OptionSwings from MrSwing

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This newsletter features short-term option picks. We use state-of-the-art mathematical models to scan 200,000+ options available in the market and pre-select those with better chances to win.

Our option picking strategy fundamentally differs from those used by other online option services. We use a unique technique based on mathematical statistics to unveil the facts invisible at a glance. Our picks have better chances to win because they account for the following five factors:

1. Technical signals for the underlying stock
2. Technical trends of the corresponding industry sector
3. Current stock strength in its sector
4. Current sector strength in the entire economy
5. Probabilities to win ("Are the risks worth the rewards?")

All professional money managers keep these factors in mind. However, it takes a long time to scan the market for all necessary inputs and compute the above parameters. Do you have this time? We do.

We take into consideration both technical analysis and option mathematics so that you can reduce risk and enhance return of your portfolio.

Below you find nine chapters that include up to nine stock option picks each. Every chapter covers a swing type implemented with one of the most effective and popular trading strategies:

Each option pick module consists of basic risk/reward parameters. We even calculate these parameters per $1 invested to allow you an easy comparison of various picks. We also recommend that you pay attention to the daily and weekly technical signals for the stock and its sector.

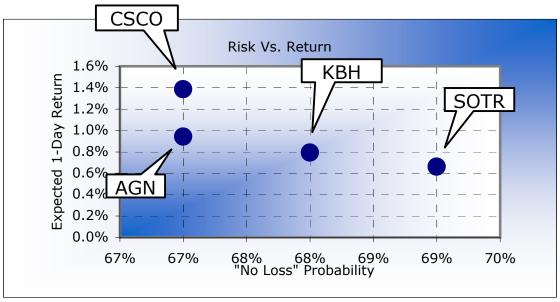
A short glossary can be found on the last page of this newsletter.

Please feel free to email to mailto: **optionswings@mrswing.com** if you have questions about this newsletter and option trading in general.

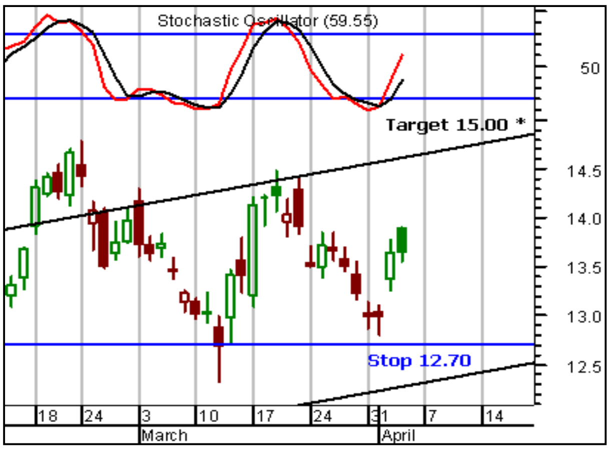
BULLISH PLAY: Buy Call Strategy

										Stock Trends		Sector Trends		Option
Symbol	Last	Buy to Open				Last	Target	Stop	1)	2)	Time Value	Daily	Weekly	Daily	Weekly	Symbol
CSCO	13.64	Jul	12.5	Call at	2.15	2.10	3.1	1.2	**67%**	**1.4%**	1.01	Neutral	Neutral	Neutral	Up	CYQGV.X
AGN	69.73	Jul	65	Call at	7.60	7.50	9.9	4.2	**67%**	**0.9%**	2.87	Down	Up	Up	Up	AGNGM.X
KBH	47.51	Jul	45	Call at	5.50	5.30	6.9	3.0	**68%**	**0.8%**	2.99	Neutral	Up	Up	Up	KBHGI.X
SOTR	25.79	Jun	22.5	Call at	4.00	3.80	4.8	2.2	**69%**	**0.7%**	0.71	Up	Down	Up	Up	SHQFX.X

1) "No Loss" Probability. 2) Expected 1-Day Return.



