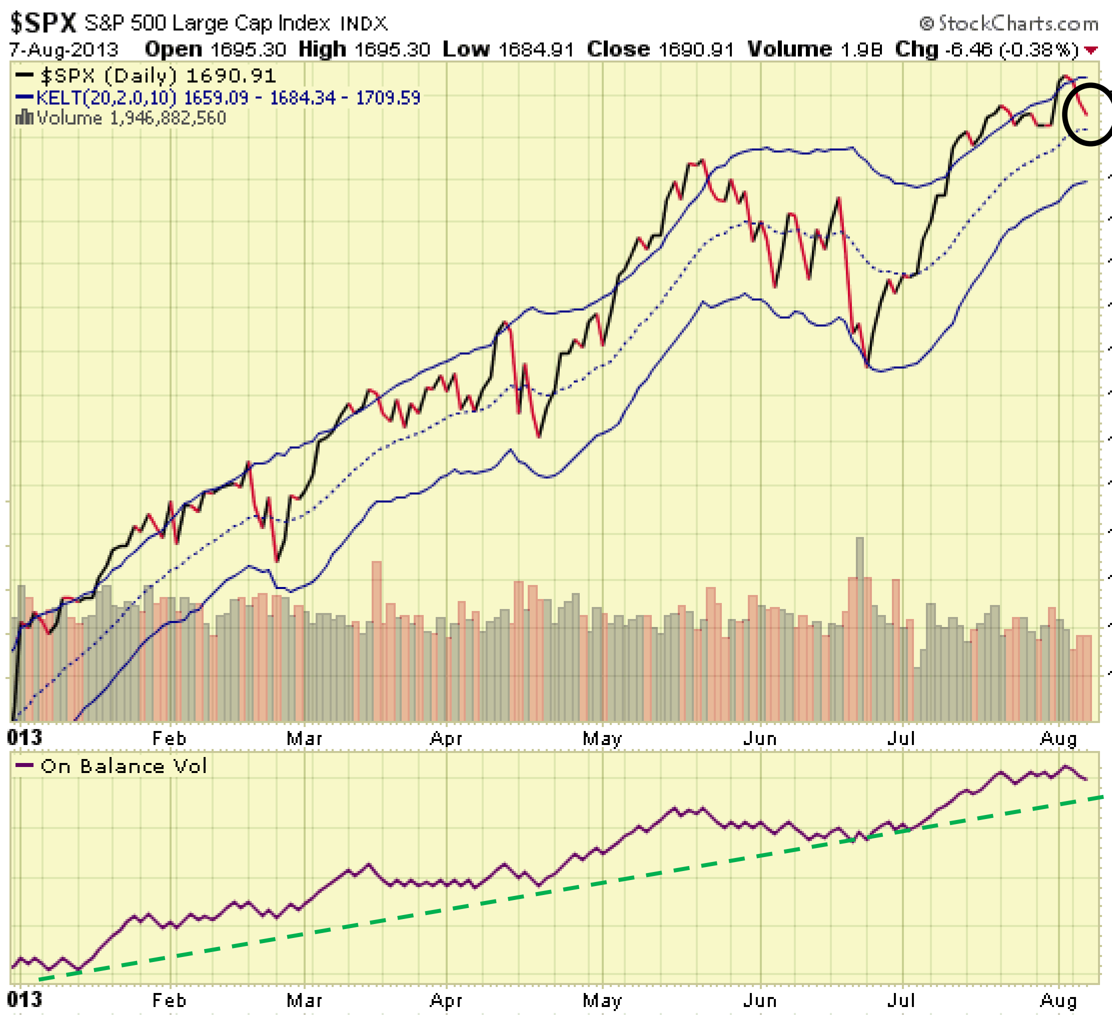
Cash Cow Newsletter

August 7th 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.

In this week's *Cash Cow* newsletter I'd like to review the recent performance of the S&P 500 Index, and look at several new weekly and monthly profit opportunities.

