


## The Safe Option Strategy

### Research in Motion (RIMM) Bull Put

#### The Safe Option Strategy

- **STO Feb 50 Strike Puts - \$3.40 Credit**
- **BTO Feb 45 Strike Puts - \$1.70 Debit**
- **Total Credit is \$1.70 per share and that is the max profit if both options expire worthless.**
- **Max Risk is the difference in the strike prices (\$5.00) minus the max credit or \$3.30.**
- **Max ROI is 51% (max reward divided by the max risk) if both options expire worthless.**

RESEARCH IN MOTION										Time & Sales	Chart	Volatility View	News				
Symbol	Last	Change	Bid	Ask	High	Low	Volume	Chart									
RIMM	51.11	+1.87 ▲	51.18	51.25	0.00	0.00	0										
RIMM Expiration Months: <a href="#">Jan 09</a>   <a href="#">Feb 09</a>   <a href="#">Mar 09</a>   <a href="#">Jun 09</a>   <a href="#">Jan 10</a>   <a href="#">Jan 11</a>																	
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	
Feb 09 Calls (34 days to expiration)									RIMM @ 51.11							Feb 09 Puts	
.RFYBI	7.85	0	7.80	7.90	00	3,619	Trade <input type="checkbox"/>	45.00	.RFYNI	1.70	0	1.68	1.70	00	7,320	Trade <input type="checkbox"/>	
.RFYBJ	4.61	0	4.60	4.70	00	20,055	Trade <input type="checkbox"/>	50.00	.RFYNJ	3.50	0	3.40	3.50	00	2,487	Trade <input type="checkbox"/>	
.RFYBK	2.41	0	2.34	2.38	00	7,790	Trade <input type="checkbox"/>	55.00	.RFYNK	6.25	0	6.15	6.25	00	1,258	Trade <input type="checkbox"/>	
.RFYBL	1.06	0	1.02	1.07	00	8,596	Trade <input type="checkbox"/>	60.00	.RFYNL	9.80	0	9.80	9.95	00	610	Trade <input type="checkbox"/>	

**STO Feb 50 Strike Puts for \$3.40 credit.**

**BTO Feb 45 Strike Puts for \$1.70 debit.**

**Net Credit - \$1.70**

**Max Risk - \$3.30 (\$5.00 difference in strikes minus net credit.)**

**Max ROI - 52% (max profit divided by max risk)**

#### Company Profile

BRIEF: For the nine months ended 29 November 2008, Research In Motion Limited's revenues increased 84% to \$7.6B. Net income increased 56% to \$1.37B. Revenues reflect an increase in revenue from devices & service. Net income was partially offset by an increase in cost of sales, higher research & development expenses, increased selling, marketing & administrative expenses and higher depreciation charge.

<http://www.rim.net/>

# The Signal

## *Company Fundamentals*

### **Fundamental Data**

#### **Fundamental Data**

P/E Ratio 16.43

Beta 2.11

Float (mil) 492.40

Shares Outstanding (mil) 566.00

Earnings Per Share (MRQ) 0.69

Market Capitalization (mil) \$28,928.26

Price/Book Value (MRQ) 5.41

Book Value (mil) 9.45

Dividend Rate 0.00

Yield % NA

Last Split Date 08/21/2007

Last Split Factor 3.00

### **Financial Strength**

Quick Ratio 1.77

Current Ratio 2.04

LT Debt Equity 0.00

Total Debt Equity 0.11

Cash Per Share (MRQ) \$2.96

### **Profitability**

Gross Margin (TTM) 49.36

Gross Margin (5 Y Ave) 47.51

Profit Margin (TTM) 18.84

Profit Margin (5 Y Ave) 7.31

Effective Tax Rate (TTM) 32.35

EBITD Margin (TTM) 19.59

Operating Margin (TTM) 26.92

### **Management**

ROE (TTM) 40.45

ROE (5 Year Ave) 24.35

ROI (TTM) 31.76

ROI (5 Year Ave) 27.04

ROA (TTM) 28.88

ROA (5 Year Ave) 19.45

# The Signal

## Company Technical's



## Summary

This trade is put in place for two reasons the first being that it is a great stock to own, and ownership is very possible any time we do a bull put. The number one rule on a bull put trade is never put it on unless you are very willing to own the stock, and possibly own it long term. The second reason is that RIMM is on a steady upward trend in the face of a bearish market (not an easy feat) and we feel its bullish momentum will continue to the \$60 level of resistance, or to its next earnings report which is scheduled well after the expiration of February options.

# The Signal

## *The Primary Exit Plan*

- The primary exit is to let both options expire worthless if the stock stays above \$50 per share. If that happens we lose 100% of what we paid for the long puts, and we keep 100% of what we took in on the sale of the short puts creating a net profit of 51% based on the risk to reward model.

