



Preservation In a Downturn: Common Sense & New Ideas

10/12/11 : AAll OLLI Forum Webcast

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DISCLAIMER

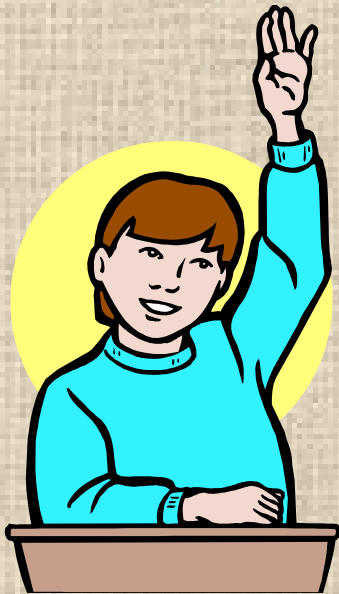
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Sell HERE !



**Thank you
for tuning in
this
morning!**

Questions ?



To Me, PRESERVATION MEANS...

NOT

- **Buy & Hold/Hope**
- **Indexing**
- **Diversifying**

BUT INSTEAD

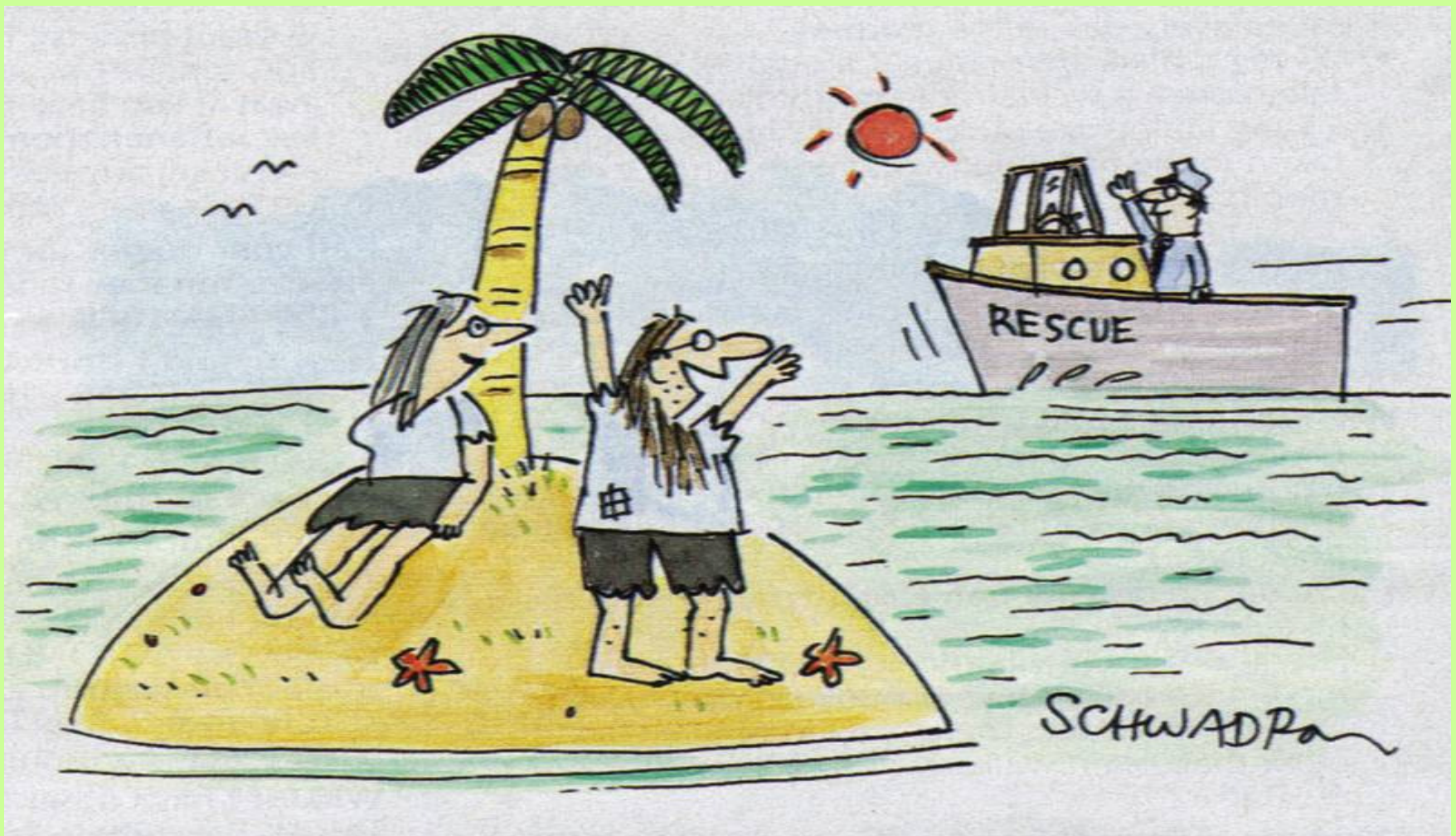
- Buy to Sell**
- Choosing**
- Differentiating**

THIS MEANS...