The S&P 500 declined for the third day in a row after reaching all-time high of 1709 on Friday. This type of drop is normal after reaching new highs. The $SPX now rests above the middle Keltner Channel:



It’s clear that the S&P 500 is currently in a strong intermediate uptrend. Will the index bounce back after 3 losing sessions, or are we due for a larger correction like we’ve seen several times this year?

We have been in this position many times over the past several months, where the $SPX begins to decline after making new highs, only to rally even higher in the weeks that follow. Be that as it may, we have had a few minor corrections (-3% to -4%) during this same time period.

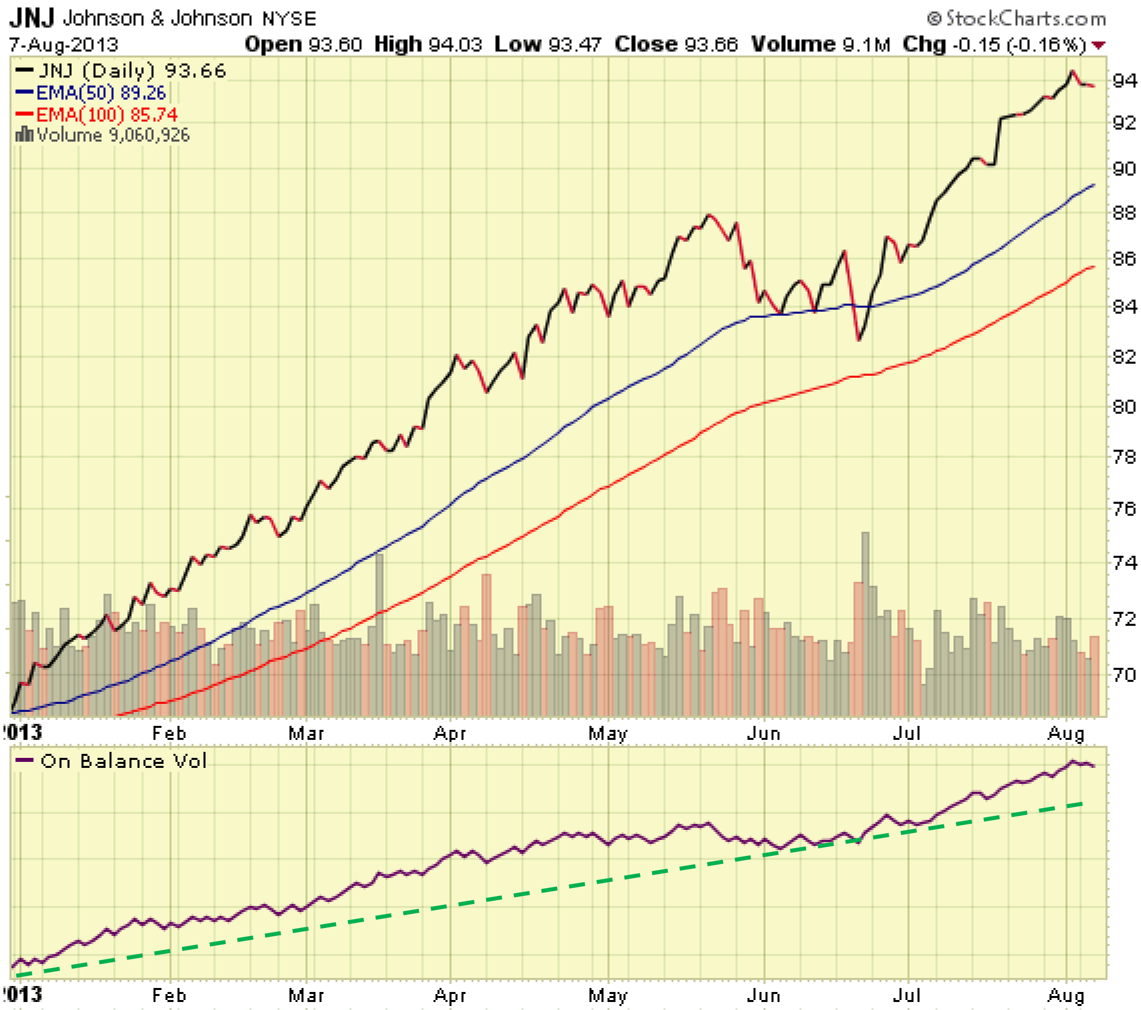
It’s difficult to say what will happen in the short term. We need to be cautious about taking directional trades as further declines in the market could prove costly.

