



Safe Signals

Do you really love your mother and want to do the right thing for her for Mother's day? Let me make two suggestions: One – buy her a hybrid vehicle so the cost of gasoline doesn't break your own inheritance. Or Two – invest in some oil stocks.

Oil stocks like Exxon Mobile (XOM) and Chevron Texaco (CVX) are good places to start. The price of oil is not likely to go down any time soon and credits on covered calls are pretty good on these companies. They are also volatile enough to make good money on collar trades.

I know a guy who owns enough shares of Valero Oil (VLO) that he makes more money each month writing covered calls than him and ten other people could spend on gasoline. Don't like the price of gas?; fight back by owning some of the company.

Scott Jefferies

Safe Option Strategies

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A Week in Review

Oil was the biggest story of the week by far. With the price per barrell going steadily up and the busier summer months approaching you have to wonder if there is any end in sight. Speculators, who in our opinion are the worst leeches of the modern trading markets, continue to push prices up with regard for their profits only and no regard for the long term effect on the global economy.

Had it not been for the nearly 8 ½ % rise in oil prices in one week some positive news that may have otherwise given us our fourth bullish week in a row overall were increases in worker productivity, lower initial jobless claims than expected, and a decrease (albeit slight) in the trade deficit. On a normal week these positive indicators might have

bolstered a weak market, but the oil prices were just too much to overcome.

On a corporate level the financial sector continued to take hits with Fannie Mae (FNM), American International Group (AIG), and UBS (UBS) reporting horrible yet expected earnings. This weakness in the financial sector continues to drag on the markets, but could be slowing down.

One other noteworthy mention came at the end of the week when FedEx (FDX) issued an earnings warning that was directly linked to rising fuel prices. But take heart all you with kids; Disney (DIS) is still making money off you. Their earnings report and guidance was great. They truly are the Magic Kingdom.

For the week the major markets looked like this:

	Started	Ended	Change	Change%
DJIA	13058.20	12745.88	-312.32	-2.4%
NSDQ	2476.99	2445.52	-31.47	-1.3%
S&P 500	1413.90	1388.28	-25.62	-1.8%

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The Signal

This Week's Safe Option Strategy

Baidu.com, Inc. (BIDU): Bull Put

The Fundamental Signals: Baidu.com, Inc. provides Chinese language Internet search services. Its services enable users to find relevant information online, including Web pages, news, images, and multimedia files through its Web site links. The company offers a Chinese language search platform, which consists of Web sites and certain online application software, as well as Baidu Union, which is a network of third-party Web sites and software applications. Its products include Baidu Web Search that allows users to locate information, products, and services using Chinese language search terms; Baidu Post Bar and Baidu Knows, which provide users with a query-based searchable community; and Baidu News that provides links to an extensive selection of local, national, and international news.

The Trade: The bull put spread is one of the simplest yet most misused spread trades. It is a credit spread using a short put at or below a level of support with a long put one or two strikes below the short put used to minimize risk. Both option instruments should be in the current month of expiration as time decay is your ally in this trade.

The Technical Signals: Technically BIDU is trading bullish but with a recent trend back towards the 50 day EMA. The 50 day EMA should hold as a level of support and it is right at 320 per share. This creates a good spot to place the short put in the bull put trade.

The Exit Plan: The primary exit in this trade is to let both options expire worthless and capture the maximum credit possible in the trade. The number one rule however in a bull put trade is to never do it if you are not willing to own

the stock. If BIDU falls below 320 per share before the end of this week we will likely have the stock put to us. We will then look at June ITM covered calls or perhaps a collar on the stock to get profitable, but the fact remains, we will own the stock probably for a full month or more. We would never do this trade if we were not perfectly ok with this possible scenario.



May 08 Calls					BIDU @ 346.28					May 08 Puts						
.BDUEA	37.50	0	37.20	37.70	00	1,036	Trade	310.00	BDUQA	1.40	0	1.35	1.50	00	1,900	Trade
.BDUEC	28.80	0	28.40	28.90	00	903	Trade	320.00	BDUQC	2.72	0	2.60	2.80	00	2,036	Trade
.BDUEE	21.00	0	20.60	21.10	00	1,006	Trade	330.00	BDUQE	4.90	0	4.70	4.90	00	2,253	Trade
.BDUEG	14.20	0	14.20	14.60	00	1,572	Trade	340.00	BDUQG	8.40	0	8.20	8.40	00	2,711	Trade
.BPJEU	9.40	0	9.30	9.40	00	2,226	Trade	350.00	BPJQJ	13.20	0	13.20	13.40	00	2,754	Trade
.BPJEL	6.00	0	5.80	6.00	00	2,354	Trade	360.00	BPJQL	19.70	0	19.60	20.10	00	1,545	Trade
.BPJEN	3.50	0	3.50	3.60	00	5,528	Trade	370.00	BPJQN	27.40	0	27.30	27.80	00	1,524	Trade
.BPJEP	2.00	0	2.00	2.15	00	3,187	Trade	380.00	BPJQP	35.80	0	35.80	36.30	00	861	Trade
.BPJER	1.06	0	1.00	1.25	00	2,889	Trade	390.00	BPJQR	44.40	0	44.80	45.40	00	624	Trade

Sell to Open the 320 put for 2.60 credit.
Buy to Open the 310 put for 1.50 debit.
Total Credit (max profit) is \$1.10 per share.
Max Risk is \$8.90 per share.
ROI if both options expire worthless is 12% on a one week trade.

