

# Cash Cow Newsletter

July 2<sup>nd</sup> 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 discuss the process I use to select stocks/ETFs for trading. I will then show you several new profit opportunities that utilize our Call Option Purchase and Market Neutral Strategies.

The S&P 500 Index closed nearly flat today after a volatile session. The index is currently sitting on the middle Keltner Channel and remains in a 50/100-Day EMA uptrend:



For nearly 30 years I've been refining a system of trading that has been proven to withstand all types of market environments. I like to call this system the 'Prime Trade Select'. Unlike most trading systems out there, the Prime Trade Select is simple but effective.

## **Prime Trade Select 3-Step Process**

Step 1: Determine the price trend

Step 2: Confirm the price trend

Step 3: Select a low risk entry point

### **Step 1: Determine the Price Trend**

Trend following is one of the most vital aspects of successful trading, and its importance cannot be emphasized enough. The goal is to quantitatively measure the buying and selling pressure of a stock so you can follow the trend instead of trying to predict it.

If you can get an accurate reading on the buying pressure and selling pressure for a stock, you can determine the most likely future price direction of the stock. Successful stock trading can be reduced to two simple rules: Buy the stock if the buying pressure exceeds the selling pressure, and sell the stock if the selling pressure exceeds the buying pressure.

There are numerous ways to get a reading on the direction of a stock. I am going to discuss several methods:

#### Exponential Moving Averages (EMA)

EMA's are the average price of a stock over a specified period of time with more weight given to the most recent daily bars.

The Prime Trade Select system uses a 50-Day EMA (fast) and 100-Day EMA (slow) in conjunction with each other to define a trend. The goal of the 50/100-Day EMA system is to determine if a stock is in a price uptrend or price downtrend.

## EMA Trend System Rules

### 50/100-Day EMA Trend System 'Buy' Signal

- 50-Day EMA is Above 100-Day EMA

### 50/100-Day EMA Trend System 'Sell' Signal

- 50-Day EMA is Below 100-Day EMA

### ***50/100-Day EMA 'Buy' Signal Example***



We can see that the 50-day EMA line is above the 100-day EMA line which signals a price uptrend for HD. As long as the 50-day remains above the 100-day, this stock is a 'buy'.

Before the Prime Trade Select actually approves this trade for entry, we need to complete steps 2 & 3.

### **Step 2: Confirm the Price Trend**

To confirm the price trend, I use the 'On Balance Volume' indicator.

## On Balance Volume

On Balance Volume (OBV) measures buying pressure vs. selling pressure and refines it down to one line.

When a stock closes up, volume is added to the line. When a stock closes down, volume is subtracted from the line. The cumulative total of these additions and subtractions form the OBV line. To confirm the price uptrend we want to see the OBV line sloping up. The lower part of the HD daily price chart below shows the OBV sloping up confirming the price uptrend for HD.



