

## The Safe Option Strategy

### Appolo Group, Inc. (APOL) Bull Call Calendar

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- **BTO May 85.00 Strike Long Call –\$11.20 Debit**
- **STO Feb 90.00 Strike Short Call – \$3.60 Credit**
- **Total Debit is \$7.60 per share and that is the max risk in the trade.**
- **Max Profit is unlimited because you could buy back the short call at any time and let the long call profit.**
- **Sought after ROI is 20%. When the trade can be closed for a net credit after commissions of \$9.15 or more we will exit it.**

Expand All		Calls							Puts							<input type="checkbox"/> Disable Roll Overs	
Symbol	Last	Chg	Bid	Ask	Vol	Opint	Action	Strike	Symbol	Last	Chg	Bid	Ask	Vol	Opint	Action	
+ Jan 09 Calls		(5 days to expiration)							APOL @ 85.27							Jan 09 Puts	
- Feb 09 Calls		(40 days to expiration)							APOL @ 85.27							Feb 09 Puts	
.OAOBO	12.90	0	12.40	12.80	00	1,434	Trade <input type="checkbox"/>	75.00	.OAOBO	2.30	0	2.30	2.35	00	9,253	Trade <input type="checkbox"/>	
.OAOBP	9.70	0	8.80	9.10	00	7,201	Trade <input type="checkbox"/>	80.00	.OAOBP	3.70	0	3.60	3.90	00	1,006	Trade <input type="checkbox"/>	
.OAOBQ	6.20	0	5.80	6.10	00	1,886	Trade <input type="checkbox"/>	85.00	.OAOBQ	5.60	0	5.50	5.80	00	191	Trade <input type="checkbox"/>	
.OAOBR	4.10	0	3.60	3.80	00	706	Trade <input type="checkbox"/>	90.00	.OAOBR	8.00	0	8.20	8.60	00	115	Trade <input type="checkbox"/>	
.OAOBS	2.20	0	1.95	2.15	00	914	Trade <input type="checkbox"/>	95.00	.OAOBS	10.89	0	11.60	11.90	00	33	Trade <input type="checkbox"/>	
- May 09 Calls		(124 days to expiration)							APOL @ 85.27							May 09 Puts	
.OAOEO	18.00	0	16.80	17.10	00	1,331	Trade <input type="checkbox"/>	75.00	.OAOEO	6.20	0	6.40	6.80	00	517	Trade <input type="checkbox"/>	
.OAOEP	14.35	0	13.60	14.10	00	1,183	Trade <input type="checkbox"/>	80.00	.OAOEP	8.10	0	8.30	8.70	00	591	Trade <input type="checkbox"/>	
.OAOEQ	11.80	0	10.90	11.20	00	1,306	Trade <input type="checkbox"/>	85.00	.OAOEQ	10.50	0	10.50	10.80	00	260	Trade <input type="checkbox"/>	
.OAOER	9.35	0	8.50	8.80	00	567	Trade <input type="checkbox"/>	90.00	.OAOER	12.80	0	13.10	13.60	00	81	Trade <input type="checkbox"/>	
.OAOES	7.10	0	6.50	6.90	00	1,513	Trade <input type="checkbox"/>	95.00	.OAOES	15.70	0	16.00	16.40	00	118	Trade <input type="checkbox"/>	
- Aug 09 Calls		(222 days to expiration)							APOL @ 85.27							Aug 09 Puts	
.OAOHO	21.30	0	20.20	21.10	00	39	Trade <input type="checkbox"/>	75.00	.OAOHO	9.70	0	9.90	10.20	00	365	Trade <input type="checkbox"/>	
.OAOHP	18.30	0	17.40	18.10	00	48	Trade <input type="checkbox"/>	80.00	.OAOHP	14.10	0	11.80	12.30	00	16	Trade <input type="checkbox"/>	
.OAOHQ	15.40	0	14.70	15.40	00	167	Trade <input type="checkbox"/>	85.00	.OAOHQ	18.80	0	14.10	14.70	00	126	Trade <input type="checkbox"/>	
.OAOHR	13.00	0	12.30	13.10	00	173	Trade <input type="checkbox"/>	90.00	.OAOHR	16.60	0	16.90	17.20	00	0	Trade <input type="checkbox"/>	
.OAOHS	10.80	0	10.20	10.80	00	62	Trade <input type="checkbox"/>	95.00	.OAOHS	19.50	0	19.60	20.10	00	0	Trade <input type="checkbox"/>	

