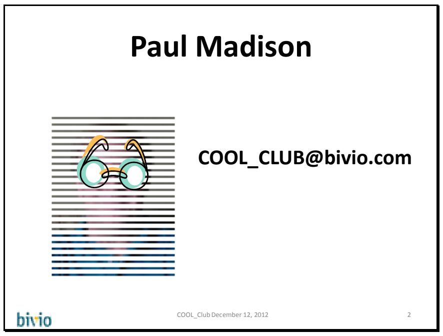
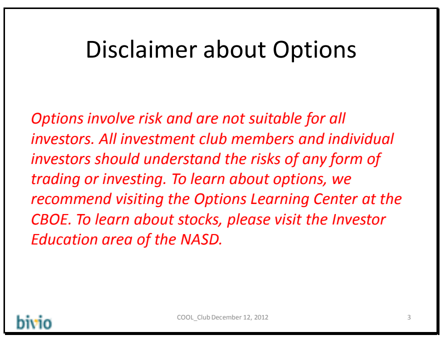
Happy new year and welcome to our first meeting of 2013 for the Covered Options Online Learning Club otherwise known as COOL_Club. We are very casual here in the clubhouse so if you have any questions you can type them into the GoToMeeting questions box and Laurie Frederiksen who is helping out in the back room will monitor those and get them to me.

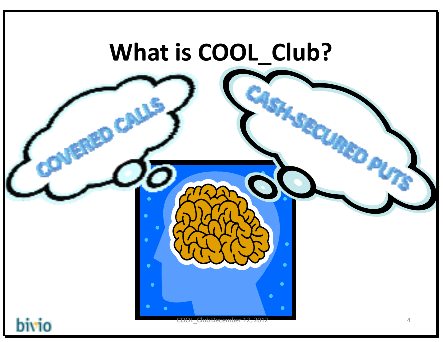
A hardy welcome to those of you who are new to COOL_Club.



I am Paul Madison and I am your host for the COOL_Club
If you want to contact me you can write to me at the COOL_Club discussion list which is COOL_CLUB@bivio.com

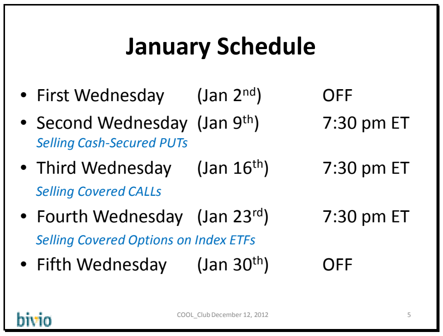


Remember that options do involve risk and are not suitable for all investors. All investors should understand the risks involved in any investment instrument including stocks and options. The slide mentions a few places that you can do some additional research around both options and stocks.



For those that are new to COOL_Club,

this is a weekly 30 minute session where we explore the thought processes associated with actual Covered Option Trades. We will entertain questions and discussion for up to an extra 30 minutes after our presentation.

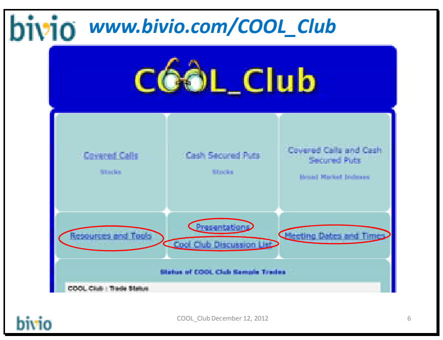


Here is our January Schedule. As I mentioned in the email we are going to focus spending our time more on just trades. Our education pieces will be cut down to short videos from last year's session and will be available on the COOL_club website so that new people can view those before listening to the discussion on specific trades

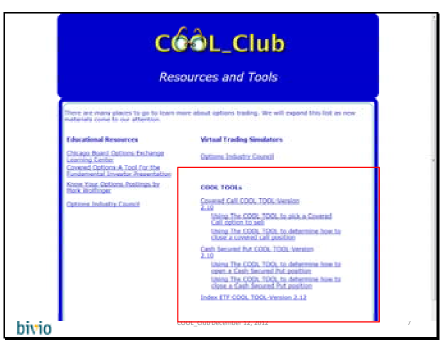
Tonight we will look at Cash-Secured PUT trades. Next week we will look at Covered CALL trades. And then in two weeks we will look at Covered Option trades on Index ETFs such as SPY and IWM.