We can protect ourselves from this short term uncertainty by going a little further out in time and use the September 2013 expiration for a few of our profit opportunities this week.

We will mainly focus on utilizing spread strategies that can help minimize our risk and provide us a good return should the underlying stock increase in price.

Since next Friday is the 3rd Friday of the month, we will be using the August 17th monthly expiration for our weekly profit opportunities. We can also utilize stocks that don’t offer weekly options.

The first profit opportunity we'll look at this week is **JNJ** (Johnson & Johnson):



Johnson & Johnson engages in the R&D, manufacturing, and sale of various health care products worldwide.

The company has consistently increased their Revenue, Equity, and Retained Earnings over the past several years.

As you can see from the price chart, JNJ has been in a strong uptrend over the past several months. This uptrend is confirmed through the presence of an up-sloping On Balance Volume.

We can take advantage of future price gains by initiating a Market Neutral Spread on JNJ for the September 21st expiration.

Buy JNJ Sept 2013 77.5-strike Call
Buy JNJ Sept 2013 95-strike Put

Market Neutral Calculator

Stock Symbol	Stock Price	Call Strike	Call Buy Price	Put Strike	Put Buy Price
JNJ	93.66	77.5	16.18	95	2.76

Calculate | New Analysis | Print

% Change	-40%	-20%	-10%	0%	10%	20%	30%
Stock Price	$56.20	$74.93	$84.29	$93.66	$103.03	$112.39	$121.76
Call Value	$0.00	$0.00	$6.79	$16.16	$25.53	$34.89	$44.26
Put Value	$38.80	$20.07	$10.71	$1.34	$0.00	$0.00	$0.00
Spread Value	$38.80	$20.07	$17.50	$17.50	$25.53	$34.89	$44.26
Spread Cost	$18.94	$18.94	$18.94	$18.94	$18.94	$18.94	$18.94
Spread Profit	$1,986	$113	$-144	$-144	$659	$1,595	$2,532
Spread % Return	104.9%	6.0%	-7.6%	-7.6%	34.8%	84.2%	133.7%

