

3 KEYS

TO

EPIC GLOBAL

PROFITS



CHUCK HUGHES

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HYPOTHETICAL PERFORMANCE RESULTS HAVE MANY INHERENT LIMITATIONS, SOME OF WHICH ARE DESCRIBED BELOW. NO REPRESENTATION IS BEING MADE THAT ANY ACCOUNT WILL OR IS LIKELY TO ACHIEVE PROFITS OR LOSSES SIMILAR TO THOSE SHOWN. IN FACT, THERE ARE FREQUENTLY SHARP DIFFERENCES BETWEEN HYPOTHETICAL PERFORMANCE RESULTS AND THE ACTUAL RESULTS SUBSEQUENTLY ACHIEVED BY ANY PARTICULAR TRADING PROGRAM.

ONE OF THE LIMITATIONS OF HYPOTHETICAL PERFORMANCE RESULTS IS THAT THEY ARE GENERALLY PREPARED WITH THE BENEFIT OF HINDSIGHT. IN ADDITION, HYPOTHETICAL TRADING DOES NOT INVOLVE FINANCIAL RISK, AND NO HYPOTHETICAL TRADING RECORD CAN COMPLETELY ACCOUNT FOR THE IMPACT OF FINANCIAL RISK IN ACTUAL TRADING. FOR EXAMPLE, THE ABILITY TO WITHSTAND LOSSES OR TO ADHERE TO A PARTICULAR TRADING PROGRAM IN SPITE OF TRADING LOSSES ARE MATERIAL POINTS WHICH CAN ALSO ADVERSELY AFFECT ACTUAL TRADING RESULTS. THERE ARE NUMEROUS OTHER FACTORS RELATED TO THE MARKETS IN GENERAL OR TO THE IMPLEMENTATION OF ANY SPECIFIC TRADING PROGRAM WHICH CANNOT BE FULLY ACCOUNTED FOR IN THE PREPARATION OF HYPOTHETICAL PERFORMANCE RESULTS AND ALL OF WHICH CAN ADVERSELY AFFECT ACTUAL TRADING RESULTS

Table of Contents

Introduction

<i>Chapter 1</i>	Global Opportunities	11
<i>Chapter 2</i>	Trade Management Guidelines	25
<i>Chapter 3</i>	GPS: A Road Map to Success	28
<i>Chapter 4</i>	A Practical Guide to Options Trading . .	56
<i>Chapter 5</i>	GPS Trading Strategies	64
<i>Chapter 6</i>	Profiting in Any Type of Market	101
Addendum	Protection & Income for Epic Profits ..	110

Introduction

There are times in your life that you will never forget. Dates that you know exactly where you were and what you were doing. In our family we have this thing about remembering where you were on significant events in history. My Grandfather would always say that he was out looking for his kids the day Pearl Harbor was attacked. My Dad was collecting glass bottles for money on the beach the day that the stock market crashed in 1929. My Mom was home watching TV the day President Kennedy was assassinated. I was at the office during the terrorist attack on September 11th. I remember sitting there watching the TV with utter disbelief and terror.

Unfortunately, I now have another unpleasant day to remember. I am thankful that no one has injured or killed. But the loss of people's dreams and financial security has become palpable. That day would be September 15, 2008. This day will go down in history as the beginning of the worst financial crisis in the United States since the Great Depression. Due to the Lehman Brothers and Fannie Mae bankruptcy, the Merrill Lynch buyout and the AIG insurance company insolvency, today could be considered one of the worst global financial storms in history. Some call it a Financial Armageddon. Over thirty trillion dollars of highly leveraged mortgage securities that went bad have caused a financial meltdown that has frozen global credit.

The day of September 15, 2008 started out no different than most. I was cruising into my desk that morning nursing my second cup of coffee, entertaining thoughts of when the market volatility is going to give us a decisive trend. Well, be careful what you wish for . . . the market was about to show us and the rest of the world a very decisive trend. The market began a precipitous sell off. Of course, Chuck was already on top of it . . . in the early AM hours he knew the Asian markets were selling off. He had a feeling already that things were going south and the ride was going to be a rough one.

Fortunately, the **Global PowerTrend System** (GPS) had already positioned us on the right side of the trend in the global currency, commodity and equity markets. In Chuck's August blog he recommended that readers take short positions in the global markets just as he had done over the summer. The **Global PowerTrend System** issued "go short" signals for most foreign currencies, commodities and equity markets in the June – July time frame.

By the end of the day the Dow Jones Industrial Average had lost over 500 points in ONE day. But Chuck's GPS ETF trading accounts **had a positive return for the day**. The copy of his brokerage account Profit/Loss Report that follows shows \$14,987.22 in closed trade profits on September 15th and his open trades had a 14.5% return for the day. His other three global ETF trading accounts had similar returns.

Chuck locked in solid profits today and also created spread trades that help preserve existing profits. We will learn about trade management and creating spread trades to help protect profits and increase returns in Chapters 2 and 6. Protecting profits is a very important requirement for profitable trading during volatile markets.

14.5% Return in One Day While Dow Dropped 504 Points

Account Reports: Profit/Loss Report PRRIT

Give your accountant a break. View profits/losses for all trades executed on one specific date or during a range of dates. Track by position, whether it's closed, or still opened. Download to a spreadsheet for easy manipulation, processing and tax reporting.

Trade date:

Trade date:

Symbol: Show detailed unrealized positions

* To see all transactions within specified date range leave symbol blank

[Click here to download data](#)

Sept 15th Closed Trades

Realized P&L on Closed Positions

Symbol	Date Bought	Date Sold	Shares	Cost Basis	Sales Price	Gain-Loss
+EWYMH	8/27 3:35:11 PM	9/15 10:52:32 AM	4	\$6,302.00	\$7,093.95	\$791.95
+EWYMH	8/27 3:35:11 PM	9/15 10:52:41 AM	1	\$1,575.50	\$1,778.49	\$202.99
+FUNOD	9/8 2:57:00 PM	9/15 10:51:53 AM	5	\$10,727.50	\$10,032.43	-\$695.07
+FUNOD	9/11 11:38:18 AM	9/15 10:51:53 AM	5	\$11,227.50	\$10,032.43	-\$1,195.07
+JXKOH	9/3 3:27:07 PM	9/15 10:34:02 AM	5	\$9,827.50	\$11,622.42	\$1,794.92
+RSXWX	8/26 3:51:00 PM	9/15 9:58:34 AM	5	\$6,527.50	\$9,572.43	\$3,044.93
EEV	8/26 2:39:36 PM	9/15 9:46:40 AM	100	\$9,681.50	\$11,910.13	\$2,228.63
EEV	8/26 2:39:36 PM	9/15 9:46:40 AM	100	\$9,701.50	\$11,910.13	\$2,208.63
EEV	8/26 2:39:36 PM	9/15 9:46:40 AM	100	\$9,681.50	\$11,920.13	\$2,238.63
EFU	8/26 2:32:13 PM	9/15 9:44:26 AM	236	\$25,458.42	\$28,890.29	\$3,431.87
EFU	8/26 2:32:13 PM	9/15 9:44:26 AM	64	\$6,903.98	\$7,838.80	\$934.82
Total Realized Gain-Loss:						\$14,987.22

Open Trade Profit

Unrealized P&L on Open Positions

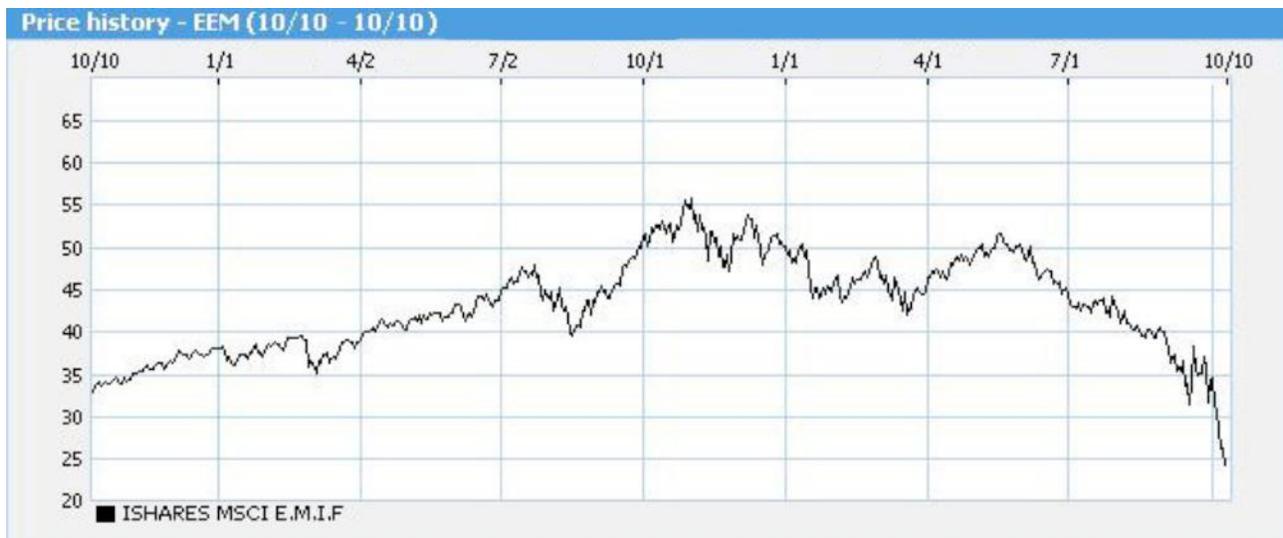
Symbol	Description	Position	Avg Price	Cost Basis	Market Value	Type	Unrealized Val.
+EEVLD	Proshares Tr Ultr Shrt Msd Dec 120.00 Call	-3	-\$19.9182	\$5,975.45	-\$10,080.00	Stock Option	-\$4,104.55
+EWYMH	Ishares Inc Msd S Korea Jan 60.00 Put	5	\$17.5550	\$8,777.50	\$9,800.00	Stock Option	\$1,022.50
+JXKOH	Claymore Exchange Traded Fd Tr Bny Bri&c Ptf Mar 60.00 Put	5	\$21.4550	\$10,727.50	\$12,650.00	Stock Option	\$1,922.50
+RSXWX	Market Vectors Etf Tr Russia Etf Nov 50.00 Put	5	\$16.0550	\$8,027.50	\$11,500.00	Stock Option	\$3,472.50
EEV	Proshares Tr Ultr Shrt Msd	300	\$107.0817	\$32,124.50	\$42,240.00	Equities	\$10,115.50
EFU	Proshares Tr Ultr Shrt Msd	300	\$114.0817	\$34,224.50	\$40,059.00	Equities	\$5,834.50
Total Unrealized Gain-Loss:							\$18,262.95

Advantages of Short Positions

Chuck had a short position in the MSCI Emerging Market ETF which was part of his global ETF portfolio just presented. The daily price chart below reveals that the Emerging Market ETF declined a painful 56.6% from its high in October. Investors who bought the ETF at its high in October would need a 130% rally in price just to break even! (chart courtesy of MSN.com)

Despite the 50% rally the Emerging Market ETF experienced over the preceding 12 month period, it was still down 28.6% from its price over the previous two years leaving "buy and hold" investors with painful losses.

Emerging Market ETF – 56.6% Loss Over 12 Month Period
28.6% Loss Over Two Year Period

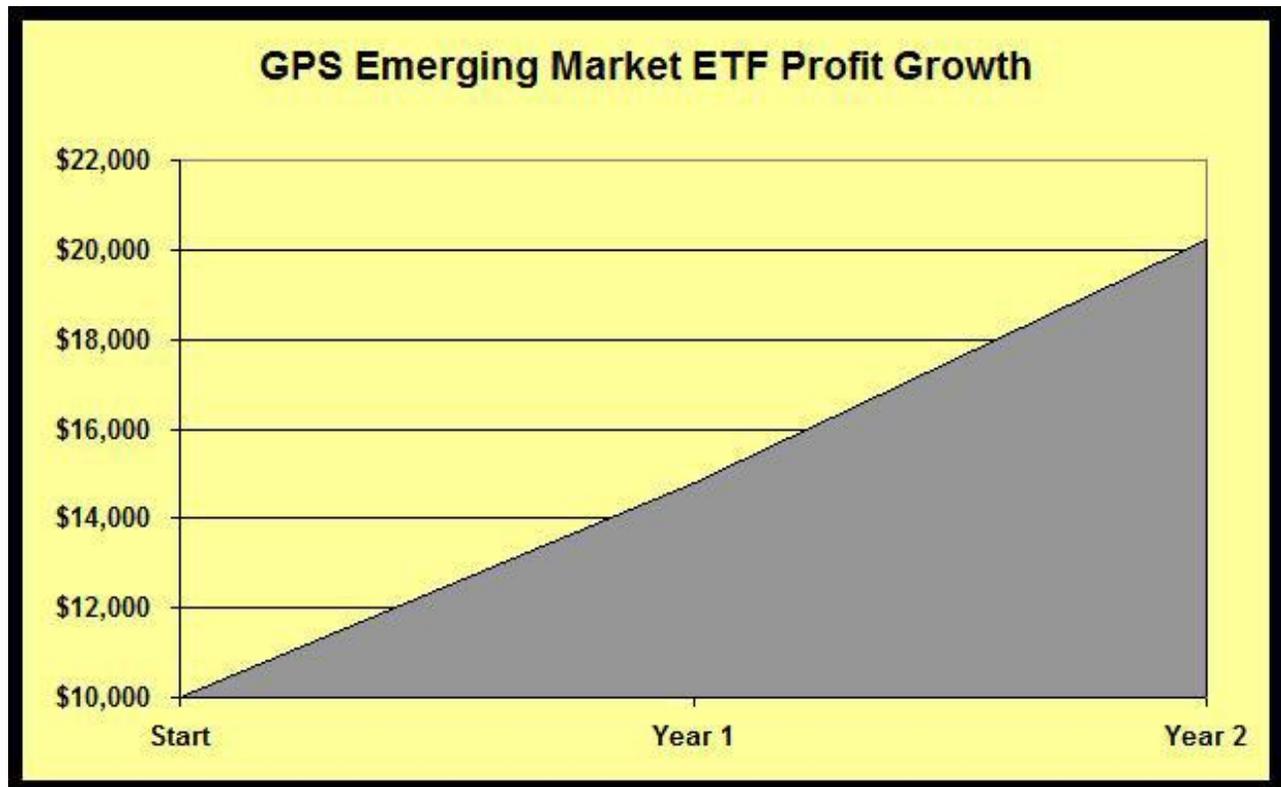


28.6% Loss versus a 101% Profit

One of the big advantages of trading with the *GPS* is that the system takes short positions which profit when the underlying index or ETF declines in price. Chuck used the *GPS* "sell" signal for the Emerging Market ETF to establish his short position.

The profit graph that follows displays the historical profit growth from trading the Emerging Market ETF over the same two year period using the *GPS Major Trend System* which takes both long and short positions. Over the same two year period, a \$10,000 investment grew to \$20,198 using the system resulting in a \$10,198 profit and a 101% return. This profit disparity demonstrates the advantages of a system that trades from both the long and short side.

GPS Major Trend System Produces 101% Return Over Same 2 Year Period



Wealth Destruction Turned into Wealth Creation

The events of the past several years have brought a level of distress and anxiety to the investor which is almost unimaginable. Worse yet, it is unexplainable even to those who carry the label of "expert". Wall Street is now littered with investors who have been crushed by the historic implosion in asset values. As an American who believes we have the best economic and market system ever created, this is very painful to witness. During this period, the bears were in full force and there was very little if anything that the unprepared investor could salvage.

Then just when we thought our economy could not take another wave over the hull or another tsunami blow to its bow. . . Just when the 'nay sayers' voices were the only sound that could be heard over the howling winds, the sun came out. The heavens cleared and the ocean became calm. The bears ran and the bulls were back in charge. Smooth sailing could commence once again.

But first the damage needed to be assessed and repairs had to be made. Chuck's plan for a catastrophic market, the likes as we have never seen worked like a charm. What damage? Our members and I saw only profits. Now we are able to sail on without having to make up for losses. We are able to fully take advantage of the amazing bull market trends. It's good to be us!

Life can and will change very quickly. One thing I have learned about this wonderful nation we live in is that we are not immune to bad things. Bad things can happen to good people. Financial volatility can rock good, strong investors.

That is why a plan is so imperative. What is needed is a plan that can push emotions and fear aside. That plan will allow you to make clear and concise decisions. Let the *GPS* be your road map to success and guide you through these volatile and stressful times. The fact that the *GPS* has been producing extraordinary profits over this difficult period demonstrates the benefits of a trading with a system rather than emotion. In a cold and calculating way *GPS* has turned "Wealth Destruction" into "Wealth Creation".

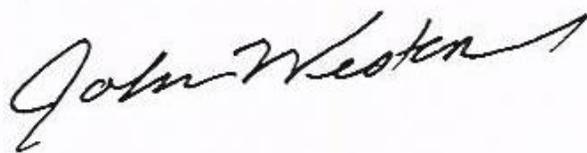
What comforts me about our nation is that when a tragedy hits we are initially shocked and fearful. But we soon get over that fear and we work to solve the problem together. We change and we adapt. And somehow through all of this we become stronger. Yes, stronger and more unified.

"We have nothing to fear but fear itself."

- Franklin D. Roosevelt

It amazes me that through the struggle, fear and change that we still grasp and hold on tightly to our dreams. That dream is the American dream. The dream that our grandparents left their homes for, a dream that we now strive to give to our children. We may alter our course but our goal will forever be the same. The dream of a good life and financial security will never die . . . the American dream. Let us help you and your family carry on with the dream of a better future. Together we can fight the bears, ride the bulls and most of all help protect each other from the fear of the unknown. Let's get going with the plan for any type of market and start making some profits. Let's start working together now on your plan . . . for your dreams are right ahead of you . . .

Best Regards and Good Trading,

A handwritten signature in black ink that reads "John Weston". The signature is written in a cursive, flowing style with a long, sweeping tail on the final letter.

John Weston

Bull or Bear Market GPS Continues to Perform Well with \$528,499.68 in Open Trade Profits

As you will discover in the next few Chapters, the *GPS Major Trend System* produced enormous profits during the last bear market. During the subsequent bull market the *GPS Major Trend System* has continued to perform well demonstrating the ability of the system to deliver profits during any type of market.

