



# Aussie Rob's Weekly Newsletter



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## Giddy Folks

Today's quote is: "We Bureaucrats write memoranda both because they appear to be busy when they are writing and because the memos, once written, immediately become proof that they were busy." - **Charles Peters**

How do we apply that to trading? "Getting a Life"! – It is sooo easy as traders to spend sooo much time with analysis paralysis and justify our time being "busy" on our computers looking for good trades! This reminds me of a demo that I was doing with a lady the other day. She really loved my Lifestyle Trader and wanted to find a way to replace the income from her job. She knew that trading could do that and I had to caution her about how so many new traders give up their jobs only to create a new one called "trading". It's exciting when you're new to learn as much as you can but you have to be careful not to fall into the trap of becoming married to your computer! Sure, when you're new you're like a sponge soaking up all of that juicy education but you need to create a goal of becoming a "Lifestyle Trader". That's a trader who logs onto their computer after hours, analyze their charts, adjusts, places new & exits old trades when the signals tell them to and then logs off their computer to get back to the important things in life.

For the benefit of our new clients, each week I include a selection of correspondence (the Good, Bad and the Ugly sometimes) as, there are a lot of great questions/comments that can help a lot of people. As I'm sure you can appreciate, I do not have enough hours in the day for one-on-one training so I want my time to benefit everyone, not just a few. My newsletter enables me to achieve this! I am sure that you'll find a few nuggets every week. After all, just one tiny thing can have an exponential effect to your trading.

Dear Aussie Rob, am a little confused on the covered call strategy scan provided by ARLT. I noted that most of the stocks are drug/biotech and have more than average risk. As such, put protection should be considered. When all things are taken into consideration, I cannot see how one can ever get a 2:1 reward/risk ratio.

ELN can be used to illustrate this point:

Buy ELN stock for 14.11  
Sell Mar 12.50 call for 2.55  
Buy Mar 10.00 put for .45



If stock stays above call strike price, profit is:

$$-14.11 + 12.50 + 2.55 - .45 = .49 \text{ per share}$$

If stock goes down below put strike price, then loss is:

$$-14.11 + 10.00 + 2.55 - .45 = -2.01$$

The reward/risk ration is .25 (or less if one can scramble and close out positions if stock heads south), but my experience with drug/biotech stocks is that sudden announcements are made that can just drop the stock like a stone.

Any help in understanding this would be appreciated.  
Thanks, John

G'day John

You don't seem confused at all Mate, you seem to have a good handle on it! Therefore I can't help you to understand it any more. You can't change something from what it is. What I can do though, is help you to progress with your trading. It's gunna cost ya another Fosters when I see ya next!!! :-)

You will always be battling to get better than a 2:1 reward/risk ratio by combining Covered Calls and Married Puts (Put for protection). The nett premium is reduced due to the cost of the insurance (Married Put) and the return isn't real high due to having to purchase the stock. Covered Calls with Married Puts are not a high yield strategy! They're an extremely conservative strategy.

My Scanner cannot create trades, it calculates the math and presents the results to you. These results change from time to time depending on how much volatility there is in the market. At times there are a lot higher premiums, especially around Earnings season. (4 times a year).

From what it looks like you are trying to achieve, you would be far, far better off trading Bull Put Spreads instead of Covered Calls with Married Puts! It has the exact same risk ratio but with far, far higher reward as you don't have the outlay of buying the stock.

Here's how you do it:

Step 1: Run a Naked Put Scan.

Step 2: Select your Bullish Candidates.

Step 3: Sell a Put and then buy a Put the next strike further OTM. Eg, Stock is trading at \$17, Sell the 15 Puts and buy the 12.50 Puts creating a 15/12.50 Bull Put Spread.

Reward: Sold Put premium - Bought Put Premium

Risk: Spread - Nett Premium (in the above example, the spread is  $17.50 - 15 = 2.50$ )



Notice how your risk/reward will be a lot higher trading Bull Put Spreads compared with Covered Calls with Married Puts. It has to be as you are not buying the stock!

As far as Bio Stocks go, you are correct, they are a lot riskier than other sectors. You know that, so you need to take that into consideration when creating your business plan! Don't let the facts confuse you! Let the facts guide you! "The facts are the facts" so act on them accordingly!