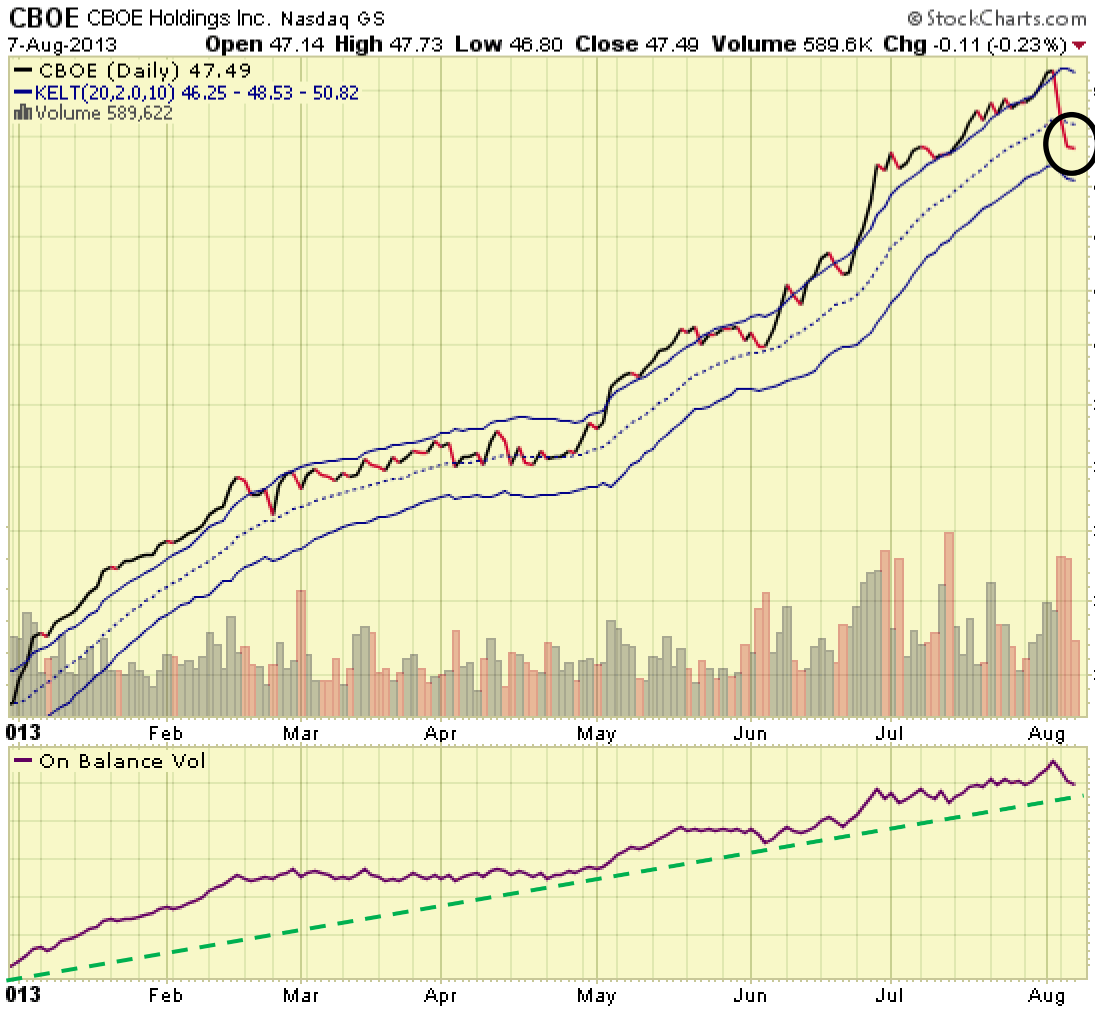
We can see from the Market Neutral Spread Calculator above that (at current prices) this spread has a maximum risk of -7.6%.

Our profit potential in this trade is not capped, so we would continue to profit as JNJ stock increased in price before expiration. A 10% price increase in JNJ stock would result in a 34.8% spread return.

If my timing is bad, I can simply take a 7.6% loss and move on to another trade. There is no need to place a protective stop or worry about market selloffs.

In today's market conditions, a directional option trade can easily develop into a 100% loss.

The next profit opportunity we'll look at this week is **CBOE** (CBOE Holdings):