Copies of my brokerage account Profit/Loss Reports that follow show \$528,499.68 in open trade profits that were generated by the *GPS Major Trend System* despite the current market volatility and uncertain economy.

Most of the trades are ETF trades in strong market sectors such as energy, financials, technology, S&P 500 Index, basic materials and small cap stocks. There are currently no losing trades.

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Portfolios Performance & Value Positions Gains & Losses Risk Analyzer Portfolio Analyzer Income Estimator

Account/Watch List: Create / Edit List View: Performance Customize /

Market Value: \$920,899.62 (\$331,237.63 / 23.57%)

REFRESH STREAMING QUOTES EXPORT TO EXCEL Results per Page: 200

Symbol	Last Trade	Change		Day's Gain	Qty	Price Paid	Total Gain		Market Val	Edit
		\$	%				\$	%		
AAPL	Buy / Sell 358.00	-5.13	-1.41%	-\$2,565.00	500	\$273.62	\$42,151.65	30.80%	\$179,000.00	Edit
BIDU	Buy / Sell 129.00	0.29	0.23%	\$406.00	1,400	\$84.47	\$62,296.38	52.66%	\$180,600.00	Edit
DIG	Buy / Sell 58.14	1.19	2.09%	\$3,570.00	3,000	\$49.38	\$26,270.02	17.73%	\$174,420.00	X
FAS	Buy / Sell 34.1701	0.06	0.18%	\$360.60	6,000	\$29.55	\$27,642.77	15.58%	\$205,020.60	X
NOV	Buy / Sell 81.6342	0.93	1.16%	\$1,868.40	2,000	\$63.05	\$37,116.81	29.42%	\$163,268.40	Edit
QLD	Buy / Sell 94.926	0.02	0.02%	\$57.60	3,600	\$70.26	\$88,753.17	35.08%	\$341,733.60	Edit
SSO	Buy / Sell 54.5599	0.36	0.66%	\$1,079.70	3,000	\$50.61	\$11,821.72	7.78%	\$163,679.70	X
UWM	Buy / Sell 48.24	0.72	1.52%	\$2,736.00	3,800	\$44.19	\$15,368.05	9.15%	\$183,312.00	X
UYM	Buy / Sell 56.0301	0.71	1.28%	\$2,272.32	3,200	\$48.69	\$23,432.45	15.03%	\$179,296.32	Edit

Portfolios

Portfolios Performance & Value Positions Gains & Losses Risk Analyzer Portfolio Analyzer Income Estimator

Account/Watch List: Create / Edit List View: Performance Customize /

Market Value: \$465,492.30 (\$197,262.05 / 27.54%)

REFRESH STREAMING QUOTES EXPORT TO EXCEL Results per Page: 200

Symbol	Buy / Sell	Last Trade	Change		Day's Gain	Qty	Price Paid	Total Gain		Market Val	Edit
			\$	%				\$	%		
AAPL	Buy / Sell	358.0599	-5.07	-1.40%	-\$1,368.93	270	\$292.61	\$17,655.53	22.34%	\$96,676.17	Edit
BIDU	Buy / Sell	129.10	0.39	0.30%	\$312.00	800	\$77.52	\$41,253.36	66.51%	\$103,280.00	Edit
DIG	Buy / Sell	58.0999	1.15	2.02%	\$1,493.90	1,700	\$51.09	\$11,885.91	13.68%	\$98,769.83	X
FAS	Buy / Sell	34.17	0.06	0.18%	\$228.00	3,800	\$29.88	\$16,231.47	14.29%	\$129,846.00	X
NOV	Buy / Sell	81.65	0.95	1.18%	\$1,235.00	1,300	\$62.40	\$24,974.84	30.77%	\$106,145.00	Edit
QLD	Buy / Sell	94.97	0.06	0.06%	\$126.00	2,100	\$66.49	\$59,771.14	42.80%	\$199,437.00	Edit
UWM	Buy / Sell	48.25	0.73	1.54%	\$1,460.00	2,000	\$42.00	\$12,487.44	14.86%	\$96,500.00	Edit
UYM	Buy / Sell	56.02	0.70	1.27%	\$1,260.00	1,800	\$47.91	\$14,572.13	16.89%	\$100,836.00	Edit

Chapter 1

Global Opportunities

Global Opportunities will introduce you to new frontiers. It will take you to places our fathers were unable to travel. The *Global PowerTrend System* will introduce us to limitless possibilities. This opportunity paves the way to endless earning potential and some of the most seductive profits I have ever seen! There is no need for travel; these riches can be accessed from the comfort of your own home. I want to introduce you to the exciting profit opportunities known as exchange traded funds (ETFs).

Exchange Traded Funds or ETFs are portfolios of stocks, bonds, currencies or commodities that trade as a single stock on a stock exchange. ETFs first traded in 1993. They have gained enormous popularity over the last decade. ETFs are not mutual funds, but they offer some of the same advantages as mutual funds while trading like a stock. ETFs hold a pool of securities and are structured to track a specific index, sector, currency or commodity. There are over 740 ETFs that track numerous market indexes or sectors. Some of the well known indexes would include the S&P 500, Dow Jones Industrial Average, and the NASDAQ Composite. There are sector ETFs that track market sectors such as technology, healthcare, financial, foreign equity markets, foreign currencies and even commodities. In simplest terms, ETFs are funds that track the performance of these indexes or sectors.

The performance objective of an ETF is to track the performance of a sector or index as closely as possible. ETFs do not try to outperform their related sector or index. This type of performance objective leads to a fund management style known as "passive management". The passive management style differs considerably from actively managed mutual funds that rely on an investment advisor to actively manage a stock portfolio. The passive management structure has advantages and disadvantages compared to an actively managed portfolio. If ETFs meet their investment objective, they will not out perform or under perform their index or market sector. ETFs have fewer transactions than an actively managed mutual fund and therefore have lower fund expense ratios compared to actively managed funds.

In our experience, the biggest advantage of most ETFs is that unlike mutual funds they don't distribute capital gains to their shareholders. This makes the tax accounting for ETFs much easier than mutual funds which require you to account for distributions. In the past, we have owned mutual funds that have had a negative performance but we wound up paying taxes on the fund's capital gains from prior periods.

There has never been a better time for investors to profit from global market trends than now. There are currently major bullish and bearish price trends in effect in global currencies, commodities and equities markets.

The goal of the **Global PowerTrend System** (GPS) is to identify major price trends in a broadly diversified mix of global markets. This diversification has resulted in a consistent flow of trading profits from both long and short trades.

I have been trading ETFs almost since the inception of ETFs with my seasonal and cycle systems. I listed the numerous advantages of trading ETFs below.

Distinct Advantages of ETF Trading

- 1) Allows you to invest in the global currency, commodity and equity markets that have the greatest profit potential**
- 2) Allows you to diversify your investments across a wide range of asset classes**
- 3) Allows you to trade from the long or short side which increases profit opportunities**
- 4) Reduces the market risk of owning individual stocks**
- 5) GPS trades are limited risk trades**

Diversified Global Markets

Exchange Traded Funds now cover a wide range of asset classes including fixed income, energy, currency, commodity and equity. A sampling of some of the different types of ETF asset classes follows.

Currency ETFs

- **Australian Dollar Trust ETF (FXA)**
- **British Pound Sterling Trust ETF (FXB)**
- **Canadian Dollar Trust ETF (FXC)**
- **Euro Trust ETF (FXE)**
- **Japanese Yen Trust ETF (FXY)**
- **Mexican Peso Trust ETF (FXM)**
- **Swedish Krona Trust ETF (FXS)**
- **Swiss Franc Trust ETF (FXF)**
- **EUR/USD Exchange Rate ETN (ERO)**

Currency ETFs Continued

- **GBP/USD Exchange Rate ETN (GBB)**
- **JPY/USD Exchange Rate ETN (JYN)**
- **US Dollar Index Bearish Fund (UDN)**
- **US Dollar Index Bullish Fund (UUP)**

Commodity ETFs

Market Vectors Coal (KOL)

Grains Total Return ETN (JJG)

UltraShort Basic Materials ETF (SMN)

DB Agriculture Fund (DBA)

Market Vectors Steel (SLX)

Copper Total Return ETN (JJC)

Energy Total Return ETN (JJE)

Industrial Metals Total Return ETN (JJM)

Natural Gas Total Return ETN (GAZ)

Crude Oil Total Return ETN (OIL)

Gold Trust ETF (IAU)

Silver Trust ETF (SLV)

Base Metals Fund (DBB)

Basic Materials Sector Fund (DBN)

Precious Metals Fund (DBP)

Silver Fund (DBS)

Oil Fund (USO)

U.S. Basic Materials Sector Index Fund (IYM)

Materials Sector Fund (XLB)

Equity ETFs

Emerging Markets 50 ADR Index ETF (ADRE)

Emerging Markets Portfolio ETF (PXH)

MSCI BRIC Index Fund (BKF)

Emerging Markets Index Fund (EEM)

Market Vectors Russia ETF (RSX)

Short MSCI EAFE ETF (EFZ)

UltraShort MSCI Emerging Markets ETF (EEV)

BRIC 40 ETF (BIK)

Emerging Europe ETF (GUR)

Emerging Markets ETF (VWO)

Asia Pacific Portfolio ETF (PUA)

Chindia Index Fund (FNI)

Asia 50 Index Fund (AIA)

Pacific ETF (VPL)

China 25 Index Fund (FXI)

Hong Kong Index Fund (EWH)

UltraShort FTSE/Xinhua China 25 ETF (FXP)

EURO STOXX 50 ETF (FEZ)

Europe Portfolio ETF (PEH)

Europe Portfolio ETF (PEF)

MSCI EMU Index Fund (EZU)

European ETF (VGK)

Fixed Income ETFs

TIPS Bond Fund (TIP)

1-30 Treasury Ladder Portfolio ETF (PLW)

Emerging Markets Sovereign Debt Portfolio ETF (PCY)

High Yield Corporate Bond Portfolio ETF (PHB)

Investment Grade Corporate Bond Fund (LQD)

High Yield Bond ETF (JNK)

Emerging Markets Bond Fund (EMB)

1-3 Year Treasury Bond Fund (SHY)

Aggregate Bond Fund (AGG)

10-20 Year Treasury Bond Fund (TLH)

Government/Credit Bond Fund (GBF)

3-7 Year Treasury Bond Fund (IEI)

Intermediate Credit Bond Fund (CIU)

Preferred Portfolio ETF (PGX)

Insured CA Municipal Bond Portfolio ETF (PWZ)

Fixed-Rate Bond Fund (MBB)

Short Treasury Bond Fund (SHV)

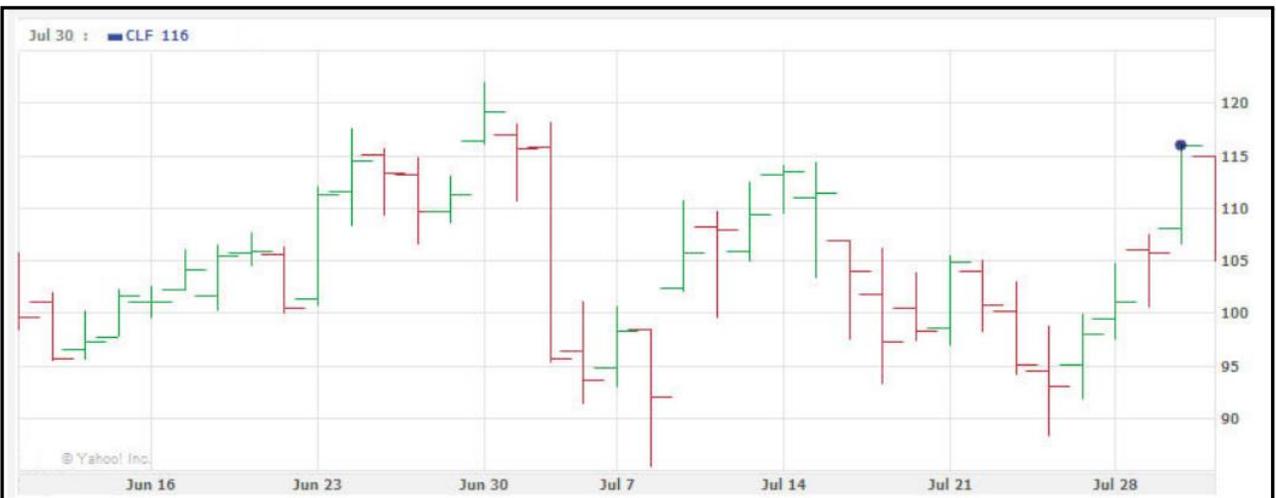
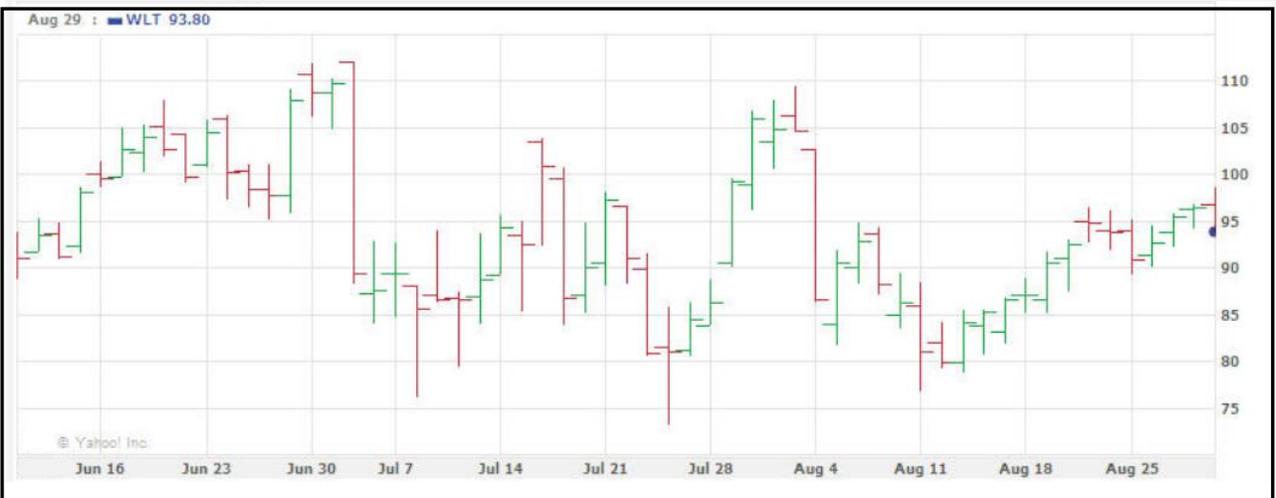
Intermediate Municipal Index ETF (ITM)

Barclays Capital TIPS ETF (IPE)

Trading Markets with the Best Profit Opportunities

One of the big advantages of ETFs is that they allow you to trade global markets with the best profit opportunities. Recently US stocks have been very volatile. The increased volatility has made profiting from the long or short side very difficult. The stock price graphs that follow for Alpha Natural Resources (ANR), Walter Industries (WLT) and Cleveland Cliffs (CLF) are examples of the volatile price moves in US stocks with no clear trend (charts courtesy of Yahoo Finance).

Volatile US Stocks



The percent gains and losses for Cleveland Cliffs stock over a recent 7 week period are listed below:

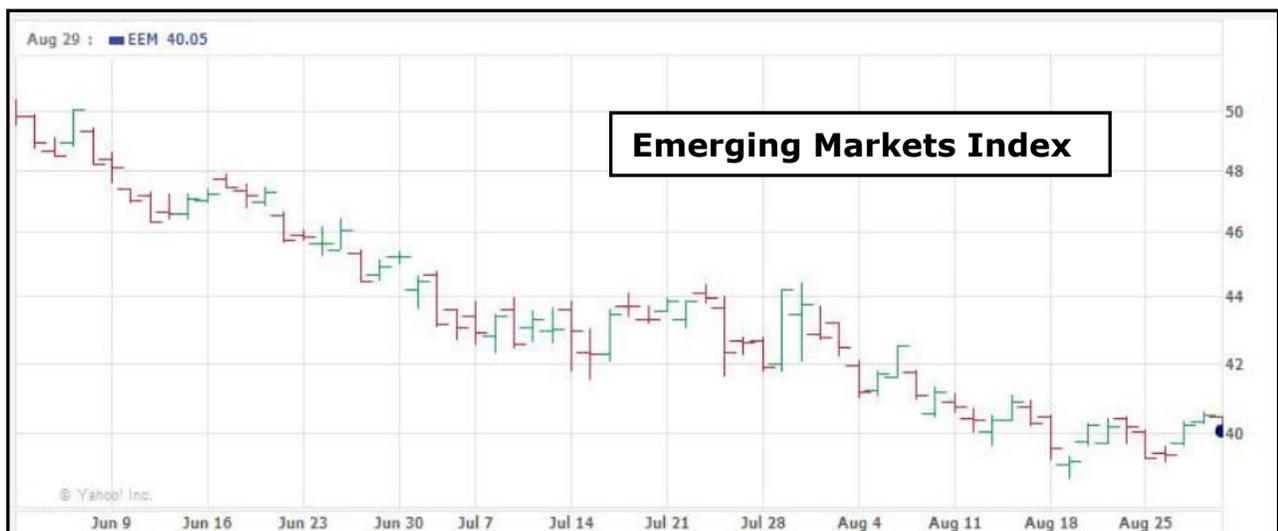
28.9% **gain** followed by a
33.8% **loss** followed by a
41.3% **gain** followed by a
24.0% **loss** followed by a
33.3% **gain**

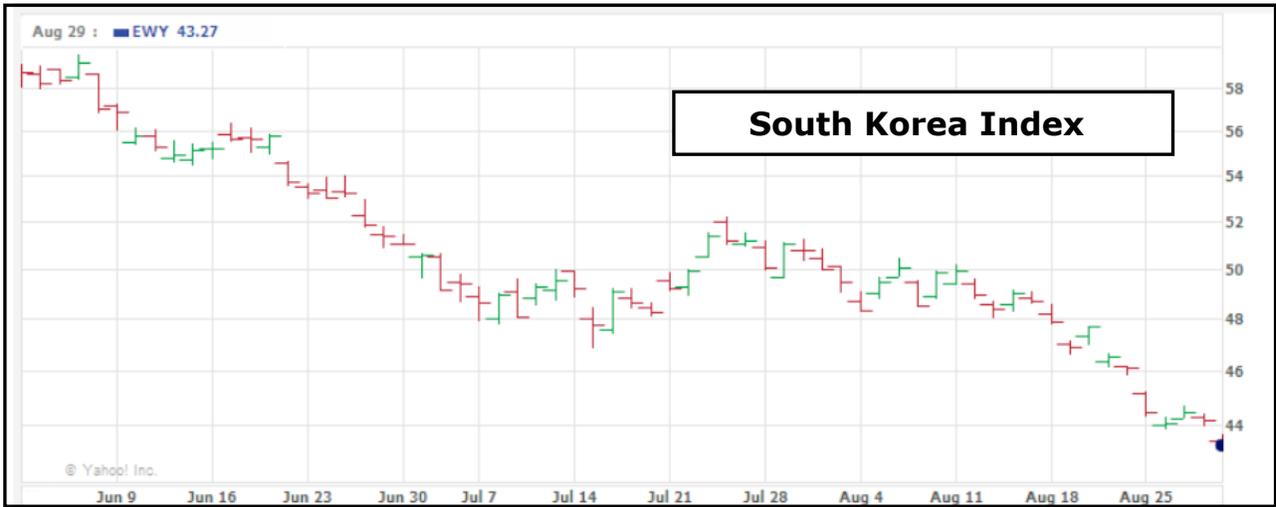
The net result of these volatile moves was that the price CLF stock was virtually unchanged over the 7 week period. If you purchased CLF stock or options you would have been “whipsawed” by the volatile moves. If you purchased a CLF put option, the value of the put would have decreased dramatically during the 28.9%, 41.3% and 33.3% gains in CLF stock. And the value of a call option would have decreased dramatically during the 33.8% and 24.0% losses in CLF stock. On any given day, the price of a US stock can increase **or** decrease 10% to 20% in one day, making profits from the long or short side very difficult.

