



## Safe Signals

Although we offer a lot of opinion at Safe Option Strategies, it's not very often that we weigh in on what a company should or should not do, we simply offer commentary. Today is a little different because of what we see going on at Yahoo, Inc.

When the board of directors at Yahoo recently turned down an offer from Microsoft, Inc. to buy them out for \$33.00 per shares (keep in mind that only one day before the Microsoft offer became public news Yahoo shares were trading for just over \$18.00 per share) we simply thought there must be something Yahoo knows that we don't. As it turned out, Yahoo's board as well as their CEO are simply greedy in our opinion. They simply want too much. That's why we love the move being made by billionaire investor Carl Ichan and think you should read his letter to Yahoo. So, here it is: [click here](#) to read the article or go to [www.safeoptionstrategies.com](http://www.safeoptionstrategies.com)

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Safe Option Strategies

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## A Week in Review

A lot of people are wondering if there may be a turn around to the recession with four of the last five weeks giving us bulls instead of bears. The hard part about answering that question is its very premise. It's wrong. Sorry to disappoint you in the media, but we still have not had a recession. And with more positive news than negative coming out of corporate America it looks like the economic slowdown we have been feeling for the past 9 months or so is just that and nothing more; a slow down.

This past week actually gave us a very nice post earnings wrap up with focus in the market on positive news instead of negative news, and there was plenty of both. Continued concern for the financial sector came with Fed Chair Ben Bernankie warning that things may not be getting better any

time soon. But market sentiment seemed much more focused on positive retail news. Oil came dangerously close to \$128 per barrell, but investors attention was more drawn towards things like better than expected new housing starts; a possible sign that the worst of the housing market woes was over or at least nearing an end. Optimism could have also been fueled by the beginning of government tax rebate stimulus checks making their way into pockets and easing some concerns about higher consumer prices on oil and wheat. There was definitely a feeling that traders were looking for things to be bullish on. We've all heard the cliché "fear and greed move the market", but not many make the connection between greed and optimism. We tend to look for the positive when the media isn't squashing it with doom and gloom.

One of the bigger stories this past week was that of billionaire Carl Ichan threatening the current board of Yahoo, Inc. (YHOO) with a proxy fight (that's fancy talk for a hostile takeover). The mega investor has been

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buying up shares of the internet giant in an attempt to create enough leverage with the rest of the shareholders to put pressure on the current board to act on the offer presented earlier in the month by computer software and OS giant Microsoft (MSFT). The offer from Microsoft was rumored to be \$33.00 per share for Yahoo, but rumors also suggested that the current Yahoo board and executive management was holding out for at least \$37.00 per share. Whatever is to be believed there is one thing that is certain and that is that the merger of these two companies could spell competitive danger for the current king of the hill Google Inc. (GOOG).

For the week the major markets looked like this:

Started Ended Change Change%

	Started	Ended	Change	Change%
DJIA	12745.88	12986.80	240.92	1.9%
NSDQ	2445.52	2528.85	83.33	3.4%
S&P 500	1388.28	1425.35	37.07	2.7%



## This Week's Safe Option Strategy

### Game Stop Corp. GME Monster Collar Trade

**The Fundamental Signals:** GameStop Corp. operates as a retailer of video game products and personal computer (PC) entertainment software. Its stores offer new and used video game hardware, software, and accessories, including controllers, memory cards, and other add-ons; PC entertainment and other software, and PC entertainment accessories, such as joysticks; and strategy guides and magazines, as well as trading cards. The company sells its products through its GameStop and EB Games trade names; Websites, including gamestop.com and ebgames.com; and Game Informer' magazine. As of February 2, 2008, GameStop Corp. operated a total of 5,264 stores that are located in regional shopping malls and strip centers in the United States, Australia, Canada, and Europe. The company was founded in 1994 and is headquartered in Grapevine, Texas.

**The Technical Signals:** Game Stop is trading in a channel right now with its earnings report taking place later this week. The company has a history of moving big around its fixed economic events. Recent support and resistance give it a very good chance of moving big before hitting a barrier, psychological or otherwise.

**The Trade:** The monster collar is really two trades in one, but the real catch is that one trade gives security for the other: The trade starts out with a very long term covered call strategy with the idea of getting enough credit on the LEAP short call such that it will actually pay for all or most of a straddle or strangle trade. The straddle/strangle will do two things: first it will protect the entire investment with the

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puts places 3-6 months out in expiration and very close to the money. Second, the puts can actually profit the trade if started ITM (in the money) such that there is guaranteed profit in exercising them before expiration and thereby selling the stock for more money than what you paid for it. The long calls in the trade are there to take away any limit to the profit caused by having a short call in place. If the stock moves up it will always outpace the loss dollar for dollar on the short call making it possible to get out with profit, although limited. The long call has nothing keeping it in check for profit after the loss on the put has been overcome. It's a complicated trade in the sense that it uses stock ownership along with three option instruments, but it is also a trade which can truly have a set and forget aspect to it. There are scenarios where you can create this trade with zero possibility of a loss between the time it is opened and the expiration of the long puts.