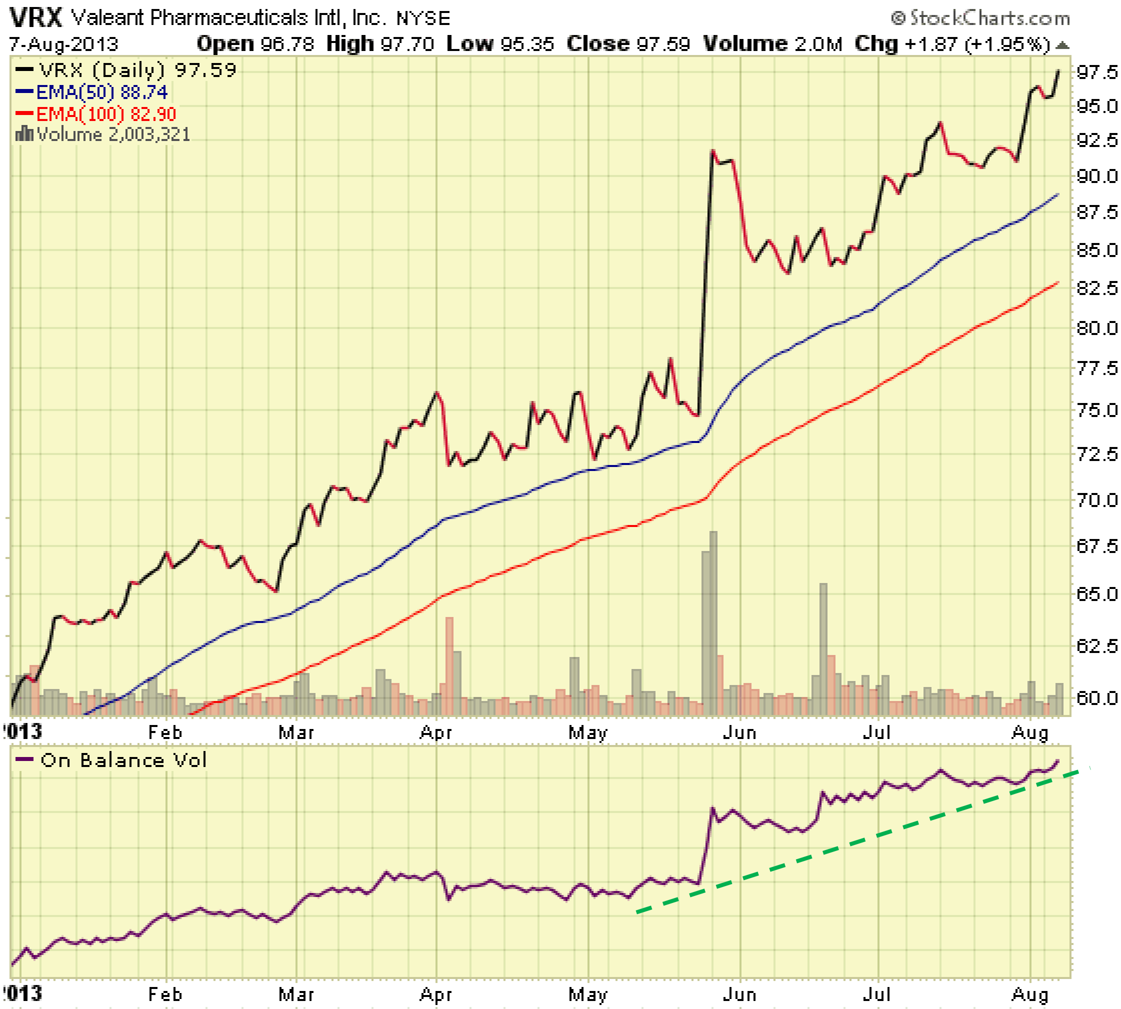


CBOE Holdings operates markets for the trading of listed and exchange-traded options contracts. The company provides marketplaces for trading stocks.

The company just reported all-time record quarterly results for second quarter 2013.

We can see from the price chart that CBOE has done considerably well over the past 7 months, and is currently in a 50/100-Day EMA uptrend with an up-sloping On Balance Volume. After recent profit taking, the stock is sitting between the middle and lower Keltner Channels. This provides an advantageous position for a call option purchase. We should consider purchasing a call option or covered call on CBOE for the August 17th expiration.

The last profit opportunity I'd like to show you is **VRX** (Valeant Pharma.):



Valeant Pharmaceuticals International is a specialty pharmaceutical company that develops, manufactures, and markets pharmaceutical products and medical devices in the areas of neurology, dermatology, and branded generics.

As you can see from the chart, VRX is in a strong uptrend and has strong buying pressure as seen in its On Balance Volume.

We can take advantage of future price growth by initiating a call option debit spread for the September 2013 expiration.

At current prices the VRX September 2013 82.5/97.5-strike call option debit spread has a 32.2% profit potential. If VRX increases or remains flat by expiration we would profit 32.2%. If VRX decreases -2.5% by expiration we would profit 11.5%.

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

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