

In this week's **Cash Cow** newsletter we are going to start by examining the recent action in the S&P 500 Index, and then look at several new profit opportunities.

The S&P 500 gave up its gains from last week, but after today's session the index looks like it is trying to resume its uptrend:



This week we will continue to focus on using mostly spread strategies to control our risk. We will also carefully select blue-chip stocks that have reasonable P/E ratios, as these types of stocks tend to be the most stable in their price movement.

The first profit opportunity we'll look at this week is **WFC** (Wells Fargo):



We recently looked at WFC due to the company's favorable financials and the stock's consistent price growth. After today's close the stock is trading near the middle Keltner Channel, providing us with a good entry point.

We should consider purchasing an In-the-Money call option on WFC for the May 17<sup>th</sup> expiration.

The next profit opportunity we'll look at is **CAT** (Caterpillar Inc.):



Caterpillar manufactures and sells construction and mining equipment, diesel and natural gas engines, industrial gas turbines, and diesel-electric locomotives worldwide.

As you can see from the price chart, CAT has been in a steady uptrend for several months. The stock recently dropped to the middle Keltner Channel, offering us a favorable entry point.

We should consider initiating a Market Neutral spread for the June 21<sup>st</sup> expiration to take advantage of any price appreciation during this time period while limiting our downside risk.

At current prices the CAT June 21<sup>st</sup> 85/105-strike Market Neutral spread has unlimited profit potential with a maximum risk of -7.6%:

**Buy to Open CAT June 21<sup>st</sup> 85-strike Call  
Buy to Open CAT June 21<sup>st</sup> 105-strike Put**

Market Neutral Calculator							
Stock Symbol	Stock Price	Call Strike	Call Buy Price	Put Strike	Put Buy Price		
CAT	104.62	85	19.02	105	2.62		
				Calculate	New Analysis	Print	
% Change	20%	10%	5%	0%	-5%	-10%	-20%
Stock Price	\$125.54	\$115.08	\$109.85	\$104.62	\$99.39	\$94.16	\$83.70
Call Value	\$40.54	\$30.08	\$24.85	\$19.62	\$14.39	\$9.16	\$0.00
Put Value	\$0.00	\$0.00	\$0.00	\$0.38	\$5.61	\$10.84	\$21.30
Spread Value	\$40.54	\$30.08	\$24.85	\$20.00	\$20.00	\$20.00	\$21.30
Spread Cost	\$21.64	\$21.64	\$21.64	\$21.64	\$21.64	\$21.64	\$21.64
Spread Profit	\$1,890	\$844	\$321	\$-164	\$-164	\$-164	\$-34
Spread % Return	87.4%	39.0%	14.8%	-7.6%	-7.6%	-7.6%	-1.6%

As you can see from the Market Neutral Analysis above, this spread has a maximum risk of -7.6% or -\$164. We can also see that we will continue to profit as CAT continues to increase in price.

If CAT increases 5% by expiration we will profit 14.8% or \$321. If CAT increases 10% we would profit 39% or \$844.

A trade with limited risk/unlimited profit potential will allow us to effectively control our risk and not restrict our upside potential. These attributes demonstrate the value that this strategy can provide during an uncertain or volatile market environment.



The last profit opportunity we will look at this week is **XLI** (Industrials Select Sector ETF):



XLI is an ETF that attempts to track the performance of the companies in the Industrial Select Sector Index. This index contains stocks in a wide range of different industries, making it fairly diversified.

As you can see from the price chart, this ETF is in an uptrend that is confirmed through the presence of an up-sloping On Balance Volume. XLI recently closed near the middle Keltner Channel, offering us a good entry point in the process.

We should consider initiating a Market Neutral spread on this ETF to take advantage of any future price gains while limiting our downside risk.

Currently the XLI June 21<sup>st</sup> 40/53-strike Market Neutral Spread has unlimited profit potential with a maximum risk of -8% or -\$113:

**Buy to Open XLI June 21<sup>st</sup> 40-strike Call  
Buy to Open XLI June 21<sup>st</sup> 53-strike Put**

Market Neutral Calculator								
Stock Symbol	Stock Price	Call Strike	Call Buy Price	Put Strike	Put Buy Price			
XLI	52.97	40	13.00	53	1.13			
				Calculate	New Analysis	Print		
% Change	20%	10%	5%	0%	-5%	-10%	-30%	
Stock Price	\$63.56	\$58.27	\$55.62	\$52.97	\$50.32	\$47.67	\$37.08	
Call Value	\$23.56	\$18.27	\$15.62	\$12.97	\$10.32	\$7.67	\$0.00	
Put Value	\$0.00	\$0.00	\$0.00	\$0.03	\$2.68	\$5.33	\$15.92	
Spread Value	\$23.56	\$18.27	\$15.62	\$13.00	\$13.00	\$13.00	\$15.92	
Spread Cost	\$14.13	\$14.13	\$14.13	\$14.13	\$14.13	\$14.13	\$14.13	
Spread Profit	\$943	\$414	\$149	\$-113	\$-113	\$-113	\$179	
Spread % Return	66.8%	29.3%	10.5%	-8.0%	-8.0%	-8.0%	12.7%	

As you can see from the Market Neutral Analysis, this spread carries a maximum risk of -8% or -\$113. We will continue to profit as XLI continues to increase in price.

If XLI increases 5% by expiration we will profit 10.5% or \$149. If XLI increases 10% we would profit 29.3% or \$414. If XLI decreases -30% by expiration we would *profit* 12.7% or \$179.

Note: Profit performance displayed in this newsletter does not include transaction costs.

*This newsletter includes some trading ideas following Chuck Hughes' trading strategies along with educational information. For a complete listing of Chuck's exact trades, including specific entries and exits and real time Portfolio tracking, please call Brad at 1-866-661-5664 or 310-647-5664.*

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