## *Modification for Stagnant Trend*

- If the stock goes stagnant we can still get out with profit as long as we don't have the shares put to us. If shares are put to us, but the stock is still trading above \$48.30 we can immediately sell the stock and sell the long puts. The stock will be break even or slightly better, and anything we get back on the sale of the long puts to close them actually creates profit.

## *Modification for Bearish Trend*

- If the stock turns bearish we have to modify the trade into a standard collar trade. This will be done if we have the stock put to us and we also get technical indicators to the down side. At that time we will sell to close the long puts and profit whatever we can on them (keeping in mind that we still profited the full \$3.40 credit on the short puts if assigned stock ownership). We will then sell to open calls (covered calls) at the \$50 strike price with June expiration, and depending on whether April or May options are the next months added we will chose one of those two months to add long puts at the \$40 or \$45 strike price (this will depend on what the \$50 strike covered call credit from June will pay for).

# The Signal

## Watch for the Signals

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

#### **Economic Reports**

Jan 21	Crude Inventories	01/16
Jan 22	<a href="#">Building Permits</a>	Dec
Jan 22	<a href="#">Housing Starts</a>	Dec
Jan 22	<a href="#">Initial Claims</a>	01/17

#### **Stocks to Watch**

<b>Mon:</b>	<b>Martin Luther King Jr. DAY - Holiday</b>
<b>Tues:</b>	<b>FRX, STT, CSX, PH, RF, IBM, JNJ</b>
<b>Wed:</b>	<b>ABT, USB, PGR, ATI, NE, SLE, BLK</b>
<b>Thurs</b>	<b>ISRG, COF, FITB, LUV, CMA, STI, BK, GOOG, MSFT, KEY, POT, UNP,</b>
<b>Fri:</b>	<b>SLB, XRX, GE, HOG</b>

Markets are closed on MONDAY for Martin Luther King Jr. Day. Please take a day off and enjoy yourselves. This week is weak on economic reports and has the S&P 500 reporting a nice group of financials. The overall out look for this week again should be negative and create negative sentiment. In fact the most important bit of news is something that will not have a direct affect on the market for months to come. Tuesday is the inauguration of Barack Obama, the first African American President in US history. Yes, he will have the power to do a lot to help the economy but I do believe it will be some time for before the stimulus package kicks in to help the economy. What do you think?



The markets continue in a “slightly” bearish trend. Hope, that with the Presidential inauguration next week, things will finally turn around. Fundamental data hasn't shown a lick of improvement in the economy let alone a turn around. What would warrant a turn around in the economy? Why HOPE for anything in trading? The S&P 500 Index (most consider the index to represent corporate America) has been announcing earnings and will continue to do so for the next month. While past earnings data is important the most important news from earnings will be guidance numbers. So far, projections have disappointed and INTC has chosen not to forecast outlook. That bothers me in all kinds of ways. S&P 500 companies are showing the uncertainties of the economy. Maybe after the inauguration and some less than stellar earnings we may see a crash from the high hope and lack of fundamentals needs to sustain a bullish market.

This week we have many very important earnings announcing data for the last quarter. LOOK for the financials that are reporting to move the market negatively. There is very little in the way of economic data this week except for Thursday with the [Building Permits](#), [Housing Starts](#), and [Initial Claims](#). EARNINGS and PRECEPTION are the market movers this week and we might see just how much trouble the

# The Signal

economy is in right now to stop these unsubstantiated bullish weeks we've experienced.

Next week we have some "bell weathers" leading the way. There are so many earnings to watch during the week that could move the market. The financial reports will be many and probably not particularly great. The financial industry may lead the market bearish this week due to the poor numbers. Pay attention the news reported and how the market moves in response the numbers reports and future Q2 projections.

This week I am going to point out some earnings that will affect my portfolio and my sentiment. Monday I am on vacation, yeeeeeeaaaaa!!! Tuesday we have CSX Corporation (CSX) and International Business Machines (IBM). IBM obviously is a "bell weather" company that can move the NASDAQ as a whole. Wednesday we have US Bancorp (USB) that I will be watching. Thursday we have Capital One Financial Corp, Fifth Third Bancorp (FITB) and Bank of New York Mellon Corp (BK) Some others that I will be watching intently because I'm currently trading or have traded them in the past: Intuitive Surgical (ISRG), Southwest Airlines (LUV), Potash (POT) Google (GOOG), Nokia (NOK) and of course Microsoft (MSFT). Friday we Schlumberger (SLB), Zerox Corporation (XRX), General Electric (GE) and my favorite weekend, play toy Harley-Davidson (HOG) .