CSCO



AGN

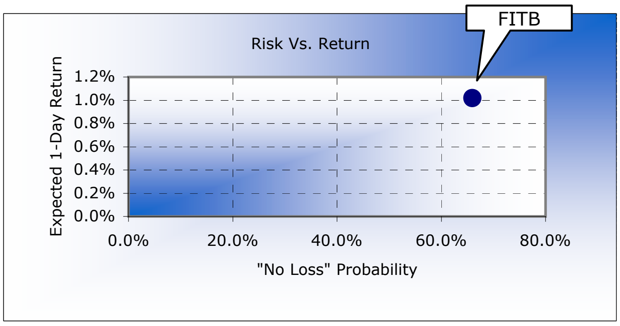
KBH

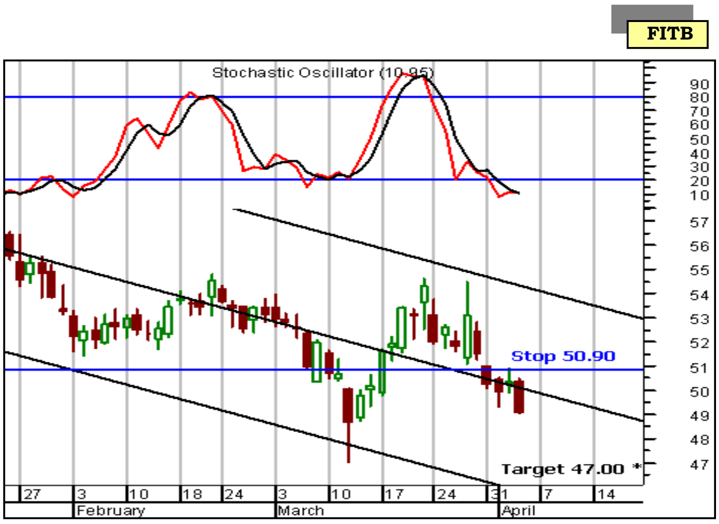
SOTR

BEARISH PLAY: Buy Put Strategy

Symbol	Last	Buy to Open	Last	Target	Stop	1)	2)	Time Value	Stock Trends Daily	Stock Trends Weekly	Sector Trends Daily	Sector Trends Weekly	Option Symbol
FITB	49.05	Aug 50 Put at 4.40	4.40	5.8	2.4	**66%**	**1.0%**	3.45	Down	Down	Up	Up	FTQTJ.X

1) "No Loss" Probability. 2) Expected 1-Day Return.





BULLISH CALL SPREAD STRATEGY

Symbol	Expirat Month	Buy Strik	Sell Strike	Debit	Max Profit	Break-Even	Max Loss	Profit/Loss	Stock Trends		Sector Trends		Buy Option Symbol	Sell Option Symbol
									Daily	*Weekly*	*Daily*	*Weekly*		
CSCO	Jul	13	17.50	1.80	3.20	14.3	1.80	1.78	Neutra	Neutral	Neutral	Up	CYQGV.X	CYQGW.X
AGN	Jul	65	70.00	3.00	2.00	68.0	3.00	0.67	Down	Up	Up	Up	AGNGM.X	AGNGN.X
KBH	Jul	45	50.00	2.65	2.35	47.7	2.65	0.89	Neutra	Up	Up	Up	KBHGI.X	KBHGJ.X
SOTR	Jun	23	27.50	3.15	1.85	25.7	3.15	0.59	Up	Down	Up	Up	SHQFX.X	SHQFY.X

BULLISH PUT SPREAD STRATEGY

Symbol	Expirat Month	Buy Strik	Sell Strike	Credit	Max Profit	Break-Even	Max Loss	Profit/Loss	Stock Trends		Sector Trends		Buy Option Symbol	Sell Option Symbol
									Daily	*Weekly*	*Daily*	*Weekly*		
CSCO	Jul	13	17.50	3.10	3.10	14.4	1.90	1.63	Neutra	Neutral	Neutral	Up	CYQSV.X	CYQSW.X
AGN	Jul	65	70.00	1.85	1.85	68.2	3.15	0.59	Down	Up	Up	Up	AGNSM.X	AGNSN.X
KBH	Jul	45	50.00	2.30	2.30	47.7	2.70	0.85	Neutra	Up	Up	Up	KBHSI.X	KBHSJ.X
SOTR	Jun	23	27.50	1.80	1.80	25.7	3.20	0.56	Up	Down	Up	Up	SHQRX.X	SHQRY.X