# The Signal

## *Company Profile*

BRIEF: For the fiscal year ended 31 August 2008, Apollo Group, Inc.'s revenues increased 15% to \$3.14B. Net income increased 17% to \$476.5M. Revenues reflect higher tuition revenues primarily due to increased student enrollments for degree programs in University of Phoenix and increased Apollo Global revenues. Net income also reflects an increase in operating margins and higher interest income and other, net. <http://www.apollogrp.edu>

## *Company Fundamentals*

### **Fundamental Data**

#### **Fundamental Data**

P/E Ratio 26.53

Beta -0.11

Float (mil) 132.00

Shares Outstanding (mil) 159.54

Earnings Per Share (MRQ) 1.12

Market Capitalization (mil) \$13,604.06

Price/Book Value (MRQ) 13.12

Book Value (mil) 6.50

Dividend Rate 0.00

Yield % NA

Last Split Date 04/26/2002

Last Split Factor 1.50

### **Financial Strength**

Quick Ratio 1.49

Current Ratio 1.49

LT Debt Equity 0.00

Total Debt Equity 0.00

Cash Per Share (MRQ) \$5.00

### **Profitability**

Gross Margin (TTM) 57.53

Gross Margin (5 Y Ave) 30.84

Profit Margin (TTM) 15.50

Profit Margin (5 Y Ave) 16.25

Effective Tax Rate (TTM) 40.12

EBITD Margin (TTM) 16.20

Operating Margin (TTM) 25.13

### **Management**

ROE (TTM) 54.35

ROE (5 Year Ave) 49.73

ROI (TTM) 26.40

ROI (5 Year Ave) 27.58

ROA (TTM) 26.26

ROA (5 Year Ave) 28.16

# The Signal

## Company Technical's



## Summary

The last time APOL had an earnings report and a strong move up the following day, the move continued for three full months in spite of a market that was overall very bearish. This trade will take advantage of that same kind of pattern with the added bonus that it can still be profitable in a stagnant trend, and easily adjustable in a bearish trend. The target profit on this trade for us is 20% and we hope to achieve it in three weeks or less. Keep in mind that in the midst of a struggling economy workers who get laid off go back to

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school. Apollo Group is the parent company of The University of Phoenix, the largest private school in the country and one that caters to working adults. Jobs go down, enrollment goes up.

## *The Primary Exit Plan*

- A slow steady upward trend following the gap up from earnings is the best movement we can hope for. The increase in value of our long calls in May should outpace the increase in value of our short calls in February for a couple of reasons: 1. The February short call is out of the money (OTM) while the May long call is already in the money (ITM). That means among other things that the Feb call is 100% extrinsic value right now while the May call has some intrinsic value. 2. The time decay on the February call should become increasing faster after January options expiration this Friday. This means that starting one week from tomorrow we should see the value of the Feb call going down even if the stock is trending up.
- If the stock moves up over the 90 strike price and we cannot get out of the whole trade with 15-20% profit we could end up rolling the short call out one month and up one strike price. We will do this if the stock moves above \$95 per share at any time and we cannot close the trade with our desired profit. We cannot afford to get caught getting called out on the short call with only \$5 difference between our strike prices and a debit of \$7.60 per share. That would create an automatic \$2.60 per share loss.