- You **ABSOLUTELY MUST** learn to sell !
- Bury your over-indoctrinated B&H mentality
- No excuses
- No tax rationalizations
- **STOCK IS NOT SAME AS ITS COMPANY**



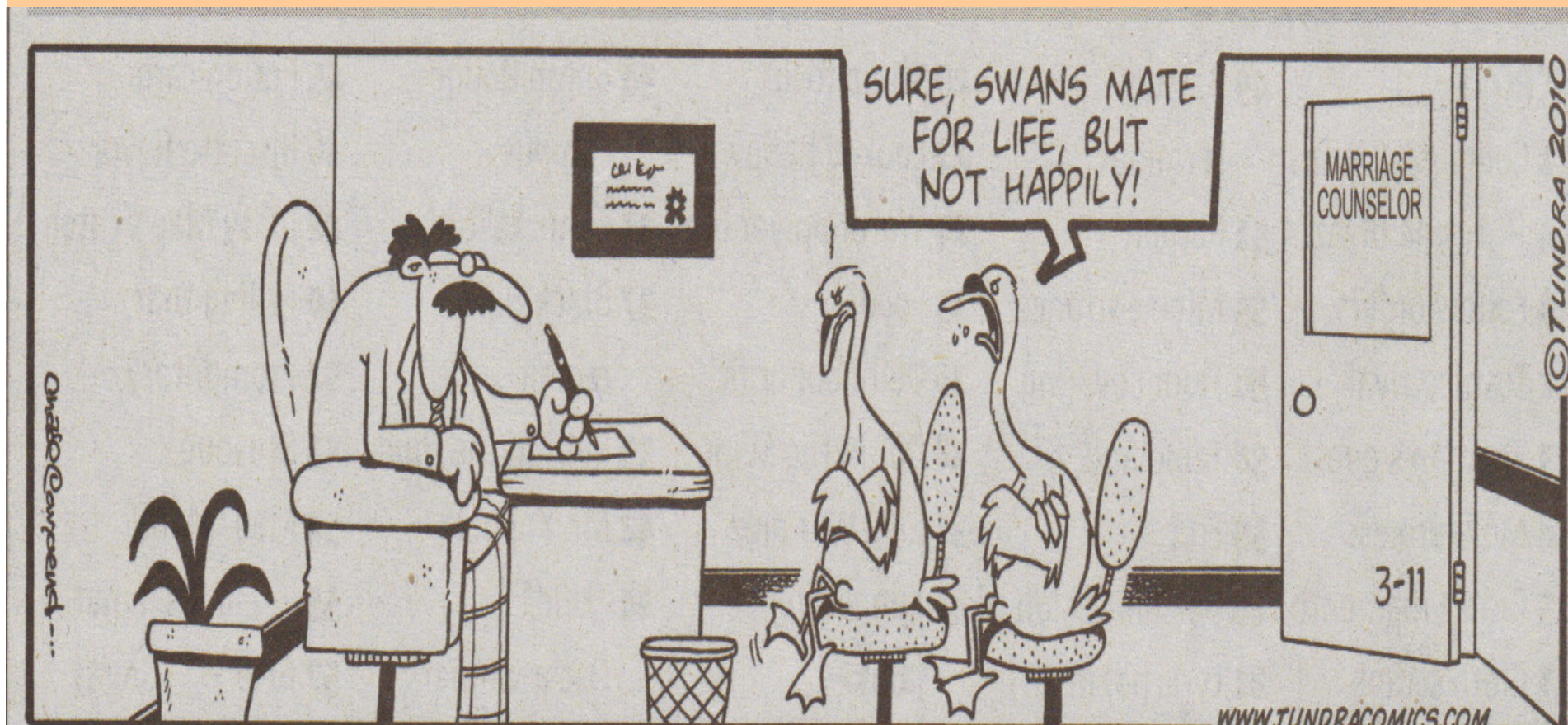
“Hey, great! I can’t wait to see how my Enron, AIG, & GM stocks are doing.”