**The Exit Plan:** It doesn't take much upward movement for this trade to show a nice profit because you have both stock and long calls making money and both should more than offset the loss on the long puts and short calls. You have to be conservative on what you look for in profit on this trade. It's not something you will get 20-30% on in a month, but often times we have closed this trade with 3-7% in only a few days after the earnings announcement. We will look to get 5% if possible if the stock moves up and treat it like any other collar trade if the stock moves down.

If the stock stays flat (unlikely but not impossible) we have to commit to the trade longer term because we will roll the covered calls in and down to try and create some profit there. Whichever side of the straddle/strangle is at less of a loss, or if there is a side that is profitable, the losing leg will be modified to either a credit spread or calendar spread. The modification to a sideways movement is the trickiest and one of the most important things about this trade is to do nothing with it for at least two or three trading days while

it establishes what direction it will take. Investors sometimes have a knee-jerk reaction on something they like or don't like about an earnings announcement and move the stock for one day in a certain direction only to have the stock reverse soon after.



Expand All												Calls				Puts				Disable Roll Overs	
Symbol	Last	Chg	Bid	Ask	Vol	OpInt	Action	Strike	Symbol	Last	Chg	Bid	Ask	Vol	OpInt	Action					
Jun 08 Calls (34 days to expiration) GME @ 53.87																					
.GMEFI	9.50	0	9.30	9.60	00	19	Trade	45.00	.GMERI	0.50	0	0.40	0.50	00	888	Trade					
.GMEFJ	5.40	0	5.40	5.60	00	460	Trade	50.00	.GMERJ	1.40	0	1.35	1.50	00	1,723	Trade					
.GMEFK	2.55	0	2.55	2.60	00	2,394	Trade	55.00	.GMERK	3.60	0	3.40	3.60	00	380	Trade					
.GMEFL	0.98	0	0.90	1.05	00	1,529	Trade	60.00	.GMERL	7.70	0	6.80	7.10	00	109	Trade					
Jul 08 Calls (62 days to expiration) GME @ 53.87																					
.GMEGI	11.50	0	9.80	10.10	00	829	Trade	45.00	.GMESI	0.95	0	0.85	0.95	00	2,031	Trade					
.GMEGJ	6.30	0	6.10	6.30	00	1,150	Trade	50.00	.GMESJ	2.21	0	2.10	2.20	00	1,824	Trade					
.GMEGK	3.30	0	3.40	3.60	00	2,935	Trade	55.00	.GMESK	4.40	0	4.30	4.50	00	1,306	Trade					
.GMEGL	1.75	0	1.65	1.75	00	2,396	Trade	60.00	.GMESL	6.90	0	7.50	7.80	00	825	Trade					
Oct 08 Calls (153 days to expiration) GME @ 53.87																					
.GMEJI	11.10	0	11.40	12.00	00	664	Trade	45.00	.GMEVI	2.60	0	2.40	2.50	00	1,264	Trade					
.GMEJJ	7.70	0	8.40	8.60	00	461	Trade	50.00	.GMEVJ	4.20	0	4.00	4.20	00	921	Trade					
.GMEJK	5.80	0	5.70	6.00	00	787	Trade	55.00	.GMEVK	6.60	0	6.40	6.60	00	305	Trade					
.GMEJL	3.80	0	3.80	4.00	00	1,900	Trade	60.00	.GMEVL	9.00	0	9.30	9.60	00	69	Trade					
Jan 09 Calls (244 days to expiration) GME @ 53.87																					
Jan 10 Calls (608 days to expiration) GME @ 53.87																					
.LQXAI	15.90	0	17.40	18.40	00	78	Trade	45.00	.LQXMI	7.46	0	6.90	7.50	00	109	Trade					
.LQXAJ	13.55	0	14.90	15.80	00	863	Trade	50.00	.LQXMJ	12.80	0	9.20	9.70	00	291	Trade					
.LQXAK	14.10	0	12.60	13.50	00	239	Trade	55.00	.LQXMK	12.90	0	11.70	12.40	00	266	Trade					
.LQXAL	9.80	0	10.60	11.40	00	339	Trade	60.00	.LQXML	14.70	0	14.60	15.20	00	274	Trade					

**Buy stock for 53.87 per share.**  
**Sell to open Jan 10 60 strike short calls for credit of 10.60 per share.**  
**Buy to open July 08 55 strike long puts for debit of 4.50 per share.**  
**Buy to open Oct 08 55 strike long calls for debit of 6.00 per share.**

Stock	53.87
Covered Call	-10.60
Calendar Straddle	10.50
<b>Total Cost Basis per Share</b>	<b>53.77</b>
Max Risk	0.00 (remember we have the right to sell at 55.)
Max Profit	Unlimited.