BEARISH CALL SPREAD STRATEGY

Symbol	Expirat Month	Buy Strik	Sell Strike	Credit	Max Profit	Break-Even	Max Loss	Profit/Loss	Stock Trends		Sector Trends		Buy Option Symbol	Sell Option Symbol
									Daily	*Weekly*	*Daily*	*Weekly*		
FITB	Aug	50	45.00	2.90	2.90	47.10	2.10	1.38	Down	Down	Up	Up	FTQHJ.X	FTQHI.X

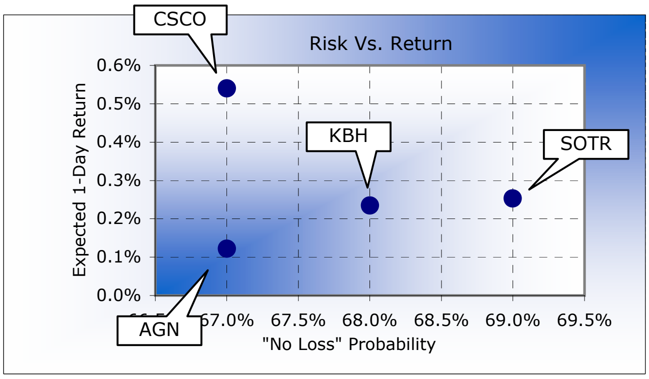
BEARISH PUT SPREAD STRATEGY

Symbol	Expirat Month	Buy Strik	Sell Strike	Debit	Max Profit	Break-Even	Max Loss	Profit/Loss	Stock Trends		Sector Trends		Buy Option Symbol	Sell Option Symbol
									Daily	*Weekly*	*Daily*	*Weekly*		
FITB	Aug	45	50.00	2.60	2.40	47.40	2.60	0.92	Down	Down	Up	Up	FTQTI.X	FTQTJ.X

"Sell Covered Call" Option Strategy

Symbol	Last Stock Price	Expir. Month	Call Option Strike	Call Option Price	Break-even	Max Profit	Time Value	1)	2)	Stock Price Target	Put Option Symbol
CSCO	13.64	Jul	17.5	0.25	13.39	4.11	0.3	**67%**	**0.5%**	15	CYQGW.X
AGN	69.73	Jul	70	4.3	65.43	4.57	4.5	**67%**	**0.1%**	73	AGNGN.X
KBH	47.51	Jul	50	2.45	45.06	4.94	2.65	**68%**	**0.2%**	49.5	KBHGJ.X
SOTR	25.79	Jun	27.5	0.35	25.44	2.06	0.65	**69%**	**0.3%**	27	SHQFY.X

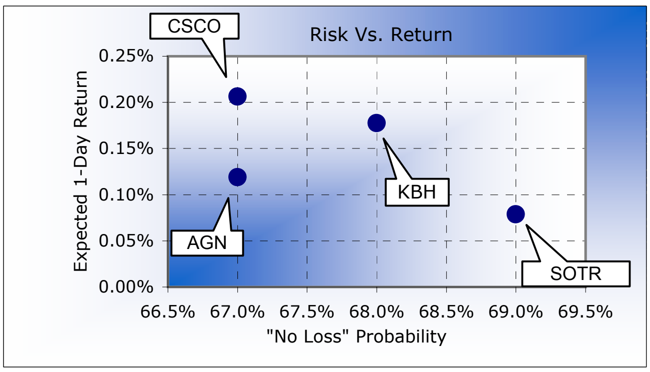
1) "No Loss" Probability. 2) Expected 1-Day Return



"Sell Naked Put" Option Strategy

Symbol	Last Stock Price	Expiration Month	Put Option Price	Break-even	Max Profit	Time Value	1)	2)	Stock Price Target	Put Option Symbol
CSCO	13.64	Jul	0.9	12.74	0.9	0.9	**67%**	**0.2%**	15	CYQSV.X
AGN	69.73	Jul	2.65	67.08	2.65	2.65	**67%**	**0.1%**	73	AGNSM.X
KBH	47.51	Jul	2.7	44.81	2.7	2.7	**68%**	**0.2%**	49.5	KBHSI.X
SOTR	25.79	Jun	0.65	25.14	0.65	0.65	**69%**	**0.1%**	27	SHQRX.X