Volatility could surge this week based on the reports as they keep coming in. Don't expect doom and gloom but don't be surprised to see it either. Continue to look at the VIX as you do your technical analysis this week. If you have stock reporting in the next couple of weeks get those puts in place now. It is a short week and

remember that the market can pull even the best of companies down.

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

## Housing Starts and Building Permits

- **Importance (A-F):** This release merits a B-.
- **Source:** The Census Bureau of the Department of Commerce
- **Release Time:** 8:30 ET around the 16th of the month (data for one month prior).
- **Raw Data Available At:**  
<http://www.census.gov/ftp/pub/indicator/www/housing.html>.

*Housing Starts are a measure of the number of residential units on which construction is begun each month. A start in construction is defined as the beginning of excavation of the foundation for the building and is comprised primarily of residential housing. Building permits are permits taken out in order to allow excavation. An increase in building permits and starts usually occurs a few months after a reduction in mortgage rates. Permits lead starts, but permits are not required in all regions of the country, and the level of permits therefore tends to be less than the level of starts over time.*

*The monthly national report is broken down by region: Northeast, Midwest, South, and West. Briefing recommends analyzing the regional data because they are subject to a high degree of volatility. The high volatility can be attributed to weather changes and/or natural disasters. For example, an unexpectedly high level of rain in South could delay housing starts for the region.*

# The Signal

## **Crude Inventories**

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*United States : EIA Petroleum (Crude) Status Report*

### Definition

The Energy Information Administration (EIA) provides weekly information on petroleum inventories in the U.S., whether produced here or abroad. The level of inventories helps determine prices for petroleum products.

### Why Investor's Care

*Petroleum product prices are determined by supply and demand - just like any other good and service. During periods of strong economic growth, one would expect demand to be robust. If inventories are low, this will lead to increases in crude oil prices - or price increases for a wide variety of petroleum products such as gasoline or heating oil. If inventories are high and rising in a period of strong demand, prices may not need to increase at all, or as much. During a period of sluggish economic activity, demand for crude oil may not be as strong. If inventories are rising, this may push down oil prices.*

*Crude oil is an important commodity in the global market. Prices fluctuate depending on supply and demand conditions in the world. Since oil is such an important part of the economy, it can also help determine the direction of inflation. In the U.S. consumer prices have moderated whenever oil prices have fallen, but have accelerated when oil prices have risen.*

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## **Additional Signals to Watch**

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### ***First Two Bank Failures of 2009***

2009-01-16 by: Mike Scorelle

National Commerce Bank of Berkeley, IL and Bank of Clark County, Vancouver, WA became the first two banks to fail in the US on Friday according to the Federal Deposit Insurance Company (FDIC). The insured deposits of National Commerce will be taken over by Republic Bank of Chicago and the insured deposits of Bank of Clark County will taken over by Umpqua Bank.

As of January 7, 2009, National Commerce Bank had total assets of \$430.9 million and total deposits of \$402.1 million. In addition to assuming all of the failed bank's deposits, Republic Bank agreed to purchase approximately \$366.6 million in assets at a discount of \$44.9 million. The FDIC will retain the remaining assets for later disposition.

As of January 13, 2009, Bank of Clark County had total assets of \$446.5 million and total deposits of \$366.5 million. At the time of closing, there were approximately \$39.3 million in uninsured deposits held in approximately 138 accounts that potentially exceeded the insurance limits. This amount is an estimate that is likely to change once the FDIC obtains additional information from these customers.

Umpqua will not assume the approximately \$117.8 million in brokered deposits. The FDIC will pay the brokers directly for the amount of their insured funds.

# The Signal

## Trade Updates

**VLO Bull Put** – We took ownership of the stock and profited our max credit on the bull put spread (\$0.91 per share). We are now converting the share ownership into a standard collar trade as such: New June covered calls at the \$25.00 strike for a credit of \$3.75 per share. New March \$24.00 strike long puts for a \$3.00 debit.