Bull Put Spreads are a far better proposition to Covered Calls, however, new traders need to cut their teeth on Covered Calls first and then progress onto Bull Put Spreads as there is soooo much for them to get their head around. This is why I always tell my students to paper trade for 3 months before using real money. With Covered Calls, by the time they have finished paper trading them, they will discover what you have just found and then they will start paper trading Bull Put Spreads. This is all part of the "Education Process".

Baby steps is what the Education Process is all about! Take the "4 Stages to Mastering Options":

**Stage 1:** New Options Traders need to first look at selling calls against the stock that they already own. This is a great introduction to options. It gives them more money with no more risk.

**Stage 2:** They then need to learn how to add a Married Put to protect their position. This is their introduction to combining options in one trade.

**Stage 3:** Learn Bull Put Spreads for Bullish trades and Bear Call Spreads for Bearish trades.

**Stage 4:** Once they've mastered Single Combination Spreads, they can then progress to Ratio Spreads.

Baby steps John..... I think you're now ready to progress to Bull Put Spreads. Take it slow and steady, the market is gunna be here for a long time yet, however, we need to ensure that you're trading capital is gunna be around to take advantage of your newfound knowledge!

Congrats, you're do'n a GREAT job Mate!

John replied with:

Dear Aussie Rob, thank you so much for your thorough response. I really appreciate your overall perspective on options. This helps me move toward where I need to be. I really appreciate the time and effort you put into this response. Owe you another Fosters -- On to Bull Put Spreads/Bear Call Spreads!!

Thanks, John

Folks, there is more to coming onboard with me than just your purchase of my Lifestyle Trader and Datafeed subscription. My passion and the only reason why I'm running this business is to help and teach others to become successful traders. Look at the education that you receive in my weekly newsletters. It's hard to put a price on experience but from over the years seeing all



of the training that is available, the “whole deal” of my software and training is far superior to a lot of the other stuff that costs much, much more. I’m sure you know that, that’s why you’re with me! :-)

Here’s a portion of an email that our Qantas Pilot, “Junior G” sent in...

I have bin going over ur updates, congrates on the 6 month anniversary by the way. And they get more and more informative every time I read them (5-7 times?)

Good Lad.... At least someone follows the rules, well at least the “5-7 rule”!?!?!? :-)

and it is great that the "Robert's" have made a come back, although this has bin kept a little quiet. I am still papertrading, only till the end of the week, but even though you said at least 90 days, I am still learning heaps for instance, (don't kill me....) a little story...( I have pictures of CL and you and young Saddam being caught, yes, I still remember the sad stories from you as well, only way to learn)

Folks, I shared a story with Junior G about NOT allowing the news to influence your trading and to trust the charts. I confessed to “gambling” on the news when Saddam was caught that Oil would go down. It had too, it was fundamentally logical that the price of oil would go down as the fear of interruption to the oil supply had decreased, right?

My charts continued to go up! Bottom Line: Trusting my charts is safer than trusting the news!

I entered my CL short position on 2 Feb (as everyone did I hope!) looking to sell one March CL at market on the open the next day. That happened. I then went to work... Sitting in Wynyard (sunny Tassie that day, as the rain was more or less coming straight down) waiting for the passengers to board and jet back to Melbourne I grabbed the Financial Review (bored, perhaps!) and had a read. "Likely that the price of Crude will go toward \$70/barrel this week, if not over," They said, "Iran, blah blah, security council, blah, uranium, blah blah" and so on. This got me thinking as I knew I was going short at home. Oh dear!!

Folks, the Financial Review is the Aussie version of the Wall St Journal.

So the next day, 3 Feb I did my ritual, update the ARLT, and low and behold the ominous GREEN number in the top right hand corner of my CL6J chart. It was a big spike, but nonetheless it was GREEN! My reaction was to leave it. Follow the rules pal. Don't go to the dark side of the force. Listen to AR...

BUT.... I didn't. Exit we did. The scars have just healed now, the gyprock has bin replaced in the office and Penny Pug is sleeping on the remainder of the Fin Review. Not that I was particularly perturbed. Since paper trading CL hasn't bin all that kind to me. But I did the numbers of the HU and HO (two of my fav's), and I cried heaps.

The one saviour was I was still paper trading. And I guess if we were trading with "US" monopoly paper money then we at least wouldn't have made a loss.

There's two morals of this story:



1) Follow the damn rules ladies and gents. Don't get cocky. Don't get clever. Look at CC6K today. Don't try and look into the future, it will only cost you money (re-plastering the office and a trip to the ER for example). Let those winners run either downhill or up, doesn't matter cos we still make \$\$\$\$\$. And if the Fin Review was correct well IT IS the price we pay to know that the trade was going the other way.