Global Markets with Clearly Defined Trends

In contrast to the volatile price moves in US stocks, over the same time period most global markets have experienced clearly defined, consistent trends. The price graphs that follow show that these four global markets were in clearly defined down trends and presented much better profit opportunities from short positions than US stocks which were very volatile over the same time period.

These examples demonstrate that Global ETFs allow traders to select markets with the best profit opportunities. The *GPS* has allowed me to take full advantage of the profit opportunities available in these global markets by purchasing short ETFs and put options which profit from the decline in price of their underlying ETF. On balance, a short position in a global ETF currently represents a much better trading opportunity than a long or short position in the volatile, non trending US market (charts courtesy of Yahoo Finance).





Global Markets Offer More Profit Opportunities

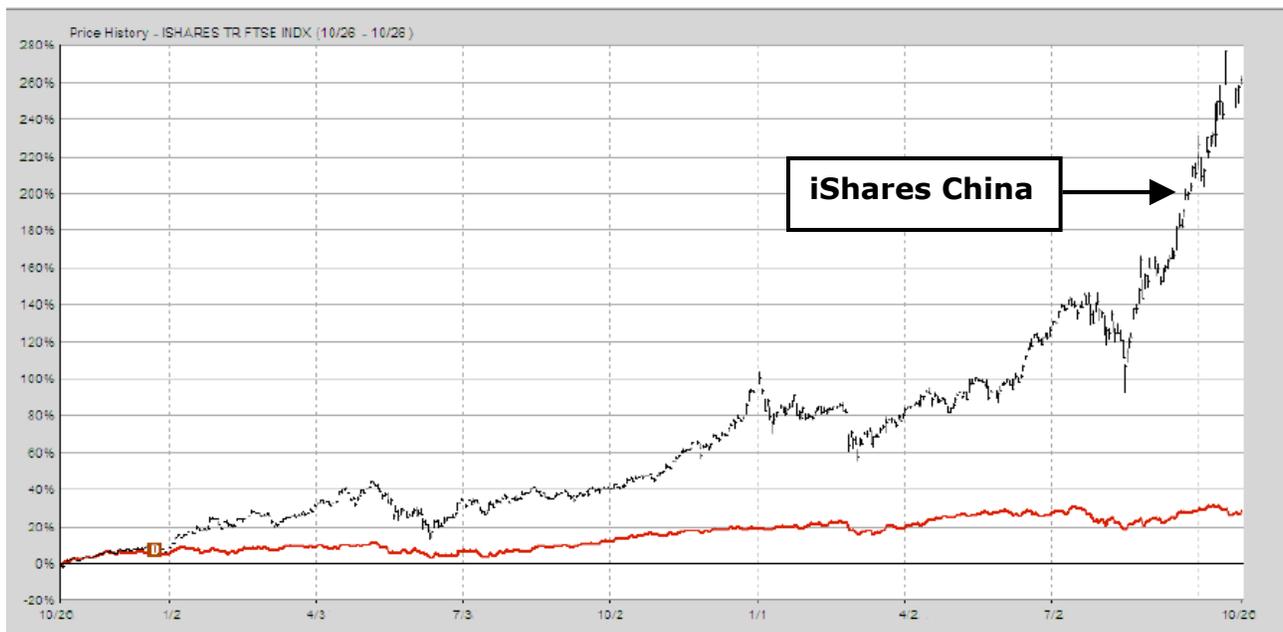
ETFs allow you to trade global markets with the best profit opportunities. Many global equity, currency and commodity markets offer much better returns than the US stock market. Many global economies are growing at a much faster rate than the U.S. economy and as a result global corporate profits are also growing at a faster rate. The infrastructure build-out in developing countries is leading to strong demand for energy, basic materials, bank financing and wireless communications resulting in record corporate profits and price gains for many global stocks. The table below compares the return for the U.S. broad based S&P 500 Index to returns for a sampling of global stock markets over a recent two year period.

2-Year Return Comparisons Global Stock Markets Versus S&P 500 Index

S&P 500 Index	29%
iShares Brazil	175%
Emerging Markets	114%
iShares China	268%
iShares Singapore	111%

The price chart below compares the price movement for the iShares China Fund to the S&P 500 Index over the same two year period. The iShares China Fund out performed the S&P 500 Index by more than a 9 to 1 margin (chart courtesy of MSN.com).

2-Year Price Chart iShares China versus S&P 500 Index



ETF Option Produces 130% Return Over 6 Week Period

My brokerage account Profit/Loss Report below shows a \$23,502.75 profit which translates to a 130% return for the Emerging Market ETF option over a 6 week period. The *GPS Option Strategies* we used to take this trade will be covered in Chapter 5.

Account Reports: Profit/Loss Report							PRINT
Give your accountant a break. View profits/losses for all trades executed on one specific date or during a range of dates. Track by position, whether it's closed, or still opened. Download to a spreadsheet for easy manipulation, processing and tax reporting.							
Unrealized P&L on Open Positions							
Symbol	Description	Position	Avg Price	Cost Basis	Market Value	Type	Unrealized Val.
+EEMAD	Ishares Tr Msci Emerg Mkt Jan 120.00 Call	9	\$20.0858	\$18,077.25	\$41,580.00	Stock Option	\$23,502.75

The price graph below compares the price action of the Emerging Market ETF to the S&P 500 Index over the 6 week holding period for our option trade. The Emerging Market ETF allowed us to trade a global market with better profit opportunities than the US markets (chart courtesy of MSN.com).

Emerging Market ETF versus the S&P 500 Index over 6 Week Period



Diverse Asset Allocation

The *GPS* allows you to diversify your investments across a wide range of global asset classes including fixed income, foreign currencies, energy, precious metals, commodities and foreign equities. The non-correlation of investment returns between these various asset classes allows you to reduce portfolio risk and smooth out your investment returns. When you invest in non-correlated asset classes, a loss in one asset class can normally be off set by a profit in a different asset class which reduces portfolio risk.

Asset allocation should be the foundation of every sound investment portfolio. It is a long term plan strategically designed to profit during any type of market. With *GPS* not only can you diversify across asset classes but you can take short positions as well. There is always a bear market somewhere! This greatly increases the benefits of asset allocation.

According to the *Financial Analysts Journal*, asset allocation accounts for 90% of the total return of a diversified investment portfolio over the long term. This finding is based on two sophisticated studies of the long-term performance of pension funds. The studies found that which stock or bond you pick isn't so important. What matters over the long run is how you mix your assets among stocks, bonds, and commodities.

Trading from Long or Short Side with Limited Risk

One of the great advantages of ETF trading is that it allows you to take both long and short positions with limited risk. Unlike short selling, there are short or inverse ETFs that allow you to short a market sector without actual short selling. Short selling is high risk and can result in margin calls if your short stock increases in price. You are also responsible for paying dividends when you are short a stock.

Short or inverse ETFs are limited risk trades and you can't lose more money than you invest. This is a very important distinction especially with the current volatile markets. If you are a short seller, an adverse market move can wipe out your trading account and result in margin calls requiring you to wire money to you broker to cover losses.

Reducing Market Risk

ETFs consist of baskets of stocks that track a market sector. Owning an ETF instead of individual stocks can reduce risk. Individual stocks are always susceptible to market risk with unfavorable news or earnings reports that are stock specific.

For example, the drug company Bristol Myers recently reported disappointing earnings and the stock was pummeled losing 23% of its value over a short period of time. Bristol Myers is part of the Pharmaceuticals HLDRS ETF and you can see from the price graphs that follow that over the same period of time the drop in Bristol Myers stock had little effect on the Pharmaceuticals HLDRS ETF which went on to make new high prices. This is a good example of how an ETF was much less susceptible to the market risk associated with owning individual stocks.

Bristol Myers Price Graph



Created with SuperCharts by Omega Research ©

Pharmaceutical HLDRS ETF over Same Time Period



Created with SuperCharts by Omega Research ©

All GPS Trades are Limited Risk Trades

The *GPS Trading Program* utilizes the *Major Trend Strategy* and *Short Term Trend Strategy* to identify buy and sell signals in the global currency, commodity and equity markets. Four types of trades are used:

- 1) **Purchasing Long and Short ETFs**
- 2) **Purchasing Call and Put Options**
- 3) **Buy Writes**
- 4) **Bullish and Bearish Option Spreads**

All of the *GPS* strategies utilize limited risk trades. With limited risk trades the most you can lose is your initial investment regardless of adverse market moves. Limited risk trading is absolutely essential when trading volatile markets. You won't receive a 'margin call' from your broker or be asked to add funds to your brokerage account to avoid the forced liquidation of your positions.

High Risk Investments

The investments listed in the table below are what we categorize as 'high risk' investments because you can lose more than your initial investment. An adverse market move could wipe out your initial investment and could trigger a margin call that would require you to add funds to your account. You would be legally liable to pay back any and all losses that are sustained in your brokerage account. It only takes one unexpected overnight world event to wipe out a highly leveraged trading account.

High Risk Investments

Investment
Futures Trading
Forex Trading
Shorting Stocks
Selling Uncovered or 'Naked' Options

Futures trading usually involves 10 to 1 or 20 to 1 leverage. Forex trading can involve 100 to 1 or even 200 to 1 leverage. It doesn't take much of an adverse market move for you to lose all of the cash in your account and worse yet owe your broker money in a margin call. You may think the odds are low that this could happen to you but as we used to say in the Air Force "Sierra Hotel"! It can happen. It only has to happen once and you are out of the game.

The # 1 Rule of Trading

Never Put Yourself in a Position to Lose More Money than You Invest

Lehman Brothers, Bear Sterns and AIG did not go bankrupt because there was a 5% default rate in mortgages. A 5% default rate could easily be absorbed with 1 to 1 leverage. They went bankrupt because they were highly leveraged and risked more money than they invested. The world financial system collapsed because the # 1 Rule of Trading was violated. Limited risk trading is essential for your trading success.

After taking a good look at ETFs, one would be foolish not to place them in their investment portfolio. ETFs give you the power to invest in markets that have the greatest profit potential and the ability to diversify your investments across a wide range of asset classes. They provide you with the opportunity to trade from the long and short side while reducing the market risks of owning individual stocks.

There is a lot to like! By utilizing the *GPS* your trades are now limited risk. *GPS* will guide you to safety and security while ensuring you the best profit potential. In a tumultuous market, limiting risk and safety is the name of the game!

“The Gods cannot help those who do not seize opportunities”

Chinese proverb

Let's next take a look at locking in those profits with trade management. Trade management is the art of cutting losses and locking in profits. It is probably the most important tool you will learn. This tool will give you a new perspective on investing and can help revitalize your portfolio!

Chapter 2

Trade Management Guidelines

In this Chapter we focus on trade management principles that I use everyday in managing my trading portfolios. The overall goal of the *GPS* is to maintain at least a 3 to 1 profit to loss ratio. This ratio is calculated by dividing your total profits by your total losses and is a good overall measure of reward versus risk. The higher this ratio is, the better. A high profit to loss ratio is a good indication that you are keeping losses to a minimum by exiting losing trades before a big loss occurs. The best way to achieve this goal is to hold on to your winning trades and exit your losing trades before they develop into large losses.

This defies human nature as most traders want to do just the opposite and take a quick 10% profit as soon as possible. People like the euphoria associated with winning and will take a small profit even though they are giving up a potentially greater profit later by holding on to winning trades. Most traders tend to trade with limited upside and unlimited downside. They will sell an ETF when they have a small profit but continue to hold losing ETFs eventually winding up with a portfolio of losers.

When you establish a trading portfolio there is no way to predict which holdings are going to produce big profits over time. Typically, if you own a diversified portfolio of let's say eight ETFs, usually there are one or two of the eight ETFs that produce a big profit that accounts for most of the gain for the entire portfolio. It's the big winners not the small winners that produce profitable portfolios. You can't tell in advance which of the eight ETFs might produce a large profit. So you want practice sound trade management and continue to hold on to the profitable trades and take small losses with losing positions before they develop into large losses.

Practicing sound trade management is important for your trading success and is often overlooked in the search for finding profitable trading strategies. In my experience trade management is just as important as trade selection. Trade management involves several steps:

- 1) Entering and exiting trades
- 2) Managing losses
- 3) Managing profits

Entering Trades

When purchasing an ETF, I wait until the *GPS Major Trend* or *Short Term Trend System* issue a "buy" signal. The buy and sell rules for these two systems will be covered in the next Chapter.

When I decide to purchase an ETF, I normally will purchase shares in increments over a 1 or 2 week period. For example, if I want to purchase 6 shares I will purchase 2 shares at a time until I have my full position of 6 shares.

Also, if you have enough trading funds, don't risk more than 10% of your trading funds on any one trade. This spreads your risk between 10 trades and helps prevent a large portfolio loss if one of your trades experiences a big loss.

Exiting Trades

Once I have my position established I will exit trades if the *GPS Major Trend* or *Short Term Trend Systems* issue a "sell" signal.

I will also exit losing trades before they develop into big losses even if there is no sell signal issued from the *GPS Major Trend* or *Short Term Trend Systems*. As a general rule, I will normally sell an ETF before it incurs a 10 to 15% loss from my entry price. If you are willing to risk 10% on a trade then you should be expecting a 30% profit on your profitable trades if you want to maintain a 3 to 1 profit to loss ratio.

Purchasing options gives you more leverage than purchasing ETFs so a 10% price move for an ETF can give you a 30 to 50% price move for the associated option. I therefore will normally sell an option before it incurs a 25 to 35% loss.

Taking small losses is essential to your trading success as it may take years for you to recover from a large loss. For example, if your portfolio suffered a 50% loss it would take a subsequent gain of 100% for your portfolio just to break even! Let's assume you had a \$10,000 portfolio that incurred a 50% loss which resulted in the value of your portfolio declining to \$5,000. You would have to achieve a 100% return on your \$5,000 portfolio in order break even with the value returning to \$10,000.

Taking small losses before they develop into big losses has allowed me to maintain a better than 3 to 1 profit to loss ratio over the long term. The brokerage confirmations below show that I took a 13%, 9%, 13% and a 15% loss respectively for the four options trades listed which are good examples of taking small losses before they develop into large losses. I can take several small losing trades and still have a profitable portfolio if one trade has large profits.

Portfolios: Gains & Losses

Portfolios Performance & Value Positions **Gains & Losses** Risk Analyzer NEW Portfolio Analyzer BETA Income Estimator

Positions:		# - Lot edited by firm				+ - Lot edited by customer					
Symbol	Quantity	Opening Transaction			Closing Transaction			Gain (Loss)	Gain Term	Action	
		Date	Price	Net Amount	Order	Date	Price				Net Amount
UVAHH	4	07/12	6.80	2730.99	S	07/24	5.90	2349.01	(382)	Short	Edit
TEXGP	7	06/12	5.70	4003.24	S	07/05	5.20	3631.46	(372)	Short	Edit
MROGL	14	05/31	3.90	5473.24	S	07/12	3.40	4746.00	(727)	Short	Edit
XTQHW	9	07/19	6.90	6224.74	S	07/24	6.00	5393.25	(831)	Short	Edit

Managing Profitable Trades

Once I establish an ETF position, I will normally sell profitable positions in increments just as I purchase ETFs in increments. As a general guideline I will sell 1/3 of an ETF position with a 20 to 30% profit and sell another 1/3 with a 40 to 60% profit. I will then normally hold on to the remaining 1/3 position until there is a *GPS Major Trend* or *Short Term Trend System* sell signal indicating a reversal of the price up trend to a price down trend.

With option positions, as a general rule I will normally sell 1/3 of my position with a 60 to 90% profit and sell another 1/3 position with a 120 to 150% profit. I will then hold on to the remaining 1/3 position until there is a *GPS Major Trend* or *Short Term Trend System* sell signal.

The brokerage confirmations below show that I took a 255%, 312% and a 241% profit respectively for the three options trades listed which are good examples of the 'big winners' you want to have in your portfolio by holding on to part of your positions. You could take 5 or 6 small losing trades and still achieve an overall 100% portfolio return with just one of these big winning trades.

Portfolios: Gains & Losses

Portfolios Performance & Value Positions **Gains & Losses** Risk Analyzer Portfolio Analyzer Income Estimator

Positions:		# - Lot edited by firm				+ - Lot edited by customer					
Symbol	Quantity	Opening Transaction			Order	Closing Transaction			Gain (Loss)	Gain Term	Action
		Date	Price	Net Amount		Date	Price	Net Amount			
PCPGC	9	06/13	5.20	4694.74	S	07/17	18.50	16639.25	11945	Short	Edit
FLRHT	5	06/27	5.00	2511.74	S	07/24	20.60	10289.59	7778	Short	Edit
PCUHQ	3	06/21	8.50	2558.24	S	07/24	29.00	8697.75	6140	Short	Edit

Maintaining a trade management discipline of holding on to part of my winning trades and selling losing trades before they develop into large losses has been an important part of my trading success and has allowed me to maintain a better than 3 to 1 profit to loss ratio over the long term. I'm hoping this trade management discussion has prompted you to start using trade management guidelines with your trading if you don't already.

