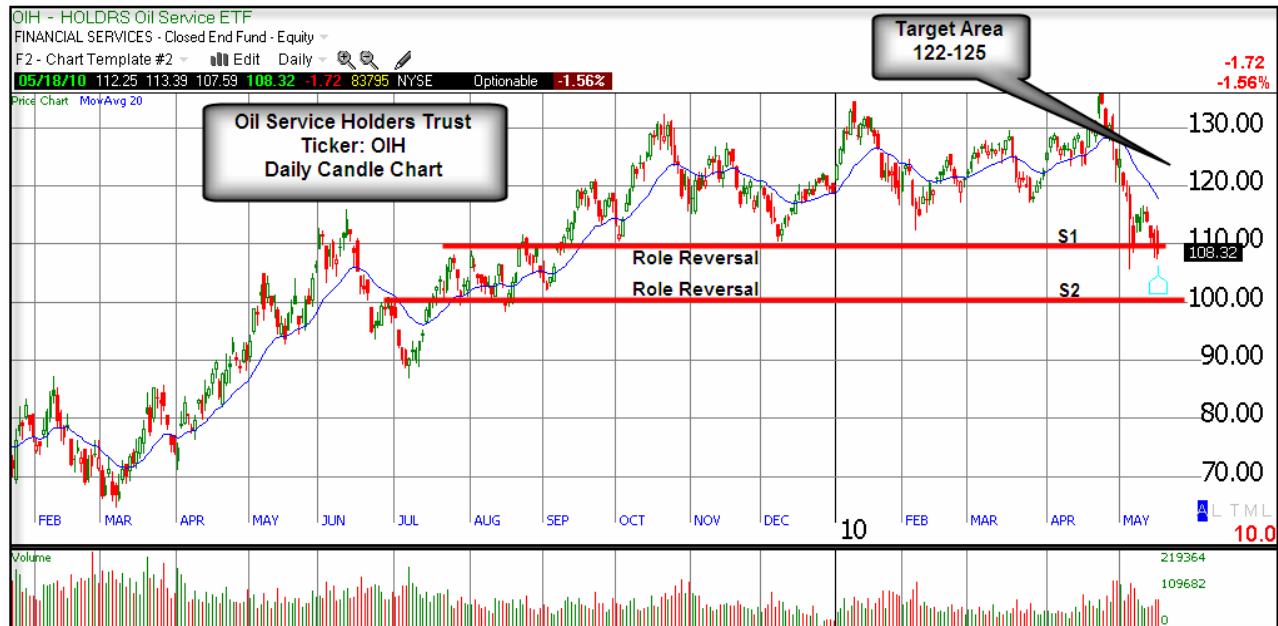
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## OIH is Looking Oversold



As you can see from the chart in OIH we are flirting with the 108-110 support level. Right below this area you will see a secondary support level around the 100 area. This gives me enough confidence to take a long position by adding a bull credit put spread to the books. Our max profit for that spread will be the \$4.50 we collect from the credit. This credit can then be applied to the cost basis of our horizontal calendar spread we have in the same stock. If you have not yet taken a position with us in the calendar spread then hold off on the calls and just sell the put spread. It will be easy to manage and the added volatility in the oil sector will help us make a nice return should this work out as planned.



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## Wrapping it up

I still believe the highest volatility is yet to come. It seems as though the market is getting going through a whipsaw stage right now as buyers and sellers battle it out. This uncertainty is usually the beginning stages of a sell off and although we did see a respectable correction a couple of weeks ago, I believe there is more to come on the downside. I will continue to shop for spreads that will allow us to profit while the market tries to make up it mind but be sure to relax and hold true to your risk management disciplines.

## 'Open House'

We will be holding our 'Open House' conference call this Monday which is our regular call that follows option expiration Friday. Be ready to submit your questions and stock symbols so we can analyze your positions and help you with any challenges you may be facing in these volatile markets. The web presentation will start promptly at 8pm EST so please log in a little earlier so you won't miss a thing.

[Click here to register](#)

**AJ Monte CMT**

Chief Market Strategist

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