

## >: Profit from Options

Thursday, September 6, 2007 / Chris Rowe

Hey, Folks,

This is a critical time in the market, so I had to write today.

Because I've been working relentlessly, creating an investment/trading education course, my fellow Tycoons have really been stepping up to the plate and asking me how they can help take on some of my usual work load.

But when my friends/colleagues asked if I wanted to have one of them fill in for me today and write something for *The Tycoon Report*, I had to refuse because this part of the market cycle (correction) is simply too important for you.

But I will have to make this quick, so here's the deal ...

The breadth indicators that I follow have recently seen oversold levels that haven't been seen since the 2002-2003 bottom. Usually when they reverse up from levels that low, it's a signal of the bottom of a correction.

The sentiment indicator that I discussed in last week's article, "[Profit From The Crowd](#)", also indicates that we have either seen the bottom of a correction, or that we are close to seeing a bottom (meaning that we may have a lot more to go). Like I said last week, we are waiting for the difference between bullish advisors and bearish advisors to expand, and while that has happened, it has only happened slightly.

When will we have a clearer picture of this? ONLY AS IT'S UNFOLDING. In other words, these indicators tell us when the risk is low and when a bounce is *most likely*. But it's not a guarantee, so we still need to tread carefully.

So keep in mind that we are now in September, the weakest month of the year. September 21, 2007 is triple witching Friday (when the contracts for stock index futures, stock index options and stock options all expire on the same day). According to *Stock Trader's Almanac*, the week after Q3 triple witching has been down 14 out of the last 17 years.

Also, the market tends to show weakness from Rosh Hashanah (Sept 13) to Yom Kippur (Sept. 22).

The highly anticipated testimony to Congress on the war in Iraq might be one major catalyst to send the market lower. (The Bush Administration must submit its report by September 15.)

So by some measures, we have just bounced off of extremely oversold levels. But seasonality may take its toll on the market. This is a confusing time. And in my mind, there are only two ways to profit whether the market moves up or down.

- 1) Collecting interest in a risk-free account (like a money market account)
- 2) Trading options

I can't get into entire lessons on how to use options right now. You can find old articles at [www.thetycoonreport.com](http://www.thetycoonreport.com) and click on my name under the "About the Editor" tab. But the gist of it is that you can use equity collars if you have stock positions that you don't want to sell, but don't want to risk, either, at this point in time.

But more importantly, you can replace long stock positions with "high delta" call options by purchasing call options that are a few strike prices in-the-money, and that have a minimum of 6 - 9 months before expiration. (That means that if you own XYZ stock, and it's at \$50.00, you would buy the March 40 call options (or even the 2009 January 40 call options). If you aren't familiar with options, use a broker for assistance.

You can also buy in-the-money put options which will be "high delta" put options. This will allow you to profit from downside moves in stocks. So, if you think XYZ stock is going to move lower, and XYZ is trading at \$80.00/share, you might consider buying the 2009 January (or March) XYZ 90 puts.

What's important is that you sell the options at least three months before they expire. If you want to keep your bullish or bearish exposure to these stocks, and it's three months before expiration day, you can always sell the options that you own, and buy similar options that expire on a day that's further away.

Again, if you're not familiar, then check out some old articles on how to do this. If you are familiar, you know the deal.

No matter who you are, if you want to replace stock with options, be sure to BUY ONLY ONE OPTION for every 100 shares of stock that you

want to replace. (If you sell 1,000 shares of Exxon Mobil, replace it with 10 Exxon Mobil March \$75 calls.) Then, take the rest of the money that you would have had in Exxon Mobil stock (which would, in this example, be \$60,000.00) and stick it in an interest-bearing account. It will be safe there.

The beauty of this strategy is that you will make nearly the same profit if the market advances. But if the market declines, you will lose less than you would have lost if you had owned the stock. And if the market REALLY tanks, then the most you can lose is the small amount that you used to buy options with. (The rest will be safe in money market accounts.)

I'm not saying I'm a bull or a bear. I'm just saying that it's a critical time for the market right now. The corny analogy that I've been using when I communicate with members of *The Trend Rider* is that for the market, we don't have a solid green light yet. The green light is flickering and so is the yellow light. I hope that the market drops further down. That will give me a big opportunity. What effect would it have on you?

?Profit from the Trend?



Chris Rowe

Chief Investment Officer

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