Balancing Stock selections with Option Strategies

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The Option Review

INSIDE THIS ISSUE:

Where we stand:

- The Dow : 16,441.35
- S&P 500: 1831.98
- Nasdaq: 4143.07
- Gold : 1225.20
- Crude Oil: 95.44

Market Review

- Is the Bear hibernation over?

As the Winter months set in, the markets continue to push to new highs and the bear is snoring away The Fed's tapering has begun, but their policy continues to be very accommodative to ensure that the economic recovery continues to slowly take place. Many analysts and economists are optimistic that 2014 can be another positive year for the stocks markets in the Us and abroad. Just remember, that the bickering we have known to expect from Congress can wake the Bear when the debt debate arises again! We can also look at the lackluster job recovery and very lofty asset prices as an excuse to take profits at any time, As we have seen in the past, a 5 to 10% correction can take shape fast and burn investors. We have also seen, however, that buying on these dips, has been rewarding for ithe "long" investors and traders

Is it time for the markets to fall? Or is the Bear still "out cold" ?

If we weigh the investment debate over asset valuations further, you see that both cases make sense. On the one hand, many bearish investors have argued that the markets have been too artificially Inflated with quantitative easing that never seems to end. The argument on the bullish side is that the fed has slowly begun the process of tapering and the markets have been prepared for this after months of Fed "speak." If there is any clarity going forward and the job market starts to pick up in 2014, then positive sentiment and the economy can be ignited as companies finally put their cash to work.

The one positive aspect about companies' hesitancy to put money to work and begin hiring is that they have really cleaned up their balance sheets and have streamlined themselves. Companies have become very efficient and profits have ensued. This is unlike the past bubble excesses in 2000 and again in 2008 with housing boom. However, with asset prices breaching new highs on a weekly basis, these companies have to start showing improvements on the revenue side as well.

We take the middle ground and tread lightly as our cautious stance continues to think "hedge" on gains or even taking some chips off the table.

Call writer's Block

-Balancing Risk with In the money calls

Shares of **SunEdison, Inc. (SUNE)** are looking brighter over the last year as this "Solar" company has risen with resurgence of the solar industry. **(SUNE)** has also divested itself from the low margin semiconductor business to focus on its high margin solar power business.

SunEdison sits in a nice spot as the demand for solar energy increases while the costs continues to come down. Coupled with the fact that recent debt re-structuring has helped their balance sheet (interest expenses), Analysts' revenue projections from 2013 to 2014 show a growth of 26% to 3.5 billion. The stock has settled around 14.50 after hitting 52 week highs of 15.22.

Any continued pressure on the price might be a nice buying opportunity. However since the run up has been so dramatic over the last year we would look to sell "in the money" covered calls over a mid term time period. The April 12 calls offer over 22% downside protection with potential ROI of 6.7%. If you are more risk tolerant, the April 13 strike will increase your risk a bit but offer closer to 9.5% upside in 3 months.

"JNJ has been a dull and boring stock, but has consistently proven its worth"

Conservative corner

- Covered calls for Income

In a follow up to our lead article on Oil prices, we do highlight two stocks that may be Potential Covered Call Candidates: **(XOM and CVX).**

We are not looking to make huge returns on these companies as the option premiums are just not that exciting, but nonetheless are satisfied with gaining some income as the world continues to suck up the supply of Oil.

Collecting income on the Oil trend.

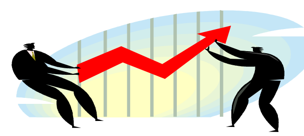
By focusing on two of the major integrated oil companies, we can eliminate some risk as potential price swings will not dramatically affect them as in the case of smaller producers.

Exxon Mobil (XOM) recently trades around 86-87 dollars/ share. The stock seems to be in a short term trading range from 80 to 90. We like writing the July 85 covered calls here for about 8% downside protection and 6% upside in less than 134 days.

