



>: How to turn a 107% profit into a 160.86% profit with one simple strategy

Thursday, January 26, 2006 / Chris Rowe

Okay everyone, I have the solution to your problem. I know that you have it, because everyone has this problem. People pay big money for the kind of advice that I'm about to give you, but I'm feeling generous today.

1) Stock trades flat at \$48, then drops and you're out at \$49.50. This is what I will answer AT ALL TIMES recommend - whether the stock is up, down or sideways, this makes sense. This is a good thing. At the top of the channel, you have received the \$49.50 (\$48.00 + \$1.50). But I also think the stock will pull back first.

First the scenario, then the solution ...

Second the solution to the more sophisticated scenario, if you are trading call options: turning a long call option position into a certain type of "calendar spread" called the "diagonal call spread". (Don't be intimidated by the name because this is much simpler than it sounds.)

SCENARIO:

The stock is flat (at \$48) but you're out at \$49.50.

If you choose to do so, you now have the freedom to either sit in cash and wait to see if the stock comes down some more for a cheaper re-purchase, or buy the stock back at \$48.00 and wait, or you can just re-establish the same position all over again! (Buy the stock back at \$48.00 and then write/sell another call option and take in another premium.)

This is understand

It hurts to watch your stock trade from \$40 to \$48, and back down to \$43.00.

You will have gone from a 20% gain, to a 7.5% gain, and at that point you may even find yourself thinking, "Shoot! I'd better salvage what little profit I have left here, before it turns into a loss."

You sell it and the stock then trades much higher.

We've all been there.

So you try to trade in and out of it.

Now the only way to do this perfectly, is to sell right at the top of the channel or trading band or whatever you want to call it, and buy it back at the absolute bottom of the trading band. So IF, and only IF, you execute it perfectly, you may have sold the stock at \$48 and bought it back at the bottom of the channel, at say \$43.

It's easy to look at a chart, in hindsight, and see how you "should/could have" traded it for several small profits.

Now what happens in reality, is you either:

a) Sell at \$47 (not \$48) and buy it back at \$45.40 (not \$43), and that's if you are lucky.

Then it either moves up, or moves to \$41.00, and you might kick yourself because you re-purchased it too early.