"If you must play, decide upon three things at the start: the rules of the game, the stakes and the quitting time."

Chinese Proverb

We will explore the *GPS Major Trend* and *Short Term Trend Systems* next.

Chapter 3

GPS: A Road Map to Success

The goal of the **Global PowerTrend System** (GPS) is to identify the major price trend of a market which allows us to “trade with the trend” instead of trying to predict the future price movement of a market. In my experience, the 1-Month Price of a market in relation to its 20-Month Exponential Moving Average (EMA) is an excellent way to identify the major trend of a market.

If the 1-Month Price (shorter-term) is above the 20-Month Exponential Moving Average (EMA) (longer-term) a bullish major trend is indicated.

If the 1-Month Price is below the 20-Month EMA a bearish major trend is indicated.

This simple system has been very effective in correctly identifying major trends in global currency, fixed income, energy, commodity and equity markets.

GPS Major Trend System 'Buy' Signal

- **1-Month Price is Above 20-Month EMA**

GPS Major Trend System 'Sell' Signal

- **1-Month Price is Below 20-Month EMA**

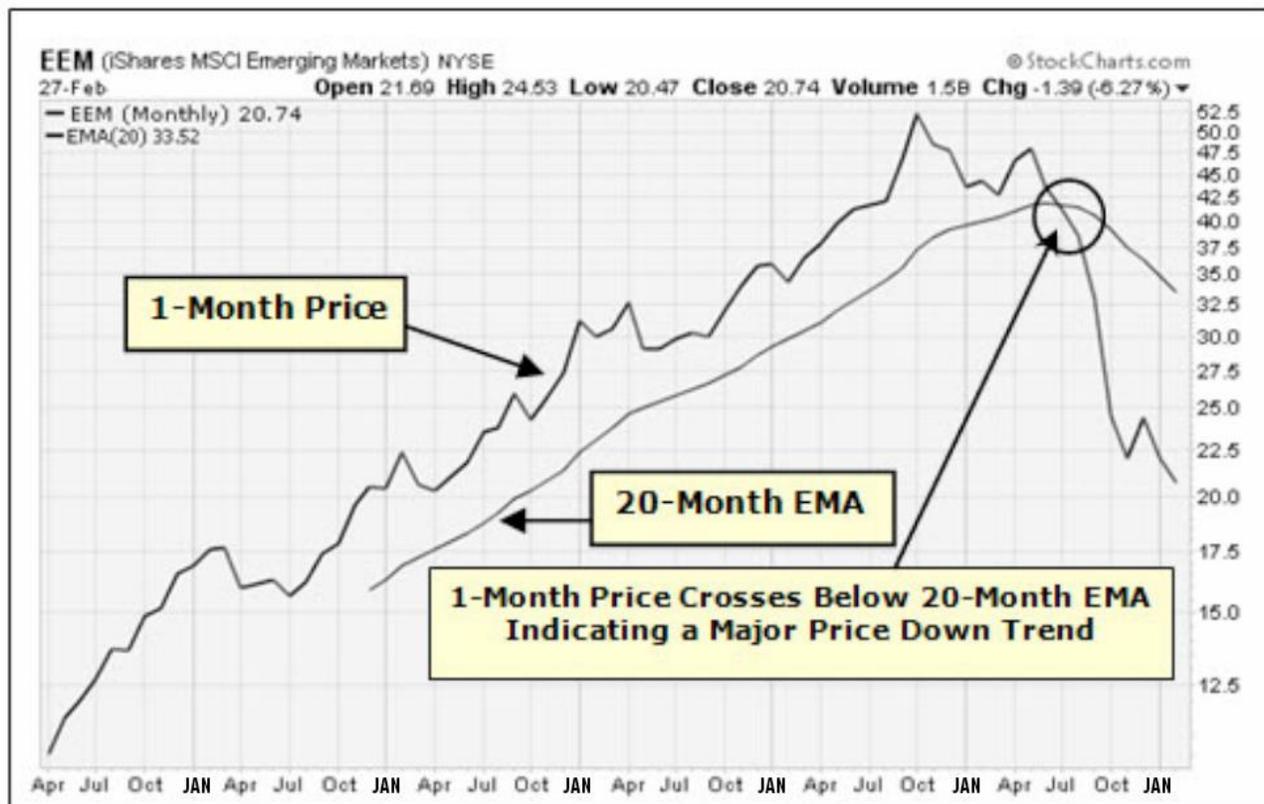
Downloading the 1-Month/20-Month EMA Charts

The 1-Month Price and 20-Month EMA charts can be downloaded from www.stockcharts.com with the basic subscription. The steps involved in downloading the 1-Month Price and 20-Month EMA will be covered shortly.

For example, the price chart below displays the 1-Month/20-Month EMA price for the Emerging Markets ETF (EEM). The price chart shows that the major price trend for EEM was bullish from 2004 until June of 2008 when the 1-Month price was above the 20-Month EMA. During this bullish price trend, long EEM positions should be established and short positions should be exited (chart courtesy of stockcharts.com).

In June of 2008 the 1-Month price crossed below the 20-Month EMA indicating a major price down trend. Long positions should be exited and short positions should be initiated.

Emerging Markets 1-Month/20-Month EMA Price Chart



Ten Year Price Chart

The chart below displays a longer term 1-Month/20-Month EMA price chart for the S&P 500 Index over a ten year period.

The price chart shows that the major price trend for the S&P 500 was bullish during the late 1990s, and then turned bearish in October 2000 when the 1-Month price crossed below the 20-Month EMA and bearish positions should be taken.

In May of 2003 the major trend turned bullish when the 1-Month price crossed above the 20-Month EMA. Bullish S&P 500 Index positions should be established and short positions should be exited (chart courtesy of stockcharts.com).

In December of 2007 the 1-Month price crossed below the 20-Month EMA indicating a major price down trend. Long positions should be exited and short positions should be initiated.

S&P 500 Index 1-Month/20-Month EMA Price Chart



S&P 500 Index Down 14% Over 10 Year Period

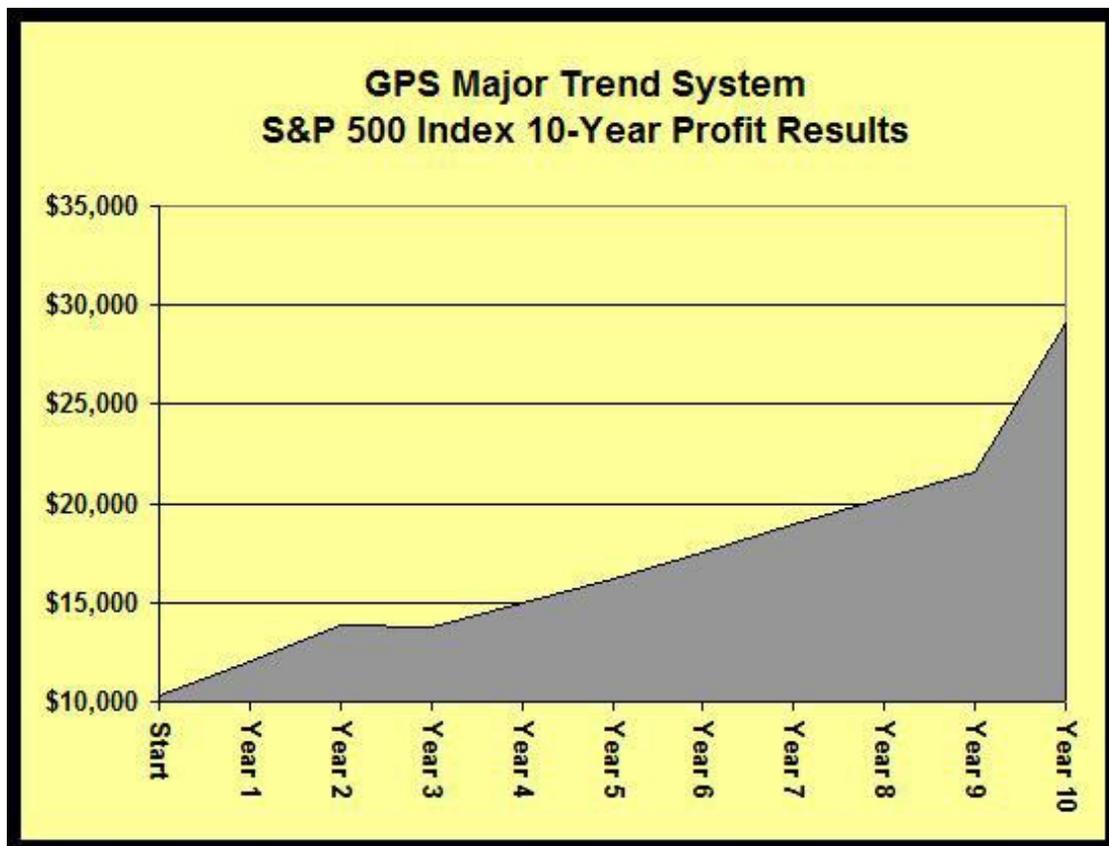
The S&P 500 Index incurred a 14% decline over the 10 year period just presented. Long term "buy and hold" investors would have incurred a 14% loss investing in the S&P 500 Index over this ten year period.

14% Loss versus 191% Return

The *GPS Major Trend System* takes both long and short positions and over the same ten year period the system produced a 191% profit demonstrating the versatility of the system. Short positions profit as a stock or index declines in price.

The profit graph below displays the profit growth from trading the S&P 500 Index over the same ten year period using the *GPS Major Trend System*. Over the ten year period, a \$10,000 investment grew to \$29,139 using the system resulting in a \$19,139 profit and a 191% return.

GPS Major Trend System Produces 191% Return Over 10 Year Period



Steps for Downloading the 1-Month Price and 20-Month EMA

- 1) Log on to StockCharts.com
- 2) Type in the trading symbol under Symbol (in this example GLD for the Gold ETF)
- 3) Under Chart Attributes select 'Monthly' under Periods and select the desired Range (2 Years in this example)
- 4) Under Overlays select 'Exp Mov. Avg' and under Parameters select '20'
- 5) Click 'Update' to display chart (in this example the 2 year Gold ETF chart)

Note: 1 month charts require a basic subscription to pricecharts.com



GPS Major Trend System Historical Results

The *GPS Major Trend* 1-Month/20-Month EMA system is a rule based system with clearly defined "buy" and "sell" rules which allow for historical profit testing.

Historical profit results are based on closing out bearish ETFs and buying a bullish ETF when the 1-Month price crosses above the 20-Month EMA and closing out bullish ETFs and buying a bearish ETF when the 1-Month price crosses below the 20-Month EMA.

I conducted historical testing on a diversified portfolio of eight global markets including crude oil, the Euro currency, bonds and equities listed below:

GPS Diversified Global Portfolio

Crude Oil	Euro Currency
MSCI Emerging Market Index	20-Year Treasury Bonds
iShares Latin America	MSCI Brazil
iShares Europe	S&P 500 Index

The historical profit results that follow were conducted over a recent 14 year period (or ETF inception). Results are based on an initial investment of \$10,000 divided equally among the eight global markets and compounding the results thereafter and do not include commissions. The historical results do not reflect the use leverage or margin.

GPS Major Trend System Global Portfolio Historical Results

Initial Investment	\$10,000
Number Years	13.75
Profit	\$111,031
Total Return	1,110%
Average Annual Return	80.7%
Percent Winning Trades	81.0%
Total Profits	\$113,549
Total Losses	\$2,518
Profit:Loss Ratio	45.1 to 1
Largest Losing Trade	-9.2%
Average Losing Trade	-3.2%

GPS Major Trend System Global Portfolio Profit Results



Historical results reveal that the *GPS Major Trend System* produced impressive profits with very low risk. A \$10,000 investment grew to \$121,031 and after deducting the initial \$10,000 investment, the total profits were \$111,031 (before commissions) which equates to a 1,110% return on the initial \$10,000 investment.

Over the almost fourteen year test period this translates to an 80.7% average annual return. This is an excellent annual return for a system that does not use leverage or margin! Eighty-one percent of trades were profitable and all years were profitable.

\$45 of Profit for Each 1 Dollar of Loss

The system produced \$113,549 in total profits and only \$2,518 in total losses. Dividing the total profits by the total losses results in a Profit to Loss Ratio of 45.1 to 1. This translates to more than 45 dollars of profit for each 1 dollar of loss allowing us to achieve our goal of maintaining a 3 to 1 or greater profit to loss ratio.

We learned in Chapter 2 that the Profit to Loss Ratio is a good measure of risk. A high Profit to Loss Ratio indicates that the *Major Trend System* keeps losses to a minimum by exiting losing trades before they develop into a large loss.

The *Major Trend System* normally exits a trade before a big loss occurs and provides you with the discipline necessary to become a successful global trader. Keep in mind that two global bear markets occurred during this period including the worst bear market since 1932 during which the S&P 500 Index lost 50% of its value and the NASDAQ suffered a 76% loss.

These profit results demonstrate that the *GPS Major Trend System* is a versatile, effective method for profiting from long or short trades in any type of market.

Broad Global and Asset Class Diversification

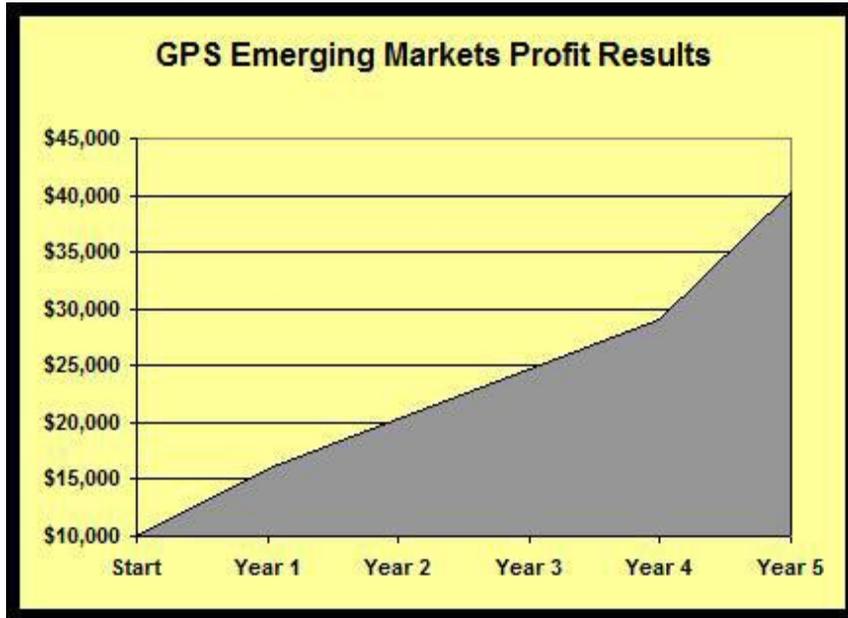
Most investment programs recommend diversifying your portfolio across different industry groups. One of the great advantages of the *GPS Major Trend System* is that it allows you to also diversify your portfolio by asset class which further reduces risk and can result in higher returns. The ability of the *Major Trend System* to take both long and short trades also increases the diversity and profit opportunities of the system.

We will explore a strategy that increases the profit potential of the *GPS Major Trend System* in Chapter 5.

GPS Major Trend System Individual Market Profit Results

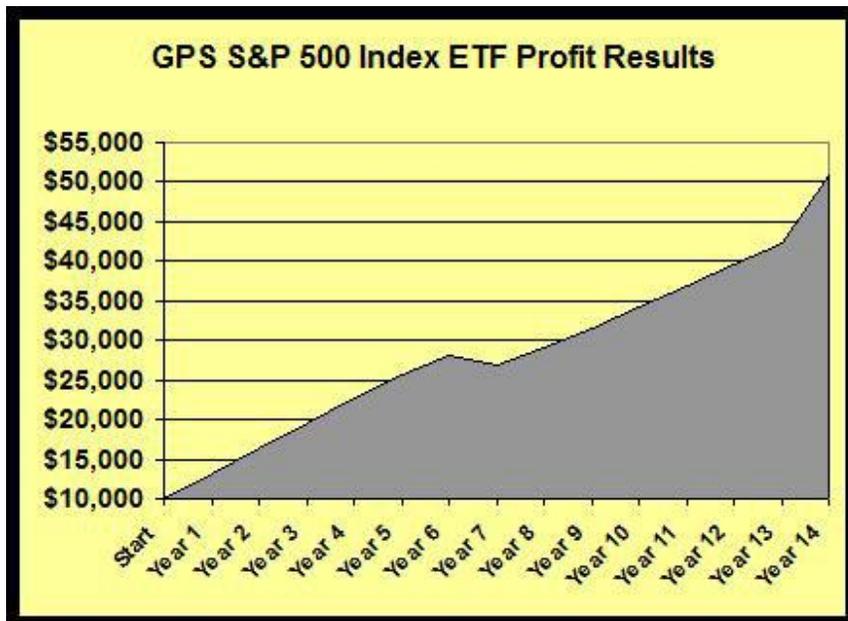
The historical profit results that follow are based on an initial investment of \$10,000 in a market and compounding the results thereafter and do not include commissions. The historical results do not reflect the use leverage or margin.