Chevron Corp (CVX) has a bit more premium as the stock volatility is higher with a recent drop from 90 to under 80. The stock has rebounded slightly to the 84 level and we would write the June 85 covered calls on this one, trying to pick up a 6-7% return in a little over 3 1/2 months. This play will return a little more in a shorter period of time, but looks a bit more risky on the stock charts.

Spread the word

- Bull Call Spreads that make Sense



United States Natural Gas (UNG) has been depressed for years as Natural gas prices remain very low. The trading range has been pretty consistent in the last year and a half with highs around 24 to lows in the 17 range.

The colder than normal temps in the northeast lately pulling on inventories , UNG had climbed 6 month highs of 22.19. The stock price has since dipped below 19.50. This would be a nice entry point in the form of a long call or a "call spread." We love using the "weeklies" here over and over again. So buying an in the money call out further in time (like February 22 expiration) with the strike of 19 (at 2.15) would interest us. On the riskier tier, we might hold the call and then initiate the Call spread on an upward price movement. For the less risk minded investor, we would sell the Weekly Jan 10 call with strike of 21 at around .45 to .50 cents. Here, we just try to capture this .45 cents premium, leaving us with a net cost of 1.70. This strategy allows for a lot of leeway if the stock bounces for or against you.

Breakinaway

- "calling" TIVO Long

America has a passion for televison and whether you go through cable, satellite, or streaming like Netflix , Tivo **(TIVO)** has finally entrenched itself at the heart of the TV experience.

After settling large patent disputes over the past year, TIVO has aligned itself with many mid sized MSOs and has finally made headway into Being EBITDA positive and no longer just a patent troll. Its vying to organize the way you watch TV.

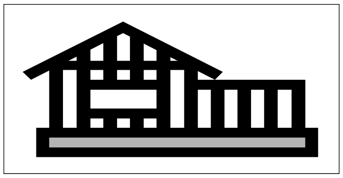
TIVO has about a billion in cash (about 8.50 in cash per share) and has been behaving well on the charts over the last year and after a recent dip to 12.90 level, we like the MAY 13 calls at close to 1.00 per contract as we think it can easily get back to its recent high of 14.25 in October and potentially higher levels of 15 to 16. There has always been speculation that TIVO is a buyout candidate from the likes of Apple, Google, Microsoft or a major cable provider, but nothing has ever come to fruition. We would not take too much of a long term position on this as the stock has a history of disappointments, but we like the upside here and positive psychology now exists in this stock.

Technology Tracker

- Scanning for Technology opportunities

Since the dawn of the computer age, **Microsoft (MSFT)** has been the dominant software provider for both the personal and business landscape. However, Microsoft's history seems to repeat itself as they are always behind the curve on new technologies & innovation. We have seen the explosion of the tablet computing and smart phone markets lead by Apple Inc. Once again, **(MSFT)** had to play "catch up" by buying Nokia's handset business and finally offered their own tablet with their release of Surface.

MSFT's lackluster stock performance and lack of innovation has had investors following Microsoft's stock price in a "flat line" on the charts for many years.



The institution of Microsoft

Despite all of these negatives, we need to look at the positives of this "cash" machine. In terms of price action, 2013 saw **MSFT**'s stock price break out to multi year highs above 33. The stock soared towards 39 as well with more positive news. While the announcement that Steve Balmer would be leaving his CEO position was perceived as a positive change for this company.

On the books, **MSFT** remains a 'cash printing" operation. Theyhave total cash of around 83 billion with operating cash flow of 28 billion. 2014 earnings estimates are near 2.67 per share with Revenues projected near 84 Billion. At the 35.50 current price with a 3.1% annual dividend, This seems like a solid stable investment.

Microsoft's business is still well diversified. They have a firm hold on business server software & cloud based services, as well as their core personal business applications (MS Office). They also own SKYPE and are a leaders in the gaming markets with XBox.