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## Watch for the Signals

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

#### **Economic Reports**

May 19	<a href="#">Leading Indicators</a>	Apr
May 20	<a href="#">PPI</a>	Apr
May 20	Core <a href="#">PPI</a>	Apr
May 21	Crude Inventories	5/17
May 21	FOMC Minutes	Apr 30
May 22	<a href="#">Initial Claims</a>	05/17
May 23	Pending Home Sales	Apr

#### **Stocks to Watch**

**Mon:** CPB, LOW

**Tues:** HPQ, ADI, SPLS, HD, MDT, TGT, AZO,

**Wed:** NTP, CSC, LTD, NTES, SOLF,

**Thurs** CA, GME, GPS, PDCO, ARO, BKE,

**Fri:**

This week will be a slower week with no major earnings or economic reports to set trends in the market. Look for “media spins” to create the trends for the individual days. Last week 12,800 held as support and the price of oil created trends on a daily basis. Let’s spend a little time to start to understand why the cost per barrel of oil warrants or doesn’t warrant the strength in the market that we have seen lately.

Crude inventories will be released on Wednesday. Dick Green from Briefings.com had an article: [The Math on Gas Prices and Consumer Spending](#) that needs to be read.

*“Higher gas prices are painful. They are a constant topic of discussion. They make great headlines. They curtail disposable income. Yet, the impact on consumer spending and the economy isn’t nearly as large as is commonly believed. Here is the math. “.....*

The article below is A MUST READ to see how the numbers do not lie. It will give you the confidence to understand the information successful investors use to buy low and sell high!

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

#### ***The Fiscal Stimulus***

*The numbers above should put to rest the notion that higher gas prices will eliminate the impact of the fiscal stimulus checks.*

*The fiscal stimulus is \$110 billion over a period of about three months.*

*Consumers currently spend \$40 billion a month on gas and even if prices rise 20% over three months, that would drain an additional \$8 billion per month from discretionary income after three months. Of course, other income will also have risen by approximately \$15 billion per month by then. The fiscal stimulus is extremely large relative to the amount consumers spend on gasoline each month. It will therefore be treated as a windfall as opposed to necessary for covering higher gasoline prices.*

*Higher gas prices will unquestionably cut into the impact of the fiscal stimulus, but won’t eliminate it....*

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Hewitt-Packard (HPQ) and Target (TGT) report on Tuesday. These will most likely determine the direction in the market for Tuesday. Both will judge the overall strength in the current economy in the US even though they represent only two industries. Most Americans have a computer or printer where HPQ currently is considered the market leader. Target battles Wal-Mart for customers and is considered a company with a pulse on the economy.

We will focus on [PPI](#) 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 Producer Price Index measures prices of goods at the wholesale level. There are three broad subcategories within [PPI](#): crude, intermediate, and finished. The market tracks the finished goods index most closely, as it represents prices for goods that are ready for sale to the end user. Goods prices at the crude and intermediate stages of production often provide an indication of coming (dis)inflationary pressures, but the closer you get to crude goods, the more that these prices track commodity prices which are already available in traded indexes such as the CRB (Commodity Research Bureau).*

*At all stages of production, the market places more emphasis on the index excluding food and energy, referred to as the core rate. Food and energy prices tend to be quite volatile and obscure trends in the underlying inflation rate. Though the market reaction is determined by the month/month changes, year/year changes are also noted by analysts. The index is not revised on a monthly basis, but annual revisions to seasonal adjustment factors can produce small adjustments to past releases.*

## Trade Updates

**AEO Collar Trade = Prepare to Collar again for earnings on May 28th**

**FSLR Calendar Strangle = Closed position for a 5.8% profit**

**BIDU Bull Put closed for full credit on Friday.**

**V Calendar Call = Now that May options have expired expect the short call with June Expiration to lose value much faster this week. If we can grab a 15% profit by weeks end we may close the trade, but if the long option continues to hold value while the short loses, a 20% profit stays with our original target and is very achievable.**

## Learning the Options

Short Call or Selling a Call- When you sell to open a call that is called a short call. It means that another investor somewhere in the market is paying you money for the right to buy you a stock from you at a certain strike price within a certain period of time. Short calls take advantage of bearish or stagnant movement in a stock. It is usually placed at or slightly above the money (meaning the strike price of the call is a larger number than what the stock is currently trading at), and when your expectation is that the stock will remain below your strike price until option expiration. If the stock goes above your chosen strike price before option expiration you could be forced to sell the stock at that strike price prior to the expiration of the short call option. That means the person who paid you money is exercising