Emerging Market Index ETF Results



Initial Investment	\$10,000
Number Years	5
Profit	\$30,334
Total Return	303%
Avg Annual Return	61%
% Winning Trades	100%
Profit:Loss Ratio	No Losses

S&P 500 Index ETF Profit Results



Initial Investment	\$10,000
Number Years	14
Profit	\$40,847
Total Return	408%
Avg Annual Return	29%
% Winning Trades	67%
Profit:Loss Ratio	12 to 1

Euro Currency ETF Profit Results



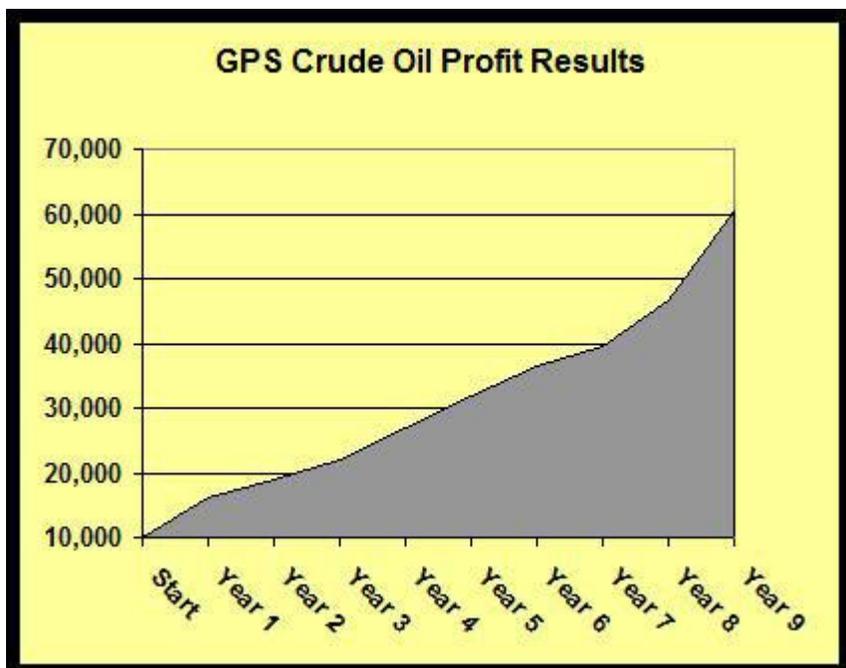
Initial Investment	\$10,000
Number Years	6
Profit	\$5,823
Total Return	58%
Avg Annual Return	10%
% Winning Trades	67%
Profit:Loss Ratio	43 to 1

Brazil ETF Profit Results



Initial Investment	\$10,000
Number Years	5
Profit	\$77,035
Total Return	770%
Avg Annual Return	154%
% Winning Trades	100%
Profit:Loss Ratio	No Losses

Crude Oil Profit Results



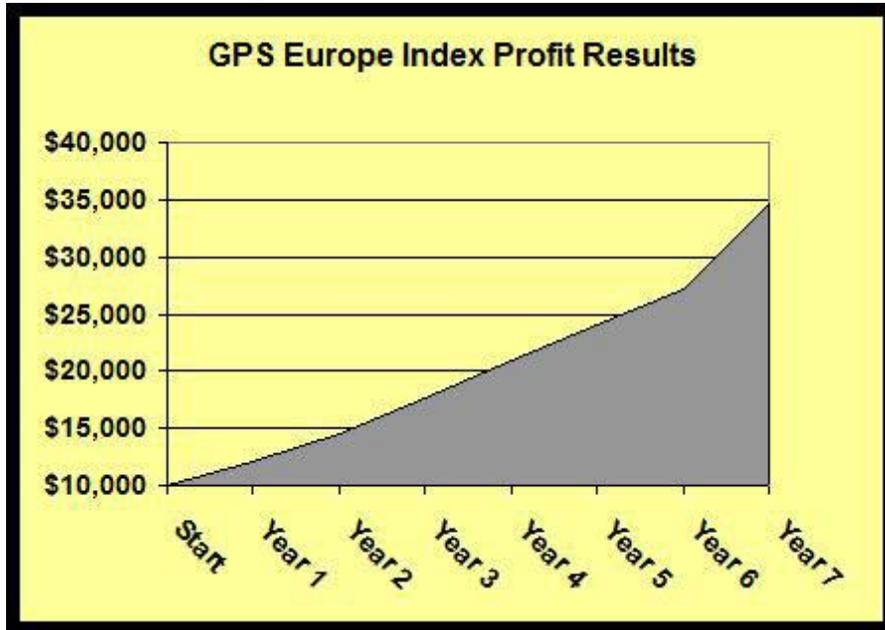
Initial Investment	\$10,000
Number Years	9
Profit	\$50,599
Total Return	506%
Avg Annual Return	56%
% Winning Trades	60%
Profit:Loss Ratio	19 to 1

Latin America ETF Profit Results



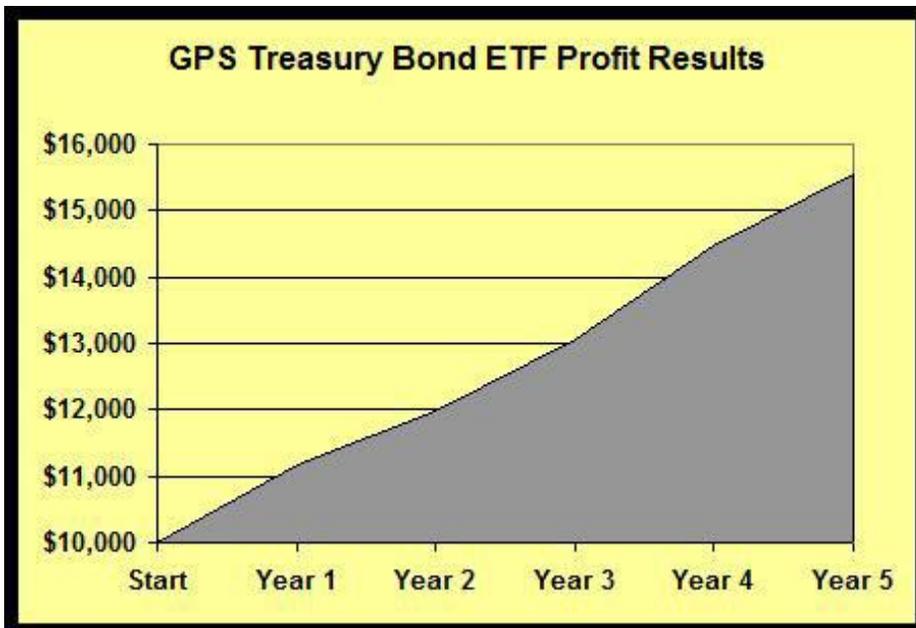
Initial Investment	\$10,000
Number Years	5
Profit	\$55,106
Total Return	551%
Avg Annual Return	110%
% Winning Trades	100%
Profit:Loss Ratio	No Losses

Europe ETF Profit Results



Initial Investment	\$10,000
Number Years	7
Profit	\$24,546
Total Return	245%
Avg Annual Return	35%
% Winning Trades	100%
Profit:Loss Ratio	No Losses

Treasury Bond ETF Profit Results



Initial Investment	\$10,000
Number Years	5
Profit	\$5,540
Total Return	55%
Avg Annual Return	11%
% Winning Trades	100%
Profit:Loss Ratio	No Losses

GPS Major Trend System is a Valuable Trading Tool

Regardless of which indicator or methodology you use to trade, the *GPS Major Trend System* can be a valuable trading tool for virtually any market. Before I take a long or short position I normally check to make sure I am trading in the direction of the major trend. Trading in the direction of the major trend provides a constant tailwind and helps you prevent whipsaw trades. Avoiding whipsaw trades can increase profits and reduce risk. The *GPS Major Trend System* can also help stock traders.

The price chart below displays the 1-Month/20-Month EMA price for Apple stock over a ten year period (chart courtesy of stockcharts.com).

The *GPS Major Trend System* went short in around 21.00, went long around 8.00 for a 13 point profit, stayed long until going short at 141 for a 133 point profit. These trades resulted in about 177 points of profit with no losses demonstrating the powerful profit potential of trading with the major trend.

Sell @ 21, Buy @ 8	+ 13 points
Buy @ 8, Sell @ 141	+ 133 points
Sell @ 141, Current price 110	+ <u>31 points</u>
Total approximate profits	177 points



GPS Short Term Trend System

The *GPS Short Term Trend System* is a trend following system that allows shorter-term traders to 'trade with the trend' instead of trying to predict the future short-term price direction of an ETF.

I like to use moving average 'cross overs' to define the short-term price trend. For example, my *GPS Short Term Trend System* uses the 50-Day (fast) and 100-Day (slow) Exponential Moving Average (EMA) 'cross overs' to define a trend.

If an ETF's shorter term 50-Day EMA line is **above** the longer term 100-Day EMA line it indicates the price momentum for the ETF is to the upside and the ETF should be bought.

If an ETF's shorter term 50-Day EMA line is **below** the longer term 100-Day EMA line it indicates the price momentum for the ETF is to the downside and the ETF should be sold.

This is a simple but effective short-term system for buying ETFs when they are in a price up trend and selling ETFs when they are in a price down trend. The system allows us to know in advance the most likely future short-term price direction of an ETF.

GPS Short Term 'Buy' Signal

- 50-Day EMA is Above 100-Day EMA

GPS Short Term 'Sell' Signal

- 50-Day EMA is Below 100-Day EMA

Let's explore using the 50-Day/100-Day EMAs to define the short-term trend. 'Investing with the Trend' is an important requirement for profitable ETF trading for traders with a short term-time horizon. *Timing is everything.*

If you are a short term investor 'Investing with the Trend' should be your investing mantra. Regardless of which investment strategy you use to buy and sell ETFs, there is always 'entry and exit' timing risk for short term investors.

If you have investment funds that you would like to commit to trade ETFs you run the risk that when you buy your ETFs you may be buying at a time when prices are high. Similarly when you decide to sell your ETFs you may be selling at a time when prices are low.

There is a direct correlation between your investment time horizon and entry and exit timing risk. Traders with the shortest time horizon face the greatest risk of timing risk. This timing risk is less important to long term investors that plan to be invested for three to five years or longer.

Trading with the trend can help reduce this timing risk for shorter term traders. If you limit your ETF purchases to ETFs that are in a price up trend and sell an ETF if it enters a price down trend you can eliminate much of the entry and exit timing risk associated with short term trading.

Trading with the trend reduces the risk of having to be 'right' about predicting the short-term price direction of an ETF. The best time to buy an ETF is when its upward price trend has already been established.

Unfortunately, the average trader tends to purchase ETFs that are in a price down trend hoping to get a bargain. ETFs that are in a price down trend should be sold as there is no way to predict how long the price down trend will continue.

Buying an ETF in a price down trend requires the short-term trader to correctly predict when an ETF's price will 'bottom out' and reverse direction and resume an upward price trend in time for the short-term trader to make a profit. Consistently trying to predict the future price movements of ETF's is a very difficult if not impossible task.

Let's next take a look at some actual examples of this short-term trend following system so you can fully understand this important concept.

The price chart below displays the daily price movement of the Russia ETF symbol RSX and its 50-Day EMA and 100-Day EMA. The horizontal axis at the bottom of the chart references the time period covered by the chart. The vertical axis on the right side of the chart represents the price of RSX and in this example ranges from 30.00 to 60.00. The vertical bars represent the daily trading price range for RSX.

In late July the *GPS Short Term Trend System* issued a 'sell' signal for RSX when its 50-Day EMA crossed below the 100-Day EMA at the 45.00 price level. This EMA cross over is circled. If you are a short term investor you would want to sell RSX at this point as there is no way to predict how long this price down trend will last and how far the price of RSX will drop. Short term investors would not want to buy RSX until the price trend reverses as indicated by the 50-Day EMA line crossing above the 100-Day EMA line (Chart courtesy of Yahoo Finance).



Investing with the Trend Limits Losses

RSX is currently trading at 17.08 and is still on a 'sell' signal as indicated by its 50-Day EMA line remaining below the 100-Day EMA. Selling when the *GPS Short Term Trend System* issued a 'sell' signal prevented a 62% loss at current price levels. Investors who ignored this sell signal would now need a 163% price increase in RSX from 17.08 to 45.00 just to get back to the price level that the sell signal was issued. This demonstrates the importance of trading with the trend and limiting your losses if you are a short-term trader.

The daily price chart that follows reflects the daily price movement and the 50-Day and 100-Day EMA lines for the Crude Oil ETF symbol USO. This chart reveals that in June the USO 50-Day EMA line crossed above the 100-Day EMA resulting in a *GPS Short Term Trend System* 'buy' signal for USO at the 53.00 price level.

The 50-Day EMA remained above the 100-Day EMA and USO was trading at the 94.00 level in April. This buy signal had about a 77% open trade profit. (Chart courtesy of Yahoo Finance).



Follow the Trend Instead of Trying to Predict It

**“Prediction is very difficult, especially if it’s about the future.”
- Nils Bohr**

The *GPS Short Term Trend System* allows us to ‘trade with the trend’ instead of trying to predict the short-term price direction of an ETF. The historical studies that follow demonstrate that price trends tend to continue in the same direction and can continue on longer than one may initially expect.

My trading experience confirms that this simple but effective system allows the short-term trader to reduce the timing risk of when to buy and sell ETFs. *The position of an ETF’s 50-Day EMA line in relation to its 100-Day EMA line allows us to know in advance the most likely future short-term price direction of an ETF.*

More Than 4.5 Million Dollars of Actual Profits

I have been using the *GPS Short Term Trend System* to trade currencies, commodities, stock indexes and stocks for more than 20 years. I combine fundamental analysis with the *GPS Short Term Trend System* to trade stocks and stock options. The system has contributed to my more than four and one half million dollars of actual trading profits. Copies of my tax returns and brokerage statements showing this \$4,569,797.88 in actual profits are included in the Appendix.

The explosion in new Exchange Traded Funds (ETFs) over the past several years has provided investors with more than seven-hundred trading vehicles enabling them to take advantage of the huge profit opportunities currently available in global markets.

Twenty-four years of historical results demonstrate that the 50-Day/100-Day EMA System is a versatile, effective method for profiting in any type of market. The system allows us to keep losses to a minimum and almost always exits a trade before a big loss occurs. This is important in helping the *GPS* achieve its goal of maintaining a 3 to 1 or better Profit to Loss Ratio.

50-Day/100-Day EMA System Historical Results

There is not much historical data available for Exchange Traded Funds as most ETFs were created over the last several years. But there is more than twenty years of historical data available for the Fidelity Select Sector Funds which were the original sector funds prior to the advent of Exchange Traded Funds.

I use the *Omega Super Charts Program* to perform historical return analysis of the 50-Day/100-Day EMA System using the Fidelity Select Sector Funds. Although the Fidelity Select Funds date back to 1982, most of the Select Funds were created in the mid to late 1980s time period.

The *Super Charts Program* does historical profit calculations using the 50-Day/100-Day EMA System rules of purchasing a fund when it's 50-Day Exponential Moving Average (EMA) crosses above the 100-Day EMA and selling a fund when it's 50-Day EMA crosses below its 100-Day EMA.

Twenty Years of Historical Results

I was able to perform historical testing on all of the Fidelity Select Funds over a recent 20 year period. The 50-Day/100-Day EMA System was profitable on all of the Select Funds except the Select Gold Fund which lost \$122 over the test period.

Listed on the following page are the 50-Day/100-Day EMA System historical profit results for a broad cross section of the Fidelity Select Funds over the past 20 years or since the inception of a fund.

Results are based on initially investing \$1,000 at the inception of each fund for the first 'buy' signal and compounding the results thereafter and do not include commissions.

Twenty Years of Historical Results for the Select Funds

Select Fund	Initial	Percent	Profit	Profit:	Avg
	Investment	Return		Loss	Loss
Air Transport	\$1,000	385%	\$3,852	4.2	-150
Biotechnology	\$1,000	693%	\$6,931	3.4	-278
Brokerage	\$1,000	780%	\$7,803	5.2	-317
Chemicals	\$1,000	753%	\$7,535	4.8	-305
Communications	\$1,000	626%	\$6,265	6.5	-190
Computers	\$1,000	1732%	\$17,318	7.0	-285
Construction Housing	\$1,000	497%	\$4,973	5.1	-152
Defense	\$1,000	785%	\$7,851	5.5	-145
Electronics	\$1,000	1578%	\$15,776	4.3	-496
Emerging Markets	\$1,000	205%	\$2,052	44.5	-22
Food & Agriculture	\$1,000	1007%	\$10,074	34.9	-64
Healthcare	\$1,000	1630%	\$16,296	3.2	-710
Home Finance	\$1,000	1396%	\$13,959	6.7	-239
Insurance	\$1,000	682%	\$6,820	4.8	-201
Leisure	\$1,000	1060%	\$10,602	3.6	-463
Medical Delivery	\$1,000	902%	\$9,021	6.5	-213
Multimedia	\$1,000	793%	\$7,929	3.9	-482
Regional Banks	\$1,000	918%	\$9,181	6.4	-341
Technology	\$1,000	2450%	\$24,500	3.7	-1,090
Telecommunications	\$1,000	1397%	\$13,965	4.8	-779
Transportation	\$1,000	745%	\$7,451	8.0	-305
Utilities	\$1,000	1389%	\$13,894	7.3	-200
Averages / Totals	\$22,000	1018%	\$224,049	8.4	-338

Double Your Initial Investment Every Two Years

Historical results reveal that the 50-Day/100-Day EMA System produced impressive profits with very low risk. The total initial investment to purchase \$1,000 worth of each of the 22 funds at inception was \$22,000. The total profits realized were \$224,049 which translates to a 1018% return on the initial \$22,000 investment.

Over the twenty year period this return rate allows you to double your initial investment every two years on average.

Losses were kept to a minimum as the 50-Day/100-Day EMA System almost always exits a trade before a big loss occurs. Of the trades that were losers, the average losing trade for this sampling was only \$338 and when compared to the total profit of \$224,049 reveals a very favorable risk adjusted return.

The average Profit to Loss Ratio was 8.4 as the system produced more than eight dollars of profit for each one dollar of loss.

Using The Major Trend Indicator as a Filter

The longer-term 1-Month/20-Month EMA Major Trend System can be used as an entry filter for the shorter-term 50-Day/100-Day EMA System by only allowing trades in the direction of the major trend.

As we learned previously, the major trend is bullish when the 1-Month price bar is above the 20-Month EMA and the major trend is bearish when the 1-Month price bar is below the 20-Month EMA.

The Major Trend can be used as a filter by only allowing the shorter term 50/100-Day EMA buy signals when the Major Trend is bullish. And only allowing 50/100-Day EMA sell signals when the Major Trend is bearish.

The filter can improve the profit performance and reduce the risk of the shorter-term 50-Day/100-Day EMA System. The *Major Trend System* "confirms" the trend indicated by the shorter-term 50-Day/100-Day EMA System.

In my experience I have found the 1-Month/20-Month EMA Major Trend System entry filter to be particularly useful when taking short positions.

