Cash Cow Newsletter
July 18th 2013

Note: 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.

For this week’s Cash Cow newsletter I’d like to briefly review several monthly profit opportunities from recent newsletters, show you my Call Option Spread Strategy, and then look at several new weekly and monthly profit opportunities.

The S&P 500 Index hit all-time highs today as positive earnings reports continue to come through:
The index remains in a 50/100-Day EMA uptrend that is confirmed with the presence of an up-sloping On Balance Volume.

**Profit Opportunity Review**

In our 6/26 Newsletter we looked at two Market Neutral spreads for the July 2013 expiration.

The first Market Neutral spread we looked at was JNJ. The stock has increased 4.37% since then and is currently trading on the upper Keltner Channel. We should consider taking partial profits on this position and look for stocks with better Keltner Channel positioning.

The second Market Neutral spread we looked at was HON. The stock has increased 3.72% since then and is currently trading near the upper Keltner Channel. We should consider taking partial profits on this position and look for stocks with better Keltner Channel positioning.

In our 7/3 Newsletter we looked at a Market Neutral spread on CBOE for the July 2013 expiration. The stock has gained 4.79% since then and is currently trading above the upper Keltner Channel. We should consider taking partial profits on this position and look for stocks with better Keltner Channel positioning.

Last week we looked at 2 call option purchases for the July 2013 expiration.

The first call option purchase we looked at was FLT. The stock has increased 0.52% since Thursday and is currently trading near the middle Keltner Channel. I would normally recommend rolling this position over to the August 2013 expiration, but FleetCor comes out with Earnings on August 5th.

The second call we looked at last week was UHS. The stock has gained 1.61% since Thursday’s close and is currently trading near the middle Keltner Channel. Like FLT, UHS has Earnings coming up so we should take partial profits on this position and not roll over.

The last position we looked at last week was a call option spread on ALGT for the August 2013 expiration. The stock is up 5.81% since Thursday’s close. We should continue to hold this position until we’ve reached about 90% of our profit potential.
Debit option spreads are implemented by purchasing a call option and selling a call option with a higher strike price. Because the short option is ‘covered’ with the option purchase this would be a limited risk trade.

The brokerage confirmation below shows that I bought 6 of the Goldman Sachs (GS) July 65-strike calls symbol GSG65 at 50.63 points and sold to open 6 Goldman Sachs July 95-Strike call options GSG95 at 27.93. These options expire in about 4 months.

**Buy GS 65-Strike Call at 50.63, Sell GS 95-Strike Call at 27.93**

Selling to open the 95-strike call at 27.93 points resulted in a $2,793 cash payment per contract being credited to my brokerage account or a total of $16,750 for 6 contracts. So purchasing the 65-strike call at 50.63 points and receiving 27.93 points in cash for the sale of the 95-strike call resulted in a 55% cash payment I received up front when I initiated the trade. I get to keep this 55% cash payment regardless of the price movement of Goldman Sachs stock. Goldman Sachs stock was trading at 112.10 when I initiated this trade.

Buying the GS 65-strike call option at a 55% discount reduces risk considerably and provides considerable downside protection in the event Goldman Sachs stock declines in price.

Option spreads can be traded using weekly options. Purchasing a weekly call option and selling a weekly call option with a higher strike price creates a bullish debit spread. Weekly option spreads share the same characteristics as monthly option spreads.
The sale of the call option reduces the cost basis of the option purchase and reduces the overall risk of the option purchase. The sale of a call options results in a cash credit to your brokerage account for the amount of the premium. The short call option profits as the underlying stock decreases in price, providing downside protection.

Depending on the strike prices, weekly option spreads can be profitable if the underlying stock price increases, slightly decreases, or remains flat at option expiration.

I prefer to use monthly option spreads over weekly option spreads, as monthly premiums are almost always higher than weekly premiums which can in turn increase our profit potential and also increase our downside protection.

When trading call option debit spreads I like to buy an In-the-Money call and sell an In-the-Money or At-the-Money short call. This type of strike combination offers us the greatest downside protection without sacrificing too much upside potential.

Now that you have a better idea of how to trade call option debit spreads, I’d like to jump into some new profit opportunities for this week.

New Profit Opportunities

With most stocks trading near their upper Keltner Channel and earnings season upon us, we should be selective as to which stocks & strategies to use this week. We want to avoid taking directional trades on stocks that have earnings coming up, as volatility is generally highest around this time period.

With the market making new all-time highs, weekly option premiums are mostly low right now. We should therefore focus on using the August 2013 monthly expiration for any call option debit spreads we initiate, since monthly premiums will currently offer us a better risk/reward ratio.
The first profit opportunity we’ll look at this week is **TNA** (Small Cap Bull 3x ETF):

TNA is a triple leveraged ETF that tracks the performance of the Russell 2000 Index. This index is comprised of the smallest 2000 companies in the Russell 3000 Index.

This ETF is currently in a 50/100-Day EMA up-trend that is confirmed through the presence of an up-sloping On Balance Volume.

We can take advantage of future price appreciation by initiating an In-the-Money call option debit spread on this ETF.

At current prices the TNA August 2013 In-the-Money call option debit spread has a 31.7% profit potential. If TNA increases by expiration we would profit 31.7%. If TNA remained flat by expiration we would still profit 28.6%.
The next profit opportunity I’d like to show you for this week is **DIS** (Disney):

We have looked at Disney in the past for numerous reasons including consistently good financials and technicals. The stock is currently trading near the middle Keltner Channel. This positioning provides us with a good entry point for a weekly call option purchase.

We should consider purchasing a weekly call option on DIS for the July 26th expiration.
The next profit opportunity we’ll look at this week is **BBY** (Best Buy):

Best Buy is an e-commerce and physical retailer of consumer electronics. The company operates worldwide.

BBY is currently in a 50/100-Day EMA uptrend and is currently trading on the middle Keltner Channel.

We should consider purchasing a weekly call option on BBY for the July 26\textsuperscript{th} expiration to take advantage of any future price appreciation.

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