As usual we will take a break on the fifth week.

As you know we surveyed people who signed up this week if 7:30 was a good time and over 80% of you said yes. Now that might not be the most scientific study since we did not ask those who did not sign up this week if 7:30 was OK. For now we will leave it at 7:30 but we will continue to reach out to the rest of the community to make sure 7:30 is a good time. If anybody has a good suggestion on a time or maybe two times that they think will work across all time zones please let us know.



Here is our COOL_Club home page
The link is www.bivio.com/COOL_Club
Both Handouts and recordings are under the Presentations link
Join the email discussion list by clicking here
You can get to the COOL TOOLs by clicking on "Resources and Tools"
And finally the schedule and registration links are here.



If you are new to COOL_Club I encourage you to check out some of our early recordings where we go through educational topics on Covered Options and in particular go to the Resources and Tools page where you will find our Excel COOL_TOOLs. Under both the Covered CALL Tool and Cash Secured PUT Tool you will find recordings dealing with how to use these tools.

As I think mentioned, we will be adding a section on the website where we will have a list of recordings that are edited down to just the educational topics.

Tonight

- Cash-Secured PUTs
  - Valmont Industries
  - Align Technology
  - Panera Bread
  - Malcolm's SSYS
- Malcolm's FAST "Buy-Write"

As I mentioned tonight we will be looking at specific Cash-Secured PUT trades. I have three of mine that we will look at and then some slightly "alternative" ones on SSYS that Malcolm did.

Although it is not a Cash-Secured PUT, I thought we would also walk through Malcolm's BUY-WRITE on Fastenal.

RECENT CASH-SECURED PUTS

With that let's move into our trades.

Valmont Ind.

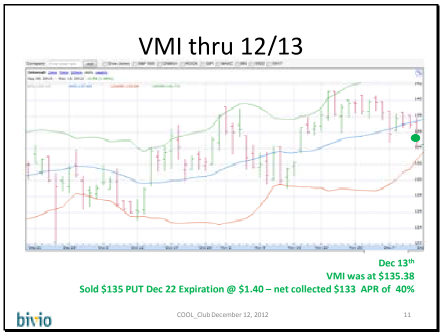
- Ticker VMI
- Fundamentals
  - NY EPS $9.45
  - PE at $135 price 14.3
  - Assumed EPS Growth 12%
  - PEG 1.2
  - Price off 52 week high 7%

Our first trade is Valmont Ind. Ticker symbol VMI.

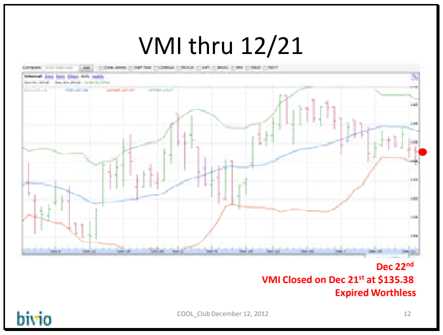
Let's take a quick look at some of the fundamentals that I use to evaluate a stock. I always like to look at forward earnings as I believe that is what really drives prices, not trailing results. Their next Year earnings per share is over $9. The analysts are thinking that earnings will actually slip from 2012's outstanding earnings. Since Valmont is involved in irrigation, I think the earnings may be even better than analysts expectations. I was interesting in looking at trying to buy at the $135 level which would be a PE between 12 and 13. My assumed growth rate is 12%. Giving us a PEG or PE divided by Earnings Growth of 1.2

I like to buy stocks with a PEG of under 1.5 and usually a PEG of 1 is a very strong buy.

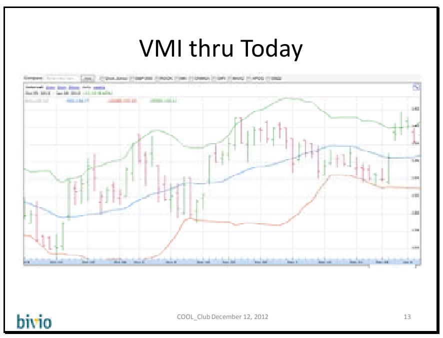
Notice I also look at where the stock is versus its 52 week high. I like to buy stocks when they have corrected by 25% or more. You can see that in this case that at a $135 level Valmont is only 7% off its 52 week high. However PEG is the more dominant fundamental that I use for decision making. I would rather have a great PEG than to buy just because the price has fallen by over 25%. Sometimes when a stock has a low PEG (under 1) it will take off in price and never look back. Valmont was as low as 80 a little less than 18 months ago and has moved as high as $142.



