2012
ISSUE
07

Weekly Insight to the Options Market

PULSEOptions

For the Week of February 20th through February 24th

In This Issue:

Event Calendar
Shows Market Wide Reports to be Released Next Week.

Obvious Is…
An Introduction to Our Long Term Goals

Sloppy Slop Award Winner
Sharing a Fellow Student's Results to Learn From

"Top 5 Plus or Minus"
Quick Reference Regarding Statistically Advantaged Stocks this Upcoming Week. We Tie in this Week's Lesson with Last Week's Results to Point You in the Right Direction.

FASt Way to Make Money
Why FAS is a better Setup than FAZ

Event Calendar

Feb 19 - Feb 25 Filter On

Date	12:26pm	Currency	Impact		Detail	Actual	Forecast	Previous	Chart
Sun Feb 19									
Mon Feb 20									
Tue Feb 21									
Wed Feb 22	10:00am	USD		Existing Home Sales					
	10:30am	USD		Crude Oil Inventories					
Thu Feb 23	8:30am	USD		Unemployment Claims					
	Tentative	ALL		G20 Meetings					
	10:00am	USD		OFHEO HPI m/m					
	10:30am	USD		Natural Gas Storage					
Fri Feb 24	9:55am	USD		Revised UoM Consumer Sentiment					
	9:55am	USD		Revised UoM Inflation Expectations					
	10:00am	USD		New Home Sales			316K	307K	
	10:45am	USD		FOMC Member Williams Speaks					
	1:30pm	USD		FOMC Member Dudley Speaks					
Sat Feb 25									

Week Begins with Holiday.

Slow Week For Reports.

Reports Deal More with State of the Economy and Less with Future Inflation.

Obvious is…

If you can't finish the statement, "Obvious is…" you haven't been a student long enough to be familiar with my teaching style. If you have been a student for any length of time, you know the whole mantra. "Obvious is a Function of Familiarity."

When you have an ailment, you want to know your doctor has studied in the area of your illness. Similarly, if you need a lawyer, you want him to have expertise in the area of law in question. Attorneys practice law; you don't want to be practice for them. You want them to know the answer because it's obvious, not because they know how to look it up in a book or what book to look it up in.

It's the same way to trading, knowing the actions to take, and more importantly the ones to avoid should be obvious. And while obvious is clear to me, it will be a process to have it become familiar to you.

My goal, if you allow me, is to teach you to trade. More specifically it's to teach you to extract money out of the market. And part of the lesson plan is to teach you when it's easiest to mine the money. And maybe more importantly, to make sure you know when it will be harder to reap the financial rewards.

This is not a light switch that you just switch on or a magic bean you just plant, this will take a little time. The plan is to have the videos and manual to get you up to speed and have the newsletters introduce you to the low hanging fruit that exists with weekly options and over time, your accounts will grow to meet or exceed your initial expectations.

Having said all that, I too can be guilty of forgetting that some things might not be obvious to students. At the risk of extra material I try hard to spell out terms like "At-the-Money" versus always abbreviating it as ATM. Otherwise some might confuse it as an Automated Teller Machine (ATM).

You need to know the PULSE System is a rejection based system. It needs to be obvious to you when I say I will be trading smaller size; I am referring to the FACT the setup is not as good as others. If I ever say, I am taking the week off of trading, it's not because I am lazy, it's because risks exist where they might not otherwise.

This is a slow week for reports. Add to it a holiday on Monday and it is harder than other weeks, both past and future. Take this week to learn. If you are more skilled, you will earn while you learn as I have some setups to share that will produce doubles. If you are new, practice; learn without risk. Maybe wait until all the planets align. Maybe wait for me to say I will be taking size in a trade. It won't be a long wait. I will certainly take size within a month. I know what's on the calendar ahead.

I think the most important fact you as students/members need to realize is the path to massive profits is systematized. It's a journey that starts without needing to know future price direction.

You should start with Non-Directional Straddles and Strangles. We will point out the times of greatest probability for large moves. It's not about where specifically the market goes, but that it specifically goes somewhere, up or down. Many of you will be able to grow your accounts nicely, never picking up or picking down, just picking up and down.