The *GPS Short Term Trend System* allows us to instantly see the 'Big Picture' when trading ETFs. The iShares Emerging Market Index ETF (EEM) daily price chart below shows the 50-Day EMA line crossing below the 100-Day EMA line in June indicating that this ETF is in a short-term price down trend (chart courtesy of Yahoo Finance).



Trend Confirmation

The iShares Emerging Markets (EEM) monthly price chart below shows the 1-Month price crossing below the 20-Month EMA in June indicating a major price down trend.

The Major Trend System confirms the shorter term 50/100-Day EMA sell signal. Both the 50-Day/100-Day EMA and Major Trend systems turned bearish in June and short positions can be initiated (chart courtesy of stockcharts.com).



Trend Confirmation Reduces Losses

The 1-Month/20-Month EMA filter only allows us to trade in the direction of the major trend. This helps prevent "whipsaw" trades when counter-trend rallies or sell offs occur. Preventing whipsaw trades can increase profits, reduce losses and increase the percentage of winning trades.

For example, the 1-Month/20-Month EMA price chart below for the Emerging Markets ETF (EEM) shows that the major price trend for EEM was bullish until the 1-Month price crossed below the 20-Month EMA in June indicating a major price down trend (chart courtesy of stockcharts.com).

During the 4 year period the EEM was in a major price up trend, the shorter-term 50-Day/100-Day EMA system issued three counter-trend "sell" signals all of which turned out to be losing trades. Using the 1-Month/20-Month EMA as a filter for the 50-Day/100-Day EMA System would have avoided these three losing whipsaw trades.

50-Day/100-Day EMA System Issued 3 Counter-Trend "Sell" Signals During Bullish Period



The 1-Month/20-Month EMA price chart below for the S&P 500 Index is another example of how the system helps prevent whipsaw trades.

The 1-Month/20-Month EMA price chart below indicates the major price trend for S&P 500 Index was bullish until the 1-Month price crossed below the 20-Month EMA indicating a major price down trend.

During the 4½ year period the S&P 500 was in a major price up trend, the shorter-term 50-Day/100-Day EMA system issued five counter-trend "sell" signals all of which turned out to be losing trades. This is another example of how the 1-Month/20-Month EMA filter helps prevent whipsaw trades (chart courtesy of stockcharts.com).

50-Day/100-Day EMA System Issued 5 Counter-Trend "Sell" Signals During Bullish Period

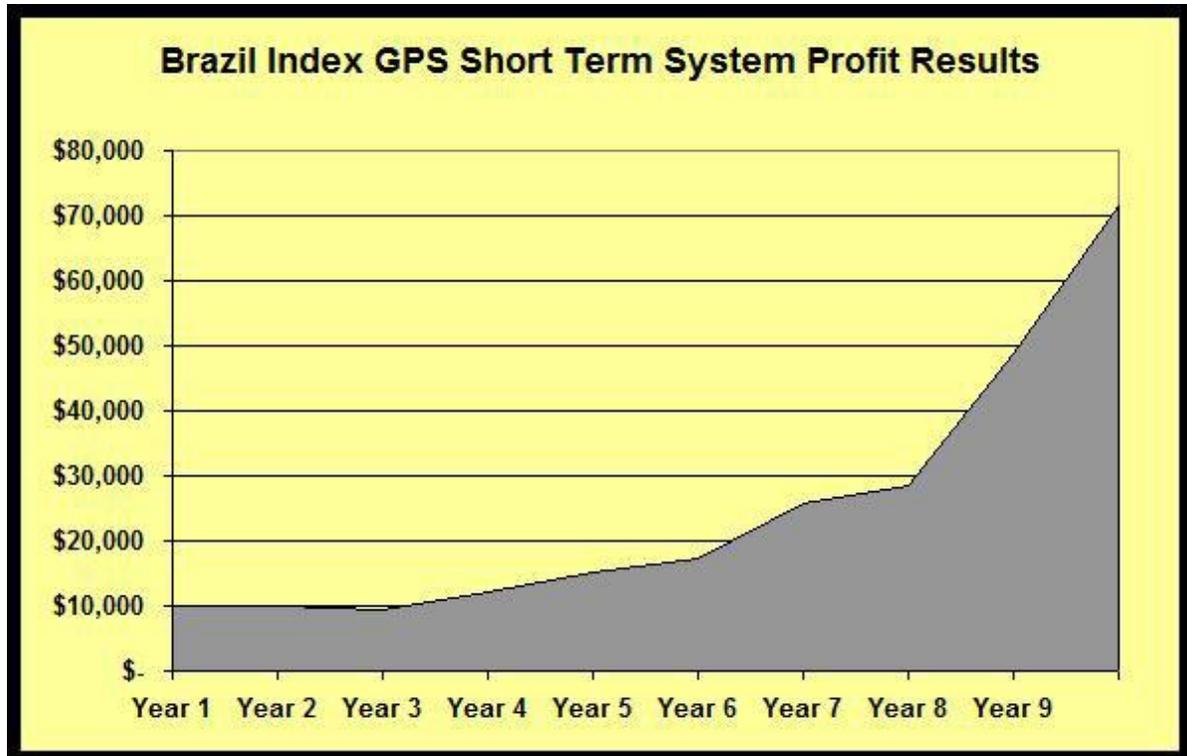


Historical Profit Results for Major Trend System Filter

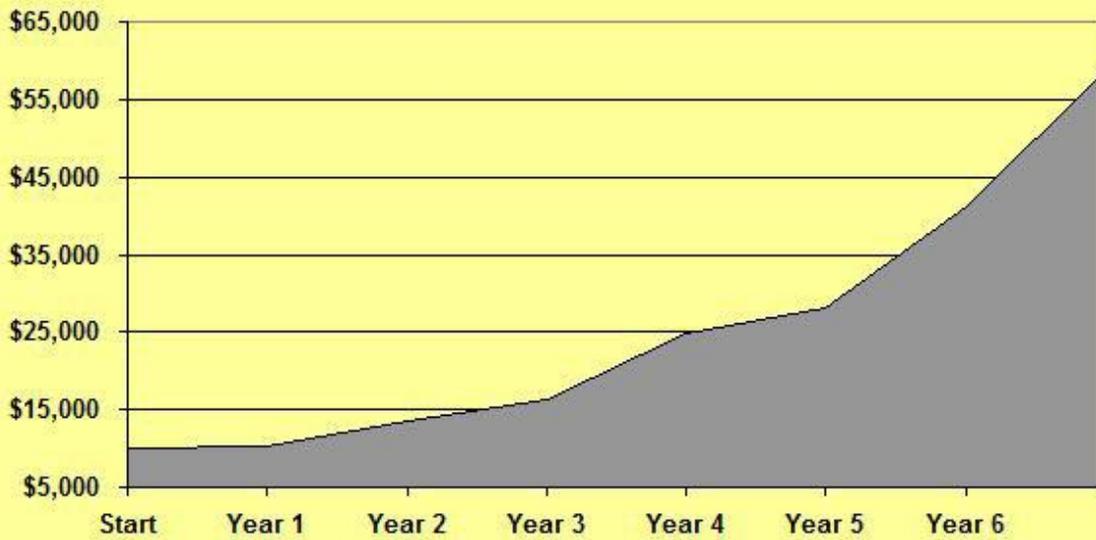
Using the longer-term 1-Month/20-Month EMA as a filter for the shorter-term 50-Day/100-Day EMA System can increase profits and reduce risk. This makes the shorter-term 50-Day/100-Day EMA System an ideal method to profitably trade global currency, commodity and equity ETFs for shorter-term traders.

The profit graphs that follow are based on investing \$10,000 initially in a market and using the longer-term 1-Month/20-Month EMA as a filter for the shorter-term 50-Day/100-Day EMA System. The filter rules are listed below.

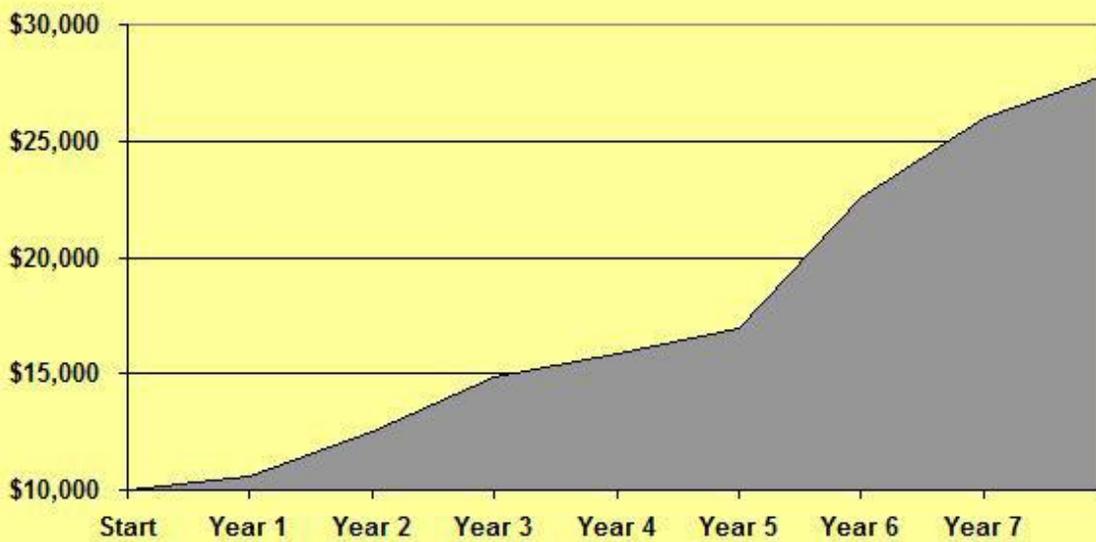
- 50-Day EMA is above the 100-Day EMA and the 1-Month price is above the 20-Month EMA - **Buy**
- 50-Day EMA crosses below the 100-Day EMA but the 1-Month price is still above the 20-Month EMA - Close Position and Remain **Flat**
- 50-Day EMA is below the 100-Day EMA and 1-Month price is below the 20-Month EMA - **Establish Short Position**
- 50-Day EMA crosses above the 100-Day EMA but the 1-Month price is still below the 20-Month EMA - Close Position and Remain **Flat**



Latin America GPS Short Term Trend System Profit Results



Europe Index GPS Short Term Trend System Profit Results



Downloading the 50/100-Day EMA

The 50/100-Day EMA lines can be easily downloaded from Yahoo Finance. Log on to the Yahoo Finance home page and type in the trading symbol of the ETF you want to download. In this example I typed in FXE which is the symbol for the Euro Currency ETF. Click "Get Quotes".



A quote summary will appear for the Euro Currency. Under Charts click "Interactive" and a price chart will appear for the Euro Currency.



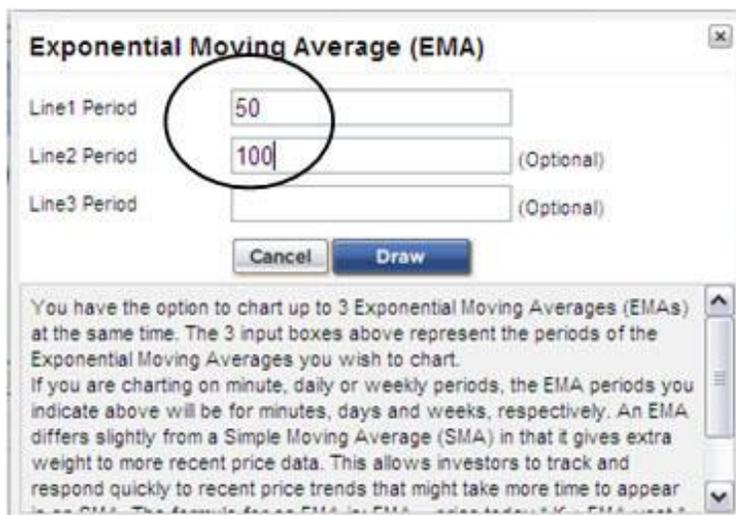
At the bottom of the chart click "1Y" and a 1 year daily price chart will appear.



Then click "Technical Indicators" and a drop down menu will appear. Click "Exponential Moving Average (EMA)".



In the Exponential Moving Average (EMA) window type in 50 for Line 1 Period and 100 for Line 2 Period and the 50/100-Day EMA lines will be displayed.



The red line is the 50-Day EMA and the green line is the 100-Day EMA.



Chapter 4

A Practical Guide to Option Trading

The focus of this Chapter is to teach you the basics of option investing. In my 30 years of trading experience, option trading has been the most versatile and rewarding approach to profitable trading.

Option trading enables many different types of traders to achieve their specific investment goals. I have traded many types of option strategies with different investment goals. I favor the three limited risk option strategies listed below as I have had good success trading these strategies.

- 1) Purchasing options to realize trading profits
- 2) Trading option spreads that can profit during an up or down market
- 3) Selling option premium to produce income

Successful Option Trading

As we discussed in Chapter 2, the overall goal of the *GPS Trading Strategies* is to achieve at least a 3 to 1 profit to loss ratio. To achieve this goal you must be ready to close out your losing trades before they develop into large losses and hold on to winning trades. I will normally sell an option before it incurs a 25 to 35% loss. Many option traders with good trading systems fail because they don't pay enough attention to risk. Maintaining a trading discipline that forces you to think in terms of reward versus risk can help you become a successful option trader.

If you are willing to risk 30% on an option trade, then you should be expecting a 90% profit on your winning trades in order to achieve a 3 to 1 profit to loss ratio. If you are willing to risk 50% on an option trade, then you should be expecting a 150% profit on your winning trades which is very difficult to achieve. I always think in terms of taking measured risks with every trade.

Also, if you have enough trading funds, don't risk more than 10% of your trading funds on any one trade. This helps prevent a large portfolio loss if one of your trades experiences a big loss. This is especially important with options because they employ leverage. Successful trade management can be summarized with three basics rules:

- 1) Limit the size of your positions
- 2) Close out your losing trades before they develop into large losses
- 3) Don't limit your profits by selling winning trades with a small profit
- 4) Only risk money you can afford to lose when trading options

The Mechanics of Option Trading

Learning the mechanics of option investing can be a bit overwhelming particularly if you have never invested in options before. There is no need to memorize all of the material presented in this Chapter. This Chapter can be used as a future reference when implementing an option strategy.

Let's start with the basics. Options are contracts. The terms of option contracts are standardized and give the buyer the right (but not the obligation) to buy or sell the underlying ETF at a fixed price which is known as the 'strike price'. Option contracts are valid for a specific period of time which ends on option expiration day. All options contracts traded on U.S. Securities Exchanges are issued, guaranteed and cleared by the Options Clearing Corporation (OCC). The OCC is a registered clearing corporation with the Securities and Exchange Commission (SEC) and has received an 'AAA' credit rating from Standard & Poors Corporation for its ability to fulfill its obligations as counter-party for option trades.

There are two types of options; calls and puts. Simply stated a call option is a contract that gives you the right to buy an ETF at a specified price which is called the 'strike price' on or before the expiration date of the option. A put option is a contract that gives you the right to sell an ETF at a specified price called the 'strike price' on or before the expiration date of the option.

There are two ways to invest in options:

- 1) Buying options**
- 2) Selling options**

Buying Options

The goal of buying an option is to 'Buy Low and Sell High'. Buying a call option is a bullish strategy as the value of a call option will increase as the price of the underlying ETF increases. Conversely, if the price of the underlying ETF decreases then the value of a call option also decreases.

Buying a put option is a bearish strategy as the value of a put option will increase as the price of the underlying ETF decreases. Conversely, if the price of the underlying ETF increases then the value of a put option will decrease.

The price you pay for an option is called the premium. When you buy an option, cash is deducted from your brokerage account to pay for the option premium. One option contract normally controls one hundred shares of the underlying ETF. Purchasing an option with a 4.00 point premium would result in \$400 being deducted from your brokerage account to pay for the premium (4.00 x 100 shares = \$400). If you later sold this option for 6.00 points you would realize a \$200 profit.

Buy at 4.00 and sell at 6.00 = 2.00 Profit

Conversely, if you later sell this option for 3.00 points you would realize a \$100 loss.

Buy at 4.00 and sell at 3.00 = 1.00 Loss

Buyers of call options only profit if the underlying ETF increases in price

Buyers of put options only profit if the underlying ETF decreases in price

Selling Options

The goal of selling an option is to 'Sell High and Buy Low'. When you sell an option, cash is credited to your brokerage account. For example, if you sell an option for 6.00 points, \$600 will be credited to your account ($\$6.00 \times 100 \text{ shares} = \600). This is just the opposite of purchasing an option. As noted previously, buying an option for 6.00 points would result in \$600 being deducted from your account.

Selling a call option is a bearish strategy. An investor who sells a call option is also known as the 'writer'. Selling a call is also known as being 'short' a call. The value of a call option declines as the underlying ETF decreases in price. Being 'short' a call option generates profits as the call option decreases in value.

If you sell a call option and the call option subsequently decreases in price then you can 'buy back' the short call at a lower price which will result in a profit for the call writer (Sell high and buy low). For example, if you sell a call option for 5.00 points and then later buy the call back for 3.00 points you would realize a 2.00 point profit.

Sell call at 5.00 and then buy back at 3.00 = 2.00 profit

This is a similar concept to 'shorting' a stock. If you short a stock that drops in price and then subsequently buy the stock back at a lower price you would realize a profit. For example, if you short the Emerging Market ETF (EEM) at 74.25 and subsequently buy the ETF back at 70.00 you would realize a 4.25 point profit.

Sell EEM at 74.25 and buy back at 70.00 = 4.25 profit

If you sell a call option for 5.00 points and then later buy the call back at a higher price let's say 7.00 points you would realize a 2.00 point loss.

Sell call at 5.00 and then buy back at 7.00 = 2.00 loss

Selling a put option is a bullish strategy. An investor who sells a put option is also known as the 'writer'. Selling a put is also known as being 'short' a put. The value of a put option declines as the underlying ETF increases in price. If you sell a put option and the underlying ETF subsequently increases in price then you can 'buy back' the short put at a lower price which will result in a profit for the put writer. For example, if you sell a put option for 5.00 points and then later buy the put back for 3.00 points you would realize a 2.00 point profit.

Sell put at 5.00 and then buy back at 3.00 = 2.00 profit.

If you sell a put option for 5.00 points and then later buy the put back at a higher price let's say 7.00 points you would realize a 2.00 point loss.