On Dec 13th, you can see Valmont had been trading down for a couple weeks. I decided to sell a $135 PUT. VMI at that point was a little over $135. I sold a $135 PUT for Dec 22 Exp. I was actually really hoping that I would get exercised and thus I would buy at $135 less the premium I collected which was $1.40.
At the time I sold the put I collected $133 with an APR of 40%.



As it turned out VMI traded in a tight range around 135 until expiration and it actually closed at a little over $135 so the option expired worthless. I got to keep the $133 but I still did not own VMI.



The price actually did trade down going into the end of the year until New Years Eve. It then popped from $134 to over $136 and then jumped even more after the new year to between $139 and $141. I made the decision that I did not want to miss the opportunity to buy such a low PEG and so I just went ahead and bought an outright position rather try to sell another PUT.

Part of the reason I went ahead and bought was because although VMI's moving average had not really started turning up it at least appeared to be leveling out

If I am right that earnings are even better than current estimates it still means I might be buying the stock at a PEG of 1 or below.
That is what I like.

QUESTIONS?

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Any Questions on VMI?

Align Technology

- Ticker ALGN
- Fundamentals
  - NY EPS $1.22
  - PE at $26 price 21.3
  - Assumed EPS Growth 18%
  - PEG 1.2
  - Price off 52 week high 32%

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Our next stock is Align Technology. This is a stock that I first bought last January at the $24 level and finally sold this fall when it got overbought at the $38 level.

Next year's earnings are estimated to be $1.22.

The price has corrected and I was hoping to be able to buy it at the $26 level. This would be about the same relative place I bought at last year after adjusting for earnings. The forward PE at a $26 price is just over 21. Using my fundamental assumptions, I project a growth rate of 18%. This means the PEG is again in our nice range of under 1.5 but not quite to the fire sale level I'd really like of under 1. But, notice that our price is nicely off our 52 week high by 32%.

ALGN thru 12/26

Dec 26th
ALGN was at $27.39
Sold $26 PUT Jan 19 Expiration @ $.55 – net collected $264 APR 32%

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Being a trading geek I was looking at ALGN on the day after Christmas (hmmm...maybe I should get a life). Align was trading a little above $27 and I decided to sell a $26 PUT for Jan 19th expiration at a $.55 premium. Because I sold 5 contracts my net collected was $264 and the APR was 32%. I figured if the congress got something done on the CLIFF then I just generated a little cash. But if they did not then maybe I would get ALGN bought at about $25.50. A very attractive level.

ALGN – thru 1/2

Jan 2nd
ALGN at $28.26
Bought back at $.25 – Net gain after buy back $132 53% APR

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On the first day after the new year with a Fiscal Cliff deal on the books, ALGN did indeed move up and was trading above $28. Again I decided I did in fact want to go ahead and get the stock bought so I bought back the option at the $.25 level. In one week I netted $132 which was a 53% APR. Buying back the put freed up the cash so I could just go ahead and buy ALGN still at an attractive level.

ALGN- thru today

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The few days since the purchase it has traded sideways. But I am very happy to be in the stock again at a very nice level. I elected to not mess with selling another PUT as I wanted to make sure I owned the stock at this level. One of the reasons I felt this way is, as you can see, the moving average appears to have bottomed and is heading up.

QUESTIONS?

Questions on ALGN?

Panera Bread

- Ticker PNRA
- Fundamentals
  - NY EPS $7.03
  - PE at $150 price 21.3
  - Assumed EPS Growth 18%
  - PEG 1.2
  - Price off 52 week high 14%

The third stock is Panera and you will recognize a lot of the same thought processes. The estimates on next year's earnings is just over $7. the price I was looking to buy Panera at is $150 and the forward PE would be just over 21. Once again we have a PEG of less than 1.5 but over 1, using an earnings growth rate assumption of 18%.
At a price of $150 PNRA is only 14% off it's 52 week high not the 25% that I like to see.

