



Safe Signals

Are we there yet; are we there yet; are we there yet? If you have kids or grandkids it's an all too familiar question that you hear on any car trip lasting more than the length of a popular DVD. And it can drive you crazy. Yet I have found myself asking it to no one in particular for over six months now regarding the condition of the markets. If there were actually someone listing it would likely have had the same effect on them that the question coming from my kids has had on me in the past.

But, this past week I heard something from the front seat that gave me some encouragement. Whoever is driving this bus called the economy turned around and said "we're almost there".

Keep hedging your trades, but look forward with some optimism at the same time.

Scott Jefferies

Safe Option Strategies

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A Week in Review

The week started slow with Monday and Tuesday bringing little to get up or down about in the major indices. It was the Fed's decision to drop interest rates again along with some very solid corporate earnings from credit card companies Master Card (MA) and Visa (V) that actually got things moving. In the case of Master Card the numbers could not have been better with the company beating expectations and upping it's guidance for next quarter mostly on increases in foreign usage. The same held true for Visa who reported earnings for the first time since it's IPO last month. The likewise reported very strong earnings and in line guidance for next quarter. The financial sectors were in much need of this kind of news. It means simply that consumers are still spending money.

The Fed did pretty much what every one thought they would, but the real news of the week from our perspective were the GDP numbers from first quarter. By definition a recession is two consecutive quarters of negative GDP. Well, the numbers for first quarter were positive which means two things: 1 – we are still at least two quarters from a recession; 2 – there are a thousand or more financial analysts and talking heads who should lose their jobs because they have been crying wolf for three months now about being in a recession already. Sorry guys. We're just not.

For the week the major markets looked like this:

	Started	Ended	Change	Change%
DJIA	12891.86	13058.20	166.34	1.3%
NSDQ	2422.93	2476.99	54.06	2.2%
S&P 500	1397.84	1413.90	16.06	1.1%

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The Signal

This Week's Safe Option Strategy

Visa (V): Call Calendar

The Company: Visa, Inc., through its subsidiaries, operates retail electronic payments network worldwide. It facilitates commerce through the transfer of value and information among financial institutions, merchants, consumers, businesses, and government entities in approximately 170 countries and territories. The company owns and operates VisaNet, a global processing platform that provides transaction processing services, primarily authorization, clearing, and settlement. It offers a range of branded payments product platforms, which customers use to develop and offer credit, charge, deferred debit, debit, prepaid, and cash access programs for cardholders.

The Trade: The call calendar uses a longer term long call (at least 90 days out to expiration) with a near term short call (current month to 45 days out) with the idea in mind of letting short term time decay allow the long option to maintain or gain value as the short option loses value or at least gains at a slower pace. If properly structured it is one of the easiest trades to modify or adjust if it moves against you. The trade takes advantage of a stagnant to slightly bullish moving stock.

The Exit Plan: The primary exit in this trade is to gain a profit of 20% by letting the short call drop in value while the long call maintains value or goes up. Whatever combination of the two options gaining or losing that results in 20% ROI should be cause to close the trade. If the stock moves too fast bullish we will roll the short calls out and up. If it goes bearish we will roll the short calls out and possibly down, and add long puts.