As you grow in understanding you can, if you want, increase your potential by picking sides. You can buy straight Calls or straight Puts. Doing so may increase your chance of being wrong, but the rewards for being right may be astronomical.

I push Non-Directional trading because I KNOW I have the timing down. I KNOW you can make money capturing part of the move. I KNOW your account can grow trading sloppy. I KNOW you'll remove the slop as you gain experience. As you become familiar with our system, the moves to make will become obvious. I KNOW it and given time, I KNOW you'll KNOW it too.

Sloppy Slop Award Winner

Below is an excerpt from an email from a new student. Underneath his email are some screenshots showing more details on the previously recommended trades. Below that is my comment on his email and on the trades. As always we keep the student's identity private. The purpose of this is to analyze a fellow student's trade to see if there are teachable moments for everyone.

"After reading your last newsletter, I was very anxious for yesterday morning to roll around so that I could participate in the recommended Top Five +/- strategy to take advantage of the FOMC Minutes. I picked only two of the five and went with straight calls on GDX and FAS. As you know, things didn't go according to plan yesterday and they both took a rather large hit by the end of the day. Since I entered with relatively small positions, I decided to reduce my cost basis near the close of the day. This morning, both trades had gaps down, but both rallied back and I closed both trades making 14% on GDX and 16% on FAS. I realize 15% is just a smidgen of what I am expecting however, as every trader should

know, you never go broke taking a profit. So I'm OK with the 15% today and after watching the option pricing I fully realize the incredible power of these gamma trades on the weeklys near expiration."

GDX Feb 2012 54.000 put (GDX120218P00054000) - OPR

0.82 ↑0.02(2.50%) 3:59PM EST

Prev Close:	0.80	Day's Range:	0.41 - 0.84
Open:	0.46	Contract Range:	N/A - N/A
Bid:	0.80	Volume:	1,382
Ask:	0.84	Open Interest:	4,640
Strike:	54.00		
Expire Date:	17-Feb-12		

2/15/12

Option Doubled from Low to Close.
BUT NOT from Open to High.

As you can see, this PUT on GDX had a questionable double. It opened at 46 cents and traded down to 41 cents within minutes. It then rallied during the day as the stock dropped. It closed at 82 cents after hitting a high of 84 cents. It did not double from the open. I can count this as a double, but I won't.

FAS Feb 2012 85.000 put (FAS120218P00085000) - OPR

1.03 ↑0.13(14.44%) 3:58PM EST

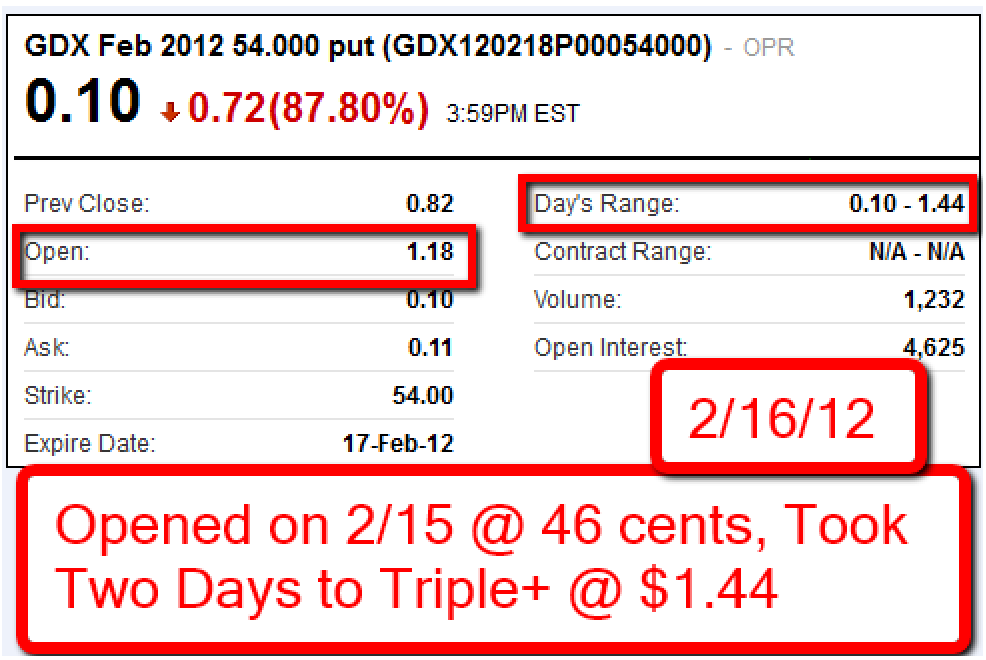
Prev Close:	0.90	Day's Range:	0.41 - 1.34
Open:	0.45	Contract Range:	N/A - N/A
Bid:	1.07	Volume:	1,761
Ask:	1.13	Open Interest:	1,415
Strike:	85.00		
Expire Date:	17-Feb-12		