PNRA – thru 12/27

Dec 27t1h
PNRA was at $155.96
Sold $150 PUT Jan 19 Expiration @ $2.50 – net collected $243 26% APR

I was looking at Panera right after Christmas and it was right around the $156 level. I was able to sell a $150 PUT for Jan 19th Exp. at $2.50. I collected $243 and the APR was 26%. Again, I did this knowing that if we got a Fiscal Cliff deal the price would probably jump. In that case I would get to keep some or all of the premium I collected. If the deal had fallen through, I thought it was possible that I would have PNRA PUT to me at an attractive level of $147.50.

PNRA – thru 1/2

Jan 2nd
PNRA at $161.66
Bought back at $.75 – Net gain after buy back $161 65% APR

As we all know by now there was a deal and so the price did indeed move up to over $161. I was able to buy back the PUT at the $.75 level. This was roughly the 10% APR threshold level that I look for with the time left to expiration. The net I collected was $161 and since it was for less than one week it was a very nice APR of 65%.

It was less obvious to me that PNRA was bottoming and trending up so I did not jump in and buy. I felt I might still have further opportunities to buy back down at better prices …. I might be wrong if earnings come out really strong for the fourth quarter.

QUESTIONS?

Any Questions on Panera?

SOME MALCOLM TRADES

Once again I want to thank Malcolm for sharing his trades with the COOL_Club as I think sharing experiences helps us all.

Malcolm's Stratasys Ltd -SSYS PUTs

- Dec 6 – SSYS trading range $67.59-71.73
  - Sold 1 $65 PUT for 12/22 Exp. @ $1.10
    - $101.05 net 33% APR
  - Sold 1 $70 PUT for 12/22 Exp. @ $2.75
    - $266.05 net 86% APR
- Dec 21 – SSYS closed at $79.50
  - Both PUTs expired worthless

The first trades were this week's topic of Cash Secured PUTs and were on the stock Stratasys LTD, ticker SSYS.

First let me say Stratasys LTD is not a company I follow and so I cannot provide much on Fundamentals but if Malcolm is here and willing he might be able to provide some of that color.
Malcolm?
Stratasys was very volatile on Dec 6th with almost a 7% trading range. Malcolm sold two CSP's for Dec 22 Expiration. One was at the $65 level which was slightly out of the money at a $1.10 premium. The other one was at the $70 level. Depending on where SSYS was when he sold might even have been or probably was in the money. The premium on that PUT was $2.75. In both cases it sounded like Malcolm actually had a strong feeling that he would have the stock PUT to him and he was prepared to start selling Covered CALLs if that happened.

So this was pretty much a trading stock as I understand it.

As it turned out SSYS went up after he put these two CSPs on and so they both expired worthless as SSYS was at $79.50 on expiration. Net results were that he got to keep the over $360 collected with an average of 60% APR. Nicely played even though maybe a bit "lucky?".
Any other thoughts on Stratasys Malcolm?

Before we go into Malcolm's next trade I want to make sure we have covered a term definition.

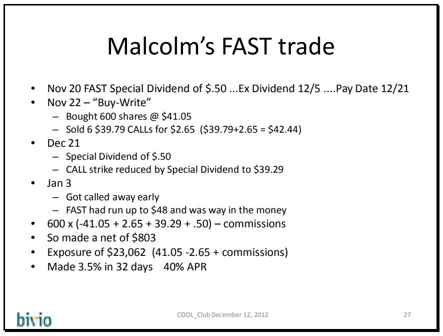
There is a special Covered Option situation that is called a "Buy-Write".

A Buy-Write is multi-leg trade that involves buying the the underlying stock at the same time that you are selling the Covered Call on that same stock. SELLING an option is also referred to as Writing and thus the term BUY-WRITE.

When a BUY-WRITE is done most brokers give you a cheaper commission as the base commission is spread across the two trades.

A BUY-WRITE is a trading tool to extract a small amount of premium and possibly small price appreciation depending on whether the CALL is In-The-Money or Out-of-the-Money.

In some cases people do BUY-WRITEs in order to be the owner of record for a stock to claim a regular dividend. As we will see in a minute Malcolm did the BUY-WRITE to capture a special dividend. But... an important thing happens in that case as we will discuss.