Calls												Puts											
Symbol	Last	Chg	Bid	Ask	Vol	OpInt	Action	Strike	Symbol	Last	Chg	Bid	Ask	Vol	OpInt	Action							
May 08 Calls (12 days to expiration) V @ 82.75												May 08 Puts											
Jun 08 Calls (47 days to expiration) V @ 82.75												Jun 08 Puts											
.VFO	9.80	0	9.80	10.10	00	5,240	Trade	75.00	.VRO	1.95	0	1.85	2.00	00	2,579	Trade							
.VFP	6.60	0	6.70	6.90	00	6,750	Trade	80.00	.VRP	3.80	0	3.60	3.90	00	2,358	Trade							
.VFQ	4.40	0	4.50	4.60	00	10,569	Trade	85.00	.VRQ	6.40	0	6.30	6.60	00	1,264	Trade							
.VFR	2.80	0	2.85	2.90	00	7,109	Trade	90.00	.VRR	10.00	0	9.70	10.00	00	840	Trade							
Sep 08 Calls (138 days to expiration) V @ 82.75												Sep 08 Puts											
Dec 08 Calls (229 days to expiration) V @ 82.75												Dec 08 Puts											
Jan 09 Calls (287 days to expiration) V @ 82.75												Jan 09 Puts											
.VSKAO	16.50	0	16.40	16.70	00	6,204	Trade	75.00	.VSKMO	7.60	0	7.40	7.90	00	989	Trade							
.VSKAP	14.00	0	13.90	14.20	00	4,390	Trade	80.00	.VSKMP	10.00	0	9.70	10.20	00	720	Trade							
.VSKAQ	11.70	0	11.60	12.00	00	7,079	Trade	85.00	.VSKMQ	12.70	0	12.50	13.00	00	1,404	Trade							
.VSKAR	9.80	0	9.70	10.00	00	2,834	Trade	90.00	.VSKMR	15.10	0	15.50	15.90	00	1,312	Trade							

Buy to open Jan 09 85 strike long calls for 12.00 debit.
 Sell to open Jun 85 strike short calls for 4.50 credit.
 Total debit is \$7.50 per share (12.00-4.50).
 Max Risk is \$7.50 per share.
 Max Reward is unlimited because of the ability to roll the short calls.
 Target ROI is 20% (close both legs when they can be sold for a net debit of \$9.00).

The Signal

Watch for the Signals

Signals to Watch for in the Upcoming Week and Why.

Economic Reports

May 5	ISM Services	Apr
May 7	Productivity	Q1
May 7	Pending Home Sales	Mar
May 7	Crude Inventories	05/03
May 7	Consumer Credit	Mar
May 8	Initial Claims	05/03
May 8	Wholesale Inventories	Mar
May 9	Trade Balance	Mar

Stocks to Watch

Mon: MCK, CZN, PFG, TDC, APC, CMS, MVL, WTW
Tues: DIS, THC, EMR, SLE, PEG, NYX, CSCO, PWE,
Wed: RIG, DVN, EXPD, CTSH, AGN, MMC, CROX, SKYW,
Thurs: NVDA, AIG, EP, BRL, EIX, PGN, BKCC, POZN, NDAQ,
Fri: CCU, AER, AYR, LSE, CV, HET, SJI

This week we are starting to wind down the earnings season and the economy has shown some resilience over the past month. With the possibility of the Fed not cutting rates for a while the dollar should continue to gain strength and inflation should be held in check. The latest barometers showed encouraging signs that the economic slowdown may not be as bad as the pessimists had feared. Still, there's much reason for caution -- about housing, credit and other problems. "Economic or financial conditions could take an unexpected stumble at any time," warned Stephen

Stanley, chief economist at RBS Greenwich Capital. The key word in that quote is UNEXPECTED. That will leave earnings and news to push the market even higher.

There are just a few economic reports this week ISM Services, [Initial Claims](#), and [Trade Balance](#) are the big reports this week. We will focus on [Trade Balance](#) and why this could move the market this week.

To continue to learn the economic reports click on <http://biz.yahoo.com/c/e.html>

The [Trade Balance](#) report is most widely watched for trends in the overall trade balance. But trends in both exports and imports of goods and services bear watching as well. The export data in particular are important to watch for indications that a strengthening competitive position at home and/or strengthening economies overseas are boosting U.S. growth. Imports provide an indication of domestic demand, but given the severe lag of this report relative to other consumption indicators, it is not particularly valuable for this purpose.

The volatility in the monthly trade balance can play an important role in GDP forecasts. Net exports are a relatively volatile component of GDP, and the trade report provides the only early clues to the net export performance each quarter.

Spread trades that can be adjusted are the safest bet this week. No one stock will move the market this week. Look for news to set the trend and expect earnings to taint or encourage the overall picture of the S&P. Look for real facts and figures to make your decisions in your trading

The Signal

I read this article found online at Briefings.com. I love numbers because the numbers can't lie. They can sometimes be interpreted wrong but one comment I hear quite a bit is if this recession was a self fulfilling prophecy? We definitely haven't had two negative quarters of GDP. What do you think?