2) The Fin Review is only good for wiping your "beep" with!

Editor: I had to "edit" JG's description but the word that he originally used meant "backside"!

You have fun. Keep up the good work and say Hi to the Boss (young Kerry) and the Jester (Boy). Hows that foot coming along?

JG

Everyone sends their regards back to you Junior and the foot is on the mend, thanks! :-)

Thanks for the help. The training site is terrific.

You're welcome! Glad to hear you like my training site.... Wait till you see the new video site! :-)

Shel submitted the following:

I am becoming very excited about the CC's and Naked Puts. There must be a catch on the Naked Puts?

What's the catch???? hmmm, that's a tough one to answer. I guess the danger is if the stock plummets, which is quite obvious, eh! You can protect yourself by turning the Naked Put into a Bull Put Spread by buying a further OTM Put.

I have only made one trade as a Naked Put but it worked very well. Sold SUF 7.50's for .50 and collected at expiration \$500 profit. Do a few of these and the cash register will begin to fill up pretty well.

Well done!

Now on the Mar 7.50 p and in the hole as the stock is down to 6.95, but charts looking better.

Shel

The good news Mate is it closed at 7.47 on Friday!

Don't ever "marry" a stock Mate! They are there to use and abuse and suck the lifeblood (money) out of each month, not to get intimate with! Remember, stocks were only invented so option traders can make money outta them, right? :-)

When a current trade expires, move onto a new scan and look for the next opportunity! You don't have to trade the same one, unless of course it comes up on the scan again and you're comfortable with it being bullish, which SUF definitely hasn't been the last few weeks.

Don wrote in with:

We are enjoying the option scanner very much and it is giving us a lot of good ideas! We were curious how you calculate the % return if put not assigned?

Thank you, Don



Great to hear that you're enjoying my scanner Mate!

The calculations will be included in my new Naked Put DVDs that are not too far away. I'll let you know the moment they're available...

### **New Training Website**

Get ready for the launch of my new training website next week that will include "step by step" videos on how to utilize my Lifestyle Trader. YES, they include how to run scans and trade Covered Calls and Naked Puts! The videos will be FREE downloads for clients from the new "Exclusive Members Area" that is also being launched next week.

The Exclusive Members Area will initially contain the new training videos. It will be a project that will continually be enhanced with more value added services to help you to become a better trader.

### **AussieRob FX Trader**

Have you set up your demo account yet? FREE streaming data and FREE streaming charts. Set it up now by going to: [http://www.aussierob.biz/forex\\_demo.htm](http://www.aussierob.biz/forex_demo.htm)

You'll instantly receive an auto reply with your User Name and Password. Then go to: <http://www.aussierob.biz/downloads.htm> to download the software and see how addictive FOREX trading can be. Remember, it trades virtually 24 x 7 so if you get the urge to trade at 3am, you can jump on your computer and get your trading fix.

### **Brokerage ~ Aussie Rob Financial Services**

Don't forget one of the great advantages of trading through Aussie Rob's Financial Services is not only the low, low commissions but the cutting edge Trading Platforms with FREE real time streaming data and charts. I seriously suggest that you check out our services at:

<http://www.aussierob.biz/brokerage/index.htm>

### **Stock Alerts**

I'm working on a spreadsheet to report these results each week with running totals so you can see every trade. Hopefully I'll have it for next week

### **Commodities ~ What's Hot**

All currencies were bullish this week against the Greenback. Peso's Long switched to a short and the Yen has triggered an exit for Monday. It goes without saying that we have a beautiful Short trade with the US Dollar Index!

A Long entry was triggered for Crude on Thursday. Check out the Line Chart and you'll see that it's hitting pretty strong resistance so it'll take something special for it to continue Long.

Heating Oil's Long has produced \$4674.60 profit so far for a 138.5% ROI, and... Unleaded Gas has produced an incredible \$6,409.20 or a whopping 135.6% in just 3 days! Not bad considering we just mad a bucket full of profit on the previous short with these two! :-)



Corn is still northbound but the charts look pretty ugly. The Long Term charts are extremely bullish. Take a look at the Line Chart too and you'll see this thing's head'n. Up, UP AND UPPPP.

Ditto for both of the Wheats!

Soybeans & Soy Oil are producing some great Long profits.

And now for Porkers.... Yup, over 5 grand profit in this little beauty. There seems to be no end to this trend.

