THE TYCOON REPORT

>: Snapshot of a Winning ETF Options Trade

Thursday, June 18, 2009 | Price Headley

It's my strong belief in trading that quality is better than trade quantity -- you want to think RESULTS, not activity.

In fact, I would rather trade System A that generates 20% of the trades that System B does, if it results in increased confidence and consistency.

What I find is that it's the drawdowns that will cause you to lose confidence and, ultimately, stop your trading progress if you're not disciplined about only taking the highest-probability signals. You can think of it in another way, too: If I make three options trades and two of the three are profitable, I need the winners to be bigger than the losers in order to meet my growth goals.

Statistics like these help me create my "Profit Profile," where I can go and look at the winners and the losers to assess how effective my trading system is at helping build wealth with acceptable drawdowns along the way.

For example, here's the Profit Profile for the gold Exchange-Traded Fund options recommendations in 2009 in my *ETF Options Trader*service (which is managed in conjunction with my fellow analyst, Andrew Hart).
Note that with by using options on ETFs, you can play these sectors whether they're rising or falling.

Trades

Entry Date	Exit Date	Symbol	Description	Entry	Exit	Gain/Loss
1/7/09	2/13/09	GBJCZ	GDX March 26 CALL	6.60	10.00	52%
1/7/09	2/20/09	GBJCZ	GDX March 26 CALL	6.60	10.70	62%
4/7/09	4/21/09	GDXQH	GDX May 38 PUT	5.50	6.30	15%
5/26/09	6/10/09	GLDGK	GLD July 89 CALL	6.20	5.80	(6.5%)

Analysis

We traded the Market Vectors Gold Miners ETF (GDX) twice (note the Jan. 7 purchase was actually exited in two halves), while also trading the SPDR Gold Trust (GLD) once. Of the three overall trades, two were profitable, with the more recent trade on GLD proving slightly unprofitable.

One could effectively say that, really, one of the three trades is driving the success of the gold plays, looking at the GDX calls back in January and February. But the key is that you should never "load up" on any play, but rather follow a consistent allocation into each new trade, and then let your system tell you when to let profits run, tighten stops or cut losses short.

Here's the daily chart of GDX in 2009:

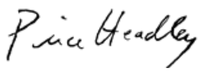
As you can see in retrospect, the Jan. 7 call purchase proved to be just one week early, ahead of the Jan. 14 low for GDX. We liked this trade going into the pullback for several reasons, including that the Williams Percent-R indicator (which measures overbought/oversold levels) was holding above its 50-level midpoint, showing that the uptrend was still intact in the bigger picture.

The April put purchase on GDX gained only moderate traction over two weeks, at which point we decided to move to the sidelines (a wise move looking back, as GDX soon surged higher). The late-May call purchase of GLD proved to not gain any traction, so buying that dip cost us a small loss as gold shares continued to dip and we moved out there after two weeks of lackluster performance.

What this shows you is that, if you want to get some fairly quick feedback within one to two weeks on this system, you're on the right track. Don't lull yourself into a false sense of hope or confidence when a move is not playing out fairly promptly. Remember, you can always get back into a trade later if conditions merit that move.

This also reminds us that one of the true secrets in the game of trading is to keep losses small, while letting winners run. That's why, on our bigger winner early in 2009, we sold only half our position at a 50% gain, seeking to ride the rest to bigger gains.

Sometimes that works out well and sometimes you have to stop yourself out of the rest for a smaller gain, but you want to give yourself a chance for bigger gains when you call the trend correctly, while staying open-minded in waving goodbye to the slow movers quickly as well. That's what makes for a successful Profit Profile over time in any ETF options you choose to trade.



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