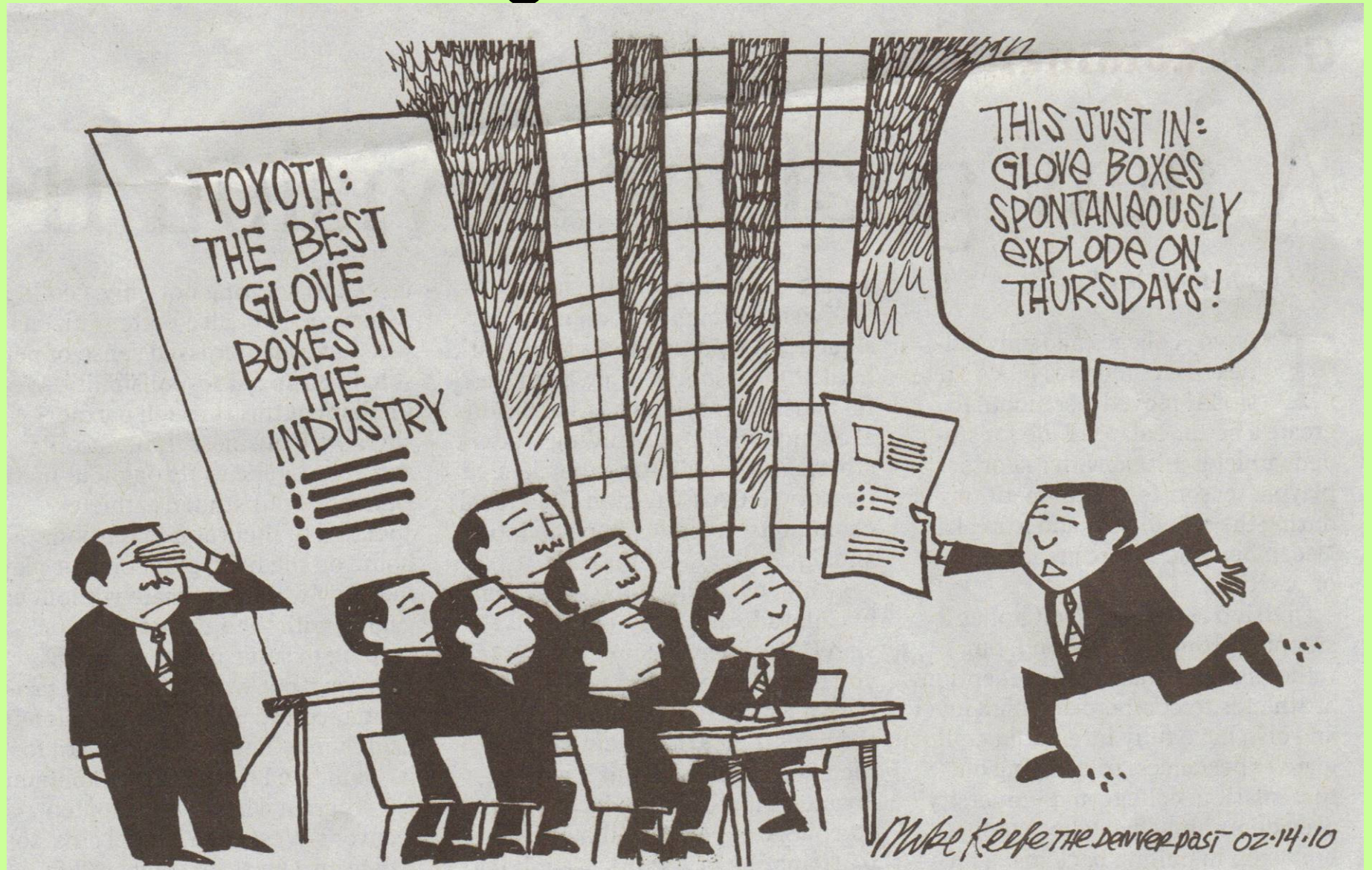
IMAGINE YOU *KNEW* a 50% DECLINE WAS COMING !

- **That's no exaggeration!**
- **It HAPPENED, in 2000-02 & 2007-09**
- **REAL POSSIBILITY: DOUBLE-DIP !**
- **IF YOU KNEW, WHAT WOULD YOU DO?**

BUYING AN INVESTMENT IS NOT A MARRIAGE VOW!



“Things CHANGE !”



THINGS CHANGE !



- So our portfolios must **NOT** stay constant as collections from the past!
- (Especially important to recognize this *when we've experienced past comfort* from pleasant results. They are **NOT** guaranteed into the future !)

THINGS *DO* CHANGE !

- **AT&T**: no dividend cut in Great Depression
- **Marriott REIT** omitted common div after 911
- **GM** went Chapter 11
- **Bear Stearns, Merrill Lynch, ETC...**
- **USA** *led* world in auto consumption, mfg.
- **S&P** cut **U.S. Govt's "AAA" rating** Aug,2011

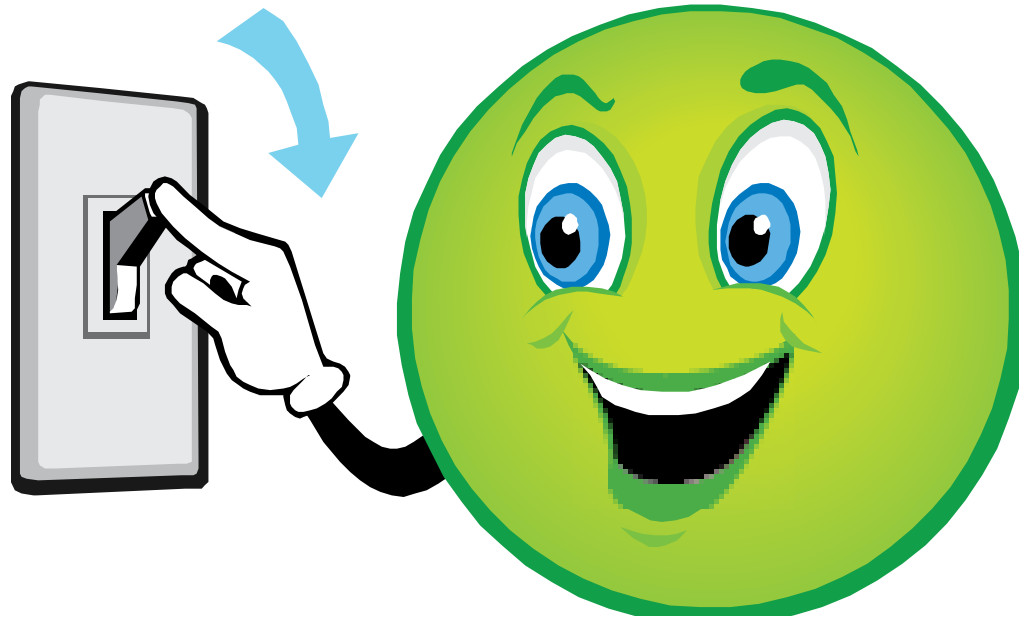
- **Muni bonds**: “safe as ever”?
- **Euro**: survival in question?