The following article, **The Recession That Never Was is Now Over**, from Dick Green, President of Briefings.com is a great article. I've included a couple of bits for you to see the numbers. The following link is a great resource to learn from:

<http://www.briefing.com/GeneralContent/Investor/Active/ColumnArchive/GetColumnArchivePage.aspx?pageId=3611>

The Recession That Never Was is Now Over

Never mind. That seems to be the attitude of all the economists and financial journalists that were falling all over themselves to irresponsibly raise alarm bells back in February and March about the horrible recession that was developing. The increase in first quarter real GDP reported Wednesday suggests that there will not be a single quarter of receding GDP this business cycle. There are two main reasons that the current cycle did not turn into a true recession.

First, we take a quick look at the component contributions to real GDP for the first quarter. This is partly because the trends provide important clues about the outlook for second quarter GDP, and partly because we want to note the accuracy of our

The key points are:

- *Consumer spending was up steadily through the first quarter.*

- *Exports are booming.*
- *Business investment in equipment and software is holding up very well.*

These points are important because they highlight what went wrong for everyone that three weeks ago was forecasting declines in GDP for the first and second quarter (which was about every major Wall Street firm).

Where Recession Forecasts Went Wrong

The two biggest fears in this business cycle were:

- 1) *That falling home prices would lead to a downturn in consumer spending.*
- 2) *That the credit crisis on Wall Street would lead to a true credit crunch.*

It is now apparent that neither happened.

With the fiscal stimulus now starting, consumer spending will keep rising. By the time the fiscal stimulus wears off, the housing market may well have stabilized. Payrolls will also stabilize. And consumer spending will keep rising.

The great consumer pullback never happened.

The credit crunch also never happened. Total commercial and industrial loans, as released every Friday in the Fed's H.8 report, have been rising steadily the past nine months. Even real estate loans outstanding are up.

What it All Means

Recession is a term that applies to the entire economy. Recession comes from the word "recede." It means DOWN.

First quarter real GDP was UP. Continued increases in consumer spending and exports will keep GDP growth positive in the second quarter. The fiscal stimulus will see to that.....

There will not be a single down quarter for GDP. This is NOT A RECESSION.

Just weeks ago it was common knowledge that "everyone knows this is a recession." There were financial articles that started with "It is no longer in doubt that this is a recession, it is only a matter of how bad it will be." We disagreed then, and we disagree now.

These are very difficult economic times. Growth is well below the long-term trend of 3%. Nevertheless, there is growth. The difference is important.

If this were a true recession, job losses would be much more severe and corporate profits would not be nearly as good.....

Yet, we doubt very much that there will be apologies from the vast armies of journalists and economists who sensationalized economic problems.

Learning the Options

Long Put or Buying a Put - You buy the right to sell a stock for a certain amount of time at a certain price. JAN 09 \$20 Long Put means you bought the right to sell the stock at \$20 between today and Jan 2009 options expiration. When you buy an option you will always buy at the current ask price or in the ask column.

This option can act like a stop loss (see protective put next week) allowing you to never get stopped out to watch the stock finish the day up. As a stock moves down in price, the option moves up in value. You can estimate the value increase of the option by multiplying the downward stock movement by the delta of the option. Your expectation is the stock will move down in price to capture premium and profits in the option or you will exercise the option to sell the stock at a much higher price than the stock is currently trading at.

This is one of the least used options. The risk involved by trading the long put position directionally is that the stock moves sideways or up quickly. If the stock moves sideways the option will lose time value and start to lose value. If the stock turns bullish the option can lose half to two thirds of its value with just a couple of strike price movements upward.

Trade Updates

AEO Collar Trade = Continue to short calls for next month

FSLR Calendar Strangle = Short calls against the long call if you already closed your put for profit. Close out the entire trade if you have reached 10% overall profit or more.