2/15/12 More Than Double Open to Close. Almost 3x Open to High.

FAS was the #2 pick behind GDX. But it outperformed the #1 stock, at least on Wednesday February 15th (FOMC Minutes Release Day).

In reading his email one thing should jump out at you. He didn't buy Puts. He bought Calls. Instead of trading Non-Directional, he took a bias. And initially his bias was wrong.

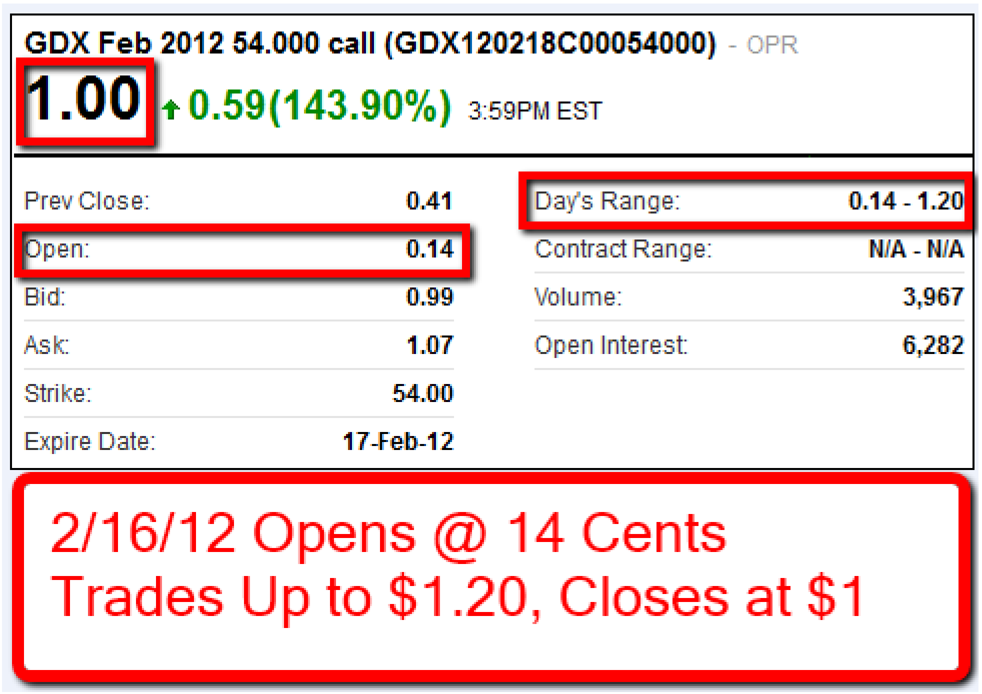
But let's also look at a few other facets. First, he didn't place too much size in the trade. He started with "relatively small positions." Sort of "Paper Trading" with real money. Second, he took a profit. Third, he's learning. I call this success. But let's look what he could have done.



As you can see, GDX Put didn't double on the 16th either. BUT, if you bought at open on Wednesday the 15th and held to open on Thursday the 16th, your Good Till Cancel (GTC) order would have filled at the open of $1.18. We don't even need to consider the fact this option went to trade at a high of $1.44.

I would ask you to study the screenshot above. I want you to notice a very important detail. Notice that this Put option ended up closing at 10 cents. While it is very important to exit the trade, this point allows me the opportunity to share two things. Both along the same lines.