Exiting from a...

- **Bad Marriage**
- **Bad Job**
- **Bad Car**
- **Bad Neighborhood**
- **Bad Stock Position**



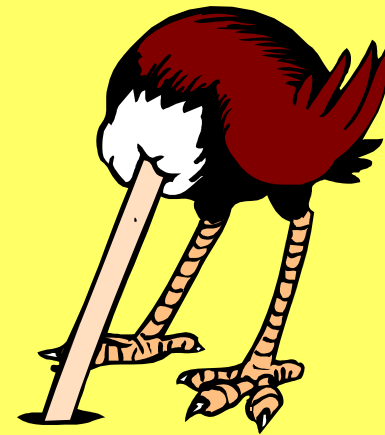
SELLING A STOCK (!)



Don't MAKE this hard on yourself !

Don't Buy & Hope!

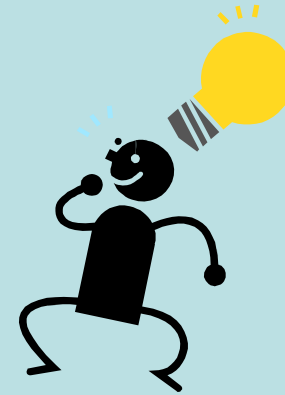
**HOPING IS NOT A
USEFUL STRATEGY**



NEW PERSPECTIVE...

- HOLDING IS BUYING

- No call with broker
- No commission involved
- But DOES continue present portfolio for future



- **ASK YOURSELF...**

WOULD YOU BUY IT TODAY??

WHAT I BELIEVE...

