

Easy Money Options

Volume 2 Issue 6

June 2009

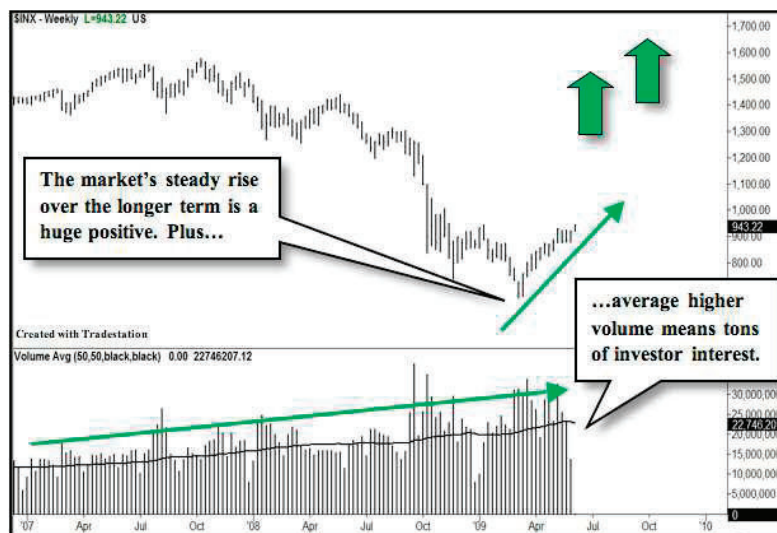
Market Booming Higher!

Plus, a near-term option trade with loads of upside...

For this month's option play, I've targeted one of the most recognizable consumer products companies on the planet. But before I give you the details, it's time to take a gander at where these markets are headed.

Market's March Continues!

Just as I've said, the broader U.S. equities market continues to power higher. Let's begin with this weekly chart of the S&P 500 (a good proxy for the broader U.S. stock market):



As you can see, stocks are on a roll. In fact, from a low of 667 in March to a recent price of 944, U.S. stocks are up a mind-blowing 41%.

That's a ton of upside action in a relatively short amount of time. And while I anticipate the typical 3–5% pullbacks along the way, there's little doubt this market is headed higher in a strong and decisive way.

In fact, while I've told you here many times that I was confident this market was going to head higher, I'm impressed by how solid and steady that uptrend

has really turned out to be.

But that's not all...

The market has powered above the 930 resistance level — set during the beginning of last month — like a walk in the park. That level should now become a solid support level for more movement to the upside.

But here's where it gets tricky: If you take a long, hard look at a daily chart of the S&P 500, you'll quickly realize that the near-term 930 level actually

balloons to include a range extending all the way to 944. And since that level was established on a medium-term high in January, we're really looking at resistance in the 930–944 range.

In other words, for the market's recent action to really get legs, I'm looking for a decisive move above 944, not 930. And since we just pierced 944 this week and have yet to establish support, don't be surprised if we get some lower prices in the days and weeks ahead.

Now, if you listen to the pundits and talking heads, you'll probably hear that the move in the broader markets that I've been predicting and talking about for months here in *Easy Money Options* doesn't have any fundamental power behind it: It's all just smoke and mirrors.

I love it when I hear stuff like this.

In fact, using many of the so-called experts in the investment field as *contrary indicators* — in other words, buying when they say sell and selling when they say buy — has put cash in my subscribers' pockets time and time again.

You can mark my words: When everyone says it's

time to get into this market for good, you can bet your bottom dollar the market's big moves will be history. It's just a fact of life that you can't wait for the herd; you have to take reasonable chances, and you have to have vision of what's *going to happen*, not what's already in the hopper right now.

And while there's no doubt the broader fundamentals aren't rosy, they're certainly on the mend. And the biggest one — recovery in the real estate sector — is beginning to show more life:

- ▶ Existing home sales in April jumped an impressive 2.9%, to an annual rate of 4.7 million units. Plus, distressed properties — read: foreclosures — continue to be cleared from the market, a big key for price stabilization down the road
- ▶ Interest rates are at record lows, home prices are super-attractive and first-time homebuyers can enjoy an \$8,000 tax break. In my book, those are all positives.