Sell put at 5.00 and then buy back at 7.00 = 2.00 loss

Note: When you buy an option, you can sell the option any time prior to option expiration.

Let's review the types of option orders that you would give to your broker (or online) to make sure you understand this important concept.

Order	Result
Buy Call to Open	Establishes Long Call Position
Buy Put to Open	Establishes Long Put Position
Sell Call to Close	Closes Out Long Call Position
Sell Put to Close	Closes Out Long Put Position
Sell Call to Open	Establishes Short Call Position
Sell Put to Open	Establishes Short Put Position
Buy Call to Close	Closes Out Short Call Position
Buy Put to Close	Closes Out Short Put Position

Option Pricing

There are three major factors that determine the price of an option:

Strike Price in Relation to the Market Price

In-the-money options have more intrinsic value and are more expensive than out-of-the-money options. The deeper an option is in-the-money the more intrinsic value it will have and the more expensive it will be. In-the-money options are more expensive than at-the-money and out-of-the-money options.

Time Until Expiration

The longer an option has before expiration, the more expensive it will be. More time until expiration means more time value and a higher price. Options are known as a "wasting asset." Options lose time value with the passage of time.

Volatility: The more volatile the stock, the more expensive the option will be.

Because volatile stocks have larger price moves, there is a higher probability that an out-of-the-money option will become an in-the-money option with intrinsic value.

Option premiums consist of intrinsic value and time value. At option expiration options lose all time value and consist of only intrinsic value. Intrinsic value is the difference between the option strike price and the current price of the underlying ETF. The intrinsic value of a **call** option is calculated by subtracting the strike price of the option from the current ETF price. For example, let's assume the Emerging Market ETF is currently trading at 75.00 and the April 70-Strike call option is priced at 7.00 points. The intrinsic value of this option would be 5.00 points.

Current ETF Price of 75.00 Minus Strike Price of 70.00 = 5.00 Intrinsic Value

The time value of an option is calculated by subtracting the intrinsic value from the total value of the option. In this example the 70-Strike option priced at 7.00 would have 2.00 points of time value.

Option Price of 7.00 Minus Intrinsic Value of 5.00 = Time Value of 2.00

In this example, if the Emerging Market April 80-Strike call option is priced at 3.00 then this call option would have no intrinsic value and would only contain time value.

Current Stock Price of 75.00 Minus Strike Price of 80.00 = 0.00 Intrinsic Value

Option Price of 3.00 Minus Intrinsic Value of 0.00 = Time Value of 3.00

The intrinsic value of a *put* option is calculated by subtracting the current price of the ETF from the strike price of the put. Let's assume again that the Emerging Market ETF (EEM) is trading at 75.00 and the EEM April 80-Strike put option is priced at 8.00 points. The intrinsic value of this option would be 5.00 points and the time value would be 3.00 points.

Strike Price of 80.00 Minus Current ETF Price of 75.00 = 5.00 Intrinsic Value

Option Price of 8.00 Minus Intrinsic Value of 5.00 = Time Value of 3.00

In the above example, if the EEM April 70-Strike put option is priced at 2.00 then this put option would have no intrinsic value and would only contain time value.

Strike Price of 70.00 Minus ETF Price of 75.00 = 0.00 Intrinsic Value

Option Price of 2.00 Minus Intrinsic Value of 0.00 = Time Value of 2.00

Option Symbols

An option symbol is comprised of several components that define the underlying ETF and information about the specific option contract. An option symbol consists of the ETF trading symbol, year of expiration, expiration date, option type (call or put) and strike-price.

There are many financial websites available today that will give you option quotes. I like to use Yahoo Finance or the Chicago Board Options Exchange website at www.cboe.com to obtain option quotes.

The quote table that follows was downloaded from Yahoo. After logging on to the Yahoo Finance website type in the ETF trading symbol and click 'Get Quotes'. When the quote summary appears, click 'Options' on the left column. The option webpage will give bid and ask quotes for all of the strike prices and expiration months available for that particular ETF.

The table below contains an option quote for the Emerging Markets ETF (EEM) call options. Let's focus on the EEM January 2013 30-Strike call option which is circled. The symbol for this option is EEM130119C00030000.

EEM 13 0119 C 00030000

EEM is the trading symbol for the Emerging Markets ETF

13 is the expiration year 2013

0119 is the option settlement date January 19th

C designates a call option (put options are designated with a "P")

00030000 designates a 30-Strike price

iShares MSCI Emerging Markets Index (EEM) <small>At 4:00PM EST: 46.03 ↑ 0.47 (1.03%)</small>							
Call Options				Expire at close Friday, January 18			
Strike	Symbol	Last	Chg	Bid	Ask	Vol	Open Int
30.00	<u>EEM130119C00030000</u>	17.10	↓ 0.20	17.20	17.75	30	137
33.00	EEM130119C00033000	14.70	0.00	14.25	15.80	0	10
34.00	EEM130119C00034000	14.00	0.00	13.45	15.00	0	10
35.00	EEM130119C00035000	13.05	0.00	13.45	13.80	0	50

Option expiration day is normally the third Friday of the option expiration month. In this example, the January '13 call option would expire on Friday January 18th 2013.

Note: Option expiration is the last day options trade and is normally the third Friday of the month in this example Friday January 18th. The option settlement date is the Saturday after expiration day in this example Saturday January 19th. Put options use the same symbol designations except a put option is designated with a "P".

The value of his call option on option expiration day would be determined by the price of the underlying ETF. The 30-Strike call option will have intrinsic value at option expiration if the EEM ETF is trading above 30. If EEM was trading at 40.00 on option expiration day then the 30-Strike call option would have an intrinsic value of 10.00.

Current ETF Price of 40.00 Minus Strike Price of 30.00 = 10.00 Intrinsic Value

Exercise and Assignment

Exercise is the term used when the buyer of a call option uses their right to purchase the underlying ETF at the strike price on the close of option expiration day (third Friday of expiration month). Buyers of put options have the right to sell the underlying ETF at the strike price.

Assignment is the term used when the seller of an option is obligated to deliver or receive the underlying ETF. If you are short a call option and are assigned you will sell the underlying ETF at the strike price. When the option buyer exercises their option contract, the seller of the contract receives a notice of assignment from their broker. Your broker handles the entire option exercise/assignment transaction.

Most option contracts are never exercised. They either expire worthless or are closed out prior to option expiration. *All options that are 'in-the-money' at option expiration are automatically exercised.*

A Call Option Is 'In-the-Money' if the Strike Price Is Lower Than the ETF Price

A Put Option Is 'In-the-Money' if the Strike Price Is Higher Than the ETF Price

If you are long or short a put or a call and the option is in-the-money approaching option expiration you must close out your option position prior to the close on option expiration day or the option will be automatically be exercised/assigned.

LEAPS

LEAPS (Long-term Equity Anticipation Securities) are long term options with expiration dates that are up to three years away. Not all optionable ETFs trade LEAPS options. LEAPS options can be used for long-term investing, hedging or to generate income. LEAPS options expire in January.

The information presented in this Chapter is sometimes difficult to understand initially especially for novice investors. The upcoming Chapter on option investing gives detailed instructions on how to implement the option strategies along with actual trade examples. I think your understanding of option investing will become much clearer as you read this Chapter. Please refer back to this Chapter as needed when you read the upcoming Chapter on option investing. Once you understand the mechanics of option investing you can take advantage of the tremendous profit opportunities available with option investing.

Options Glossary

Underlying ETF: The ETF that you have the right to buy and sell

Premium: The price of the option

Expiration Date: Options expire on the third Friday of the month. In-the-money options that are still open on the expiration date are automatically exercised/assigned on expiration day. Options can be closed out any time prior to expiration day.

Exercise: You can either sell your option on or before option expiration or exercise your option at option expiration. If you are long a call option you have a right to buy the underlying ETF at the strike price if you exercise. If you are long a put option you have the right to sell the underlying ETF at the strike price if you exercise.

Strike Price: The price at which you can exercise your option. Call option buyers have the right to buy the underlying ETF at the strike price. Put option buyers have the right to sell the underlying ETF at the strike price.

In-the-Money: Calls are in-the-money if the price of the underlying ETF is higher than the strike price. A call with a 25-Strike price is in-the-money if the underlying ETF is trading at 27. Puts are in-the-money if the price of the underlying ETF is lower than the strike price. A put with a 25-Strike price is in-the-money if the underlying ETF is trading at 22.

At-the-Money: Strike price that is closest to the current price of the underlying ETF.

Out-of-the-Money: Calls are out-of-the-money if the price of the underlying ETF is lower than the strike price. Puts are out-of-the-money if the price of the underlying ETF is higher than the strike price.

Chapter 5

GPS Trading Strategies

The *Global PowerTrend System* utilizes the *Major Trend System* and *Short Term Trend System* to identify buy and sell signals in the global currency, commodity and equity markets.

When the *GPS Major Trend System* or *Short Term Trend System* indicates a price up trend, traders can initiate three types of bullish trades:

Bullish Trades

- 1) Purchasing ETFs
- 2) Purchasing Call Options
- 3) Bullish Option Spreads*

* Note: Bullish option spreads are initiated by purchasing a call option and selling to open a call option with a higher strike price.

When the *GPS Major Trend System* or *Short Term Trend System* indicates a price down trend, traders can initiate three types of bearish* trades:

Bearish Trades

- 1) Purchasing Short or Inverse ETFs*
- 2) Purchasing Put Options
- 3) Bearish Option Spreads**

* The *GPS* does not sell short which is a high risk strategy. Instead bearish positions are initiated by purchasing bearish or inverse ETFs, purchasing put options or creating bearish option spreads which are limited risk trades.

** Note: Bearish option spreads are initiated by purchasing a put option and selling to open a put option with a lower strike price.

Bullish Trade Examples

\$528,499.68 in Open Trade Profits

Copies of my brokerage account Profit/Loss Reports that follow show \$528,499.68 in open trade profits that were generated by the *GPS Major Trend* and *Short Term Trend Systems* despite the current market volatility and uncertain economy.

Most of the trades are ETF trades in strong market sectors such as energy, financials, technology, S&P 500 Index, basic materials and small cap stocks. There are currently no losing trades.

Portfolios Alerts | Transfer Money | Bill Pay | Help

Portfolios Performance & Value Positions Gains & Losses Risk Analyzer Portfolio Analyzer Income Estimator

Account/Watch List: Create / Edit List View: Performance Customize /

Market Value: \$920,899.62 (\$331,237.63 / 23.57%)

REFRESH STREAMING QUOTES EXPORT TO EXCEL Results per Page: 200

Symbol	Buy / Sell	Last Trade	Change \$ %	Day's Gain	Qty	Price Paid	Total Gain \$ %	Market Val	Edit
AAPL	Buy / Sell	358.00	-5.13 -1.41%	-\$2,565.00	500	\$273.62	\$42,151.65 30.80%	\$179,000.00	Edit
BIDU	Buy / Sell	129.00	0.29 0.23%	\$406.00	1,400	\$84.47	\$62,296.38 52.66%	\$180,600.00	Edit
DIG	Buy / Sell	58.14	1.19 2.09%	\$3,570.00	3,000	\$49.38	\$26,270.02 17.73%	\$174,420.00	X
FAS	Buy / Sell	34.1701	0.06 0.18%	\$360.60	6,000	\$29.55	\$27,642.77 15.58%	\$205,020.60	X
NOV	Buy / Sell	81.6342	0.93 1.16%	\$1,868.40	2,000	\$63.05	\$37,116.81 29.42%	\$163,268.40	Edit
QLD	Buy / Sell	94.926	0.02 0.02%	\$57.60	3,600	\$70.26	\$88,753.17 35.08%	\$341,733.60	Edit
SSO	Buy / Sell	54.5599	0.36 0.66%	\$1,079.70	3,000	\$50.61	\$11,821.72 7.78%	\$163,679.70	X
UWM	Buy / Sell	48.24	0.72 1.52%	\$2,736.00	3,800	\$44.19	\$15,368.05 9.15%	\$183,312.00	X
UYM	Buy / Sell	56.0301	0.71 1.28%	\$2,272.32	3,200	\$48.69	\$23,432.45 15.03%	\$179,296.32	Edit

Portfolios

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Account/Watch List: Create / Edit List View: Performance Customize /

Market Value: \$465,492.30 (\$197,262.05 / 27.54%)

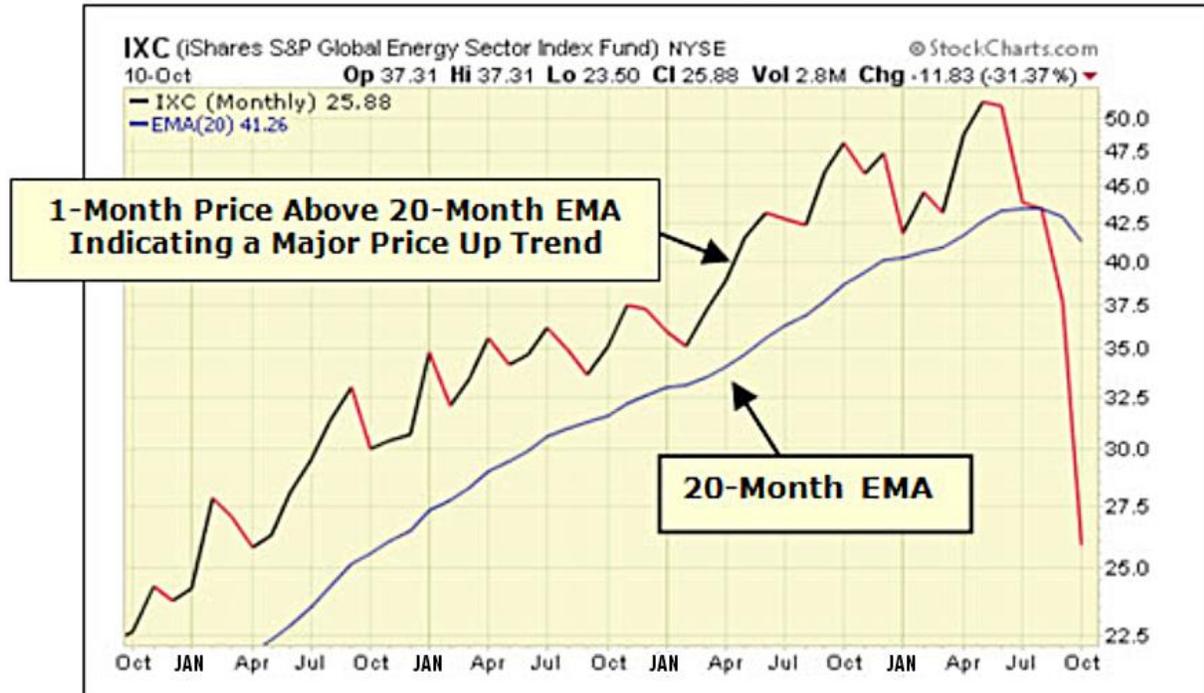
REFRESH STREAMING QUOTES EXPORT TO EXCEL Results per Page: 200

Symbol	Buy / Sell	Last Trade	Change		Day's Gain	Qty	Price Paid	Total Gain		Market Val	Edit
			\$	%				\$	%		
AAPL	Buy / Sell	358.0599	-5.07	-1.40%	-\$1,368.93	270	\$292.61	\$17,655.53	22.34%	\$96,676.17	Edit
BIDU	Buy / Sell	129.10	0.39	0.30%	\$312.00	800	\$77.52	\$41,253.36	66.51%	\$103,280.00	Edit
DIG	Buy / Sell	58.0999	1.15	2.02%	\$1,493.90	1,700	\$51.09	\$11,885.91	13.68%	\$98,769.83	X
FAS	Buy / Sell	34.17	0.06	0.18%	\$228.00	3,800	\$29.88	\$16,231.47	14.29%	\$129,846.00	X
NOV	Buy / Sell	81.65	0.95	1.18%	\$1,235.00	1,300	\$62.40	\$24,974.84	30.77%	\$106,145.00	Edit
QLD	Buy / Sell	94.97	0.06	0.06%	\$126.00	2,100	\$66.49	\$59,771.14	42.80%	\$199,437.00	Edit
UWM	Buy / Sell	48.25	0.73	1.54%	\$1,460.00	2,000	\$42.00	\$12,487.44	14.86%	\$96,500.00	Edit
UYM	Buy / Sell	56.02	0.70	1.27%	\$1,260.00	1,800	\$47.91	\$14,572.13	16.89%	\$100,836.00	Edit

Call Option Trade Examples

The four monthly price charts that follow show that these global markets were on a *GPS Major Trend System* "buy" signal with their 1-Month price above the 20-Month EMA. I created bullish option spreads and purchased call options for these markets. Option spreads and call option purchases will be covered in Chapter 5.

Global Energy



Brazil Fund



Europe Australia & Far East Fund



BLDRS Emerging Markets



70% Average Return Over 7 Week Period

My brokerage account Profit/Loss Report below shows the purchase of call options and bullish option spreads on the four global markets just presented and other ETFs that were also on a *GPS Major Trend System* "buy" signal. The cost of the portfolio positions was \$71,855.86 and the profit after commissions was \$50,104 resulting in a 70% average return. The average holding period for these trades was seven weeks.

Note: In this portfolio, I traded 10 option contracts per trade. If you traded one contract per trade, this portfolio would only require \$7,186 of trading capital and could be traded in a smaller account.

Account Reports: Profit/Loss Report PRNT

Give your accountant a break. View profits/losses for all trades executed on one specific date or during a range of dates. Track by position, whether it's closed, or still opened. Download to a spreadsheet for easy manipulation, processing and tax reporting.