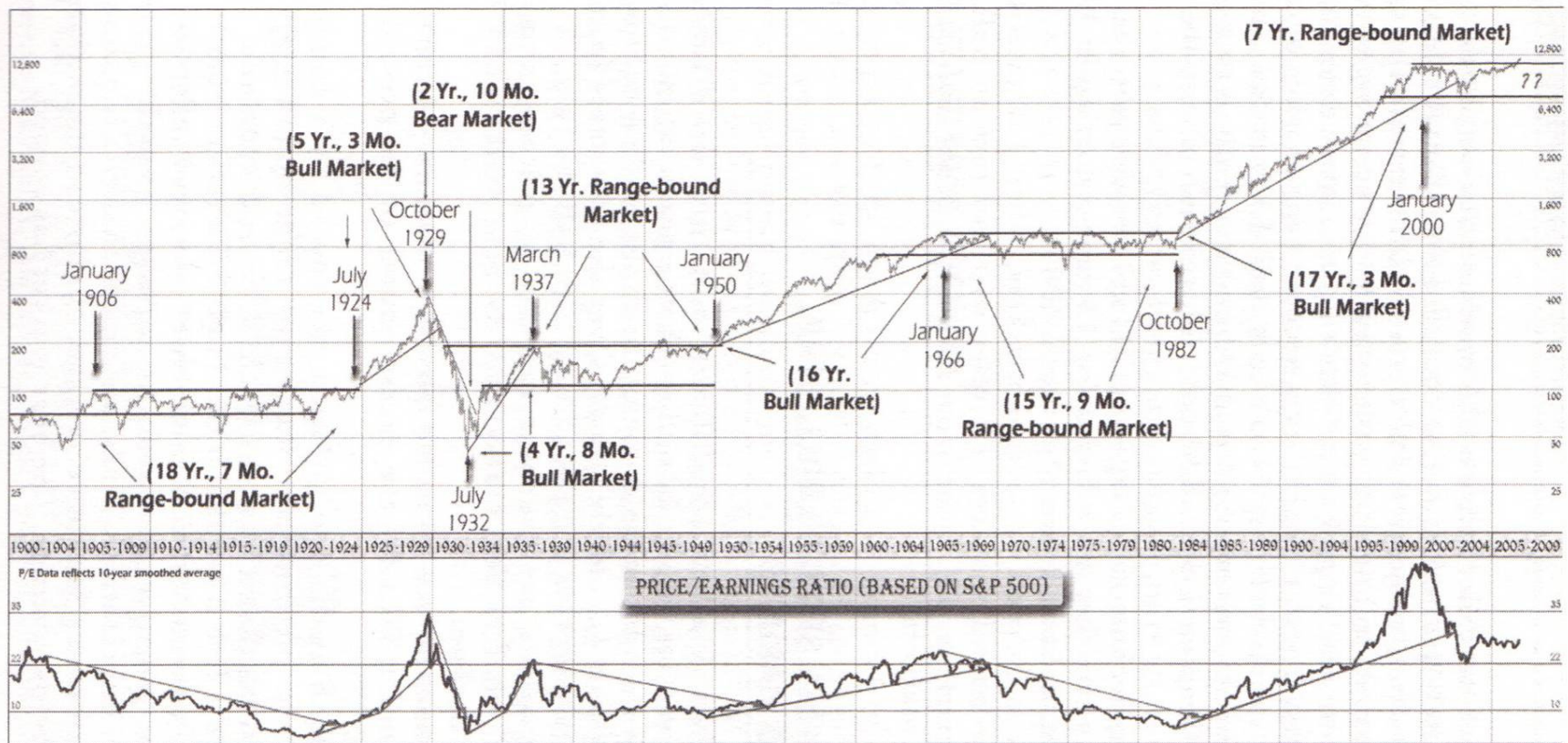


EXHIBIT 1.1 Dow Jones Industrial Average, 1900–2006

Copyright 2007, Kevin A. Tuttle, Tuttle Asset Management, LLC (www.tuttleassetmanagement.com). P/E data from Dr. Robert J. Shiller.

THINGS THAT WILL *NOT* PROTECT YOUR CAPITAL

- **Indexing (that just cuts costs slightly)**
- **Holding huge-cap stocks**
- **Holding stocks with 2-4% yields**
- **Hold “defensives” like drug stocks**

A USEFUL EXERCISE... JUST SUPPOSE

- You **MUST** sell 50% of your stocks
in 2 weeks to pay a major obligation
- **WHAT WOULD YOU SELL?**
- **DO IT. (bulletin: you CAN !)**

NO ONE WILL RING THE BELL !