And it's not just real estate fundamentals that are on the mend. I'm also seeing upticks in industrial production, consumer spending and consumer confidence.

Bottom line: The markets continue to power higher, supported by strong technical factors and improving fundamentals. And right now, I have just the way to play it...

Pure, Fresh, Clean: Colgate-Palmolive!

When it comes to one of the most recognized consumer products companies on the planet, you don't have to look much farther than Colgate-Palmolive (CL). Backed by unparalleled brand prowess, stellar financials and attractive option metrics, buying calls on this toothpaste behemoth is practically a no-brainer:

- ▶ When many companies are trying to be all things to all people, Colgate-Palmolive has garnered massive success by sticking with what it knows best: toothpaste, household cleaners and specialty pet food. In fact, the company's stable of brands — which includes such household names as Colgate toothpaste, Irish Spring soap and Ajax

cleaner — produces a whopping \$15.3 billion in annual sales

- ▶ Over the last five years, Colgate-Palmolive has grown top-line sales an impressive 9.1% each and every year. That blew away the industry average of 5.4% by nearly a factor of two. And as far as profits go, the news is even better: Over the same five-year period, the company grew bottom-line results a stunning 8.3% each and every year
- ▶ In spite of one of the roughest operating environments of all time, Colgate-Palmolive brought home a staggering \$508 million in profits during the first quarter. That translated to an impressive 97 cents a share, up 13% from the year-ago's 86 cents.

But here's the best part: Colgate-Palmolive delivered these bottom-line results even though its sales dipped 5.5%. That tells me this consumer products company can squeeze every last drop of profit from its sales power, a big plus when business gets tough.

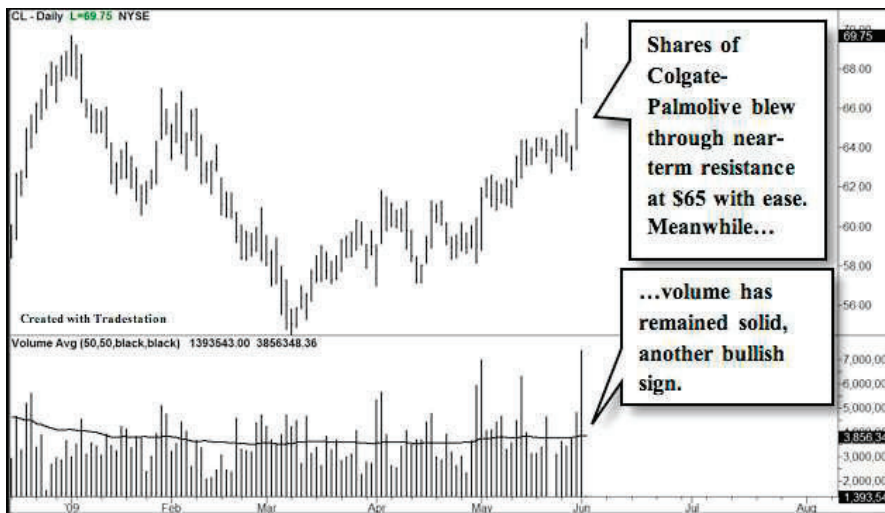
- ▶ During the first quarter, Colgate-Palmolive's gross margin — or sales minus direct product costs — increased to 57.5%, compared with the year-ago period's 56.6%. That tells me Colgate-Palmolive is busy keeping a lid on costs, another huge plus for bottom-line results. The company also generated a whopping \$690 million in operating cash flow, up 21% from last year.

According to Ian Cook, chairman and CEO...

We are delighted to begin 2009 with continued strong top-line momentum, with organic sales increasing 8%. Also, our gross margin, operating margin and net profit as a percent to sales increased during the quarter, despite difficult economic conditions worldwide.

Now take a look at this daily chart (next page) of Colgate-Palmolive's stock price...

As you can see, the shares blew through near-term technical resistance at \$65 without much trouble. Now, that level becomes a solid floor of support going forward.



