

Cash Cow Newsletter

May 22nd 2013

In this week's *Cash Cow* Newsletter we are going to briefly look at the S&P 500 Index and the current performance of this week's profit opportunities. We will then look at several new profit opportunities.

The S&P 500 Index dropped -13.81 points (-.83%) today, making it virtually flat on the week:



Today's drop left LLY and T down on the week, and AET unchanged. Although these positions are currently trading near the middle and lower Keltner Channels, we should consider closing out of these positions and look for better profit opportunities elsewhere.

As you can see from the chart on the previous page, the S&P 500 Index is currently crossing down through the upper Keltner Channel. It's possible that we are seeing the beginning of a short term bearish divergence after experiencing such a strong rally in recent weeks. Keep in mind that the market is still in a strong intermediate and long term up-trend, but is most likely overbought from a short term (1-2 weeks) perspective.

If we take a closer look at the S&P 500 Index with a short term 'Stochastic' Oscillator in addition to the Keltner Channels, we can see the possibility of a bearish divergence more clearly:



Whether the market sells off next week or rallies, we could best protect ourselves by taking a less leveraged approach and going a little further out in time. If we use the monthly June 2013 expiration we will give ourselves a little more room for error. We can also utilize a call option debit spread

strategy that will allow us to profit if the position increases, remains flat, or even decreases by expiration. Let's take a look at some new profit opportunities to better illustrate this concept.

The first profit opportunity we'll look at is **CELG** (Celgene):



Celgene is a biopharmaceutical company that discovers, develops, and commercializes therapies for the treatment of cancer related diseases worldwide.

The company has impressive Revenue and Retained Earnings growth over the past several years.

The stock is in a 50/100-Day EMA up-trend that's confirmed through the presence of an up-sloping On Balance Volume. CELG is currently trading on the middle Keltner Channel.

We can take advantage of any future growth by initiating a call option debit spread on CELG for the June 2013 expiration.

At current prices the June 2013 105/120-strike call option debit spread has a 19.7% profit potential. If CELG increases in price, remains flat, or decreases -2% by expiration we would profit 19.7%. If CELG decreases -4% by expiration we would still profit 7.8%:

CELG June 2013 105/120-Strike Call Option Spread

Call Option Spread Analysis							
Stock Symbol	Current Stock Price	Buy Strike	Buy Price	Sell Strike	Sell Price		
CELG	123.44	105	18.9	120	6.37		
Cost	\$12.53				Calculate	New Analysis	Print
% Change	-6.0%	-4.0%	-2.0%	0.0%	2.0%	4.0%	6.0%
Stock Price	\$116.03	\$118.50	\$120.97	\$123.44	\$125.91	\$128.38	\$130.85
Call Buy Value	\$11.03	\$13.50	\$15.97	\$18.44	\$20.91	\$23.38	\$25.85
Call Sell Value	\$0.00	\$0.00	\$-0.97	\$-3.44	\$-5.91	\$-8.38	\$-10.85
Spread Value	\$11.03	\$13.50	\$15.00	\$15.00	\$15.00	\$15.00	\$15.00
Spread Cost	\$12.53	\$12.53	\$12.53	\$12.53	\$12.53	\$12.53	\$12.53
Spread Profit	\$-1.50	\$0.97	\$2.47	\$2.47	\$2.47	\$2.47	\$2.47
Spread % Ret	-11.9%	7.8%	19.7%	19.7%	19.7%	19.7%	19.7%

The next profit opportunity we'll look at this week is **BBH** (Biotech ETF):



BBH is an ETF that tracks the performance of the Market Vectors US Listed Biotech 25 Index. As you can see from the chart, this ETF has done considerable well in recent months and has maintained its strong up-trend.

BBH is currently trading near the middle Keltner Channel, giving us a good entry point into this ETF.

We should consider purchasing a call option on BBH for the June 2013 expiration.

The last profit opportunity we'll look at this week is **DIS** (Disney):



We last looked at DIS in our March 27th newsletter. As you can see from the chart, DIS rallied significantly shortly thereafter, providing nice profits for those who took advantage. Now DIS has retraced near the middle Keltner Channel, giving us another good opportunity to enter this position again.

We should consider purchasing a call option on DIS for the June 2013 expiration.

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