First, how could he have made money trading a Call when the stock sold off and had the Put more than triple? And second and more important, this shows a phenomena mentioned in the Videos in action. "The Double Back Double."



As the stock sold off at the open of Thursday, the Puts rose in value and the Calls dropped. This price action sets up the Call options for the "Double Back Double." This is where a big move at the open of one option often follows with true day traders taking profits causing the stock to reverse and allowing the opposite option to double in price at a minimum.

Ready for some crazy math? I simply have you making two trades. First buying the Puts at open, then selling the next day at its open. Then using the money to buy the Calls at open and sell them at the close. Watch what $100 can do in two days. Notice I will not assume buying the low or selling the high. Just opens and closes.

Buy two contracts of the GDX $54 Put at open on Wednesday for $46 each. Total Invested = $92. Remainder of $8. Sell these two at the open on Thursday at $118 each. Total in returned = $236. Add to this the $8 remaining from original $100 allows the purchase of 17 contracts of the $54 Call at open for $14 each. Total invested = $238 with $6 remaining. If these were closed not at the high, but at the close for only $1, the total amount in the account not assuming commissions would be $1,706. Not bad for two days and risking $100.

This student wins the "Sloppy Slop Award" for the week. He earned 15% on a setup that could have earned 1,500% or more. He earned less than 1% of the potential. I believe he is 1% along on his way to a journey to financial freedom. I know in my heart of hearts, he can finish this journey and that he is not alone.

A side note; this student shared his location in his email. I bring this up because I like to help people, not numbers or email addresses. It encourages me to help you when I know there is an individual that benefits from my efforts. You don't have to give me a specific address, but a city and state personalizes your email. This student happens to live nearby one of my closest friends. I especially want this new student to be wildly successful. Hopefully my analysis of his trade helps him reach his individual goals.

"Top 5 Plus or Minus"

This week is highlighted, or more correctly stated low-lighted, by the lack of any outstanding report. One can make the argument that both Home Sales Reports have the potential to "Shock the Market," but I am going to use this slow week as an opportunity to focus on just a few stocks.

In this vein of thinking, this week's "Top 5 Plus or Minus" will be only three stocks. FAS, GDX & GS. You might recognize this as being in alphabetical order, but this is also the order in likelihood of options doubling. More importantly than listing the stocks is the math and logic behind my reasoning.

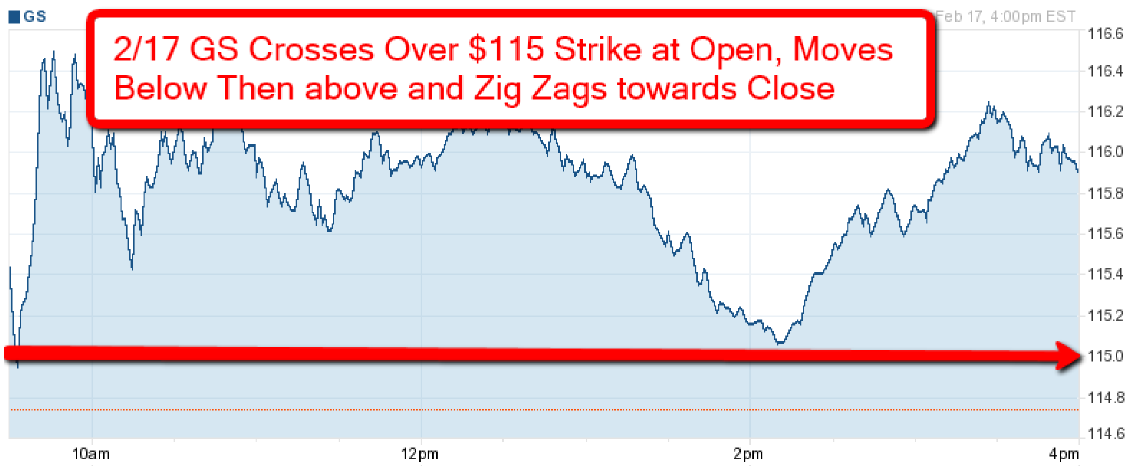
Starting with FAS, reports this week deal more with the economy than with pending inflation. Additionally, the stats on FAS all but guarantee a double. As stated elsewhere in this edition we go into more details on how to trade options on this stock.