But that's not all: Even before this significant technical breakout, the shares were compiling a solid uptrend. Sure, the chart shows there were natural pullbacks along the way. But those price reductions were quickly followed by renewed buying, which, in turn, kept the shares' uptrend firmly in place.

Another plus: Through this latest upside run, trading volume has remained solid. That's a clear sign that higher prices are keeping things exciting for investors. If they weren't, those volume stats would be falling off a cliff.

Like the broader market, action over the last couple of days has been fast and furious in shares of Colgate-Palmolive. So there's little doubt we'll get back and fill down the road. But that shouldn't disturb the company's larger uptrend one bit.

The Colgate-Palmolive call options I've selected will expire in July. Plus, they're currently one strike out of the money. Together, that means we're banking

on a nice pop in Colgate-Palmolive shares over the next few weeks.

In other words, I've targeted some quick profits in this trade. And while that's amped up our risk a bit, the markets are telling me it's time to roll the dice.

Plus, our longer-term options plays — including General Mills, Hewlett-Packard and Time Warner Cable — are all in good shape.

I've also selected call options with an implied-to-statistical volatility ratio of just 0.86. In other words, for every 1% in historical volatility, these options have priced in just 86% of that. That means we're getting a good deal on these options compared with what the market thinks they're worth.

Action to Take: Buy to open Colgate-Palmolive July call options with a strike price of \$70 (CL GN) at the market.

Get this order in as quickly soon as you can. And keep your eyes peeled for more recommendations and updates!

Best wishes,

Wayne Burritt
Editor, *Easy Money Options*

Easy Money Options Portfolio

Recommendation	Symbol	Buy Date	Buy Price	Current Date	Current Price	Gain/Loss%
General Mills January 2011 55 Calls	VGI AK	3/5/09	\$5.80	6/3/09	\$5.50	-5.17%
Hewlett-Packard January 2010 35 Calls	WPW AG	3/31/09	\$4.26	6/3/09	\$4.60	7.98%
Time Warner Cable October \$35 Calls	TWC JG	5/6/09	\$3.80	6/3/09	\$3.90	2.63%

Easy Money Options Closed Positions

Recommendation	Symbol	Buy Date	Buy Price	Sell Date	Sell Price	Gain/Loss%
Proctor and Gamble January 2009 Calls	PG AN	8/4/08	\$1.90	8/12/08	\$3.60	89.47%
S&P 500 Depository Receipts September 2008 Puts	SPYUP	7/1/08	\$2.79	9/2/08	\$0.46	-83.51%
S&P 500 Depository Receipts November 2008 Puts	SPYWR	9/2/08	\$3.10	9/16/08	\$7.75	150.00%
Exxon Mobil January 2009 Calls	XOM AQ	4/1/08	\$9.80	9/30/08	\$2.55	-73.98%
Goldman Sachs January 2009 Calls	GPYAP	5/6/08	\$33.60	9/30/08	\$2.36	-92.98%
CSX Corp January 2009 Calls	CSXAL	6/3/08	\$11.70	9/30/08	\$4.10	-64.96%
S&P 500 SPDR Depository Receipts December Puts	SWG XQ	9/30/08	\$1.60	10/6/08	\$4.30	168.75%
Financial Select Sector SPDR Depository Receipts December Puts	XLFXR	9/30/08	\$1.70	10/6/08	\$2.33	37.06%
S&P 500 SPDR Depository Receipts December 105 Calls	SWG LA	10/14/08	\$6.35	11/13/08	\$0.38	-94.02%
Financial Select Sector SPDR Depository Receipts December 17 Calls	XJZ LQ	10/14/08	\$2.06	11/13/08	\$0.13	-93.69%
S&P 500 SPDR Depository Receipts January 81 Puts	SZC MC	11/13/08	\$6.35	12/22/08	\$1.57	-75.28%
Retail HOLDERS January 65 Puts	RTH MM	11/13/08	\$5.80	12/22/08	\$0.70	-87.93%

Note: Returns are based on recommended entry and exit prices as mentioned in the EMO e-mail alerts. Brokers' fees are not taken into consideration when calculating returns. If you are not receiving the EMO e-mail alerts, please send us an e-mail at customerservice@agorafinancial.com. All numbers are believed to be correct.