What a week it's been for the metals...

Gold's Long is still powering ahead. It only has another \$10 to go before it hits it's \$580 high.

Palladium's Long looks pretty strong too.

Ditto for Platinum after it bounced nicely on Tuesday.

Silver has broken an all time high by blasting through the \$10 barrier!

Coffee's trying to go up but it doesn't seem to have much strength.

More Long profits taken off the table with OJ. Will be interesting to see if it can break new highs on it's next upward leg. It's had two goes at breaking 13500 but has failed. Will it have the strength next time?

### **Commodities ~ What's Not**

It goes without saying that we have a beautiful Short trade with the US Dollar Index as all of the Currencies except the Peso are bullish against the Greenback.

10Yr note's Long didn't hang around for long (excuse the pun) as now we are trading back in the direction of the long term trend. Check out the line chart and you'll see that it's on support. If it breaks it, who knows how far it'll free-fall...

Treasury Bonds are head'n Short big time.

Soymeal is bucking the Soy trend with a nice Short.

We're back Short again with the Nikkei.

Another great Moo (Feeders) Short was taken off the table this week! Take a look at the Line Chart and see how strong the current support level is! Compare it with the great Live Moo Short. The Live ones broke their support (8910) and have plummeted since. That's what could happen to Feeders too!



Cocoa's Short is producing some sweet profits. Over 50% ROI so far.

Cotton is still go'n down... However, it's got some pretty strong resistance coming up.

Sugar has triggered a Short exit but it's hard to see it going higher from here. If it can break 1694 on it's next downward push, it easily plummet to the 1500's.

### **Commodities – Neutral**

Both the Eurodollar and the Muni Bond are wandering aimless in the wilderness right now. Can't complain about the profits we just took off the table with the Muni's Long!

Rice has no idea what it wants to do. Check out the Long Term chart too!

E-minies don't really know what they're do'n either. Slight upward bias on the Nasdaq with a slight downward bias on the Dow!?!?!?

If you'd like to set up a Commodities demo trading account, email Leslie at: [commodityhelp@aussierob.biz](mailto:commodityhelp@aussierob.biz) Tell her that you're using my Lifestyle Trader and that you're now serious about learning how to trade Commodities and she'll set up a demo account for you. Leslie is extremely busy like the rest of my team so please only contact her if you're serious about giving it a fair go!

**New to Commodities:** Please and I mean PLEASE.... Do not get carried away with the incredible profits that are coming from some of these commodities. This happens most of the time! The market has been around for some time now and it will probably still be around in 90 days time. Always, and I mean ALWAYS paper trade something new for at least 90 days before using real money! You can get whipsawed around, sorry, I should have said, YOU WILL GET WHIPSAWED AROUND and a lot of people cannot handle that happening, however those who follow the rules and paper trade first, understand that whipsawing is part of the game. You will have losing trades, probably more losing trades than winning trades, however, in the long run, my commodities module has been producing consistent profits over time! Be disciplined and play by the rules so you'll be in the game for the long haul. If not, YOU WILL get wiped out. I'm not saying that to scare you out of trading commodities, I say that because I want you to be in the game long enough to be able to enjoy the profits! Follow the rules and paper trade! *"End of lecture"*

### **Aussie Rob's Watch List**

The whole idea of my Watch Lists is for you to keep an eye on my previous Watch Lists to find trending stocks to put into your own Watch Lists. Look for patterns and trends in each individual stock. If a stock is shooting to the moon, resistance is out of sight and there are no reasons for it not to continue to go up, then there is probably no reason to wait for a pullback. However, stocks that have a history of patterns are generally safer to trade. Papertrade a few different strategies and you'll soon find what works for you.



**Bullish Stocks**

ABV  
ATW  
CBT  
CL  
CSGS  
CTAS  
CX  
DO  
DRQ  
ENTG  
FCFS  
GOLD  
GSK  
HOTT  
LNG  
NSS  
ONNN  
PAAS  
PNX  
RADS  
SIFY  
SIFY  
SLB  
SMTC  
STN  
STZ  
SWC  
TPX  
TSCM  
TUES  
XOM

**Bearish Stocks**

IRM  
LKQX  
PXP  
BIIB  
BKUNA  
FED  
PRU  
SNV

Sorry for the delay in this week's newsletter. My lovely Bride surprised me with a surprise birthday party. Gee, it's get'n harder to recover these days!?!?!?!

See ya's at the TOP!

Kind Regards

Aussie Rob

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