Malcolm’s trade was on Fastenal, ticker FAST. Although I follow this stock I will let Malcolm provide color from his vantage point around his fundamental assumptions if he cares to.
Malcolm?
On November 20th Fastenal declared a special dividend of $.50. They announced it would go Ex-Dividend on 12/5 meaning that you had to own the stock by 12/4 to qualify for it. The dividend was to be paid out on 12/21.

On November 22, almost two weeks ahead of the ex-Dividend date, Malcolm decided to do a BUY-WRITE on Fastenal.

He Bought 600 shares of FAST at $41.05 and sold 6 In-The-Money $39.79 (yes that was the strike level $39.79) CALLs for Jan 19th expiration. I will explain that funny strike in a minute.

On Dec 21st he did in fact receive the $.50 special dividend, but Option strike prices are automatically adjusted down by the value of the special dividend. His $39.79 CALLs were adjusted down by $.50 to $39.29. That meant that if they were called away he would only receive $39.29 rather than the $39.79 level they were at when he sold them. Now Malcolm understood this going in and so this was not a surprise. Others of us learned this the hard way by being ignorant of this fact.

A bit to his surprise his FAST was called away on Jan 3rd as FAST had run up to the $48 level. Normally, you will not be called away in this situation. But when you have sold an option that goes deep in the money and the options are thinly traded, as evident by large bid-ask spreads on the options, there is a much higher chance of being called away. This is because it may be easier for the option owner to exercise the option and sell the stock outright than it is for him to get the wide bid-ask spread option to “close” at a favorable place for him.

So what did Malcolm make on his 600 shares?

It cost him $41.05 per share to purchase Fastenal, but he collected a $2.65 premium on his CALL and $.50 on his special dividend and then was called away at $39.29. The net of this was that he made $803 and he exposed a little over $23,000. Overall he made a 3.5% return in 32 days or about a 40% APR. Nice job Malcolm.

What else could have happened

- FAST trade off to $35 by expiration
- Would still have stock with a basis of $41.05
- Keeps $2.65 for CALL
- Keeps $.50 special dividend
- $3+/sh of cash ($1,877)
- Paper loss of $6/share
- Need to be happy owning FAST at $41 (which Malcolm said he was)

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What else could have happened here?

Let's say that by the expiration day FAST had traded down to the $35 level.
Malcolm would still own the FAST at a basis of $41.05.
He would have gotten to keep both the $2.65 for the call and the special dividend of $.50.
In other words he would have a little over $3 of cash per share or $1877.
But he would also own FAST with a $6/share unrealized loss.
The key to putting this trade was to be happy owning FAST at $41 even if went down in the short term. Malcolm was in fact comfortable with that and that is why he put the trade on.

Why was it $39.79 Strike?

- Fastenal paid $.42 special Ex Div 11/22/10
- Stock split 2/1 5/20/11
- Prior to 11/22/10
  - $80 CALL for Jan 19, 2013 Exp (LEAPS)
- On 11/22/10
  - $79.58 CALL for Jan 19, 2013 Exp (LEAPS)
- After 5/20/11
  - $39.79 CALL for Jan 19, 2013 Exp (LEAPS)

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Now let's go back to see why FAST had a strange strike price of $39.79. It was due to a $.42 special dividend paid at the end of 2010 which was cut in half when the stock split 2/1 in April of 2011.

In other words in Fall of 2010 Jan 19, 2013 $80 CALLs were being traded.
Options with longer than one year out expirations are called LEAPS. This stands for Long-Term Equity Anticipation Securities.
These LEAPS eventually turn into normal short term options.
After 11/22/10 these LEAPS were traded as $79.58 CALLS for Jan 19, 2013.
After the stock split in May of '11 their strike price was cut in half and they became $39.79 CALLs for Jan 19, 2013 Exp.

QUESTIONS?

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Questions about either of Malcolm's trades?

OPEN FORUM

Now we will move to an open forum session. If you have a stock you would like to discuss doing options on now is the time.

NEXT SESSION Jan 16th 7:30 PM ET

COVERED CALLS

Before we say good night a reminder that next week we will meet at 7:30 pm ET again and we will be looking at Covered CALL trades.

HOPE YOU HAD A GREAT CLIFF-MESS

With that let’s close out tonight’s COOL_Club session and I hope each and everyone of you a great “Cliff-Mess”.