.VLBCR	5.30	0	7.10	7.20	00	1,002	Trade	17.50	.VLBOR	0.77	0	0.70	0.70	00	1,334	Trade							
.VLBCT	5.32	0	5.25	5.35	00	2,190	Trade	20.00	.VLBOT	1.38	0	1.36	1.39	00	2,051	Trade							
.VLBCA	3.80	0	3.65	3.75	00	3,836	Trade	22.50	.VLBOA	2.23	0	2.26	2.29	00	2,816	Trade							
.VLBCX	2.91	0	2.87	2.92	00	975	Trade	24.00	.VLBOX	2.96	0	2.95	3.00	00	482	Trade							
.VLBCY	2.40	0	2.40	2.45	00	6,659	Trade	25.00	.VLBOY	3.50	0	3.45	3.55	00	1,673	Trade							
.VLOCJ	2.00	0	1.99	2.02	00	2,180	Trade	26.00	.VLOOJ	4.80	0	4.05	4.15	00	362	Trade							
.VLOCS	1.51	0	1.47					27.50	.VLOOS	5.45	0	5.05	5.15	00	632	Trade							
.VLOCO	1.09	0	1.06					29.00	.VLOOO	6.95	0	6.10	6.20	00	341	Trade							
.VLOCF	0.86	0	0.84					30.00	.VLOOF	7.00	0	6.90	7.00	00	2,943	Trade							
.VLOCB	0.71	0	0.65					31.00	.VLOOB	7.80	0	7.70	7.80	00	402	Trade							
.VLOCT	0.36	0	0.45					32.50	.VLOOT	8.50	0	9.00	9.10	00	1,856	Trade							
.VLOCC	0.33	0	0.30	0.32	00	1,110	Trade	34.00	.VLOOC	9.70	0	10.35	10.45	00	447	Trade							
<b>Jun 09 Calls</b> (153 days to expiration)								<b>VLO @ 24.03</b>								<b>Jun 09 Puts</b>							
.VLBFO	8.00	0	9.95	10.10	00	310	Trade	15.00	.VLBRO	1.32	0	1.15	1.19	00	1,878	Trade							
.VLBFT	6.60	0	6.45	6.55	00	945	Trade	20.00	.VLBRT	2.70	0	2.64	2.68	00	1,567	Trade							
.VLBFV	5.35	0	5.25	5.40	00	74	Trade	22.00	.VLBRV	3.50	0	3.45	3.55	00	694	Trade							
.VLBFW	4.65	0	4.75	4.85	00	14	Trade	23.00	.VLBRW	4.70	0	3.90	4.00	00	1,022	Trade							
.VLBFX	4.20	0	4.25	4.35	00	1,769	Trade	24.00	.VLBRX	4.45	0	4.40	4.50	00	104	Trade							
.VLBFY	3.70	0	3.75	3.90	00	11,641	Trade	25.00	.VLBRY	5.20	0	4.95	5.05	00	855	Trade							
.VLOFJ	3.40	0	3.35	3.45	00	350	Trade	26.00	.VLORJ	5.65	0	5.50	5.65	00	2,036	Trade							
.VLOFK	2.04	0	2.00	2.10	00	67	Trade	27.00	.VLORK	6.50	0	6.10	6.25	00	222	Trade							

Remember we took in \$0.91 credit on the bull put and bought the stock for \$25.00. This means our cost basis on the stock is only \$24.09.

### New Primary Exit Plan

- The primary exit is to now let the trade ride through the earnings report on January 27<sup>th</sup>. If the stock move bullish at that point, we will sell to close the long puts and recapture whatever premium we can and simply allow the stock to go up in price. If we get called out at \$25.00 per share we will profit from the move up on the stock and the credit of the covered call minus whatever small loss we took on the long puts. We could also roll the covered calls out and up to create more movement for the stock to get profitable and continue to run with the trade.

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# The Signal

## *New Modification for Stagnant Trend*

- If the stock goes stagnant after earnings we buy back the long puts and recapture whatever remaining premium we can. We will then roll our covered calls in to Feb expiration and at the \$25.00 strike. We will allow those to expire worthless or allow ourselves to get called out. If the Feb 25 covered calls expire worthless (therefore capturing the entire credit) we will repeat the process again in March and again in April, and then re-collar the stock ahead of April's earnings report.

## *New Modification for Bearish Trend*

- If the stock turns bearish we have it collared and will allow it to go down as far as possible because we are protected from any loss. Once the stock finds a level of support or gives technical signals back to the upside we will sell the puts and use the proceeds to buy more stock while leaving the covered calls in place. Another adjustment to the entire trade will come at that time.

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**APOL Call Calendar** – We closed the trade for a 12% profit on Thursday

APOLLO GROUP INC								
01/15/2009	O	BTC	.OAQBR - APOL FEB 90 Call	20	\$5.10	\$30.00	(\$10,230.00)	
01/12/2009	O	STO	.OAQBR - APOL FEB 90 Call	20	\$3.60	\$30.00	\$7,169.95	-3,060.05
01/15/2009	O	STC	.OAQEQ - APOL MAY 85 Call	20	\$13.90	\$30.00	\$27,769.84	
01/12/2009	O	BTO	.OAQEQ - APOL MAY 85 Call	20	\$11.50	\$30.00	(\$23,030.00)	4,739.84
<b>Total Realized Gain/Loss for APOL</b>								<b>\$1,679.79</b>