We like this as a longer term Buy Write on LEAPs to capture the dividend. The Jan 2015 (37 strike) offers 7% downside with 10.2 % upside (13.2% w/ Dividend). Oct 36 Calls can be sold for shorter term as well.

On the contrary

- Going against the crowd

I Shares Silver Trust (SLV) has taken a beating over the last year as we have seen gold, silver and the precious metals selloff after a multi year run up to all time highs.

The markets have been selling the precious metals due to many factors including the tapering of the QE program by the FED, somewhat tame inflation and the "improving" unemployment picture. I am sure that the chartists will also tell you that technical breakdowns and short term trading has fueled this correction as well.

The recent retest to the lows near 18 and a current price of 18.70 seems like a short term buying opportunity to us and we just think the environment is too negative and a bounce back above 23 is a good possibility. We would buy the April 17 calls around 2.30 with less than 2% premium. We could see this played as a buy write as well (ATM March Calls for 4-5%).

"We think its overblown to the downside and expect a nice recovery"

ShortSighted

- Looking for a downside slide

Last month we highlighted Apple Inc. (AAPL) as having a negative chart pattern and a potential short candidate. If you bought Puts or went short, it worked out pretty well.

We also mentioned that Apple's long term prospects still looked good, so at the 117-120 level, we would now remove our short term negative bias. One Stock that we do think is a potential "Put Buying" or short candidate is **NutriSystem (NTRI).** The Company just warned that they are facing a challenging environment and gave a very cautious outlook. **NutriSystem** missed the analyst revenue number by over 125 million as well.

Shedding pounds and stock price.

Although this stock already dumped over 35% of its price to around 16 bucks, we think

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30 Boxwood Drive
Stamford, CT 06906

Editor: Brian Margerum
Email: info@optionreview.com
(203) 325-1171

Register at: optionreview.com

Balancing Option Strategies with Stock Selections

The Option Review is a Newsletter dedicated to Options Strategies as they pertain to the stock selection process. Our goal is to provide a newsletter that offers a variety of strategies and selections that cater to all types of investors and traders. We hope that the Option Review will provide valuable information that can help enhance subscriber's portfolio returns through options.

We welcome any feedback you may have. We always love to here your thoughts and suggestions for new articles and ideas. E-Mail us at info@optionreview.com

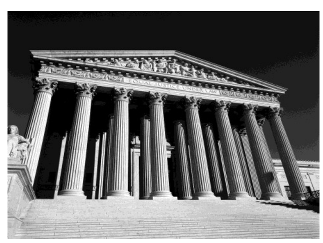
The Yield Yard

- Covered Call Plays with Dividends

An interesting way to generate income on top of income is to write covered calls on solid dividend paying companies. Let's look a two companies that have stood the test of time **(WFC and KMP).**

Wells Fargo (WFC) pays an annual Yield of about 4%. This company has struggled in the markets due to the lending crisis which is not yet finished. However, this is a solid company that should easily pull through over time as its balance sheet looks fine. The stock is trading between 29 – 30 range and has been as low as 24.38 over a month ago.

The October 30 Covered Calls Offer about 12% upside with 12% protection, and add 2 dividends into the process and your closer to a 14% potential return in about 210 days.



Kinder Morgan Energy Partners (KMP) is another company we like that is a solid dividend payer of over 6%.

Like many of the Oil related companies, **KMP**'s stock (around 58/share) has performed well and paid a nice dividend over the past 5 years. This company operates oil and gas pipelines, so its performance is not fully tied to Oil and gas prices. Analysts estimates call for 2.08 in 2008 (PE of 28) and 2.44 in 2009 (PE of just under 24).

The September 60 Covered-Calls look attractive as they offer some stock appreciation, a 4-7% return for the option end, and another 3% for a 1/2 year of dividends. The overall return potential of 8-10% in about 6 months is solid and it doesn't seem like the Oil and gas Industry is slowing down as we head into the warmer spring and summer seasons.