## *Modification for Stagnant Trend*

- If the stock goes stagnant we can still get out with profit in one of two ways: 1. The short call loses value faster than the long call and we take whatever profit we can get when that happens. We usually adjust our thinking and get out with 5-10% profit at this point. 2. We allow the February short call to expire worthless and write a March short call as soon as it does at the same strike price of 90. This brings our cost basis down and if we chose we can repeat it again in April and in May although that is unlikely as we will go through another earnings between now and May.

## *Modification for Bearish Trend*

- If the stock turns bearish we have to modify the trade into a synthetic collar trade. This will be done if the stock gives technical sell signals which may occur around the \$80 price. At that time we will buy back the Feb short call, sell to open a new short call in May at the \$80 strike price, and buy \$80 strike

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puts in May as well to get us through the April earnings report. If we do this we will publish it as a new trade and define new exits.

## Watch for the Signals

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

#### Economic Reports

Jan 13	<a href="#">Treasury Budget</a>	Dec
Jan 14	<a href="#">Export Prices</a>	Dec
Jan 14	<a href="#">Import Prices</a>	Dec
Jan 14	<a href="#">Retail Sales</a>	Dec
Jan 14	<a href="#">Retail Sales</a> ex-auto	Dec
Jan 14	<a href="#">Business Inventories</a>	Nov
Jan 14	Crude Inventories	01/09
Jan 15	Core <a href="#">PPI</a>	Dec
Jan 15	<a href="#">Initial Claims</a>	01/10
Jan 15	<a href="#">PPI</a>	Dec
Jan 15	Philadelphia Fed	Jan
Jan 16	Core <a href="#">CPI</a>	Dec
Jan 16	<a href="#">CPI</a>	Dec
Jan 16	<a href="#">Capacity Utilization</a>	Dec
Jan 16	<a href="#">Industrial Production</a>	Dec
Jan 16	Mich Sentiment	Jan

#### Stocks to Watch

**Mon:** AA,

**Tues:** LLTC, IIIN

**Wed:** XLNX,  
**Thurs** INTC, MI, DNA  
**Fri:** ICI, PPG, FHN

OPTIONS EXPIRATION on FRIDAY! The first week of trading for year 2008 took off to the BEARISH SIDE on Thursday and Friday. Why is this important? Well, sentimentally the first five days of trading or the first full week of trading of any given year are supposed to indicate the trend for the year. Now roughly 68% of the time this is true. The other side of the coin is that the other 32% of the time when it doesn't follow offsets the gains. Why do I mention this? Trade without the need of superstitions, luck or hope! Trade with common sense and learn the ability to modify your trades when the trade goes against you.



# The Signal

This week we have some important reports at the end of the week again. Much like last week, the reports dictate negative sentiment to take over at the end of the week. Monday has no reports to take notice but Alcoa (AA) kicks off the start of earnings season. They have pre-announced a negative earnings numbers due to the drop of the metals commodities. Don't forget to keep that in mind. Tuesday has the [Treasury Budget](#) report and has Linear Technology (LLTC) reporting.. Then the week hits some volatility due to some VERY important economic reports and a couple of earnings.

Wednesday we have [Import Prices](#), [Retail Sales](#), [Retail Sales](#) ex-auto, [Business Inventories](#) and the Crude Inventories reports. Retail numbers should not post a positive sentiment number to move the market bullish. Thursday there are three economic reports that can set a daily trend: Core [PPI](#), [Initial Claims](#), and the [PPI](#) report. Don't forget we also have the Philadelphia Fed numbers to look at. Friday has the trend setters with the Core [CPI](#), [CPI](#), and the Mich Sentiment reports. We then have the [Capacity Utilization](#) and [Industrial Production](#) that the media can spin something to increase the worry for the investor. Be Ready !!!