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Watch for the Signals

***Signals* to Watch for in the Upcoming Week and Why.**

Economic Reports

May 12	Treasury Budget	Apr
May 13	Export Prices	Apr
May 13	Import Prices	Apr
May 13	Retail Sales	Apr
May 13	Business Inventories	Mar
May 14	Core CPI	Apr
May 14	CPI	Apr
May 14	Crude Inventories	05/10
May 15	Initial Claims	05/10
May 15	NY Empire State Index	May
May 15	Net Foreign Purchases	Mar
May 15	Capacity Utilization	Apr
May 15	Industrial Production	Apr
May 15	Philadelphia Fed	May
May 16	Building Permits	Apr
May 16	Housing Starts	Apr
May 16	Mich Sentiment-Prel.	May

Stocks to Watch

Mon: S, MBI, FLR, IMB, RDN

Tues: AMAT, ERTS, TJX, LIZ, WMT, WFMI,

Wed: A, M, FRE, DE

Thurs HPQ, KSS, JCP, CPWR, JWM, ADSK, URBN,

Fri: ANF,

This week will be interesting right from the start. We broke below the 12800 mark on the Dow which was supposed to be our level of support. Monday has very little on the economic reports front but Sprint (S) and trouble bond insurance MBIA, Inc (MBI) report which will probably set the tone for the day. We will see on Monday if the 12800 mark becomes support or resistance for the DOW Jones (DJIA) as a whole. Expect some major volatility this week and don't be at all surprised if there are swings as much as 200 points up or down in the DOW in any one day.

Wal-Mart (WMT) reports on Tuesday and Hewlett-Packard (HP) reports on Thursday. Tuesday we will learn more about the strength or weakness of the consumer when [Retail Sales](#) for the month of April are released. Wednesday the key inflation report - [CPI](#) report is also released.

Crude inventories will be released on Wednesday. PAY ATTENTION !!! With five straight days of record setting prices and the barrel trading as high as \$126 intraday last Friday, oil is definitely the "trend setter". Will the energy bubble burst any time soon? Maybe, but with OPEC letting the world know the supply is sufficient and with US demand typically going up over the summer months, DON'T count on the price per barrel dropping any time soon.

We will focus on [CPI](#) and why this could move the market this week. Fear of inflation continues to be prevalent in the markets in spite of the Fed backing off on comments to support that. The media will continue to perpetuate it whether it needs to be a concern or not.

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

The Consumer Price Index is a measure of the price level of a fixed market basket of goods and services purchased by consumers. [CPI](#) is the most widely cited

inflation indicator, and it is used to calculate cost of living adjustments for government programs and it is the basis of COLAs for many private labor agreements as well.

It has been criticized for overstating inflation, because it does not adjust for substitution effects and because the fixed basket does not reflect price changes in new technology goods which are often declining in price. Despite these criticisms, it remains the benchmark inflation index.

CPI can be greatly influenced in any given month by a movement in volatile food and energy prices. Therefore, it is important to look at CPI excluding food and energy, commonly called the "core rate" of inflation. Within the core rate, some of the more volatile and closely watched components are apparel, tobacco, airfares, and new cars. In addition to tracking the month/month changes in core CPI, the year/year change in core CPI is seen by most economists as the best measure of the underlying inflation rate.

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.

V Calendar Call = The trade is progressing as it should and we will look to close at 20% ROI which could come shortly after May options expire at the end of this week.

Learning the Options

Short Put or Selling a Put- When you sell to open a put that is called a short put. It means that another investor somewhere in the market is paying you money for the right to sell you a stock at a certain strike price within a certain period of time. Short puts take advantage of bullish or stagnant movement in a stock. It is usually placed at or slightly below the money (meaning the strike price of the put is a smaller number than what the stock is currently trading at), and when your expectation is that the stock will remain above your strike price until option expiration. If the stock goes below your chosen strike price before option expiration you could have that stock "put" to you. That means the person who paid you money is exercising their right to sell a stock at a certain price. You may not want to own that stock, but you have that obligation.

Used by itself a short put is a very high risk trade because you could theoretically lose the amount of money between your strike price and zero, minus the credit you took in on the option itself. Here's an example:

You sell a 30 strike price put on a stock trading at 32 per share and take in a \$1.50 credit you could lose \$28.50. Your strike price (\$30) minus your credit (\$1.50). If the stock stays above \$30 you make the entire \$1.50. Your theoretical break even is \$28.50 meaning if on the day of expiration the stock was trading right at \$28.50 you could have the stock put to you and immediately sell it and lose no money outside of your commissions on the trade.

Used in a spread trade the short put can either be a protective option such as in a bear put or put calendar trade. The credit taken on the short put simply lowers your maximum exposure to risk in the trade. You could also use the short put as your primary money making

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option in a bull put trade where your long put is your protective option.

On rare occasions if you are absolutely sure you want to own a stock and the short put has a very good credit in it you could use it by itself (this is referred to as a naked put). The credit taken in would have to make the stock a better deal than the price of the stock itself at the time you could purchase it. An example of this would be a stock trading at \$29.00 with a short term (current expiration month) short put at \$30.00 giving you \$1.50 credit. Selling the put at the \$30 strike price knowing it will be put to you is ok when you consider that you still keep the \$1.50 credit on the option. It could be likened to getting a \$.50 discount on the stock. You have to be certain you want to own the stock and know how to protect yourself if the stock continues to move down. We use naked puts very seldom and again, only when certain we want to own the stock.