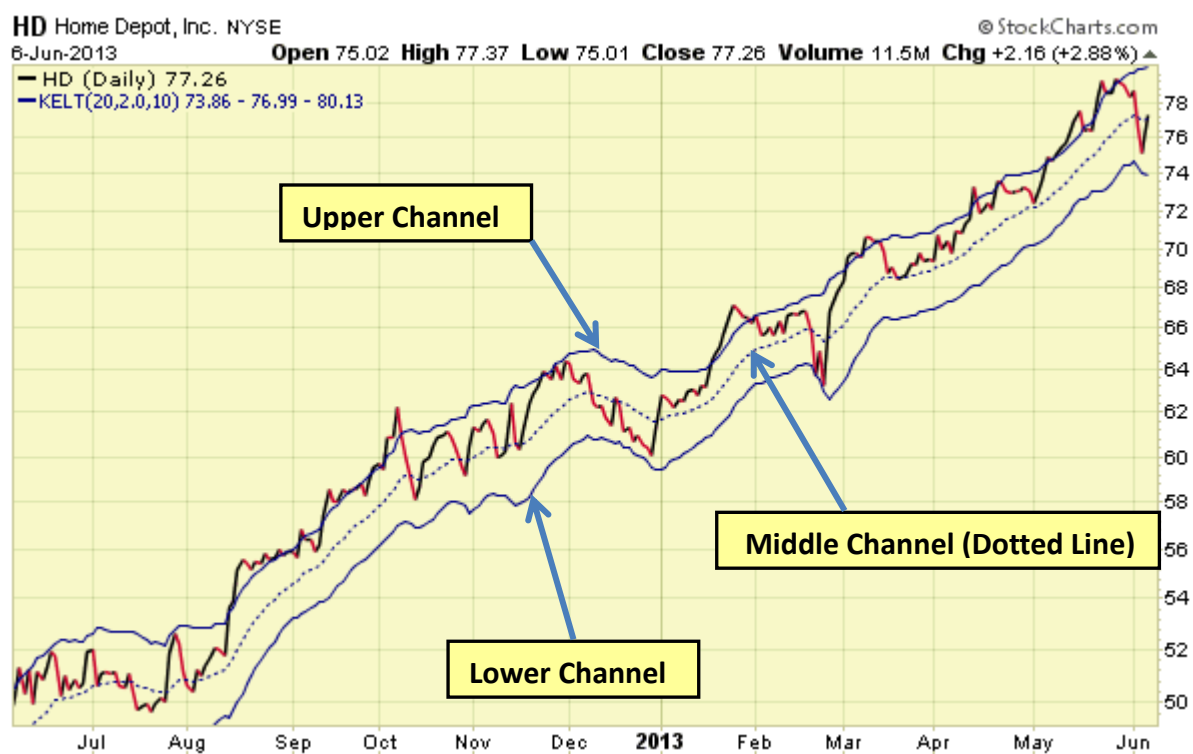
The 52-week high list is another good way to confirm price trend. Stocks making a new 52-week high are in a very powerful uptrend and tend to continue their price uptrend. This list allows you to further narrow down stocks with the greatest profit potential. This can save you time as there is more than 6,000 common stocks currently trading. The HD price chart above shows HD making a series of new 52-week highs over the past year confirming the price uptrend.

### Step 3: Select a Low-Risk Entry Point

I have found that the most effective way to select an entry point is to use the Keltner Channels Overlay.

### Keltner Channels

The Keltner Channels are a volatility-based envelope (similar to Bollinger Bands except it uses the Average True Range rather than standard deviation to set the upper and lower bands). As a result, the overall Keltner Channels are smoother than the more commonly used Bollinger Bands.



The central channel (dotted) is the 20-Day Exponential Moving Average. The upper and lower channels are 2X the Average True Range of the past 10 days, drawn at an equal distance from the central line. A stock is becoming overbought when the stock is trading near the upper channel and a stock is becoming oversold when it is trading near the middle or lower channel.

### Keltner Channel Guidelines

- Buy when price drops near the middle or lower channel
- Sell or don't buy when price increases near upper channel

You can use all of the technical indicators I discussed for free at [www.StockCharts.com](http://www.StockCharts.com). Simply enter a stock symbol and below the price chart you will see a section where you can customize your chart.

The screenshot shows the 'Chart Attributes' and 'Overlays' sections of the StockCharts.com interface. In the 'Chart Attributes' section, the 'Periods' dropdown is set to 'Daily', 'Range' is 'Predefined Range', 'Years' is '0', 'Months' is '6', and 'Days' is '0'. The 'Type' is 'Solid Line', 'Size' is '620', and 'Color Scheme' is 'Vanilla'. In the 'Overlays' section, 'Keltner Channels' is selected with parameters '20,2.0,10'. Two 'Moving Avg (exp)' indicators are added with parameters '50' and '100'. In the 'Indicators' section, 'On Balance Volume (OBV)' is selected with a position of 'Below'. The 'Update' button is visible at the bottom of each section.

Chart Attributes					
Periods	Range	Years	Months	Days	Extra Bars
Daily	Predefined Range	0	6	0	
Type					
Solid Line	Size		Color Scheme		
	620	Vanilla			
Volume: Off	<input type="checkbox"/> Full Quote	<input type="checkbox"/> Price Labels	<input checked="" type="checkbox"/> Log Scale	<input checked="" type="checkbox"/> Color Prices	
Update					

Overlays		Parameters	Advanced Options
Keltner Channels		20,2.0,10	
Moving Avg (exp)		50	
Moving Avg (exp)		100	
- None -			
Update		Clear All	

Indicators		Parameters	Position
On Balance Volume (OBV)			Below
- None -			Below
Update		Clear All	

Now that you have a better understanding of the selection process I use, I'd like to get into this week's profit opportunities.

Before we start, let's briefly go over last newsletter's weekly profit opportunity UTX. UTX is currently up 1.63% since last Thursday's close, and the stock is trading above the middle Keltner Channel. We should consider taking partial profits on this position and look for better weekly profit opportunities elsewhere.