Earnings to watch at the end of the week could also move the market. Wednesday we have Xilinx, Inc (XLNX). Thursday we have Intel Corp, (INTC) and the Marshall & Ilesley(MI). Intel's numbers alone could mover the market for the rest of the week. Friday we Johnson Controls (JCI), PPG Industries (PPG) and First Horizon National Corporation (FHN) as the S&P 500's that report.

Volatility is going to be high and look for it on the VIX as you do your technical analysis this week. If you have stock reporting in the next couple of weeks get

those puts on but maybe hold off this week. It is the week to short as premiums in the short options will increase and bleed off at a faster rate than normal due to option expiration.

Continue to learn the reports and reporting terms at: <http://biz.yahoo.com/c/terms/terms.html>

## **PPI: Producer Price Index**

- **Importance (A-C):** This release merits a **B-**.
- **Source:** Bureau of Labor statistics, U.S. Department of Labor.
- **Release Time:** Around the 11th of each month at 8:30 ET for the prior month.
- **Raw Data Available At:** <http://stats.bls.gov/news.release/ppi.toc.htm>.

*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.*

# The Signal

## Initial Claims

- **Importance (A-F):** This release merits a **C+**.
- **Source:** The Employment and Training Administration of the Department of Labor.
- **Release Time:** 8:30 ET each Thursday (data for week ended prior Saturday).
- **Raw Data Available At:**  
<http://www.dol.gov/opa/media/press/eta/main.htm>.

*Initial jobless claims measure the number of filings for state jobless benefits. This report provides a timely, but often misleading, indicator of the direction of the economy, with increases (decreases) in claims potential signalling slowing (accelerating) job growth. On a week-to-week basis, claims are quite volatile, and many analysts therefore track a four week moving average to get a better sense of the underlying trend. It typically takes a sustained move of at least 30K in claims to signal a meaningful change in job growth.*

*There are two other statistics in this report -- the number of people receiving state benefits and the insured unemployment rate; neither is watched closely by the market. Some analysts track the number of people receiving state benefits from month to month as a guide for job growth, though this series has a poor track record in predicting the monthly employment report. The insured unemployment rate changes little on a weekly basis and is never a factor for the market.*

## Additional Signals to Watch

### High Risk, High Potential Reward

By Dick Green, President of Briefing.com

Last Update: 05-Jan-09 08:36 ET

Investors face a potentially high reward over the coming year. There is also a great deal of risk. The economic outlook depends significantly on the uncertain success of a stimulus plan. Earnings prospects are highly uncertain. The proper management of these conditions depends greatly on individual considerations.

### In Government We Trust

Economic conditions are very poor. The current trends would suggest prolonged recession.

There is, however, scattered longer-term optimism. This is due mainly to the hope that a massive government stimulus plan will stabilize the economy and might even lead to a significant recovery in the second half of the year.

Here are some background numbers to consider:

- 1) The annual rate of U.S. GDP in the third quarter was \$14.4 trillion.
- 2) There is talk of a \$1 trillion (or larger) stimulus package.
- 3) A stimulus package of that size would amount to 6.9% of GDP.

It is far too early to guess at the timing and nature of any fiscal stimulus plan. Nevertheless, it is clear that the amount of stimulus being discussed is huge.

This does not mean that the stimulus plan will necessarily be successful. Hopefully, the spending will be done in a manner which stimulates demand beyond the initial spending, and in a way which ultimately increases economic efficiency.

# The Signal

The Japanese implemented massive stimulus plans on a regular basis over the past decade with little effect. There is no guarantee that a government managed stimulus plan will work.

The current stock market thinking is that the U.S. plan will be far more efficient than the Japanese failures. This partly explains the recent stock market bounce. There seems to be a consensus that the U.S. needs massive infrastructure spending.

Of course, in 2005 when a massive four-year highway spending bill of \$285 billion was passed by Congress, it was widely panned as unneeded pork barrel spending. Such criticisms have faded, and now suddenly it appears as if the country does in fact need many more bridges and highways (and 600,000 or more new government employees).