1) "No Loss" Probability. 2) Expected 1-Day Return



VOLATILITY RISE PLAY: "Buy Strangle" Strategy

Symbol	Expirat Month	Low. Str.	Upper Strike	Debit	Lower Br.-Ev.	Upper Br.-Ev.	1)	2)	Stock Trends Daily	Stock Trends Weekly	Sector Trends Daily	Sector Trends Weekly	Buy Option Symbol	Sell Option Symbol
AEE	Jun	35	40.00	1.75	33.25	41.75	**69%**	**0.35**	Neutral	Down	Up	Up	AEERG.X	AEEFH.X
PNW	Jul	30	35.00	1.95	28.05	36.95	**69%**	**0.33**	Neutral	Up	Up	Up	PNWSF.X	PNWGG.X
KSE	Aug	30	35.00	2.00	28.00	37.00	**67%**	**0.31**	Neutral	Down	Up	Up	KSETF.X	KSEHG.X
FE	Jul	30	35.00	2.20	27.80	37.20	**69%**	**0.35**	Up	Up	Up	Up	FESF.X	FEGG.X
BOL	Jul	30	35.00	2.30	27.70	37.30	**69%**	**0.34**	Up	Neutral	Up	Up	BOLSF.X	BOLGG.X

1) "No Loss" Probability. 2) Expected Profit per $1.

Pros and Cons for Our Bullish Picks

Symbol	Bullish Factors	Bearish Factors
CSCO	P/E(ttm) below last 5 yrs high, EPS revisions trend up, operating margin>22%, ROE>10%	price/book>3
AGN	EPS revisions trend up, short-term trend up, strong technical signals	price/book>11, operating margin<5%, ROA<3%
KBH	P/E(ttm) below last 5 yrs high, price/book<2, operating margin>10%, ROE>27%	EPS revisions trend down
SOTR	P/E(ttm) well below last 5 yrs high, EPS revisions trend up, price/book<2, profit margin>24%, ROE>15%	-

Pros and Cons for Our Bearish Picks

Symbol	Bullish Factors	Bearish Factors
FITB	profit margin>40%, ROE>20%	EPS revisions trend down, price/book>3, trending down, strong technical signals

About "Covered Calls" and "Naked Puts"

"Sell Covered Call" Option Strategy

WHEN TO USE: you are sure that the price of the stock you hold will not fall. Sell lowerstrike options if you are only somewhat convinced; sell higher strike options if you are confident stock will rise. If you think stock will stagnate, sell at the-money options for maximum profit.

PROFIT: limited to the strike minus the market price plus the premium received.

LOSS: similar to that incurred with ordinary stock ownership, only partially off-set by the option premium received. Main loss could be the opportunity loss if the market rises strongly.

RISK: unlimited. REWARD: limited.

TIME DECAY: This position is a growing asset. As time passes, value of position increases as the option loses its time value. Maximum rate of increasing profits occurs if option is at-the-money.

EXAMPLE:"Sell 2 ABC May 50 Call @ $4.50". The seller would assume the obligation of selling 200 shares of ABC stock @ $50 per share. In return, the premium of $4.50 per share, or $900, is received.

OUR FINDING: Selling covered calls on stocks that have been hammered and have little chances of dropping further would provide a safe play. According our back tests, 90% of stocks with strong bullish signals didn't fall below break-even points for front-month at-the-money call options.

"Sell "Naked Put" Option Strategy

PROFIT: limited to the premium received from sale. At expiration, break-even point is strike less premium received. Maximum profit realized if stock settles at or above strike.

LOSS: increases as stock falls. At expiration, losses increase by one point for each point stock is below break-even. Because the risk is open-ended, this position must be watched closely.

RISK: Unlimited. REWARD: Limited. MARGIN: Always required.

TIME DECAY: this position is a growing asset. As time passes, value of position increases as option loses its time value. Maximum rate of increasing profits occurs if the option is at-the-money.

EXAMPLE:"Sell 2 ABC May 50 Put @ $4.50". The seller would assume the obligation of purchasing 200 shares of ABC stock @ $50 per share. In return, the premium of $4.50 per share, or $900, is received.

OUR FINDINGS:

1. Selling puts on stocks that have been hammered and have little chances of dropping further would provide a safe play. According our back tests, 90% of stocks with strong bullish signals didn't fall below break-even points for front-month at-the-money put options. Put options for stocks with strong bullish signals are often overvalued.