Next looking at GDX, we have had at least one double per week on GDX every week for almost 18 months straight without missing a single week, this week won't end our streak.

Finally, Goldman Sachs (GS). As with most weeks, GS tends to cross over a strike price on Expiration Friday. While I don't believe this week will be any different, I ask you to only risk real money on this trade if you have risked real money before. Paper trade this one until comfortable. This setup is less than 100%.

Since the strike prices are so far apart on GS, we never trade Strangles. And as a general rule, we don't trade Straddles on it either. We look only to buy straight Calls or Puts depending on the stock's price.

Did you realize GS crossed over $115 two Fridays in a row? What good is it to a "Buy & Hold" Investor? Not nearly as good as for us! Buying a directional option on Expiration Day runs the risk of 100% loss. You must make more than 100% to make trade worthwhile. The good news is students are making this trade. You can learn to as well.



FASt Way to Make Money

In last week's edition of the Pulse Update, I moved FAZ towards the back of our "Top 5 Plus or Minus" list. This week I removed it completely and moved FAS from #2 to #1. Since these two stocks are cast from the same mold, one might ask, what's the deal?

I am going to share some math with you and point out an observable reoccurrence that you might otherwise miss. Remember "Obvious is a Function of Familiarity." Becoming familiar takes time. I hope to shorten your learning curve.

You must internalize a concept. We want to buy options that are Out-of-the-Money (OTM) when we buy them and sell them when they are In-the-Money (ITM). That's how we get the massive gains. That's why a GS option doubling is not a guaranteed 100% sure thing. Close but not 100% guaranteed.

Once you have internalized the concept of a stock's price crossing a strike price (moving from OTM to ITM) generating triple digit returns, then you will understand how I reject stocks as setups when the likelihood of this happening is lower than we would like.

Here is the bottom-line on FAS & FAZ. They move opposite of each other. If one is up 3% the other will be down somewhere near 3%. If one moves down 2%, its inverse twin should be up 2%. They move the opposite of each other. FAS Calls act like FAZ Puts. FAS Puts move the same direction as FAZ Calls.

Here's the math. FAS closed on Friday at $91.86 and FAZ closed at $25.44. With strike prices every dollar, FAS needs to move just over 1% to be assured of crossing a strike price. FAZ might move 3% and still not cross. FAS currently has a 300%+ more probability to have its option double. It's easy math! Until further notice, FAS tops the list and FAZ is an also-ran.

Earlier in this edition, I showed the FAS $85 Put more than double on Wednesday the 15th. What you might not have realized is that FAS opened that day at $89.08. That option was over $4 OTM and that the stock never crossed this strike price during that day.

Read it again slower with more details. The stock moved from an open of $89.08 to a low of $86.38 and the $85 Put stayed OTM the whole time and it nearly tripled. Is this a contradiction to our rules? No it's an added bonus.

Ready for this? The $80 Put was over 10% OTM on Wednesday's open and remained almost as far out. We call it a Deep-Out-of-the-Money (DOTM) option. It was DOTM it stayed DOTM and yet it more than doubled!

FAS Feb 2012 80.000 put (FAS120218P00080000) - OPR

0.32 0.01(3.03%) 3:59PM EST

Prev Close:	0.33	Day's Range:	0.15 - 0.40
Open:	0.15	Contract Range:	N/A - N/A
Bid:	0.26	Volume:	133
Ask:	0.33	Open Interest:	1,983
Strike:	80.00		
Expire Date:	17-Feb-12		

2/15 FOMC Minutes Day Double +

The beauty is how cheap it was with three full days left to expire. It opened at only 15 cents. Definitely affordable. It ended the week expiring worthless. Definitely a bad idea to buy & hold. But that very Wednesday, FOMC Minutes release day, this DOTM FAS Put moved from 15 cents to 40 cents. Definitely an opportunity for those who observe it, understand it and act on it.

I ask you before you start trying to trade DOTM options, you observe them, you study them, you paper trade them, you become familiar with them before you act. The time to trade will become "Obvious" if you let it.

As always
Good Trading,
Chris V