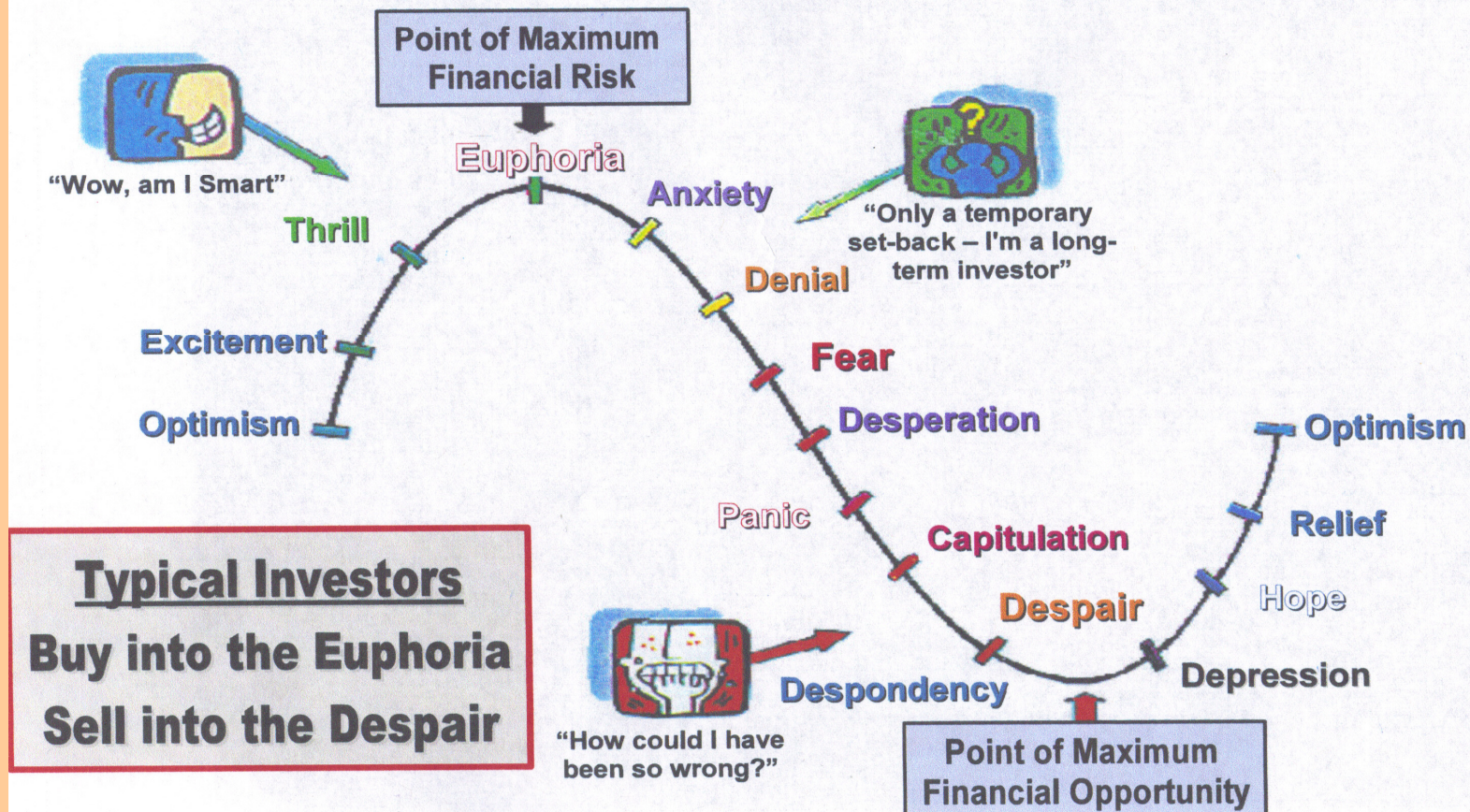


PLEASE DON'T WAIT FOR THE SILLY OFFICIAL
20% BEAR-MARKET DECLARATION !

“Due to budget cutbacks, the light at the
end of the tunnel may be turned off.”

DON'T BE IN THE LATE CROWD !

The Cycle of Market Emotions



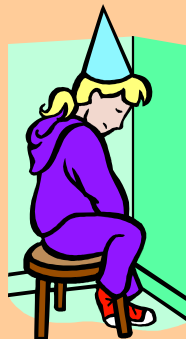
“WHAT IF I’M WRONG ??”

- There IS no market certainty. NEVER !
- You will NEVER be 100% correct.
- Being wrong is reversible (you buy back!).
- FEELING sure comes only LATE in a price move. VERY BAD TIMING!

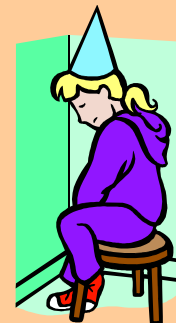


SOME HELP WITH YOUR SELLING PRIORITIES

- **IF the economy is going to be weak...**
- **and/or IF international is a bigger problem than already seen...**
- **What sectors, industries, companies will be most negatively affected?**



SELL THEM !



REALITY IN WASHINGTON (!)

- Budgets **WILL** become anti-stimulative
- 1% a year drag on GDP (or more??)
- OR, expect higher taxes and higher inflation.
- **BOTH SCENARIOS ARE
UGLY FOR STOCKS**



FOMC on SEPT. 21...

- **LISTEN to the words !!**

- **Read between the lines.**

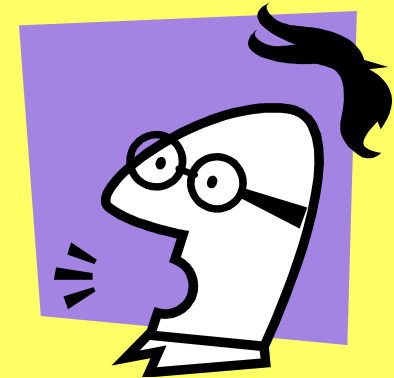


- **It will not get more plain than this !**

ACTIONS TO PROTECT YOUR CAPITAL

- **1. Do some selling**
- **2. Do some hedging (short broad ETFs)**
- **3. Buy protective puts**
- **4. Sell calls**
- **5. Selectively sell naked calls**
- **6. Sell short (O – M – G !)**
- **7. Buy inverse ETFs**
- **8. Don't Rationalize.**

AND NOW...



- **If you thought THAT was strong stuff**
- **“FASTEN YOUR SEATBELTS, FOLKS”**
- **THIS IS WHAT I HAVE DONE...**

Radical-SOUNDING but reasonable and doable

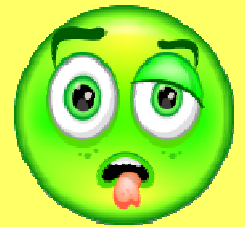


- 1. Own NO stocks/ETFs
 - Well, COULD own some MLPs & utilities
- 2. Write naked calls
- 3. Will generate decent return on capital
- 4. One slight risk: company is a takeover
 - ETFs avoid that one.
- 5. Between-the-ears risk: being stubborn if market rises

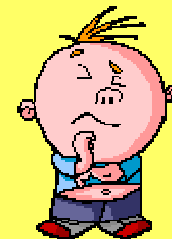


Be CONCEPTUAL

- What industries/companies would you definitely *not* want to own in a troubled stock market/economy?