The first profit opportunity I'd like to show you this week is **BA** (Boeing):



Boeing designs, develops, manufactures, sells, and supports commercial jetliners, military aircraft, satellites, missile defense, human space flight, and launch systems worldwide.

The company has good financials that include consistent Equity growth and Retained Earnings growth.

As you can see from the chart, BA is currently in an uptrend that is confirmed through the presence of an up-sloping On Balance Volume and a series of new 52-Week highs. BA has retraced and is trading near the middle Keltner Channel.

We should consider purchasing a weekly call option on BA for the July 12<sup>th</sup> option expiration.

The next profit opportunity we'll look at this week is **AXP** (American Express):



American Express provides payment card products and travel-related services to individuals and businesses worldwide.

We can see from the price chart that AXP has done considerably well in recent months and is currently in an uptrend that is confirmed through an up-sloping On Balance Volume and a series of new 52-Week highs.



We can take advantage of future price growth by purchasing a call option on AXP for the July 12<sup>th</sup> option expiration.

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



CBOE Holdings operates markets for the trading of listed and exchange traded option contracts. The company provides marketplace for trading stocks, indexes, and other exchange traded products.

Looking at the price chart, we can see that CBOE is currently in a strong price uptrend that is confirmed through the presence of an up-sloping On Balance Volume.

We can use the July 2013 monthly expiration to initiate a Market Neutral Spread Trade to take advantage of the strong price uptrend for CBOE.

Yesterday when I was looking at the CBOE July 2013 option chain, I was able to find a Market Neutral Trade that had a maximum risk of -3.5% with unlimited upside potential using the July 2013 35-strike call and 48-strike put.

If my timing is wrong in this Market Neutral trade I will take a -3.5% loss and can enter another trade opportunity. My maximum risk on this trade is -3.5% as opposed to a possible -100% loss if my timing wasn't good with just an option purchase.

This trade clearly illustrates the benefits the Market Neutral Strategy can offer.

The table below shows the Market Neutral Spread open trade profit results for my advisory service. The Market Neutral trades currently have \$124,104 in open trade profits with an average return of 283.5%. This is a great return for such a low risk strategy. To learn more about the Advisory, please call Brad at 1-866-661-5664 or 310-647-5664.

Stock	Entry Price	Qty	Last Price	Profit	Percent Profit
Credit Services Oct 490 call	\$4.70	5	\$97.47	\$43,160.00	385.4%
Credit Services Oct 530 put	\$17.70	5	\$11.25		
Rental & Leasing Services Sep 60 call	\$10.40	5	\$14.40	\$2,265.00	34.4%
Rental & Leasing Services Comm Sep 75 put	\$2.77	5	\$3.30		
Credit Services #2 Sep 140-strike call	\$11.15	2	\$45.55	\$6,416.00	195.6%
Credit Services #2 Sep 170 put	\$5.25	2	\$2.93		
Regional - Midwest Banks Sep 25 call	\$2.60	8	\$11.32	\$6,608.00	223.8%
Regional - Midwest Banks Sep 35 put	\$1.09	8	\$0.63		
Health Care ETF Sep 36 call	\$3.52	10	\$11.72	\$8,020.00	163.3%
Health Care ETF Sep 47 put	\$1.39	10	\$1.21		
Financial ETF Sep 75 call	\$4.72	5	\$20.60	\$7,390.00	133.5%
Financial ETF Sep 93 put	\$6.35	5	\$5.25		
Home Improvement Stores Aug 50 call	\$2.65	5	\$27.30	\$11,885.00	495.2%
Home Improvement Stores Aug 75 put	\$2.15	5	\$1.27		
Department Stores Jul 30 call	\$2.45	14	\$20.10	\$24,080.00	554.8%
Department Stores Jul 47.5 put	\$0.65	14	\$0.20		
Telecom Services - Domestic Jul 30 call	\$2.05	8	\$20.62	\$14,280.00	556.1%
Telecom Services - Domestic Jul 49 put	\$1.16	8	\$0.44		
<b>Total Profit / Avg Gain</b>				<b>\$124,104.00</b>	<b>283.5%</b>

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

## Cash Cow Newsletter Archive

Click on the link provided below to access the Cash Cow Archive.

**Cash Cow Newsletter Archive:** <http://weeklyoptiontrade.com/archive.html>