2. Naked puts provide higher returns than covered calls.

3. "Rolling down" of naked puts provides an additional downside protection and saves up to 70% of potential losses.

Naked Puts Vs. Covered Calls

From the profit graphs we can see that naked puts are virtually equivalent to covered calls. Naked puts might be the top choice of a practical investor because they require smaller investments, thus providing higher returns. Covered calls appear to be based on personal psychological preferences.

	NAKED PUTS	COVERED CALLS
Outlook	Bullish	Bullish
Collateral required	20-35% of the stock price plus the put premium	from 50% to 100% of the stock price
Type of collateral	any present portfolio	underlying stock
Earn income from an existing portfolio	Yes	No
Receive dividends on the stock	No	Yes

SHORT GLOSSARY

Buy -	JCPBE	Feb	25	Call	@ 1.05
Position	**Symbol**	**Expiration Month**	**Strike**	**Option Type**	**Entry Price**

Break-even. Point at which gains equal losses. This is the market price that a stock must reach for an option to avoid loss if exercised. For a call, the break-even equals the strike plus the premium paid.

Time Value. Amount by which the current market price of an option exceeds its intrinsic value (the difference between the stock price and the strike). This additional value of an option is due to the volatility of the market and the time remaining until expiration.

"**No losses**" **Probability.** Once you set a certain minimum level for this parameter, you can reject the picks that go beyond your desired risk level.

Expected Profit is computed using the probability of profit and option prices over the projected probabilities. It is equal to the probability of profit multiplied by the price and sum over all possibilities.

Example.
Outcome 1. Probability = 0.1, Profit= $6
Outcome 2. Probability = 0.3, Profit= $4
Outcome 3. Probability = 0.2, Profit= $1
Outcome 4. Probability = 0.2, Profit= -$1
Outcome 5. Probability = 0.1, Profit= -$2
Outcome 6. Probability = 0.1, Profit= -$3
*Expected wins = $2.00 = 0.1*$6+0.3*$4+0.2*$1, Expected losses = $0.70=0.2* $1 +0.1* $2 +0.1* $3 .*
Expected profit equals the wins minus the losses, or $1.30. Next, to compute the odds of the trade, the expected wins are divided by the expected losses. In this case, the odds of success equal 2/0.70 or 2.9 to 1.
As a rule, when searching for picks, two of the three variables - odds of success, No losses probability, and expected profit should benefit the trade. Generally speaking, traders struggle for odds higher than 1:1. A ratio of 3:1 tells the trader that he or she is risking $1.00 for the potential of making $3.00. In the same way, most traders make every effort to find picks that have positive expected profits.

Stock Technical Signals are based on various technical indicators for daily and weekly charts. Usually, swing traders check weekly charts to avoid fighting longer-term trends, while investors check daily charts for better timing of entry/exit points.

Stock Strength is also very important in decision-making. Any given stock fluctuates against its sector. For example, imagine that you bet on an upward move of a stock in a rising sector. Are you sure this stock is really strengthening in this sector at the moment? A common approach here is to base a pick on the size of the company or the strength of its brand, which can lead to a major mistake. Almost any stock can outperform its sector for a while. However, if it temporarily underperforms, you will lose.
Clearly, you should bet on a leader. But how can you recognize who will be the leader between your entry and exit points? We can help you. Our charts represent both short-term swings and intermediate-term fluctuations and assist you in selecting the best entry and exit points.

Sector Trends and Strength. We distinguish short-term and intermediate- term time horizons, based on various technical indicators for daily and weekly charts.

Call option. The right, but not the obligation, to buy the stock at a predetermined price (also known as the strike) at any moment before the expiration date for a paying a premium.

Expiration Date. The day when an option contract becomes void (the Saturday after the third Friday of the expiration month).

In-the-Money Option. An option that has intrinsic value. A call (put) option is in-the-money if the strike is less (greater) than the current market price of the stock.

Put Option - the right, but not the obligation, to sell stock at a predetermined price (also known as a strike) at any moment before the expiration date.

Spread. A position with long and short options of the same type on the same underlying stock or index.

Strangle. A position consisting of a long (short) call and a long (short) put.

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