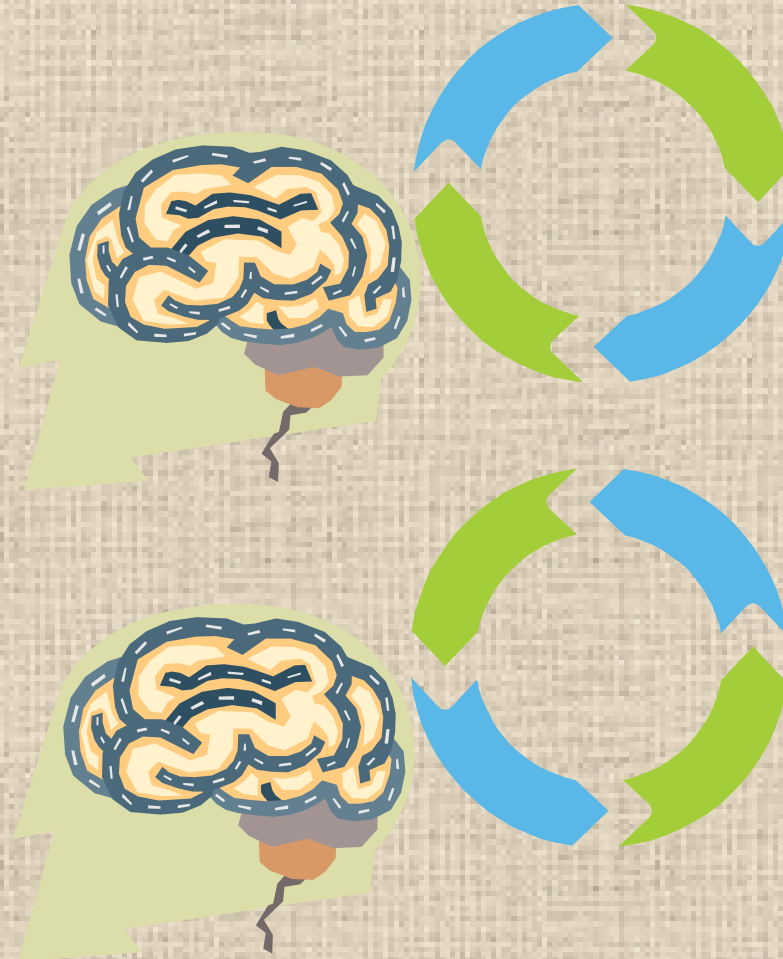


- **THAT's your sandbox!**
- **Write out-of-the-money calls**
- **Repeat**

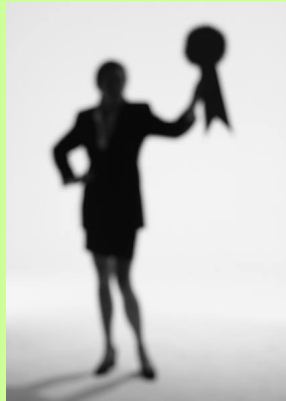




Admittedly, a **MENTAL REVERSAL**



This is BETTER than Shorting!



- **Lower risk of loss**
- **Clear income stream**
- **Still decent return**

- **DOES require Level-3 options approval**

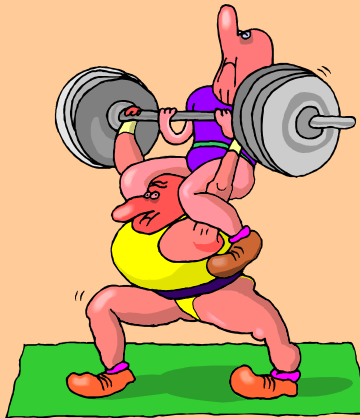
- **Can write equity-secured puts on inverse ETFs
if brokerage will approve only Level 2**

MAGICAL Margin Use !

- Plan doesn't USE margin;
thus pay no interest charges



- Can even be fully invested in cash account
AND use margin POWER for this strategy



CALCULATING BUYING POWER USED ON NAKED CALLS

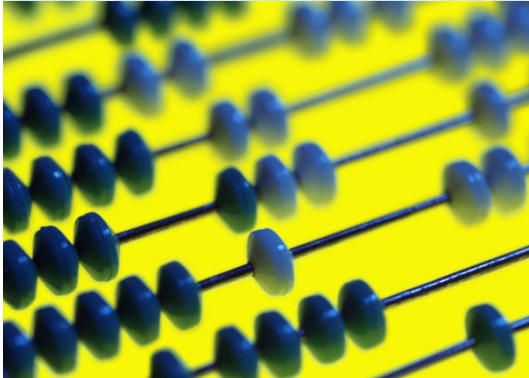
- **20% of market price,
less 100% of O-O-M amount,
plus premium rec'd**

WITH MINIMUM OF

- **10% of market price,
plus premium rec'd**

MARKED TO MARKET DAILY !





EXAMPLE

- Stock @40, write 50s calls, get \$1... requires
20% O-O-M \$ prem
- Main formula: 8, less 10, plus 1
– wow, = minus one
- (!) But MINIMUM formula says...
10% prem
– 4 plus 1 = 5

– If option expires worthless, you earned \$1* on \$5 committed -- in about 2 months. Great annualized return.
» * less commission paid





CHOOSING GOOD WEAPONS

- In bear market (don't wait for silly 20% signal!)
- Stocks clearly in downtrends
 - and businesses you wouldn't want to own
- Try to write after little rallies
- 2nd month out, for decent premium
- Hint: individual stocks generally offer larger premiums than do ETFs (latter are less volatile)



GREAT INFO SOURCES

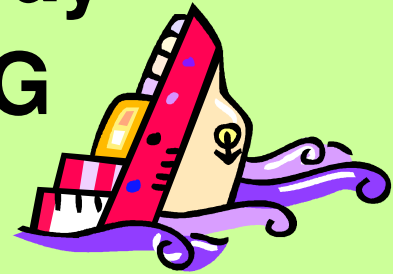
- Tradeable ETFs: www.ALLetf.com
 - Most have related options!
- Options expiring WEEKLY (!):
www.cboe.com/micro/weeklys/availableweeklys.aspx