There is a risk that market opinion turns to skepticism as the actual stimulus plan is subjected to debate among 535 congressmen all eager to get more money for their constituents.

Here are some other facts to consider:

- 1) The current U.S. federal debt is \$6.37 trillion (Excluding intra-government debt in which Social Security, for example, holds U.S. government securities. The debt is \$10.7 billion including intra-government holdings).
- 2) This amounts to about 44% of GDP (74% including intra-governmental debt).
- 3) This compares with about 59% for the European Union 27 nations as a whole, 66% for the core 15 EU members, and about 170% for Japan.
- 4) Another \$1 trillion in debt would raise the debt/GDP ratio for the U.S. to 51%. \$1.5 trillion would put the ratio at 55%.

(Note: Intra-governmental debt should not be included in debt/GDP calculations. There is no difficulty in having one U.S. department owe debt to the Treasury. It is an accounting fiction.)

The numbers above suggest that the U.S. is capable of handling the massive stimulus plan -- if it works. That is, the effective debt ratio for the U.S. would not in itself be worse than that of most western countries. As long as the economy picks up in 2010 and the deficits are subsequently narrowed, the debt is indeed manageable.

Of course, there is again a great deal of hope involved in current stock market expectations. In 2003 when the U.S. federal deficit went over \$400 billion, there was extensive handwringing over the long-term implications.

Now, the financial markets seem more focused on the immediate benefits that might result from increased spending, and less concerned with long-term issues. A shift in sentiment toward skepticism regarding excessive government deficits is possible.

## **Earnings Outlook for 2009**

There is still a fair amount of optimism toward 2009 earnings.

The current forecast for operating earnings for the S&P 500 in aggregate for the year as a whole is \$81.80.

For as-reported earnings (all charges included) it is \$42.40.

That is a huge difference between operating and as-reported earnings. There are expected to be a lot of charges throughout the year.

The price/earnings multiple on year-ahead operating earnings is a very reasonable 11.4.

# The Signal

The price/earnings multiple on year-ahead as-reported earnings is a more troublesome 22.0.

These numbers reflect the high risk that investors face in 2009. There will certainly be a lot of lousy earnings numbers. There will be a lot of charges. If the economy does not start to recover in the second half of the year, stocks are not cheap.

If, however, the operating earnings forecasts reflect a truer underlying trend and charges fade as the year progresses and 2010 looks like a more stable year, then stocks are quite cheap at present, particularly given extremely low interest rates.

## What It All Means

The outlook is highly uncertain. There is still clearly a lot of risk in stocks. If the stimulus plan does not work, then the economy will simply be saddled with government debt at a time when demand remains sluggish. The Japan comparison will grow.

If, on the other hand, the economy does stabilize and the earnings outlook for 2010 improves, then there is a great deal of upside potential for the stock market.

It is very easy, for example, to construct a realistic scenario in which the S&P rises 25% this year. That implies a year-end level of 1129. That would still be down sharply from the highs of 2007, but would still represent a fantastic gain for new money invested in 2008.

This high reward/high risk situation has significantly different implications for investors depending on their personal situation.

A young person in their late 20s, for example, could find this the opportunity of a lifetime.

An investment in a 401k twice a month at current stock prices is likely to pay off substantially decades down the road. In fact, a person in this situation, with little invested now but investing a new amount each month, will benefit further if the stock market does not recover in 2009. This person will simply be buying more stocks cheaper for the long run.

An older investor, however, with high risk aversion, has to look at the market differently.

It matters a great deal how much risk a person can accept and when access to capital will be necessary. Many investors have seen a significant decline in wealth the past two years, and may not be able to accept much more. Even a 25% rebound in the stock market in 2009 would not seem like much to many older investors. Nevertheless, the possibility of a solid gain should not be totally discounted in planning asset allocation.

The coming year is likely to remain highly volatile with continuing high levels of risk, but also some potentially high rewards.