SPECIAL TACTIC: writing after Q-EPS disasters

- **Must be a stock you don't like anyway**
- **Do it IMMEDIATELY THAT MORNING**
- **Short calls 2 calendar months out**
- **Choose a strike at/near pre-gap level**
- **IGNORE the premium you "missed" yesterday! Take what's left NOW.**
- **High probability these go to zero @ expire.**
- **You're already X points ahead of breakeven (better than a short!)**



Check these recent charts re Q-EPS disasters

- **HPQ 3x since Feb**
- **RIMM 3x since Mar**
- **FSLR 4x since last Nov**
- **LXK last Oct and April**
- **DIN in Aug**

FOUR DRIVERS OF CHOICES

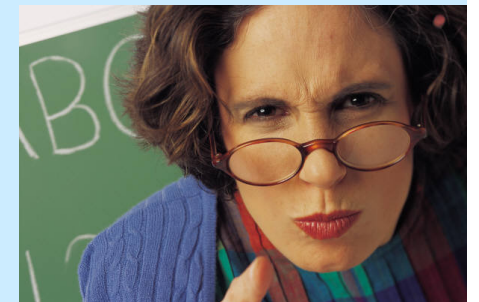
- Quarterly EPS surprises
 - **CURRENTLY, negatives only: write calls**
 - **In bull market, upside gaps: write puts**
- General conceptual considerations
 - **Industries and stocks hurt by bad economy, without any news trigger**
- Non-EPS Negative Company News
- Chart breakdowns
 - for you technical analysts !

Non-QEPS Triggers

- **Non-QEPS news**
 - AMSC
 - NFLX
- **Conceptual/Economic**
 - X
 - CLF
 - FSLR, other solar issues
 - KOL, individual coal stocks
 - BHP

e.g., SOME INTERESTING CANDIDATES TO CONSIDER

- FXE ?FXF ?UDN
- ? FXA ?BHP
- TBT, FAA, ITB
- Individual health stocks
- SHLD, other non-essentials retailers
- X, JJC ???USO
- DIN, PFCB etc



- **NOT recommendations: do your own work!**

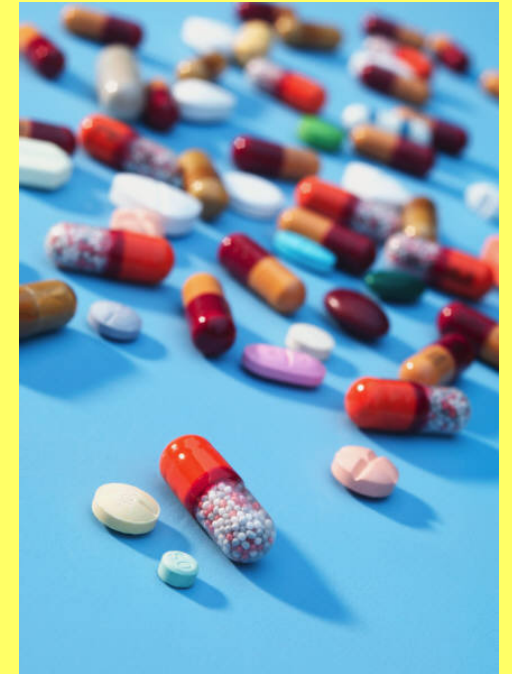


STILL Options-Shy??

- **It's Denver's Oct.-24 Chapter-Mtg Topic**
 - AVAILABLE BY WEBCAST !**
 - **Selling Options for Income**
 - **Saul Seinberg**
 - **8:30 pm EASTERN TIME start**
 - **\$12: must mail by Oct 17**
- **MAIL CHECK TO “AAII” to**
 - **AAII Webcast Registrar**
 - **P O Box 151117 Lakewood CO 80215-1117**

VALIUM, ANYONE ?

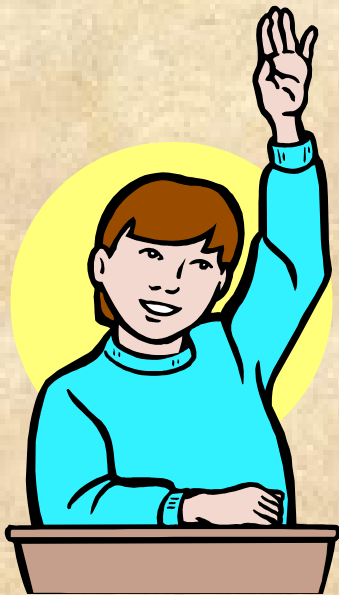
MAALOX, AT LEAST ?



**Sorry, I call 'em
as I see 'em!**



Questions ?



**“What did
you take
away
from the
meeting?”**

**Source: Readers Digest,
October 2011**



**“What did you take away from
the meeting?”**

**MY 3
HOPED-FOR
BIG
TAKE-AWAYS**

PROTECTING CAPITAL MEANS...

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- No tax rationalizations
- **STOCK IS NOT SAME AS ITS COMPANY**



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