Trade date:

Trade date:

Symbol: Show detailed unrealized positions

* To see all transactions within specified date range leave symbol blank Guide to the Profit/Loss Report

Unrealized P&L on Open Positions							
Symbol	Description	Position	Avg Price	Cost Basis	Market Value	Type	Unrealized Val.
+BBHFP	Biotech Holdrs Tr Deposry Rcpts Jun 180.00 Call	10	\$11.1750	\$11,175.00	\$3,400.00	Stock Option	-\$7,775.00
+BBHFR	Biotech Holdrs Tr Deposry Rcpts Jun 190.00 Call	-10	-\$3.8249	\$3,824.94	-\$100.00	Stock Option	\$3,724.94
+EEMFE	Ishares Tr Msci Emerg Mkt Jun 125.00 Call	-10	-\$3.6649	\$3,664.94	-\$5,700.00	Stock Option	-\$2,035.06
+EEMFT	Ishares Tr Msci Emerg Mkt Jun 100.00 Call	10	\$15.0050	\$15,005.00	\$29,200.00	Stock Option	\$14,195.00
+EWZII	Ishares Inc Msci Brazil Sep 45.00 Call	10	\$8.2350	\$8,235.00	\$16,300.00	Stock Option	\$8,065.00
+EWZIK	Ishares Inc Msci Brazil Sep 55.00 Call	-10	-\$4.9649	\$4,964.92	-\$7,800.00	Stock Option	-\$2,835.08
+LXLAF	Ishares Tr Msci Eafe Idx Jan 84.00 Call	-10	-\$3.9649	\$3,964.91	-\$3,900.00	Stock Option	\$64.91
+LXLAR	Ishares Tr Msci Eafe Idx Jan 70.00 Call	10	\$8.8850	\$8,885.00	\$14,100.00	Stock Option	\$5,215.00
+OIHFJ	Oil Svc Holdrs Tr Deposry Rcpt Jun 150.00 Call	10	\$13.2650	\$13,265.00	\$24,200.00	Stock Option	\$10,935.00
+OIHFK	Oil Svc Holdrs Tr Deposry Rcpt Jun 155.00 Call	10	\$14.2350	\$14,235.00	\$19,300.00	Stock Option	\$5,065.00
+OIHFL	Oil Svc Holdrs Tr Deposry Rcpt Jun 160.00 Call	-10	-\$6.2949	\$6,294.90	-\$14,500.00	Stock Option	-\$8,205.10
+OIHFM	Oil Svc Holdrs Tr Deposry Rcpt Jun 165.00 Call	-10	-\$10.1648	\$10,164.82	-\$9,800.00	Stock Option	\$364.82
+QDFFH	Bldrs Index Fds Tr Emer Mk 50 Adr Jun 34.00 Call	10	\$5.2350	\$5,235.00	\$10,800.00	Stock Option	\$5,565.00
+QDFFN	Bldrs Index Fds Tr Emer Mk 50 Adr Jun 40.00 Call	-10	-\$2.9649	\$2,964.94	-\$2,600.00	Stock Option	\$364.94
+WPPAI	Select Sector Spdr Tr Sbi Materials Jan 35.00 Call	10	\$5.4350	\$5,435.00	\$7,100.00	Stock Option	\$1,665.00
+WGTAI	Select Sector Spdr Tr Sbi Int-Utlis Jan 35.00 Call	10	\$6.8350	\$6,835.00	\$6,800.00	Stock Option	-\$35.00
+XBTGM	Select Sector Spdr Tr Sbi Int-Energy Jul 65.00 Call	10	\$4.5350	\$4,535.00	\$5,600.00	Stock Option	\$1,065.00
+YECAC	Select Sector Spdr Tr Sbi Int-Energy Jan 55.00 Call	10	\$10.9350	\$10,935.00	\$16,500.00	Stock Option	\$5,565.00
+YECAP	Select Sector Spdr Tr Sbi Int-Energy Jan 68.00 Call	-10	-\$5.9649	\$5,964.90	-\$6,700.00	Stock Option	-\$735.10
+YOFAD	Ishares Tr Ftse Xnhua Idx Jan 120.00 Call	-10	-\$7.9649	\$7,964.87	-\$8,200.00	Stock Option	-\$235.13
+YOFAW	Ishares Tr Ftse Xnhua Idx Jan 90.00 Call	10	\$17.4950	\$17,495.00	\$27,600.00	Stock Option	\$10,105.00
Total Unrealized Gain-Loss:							\$50,104.14

Once bullish trades are established I use the Trade Management Guidelines presented in Chapter 2 or a *GPS Major Trend System* reversal to a price down trend to exit bullish trades.

A 70% return over a 7 week period is a high rate of return which was possible due to the leverage that options provide. Let's take a look next at the details of some of the option trades above so that you can understand the important concept of leverage and how leverage can provide a high rate of return. Remember that even though *GPS* option trades use leverage, they are all limited risk trades and you can't lose more than your initial investment regardless of adverse market moves.

My brokerage account confirmation below shows that on December 12th I purchased 5 of the Emerging Market ETF June 100-Strike call options symbol EEMFT at 14.20

points (circled). The Emerging Market ETF was in a *GPS Major Trend System* price up trend. These options expire in about six months.

USD - US DOLLAR

Trades

Trade Date	Settlement Date	Trade Time	Action	Quantity	Symbol	Price
12/12	12/13	11:13:26 am	Buy to Open	5	-YOF AW	16.200000
12/12	12/13	11:17:47 am	Buy to Open	5	+EWZFH	7.900000
12/12	12/13	11:18:47 am	Buy to Open	5	+EEMFT	14.200000

My brokerage account Profit/Loss Report below shows that about six months later on June 14th I sold the 5 EEMFT call options at 29.30 points resulting in a \$7,514.77 net profit after commissions. This resulted in a 106% return for the option trade.

* To see all transactions within specified date range leave symbol blank [Guide to the Profit/Loss Report](#)

[Click here to download data](#)

Realized P&L on Closed Positions

Symbol	Date Bought	Date Sold	Shares	Cost Basis	Sales Price	Gain/Loss
+EEMFT	12/12 11:18:47 AM	6/14 11:49:01 AM	5	\$7,127.50	\$14,642.27	\$7,514.77
+EEMFT	12/14 3:28:40 PM	6/14 11:49:01 AM	5	\$7,877.50	\$14,642.27	\$6,764.77

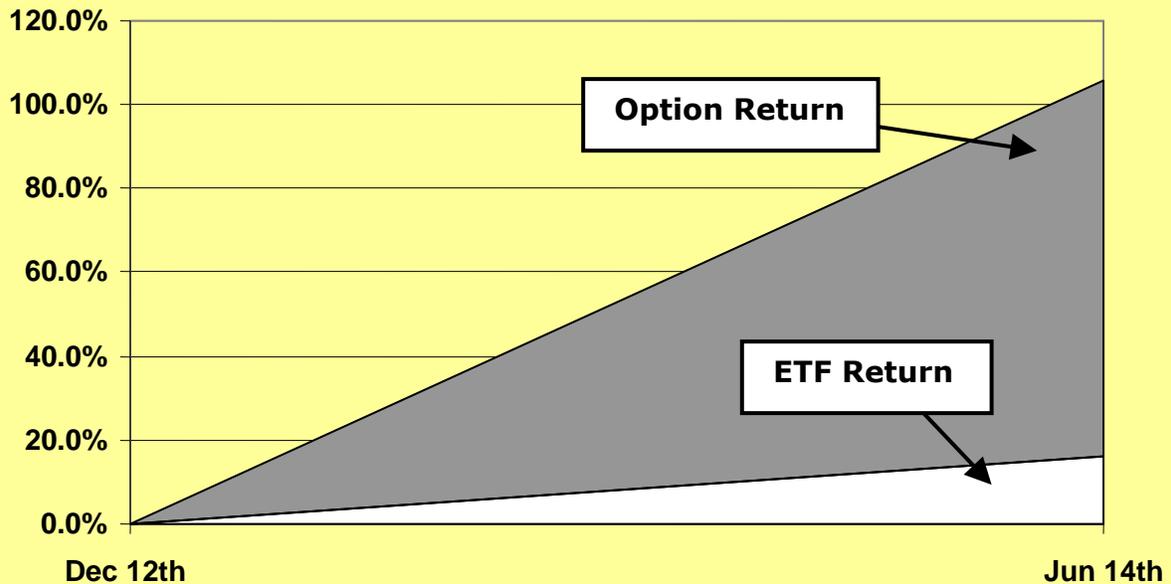
On December 12th when I purchased the EEM options, the Emerging Markets ETF was trading at 111.30. Six months later on June 14th the ETF was trading at 129.20. Purchasing the Emerging Markets ETF at 111.30 on December 12th and selling on June 14th at 129.20 would result in a 16% return. Over the same period of time my option trade produced a 106% return which is 6.6 times greater than the ETF trade demonstrating the leverage available from trading options.

Option Return 6.6 Times Greater Than ETF Return

	Purchase Price	Sale Price	Point Profit	Percent Return
ETF	111.30	129.20	17.90	16.0%
Option	14.20	29.30	15.10	106.3%

16% ETF Return = 106% Option Return

Option Trade Provides 6.6 to 1 Leverage Compared to ETF



6 to 1 Leverage = Profit Opportunity

Options Are Highly Leveraged and
Can Provide a High Rate of Return

ETF Investor

- Buys 100 Shares of Emerging Market ETF at 111.30
- ETF Increases 16% to 129.20

Results:

- Big Investment \$11,130
- Modest Profit 16%

Option Investor

- Buys 100-Strike Call Option for \$1,420
- ETF Increases 16% to 129.20
- Call Option Increases in Value to 29.30

Results:

- Small Investment \$1,420
- Big Profit 106% Which Allows a High Rate of Return

Additional Trade Examples

My brokerage account confirmations below show additional examples of ETF option trades. I purchased 10 of the Brazil Index ETF 45-Strike call options symbol EWZII at 8.20 points and 10 of the Bldrs Emerging Mrkt ETF 34-Strike call options symbol QDFFH at 5.20 points. Both of these ETFs were in a *GPS Major Trend System* "buy" mode.

USD - US DOLLAR						
Trades						
Trade Date	Settlement Date	Trade Time	Action	Quantity	Symbol	Price
04/04	04/05	11:21:24 am	Buy to Open	10	+EWZII	8.200000

USD - US DOLLAR						
Trades						
Trade Date	Settlement Date	Trade Time	Action	Quantity	Symbol	Price
01/17	01/18	9:42:56 am	Buy to Open	10	-IAHHH	6.500000
01/17	01/18	10:32:03 am	Buy to Open	10	-QDFFH	5.200000

My brokerage account Profit/Loss Report below shows that I sold the 10 EWZII calls at 14.90 points and the QDFFH calls at 10.6 points. This resulted in a \$6,619.75 profit and an 82% return for EWZII and a \$5,349.81 profit and a 104% return for QDFFH.

* To see all transactions within specified date range leave symbol blank. [Guide to the Profit/Loss Report](#)

[Click here to download data](#)

Realized P&L on Closed Positions

Symbol	Date Bought	Date Sold	Shares	Cost Basis	Sales Price	Gain-loss
+EWZII	4/4 11:21:24 AM	6/11 11:55:18 AM	10	\$8,235.00	\$14,854.75	\$6,619.75
+QDFFH	1/17 10:32:03 AM	6/13 3:16:07 PM	10	\$5,235.00	\$10,584.81	\$5,349.81

Over the same time period purchasing the Brazil Index ETF would have produced a 14% return compared to the 82% return for the option. The option purchase provided 5.9 to 1 leverage compared to the ETF purchase.

Brazil ETF Option Return 5.9 Times Greater Than ETF Return

	Purchase	Sale	Point	Percent
	Price	Price	Profit	Return
ETF	51.10	58.20	7.10	14%
Option	8.20	14.90	6.70	82%

And purchasing the Bldrs Emerging Mrkt ETF would have produced a 16.7% return over the same time period compared to the 103.8% return for the Bldrs Emerging Mrkt option. The option purchase provided 6.2 to 1 leverage compared to the ETF purchase.

Bldrs ETF Option Return 6.2 Times Greater Than ETF Return				
	Purchase	Sale	Point	Percent
	Price	Price	Profit	Return
ETF	38.20	44.60	6.40	16.7%
Option	5.20	10.60	5.40	103.8%

The Power of Leverage

On average these three ETF option trade examples provided 6.2 times more profit compared to the purchase of their underlying ETFs over the same time period. The 6.2 to 1 leverage provided by options can dramatically increase profit results.

Let's take a look at historical profit results for trading options instead of ETFs using the *GPS Major Trend System*. Call options are purchased for *GPS Major Trend System* "buy" signals and put options are purchased for "sell" signals. Let's assume in the historical testing that the option trades provided 6 to 1 leverage compared to ETF trades. Historical profit results are theoretical as options were not available for some ETFs at the beginning of the test period.

I conducted historical option testing on the same diversified portfolio of eight global markets that were used for historical ETF testing in Chapter 3. The eight global markets are listed below.

GPS Diversified Global Portfolio

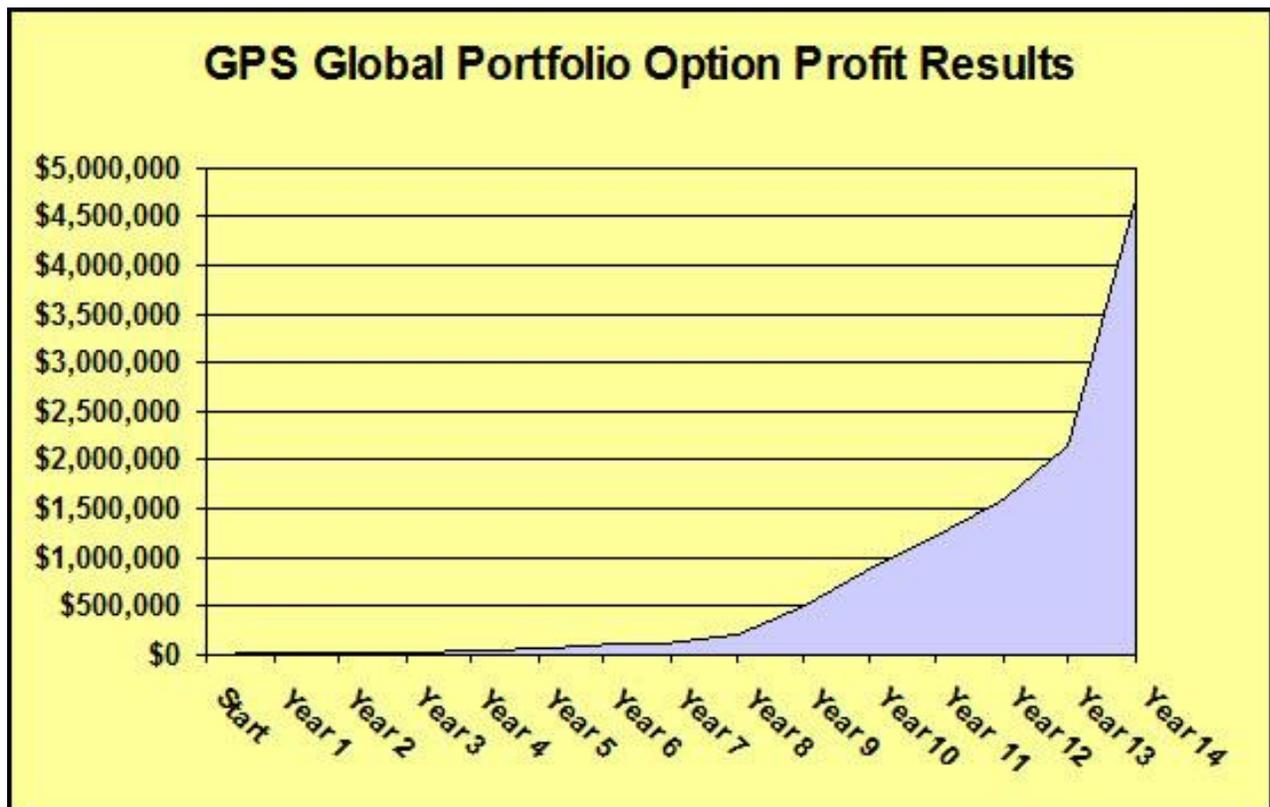
Crude Oil		Euro Currency
MSCI Emerging Market Index		20-Year Treasury Bonds
iShares Latin America		MSCI Brazil
iShares Europe		S&P 500 Index

The historical profit results that follow were conducted over a recent 14 year period (or ETF inception). Results are based on an initial investment of \$4,600 divided equally among the eight global markets and compounding the results thereafter and do not include commissions. I chose the \$4,600 initial investment because I started my options trading career in 1984 with a \$4,600 trading account.

The *GPS Major Trend System* option historical profit results for the diversified Global Portfolio of eight markets are displayed in the Profit Results Table and Profit Graph below.

GPS Global Portfolio Option Historical Results

Initial Investment	\$4,600
Number Years	13 ³ / ₄
Net Profit	\$4,672,382
Total Return	101,573%
Average Annual Return	7,387%
Percent Winning Trades	81.0%
Total Profits	\$4,892,509
Total Losses	\$220,127
Profit:Loss Ratio	22.2 to 1



\$4,600 Grows to Over 4.6 Million Dollars!

Historical results reveal that the *GPS Major Trend System* produced impressive profits trading options with very low risk. A \$4,600 investment grew to \$4,676,982 over the 14 year test period. After deducting the initial \$4,600 investment, the net profits were \$4,672,382 (before commissions) which equates to a 101,573% return on the initial \$4,600 investment. Over the almost fourteen year test period this translates to a 7,387% average annual return. This is an excellent annual return for a system with very low risk. All years were profitable.

\$22 of Profit for Each 1 Dollar of Loss

The system produced \$4,892,509 in total profits and \$220,127 in total losses. Dividing the total profits by the total losses results in a Profit to Loss Ratio of 22.2 to 1 which translates to more than 22 dollars of profit for each 1 dollar of loss.

The Profit to Loss Ratio is a good measure of risk. A high Profit to Loss Ratio indicates that the *GPS Major Trend System* keeps losses to a minimum by exiting losing trades before a big loss occurs. The *GPS Major Trend System* normally exits a trade before a big loss occurs and provides you with the discipline necessary to become a successful options trader.

Keep in mind that two global bear markets occurred during this period including the worst bear market since 1932 during which the S&P 500 Index lost 50% of its value and the NASDAQ suffered a 76% loss. These profit results demonstrate that the *GPS Major Trend System* is a versatile, effective method for trading options during any type of market condition.

Broad Global and Asset Class Diversification

Most trading programs recommend diversifying your option portfolio across different industry groups. One of the great advantages of the *GPS Major Trend System* is that it allows you to also trade global markets with the best profit opportunities. The System also enables you to diversify your option portfolio by asset class which further reduces risk and can result in higher returns. The ability of the *GPS Major Trend System* to take both bullish and bearish option trades also increases the diversity and profit opportunities of the system.

GPS Major Trend System Individual Market Profit Results

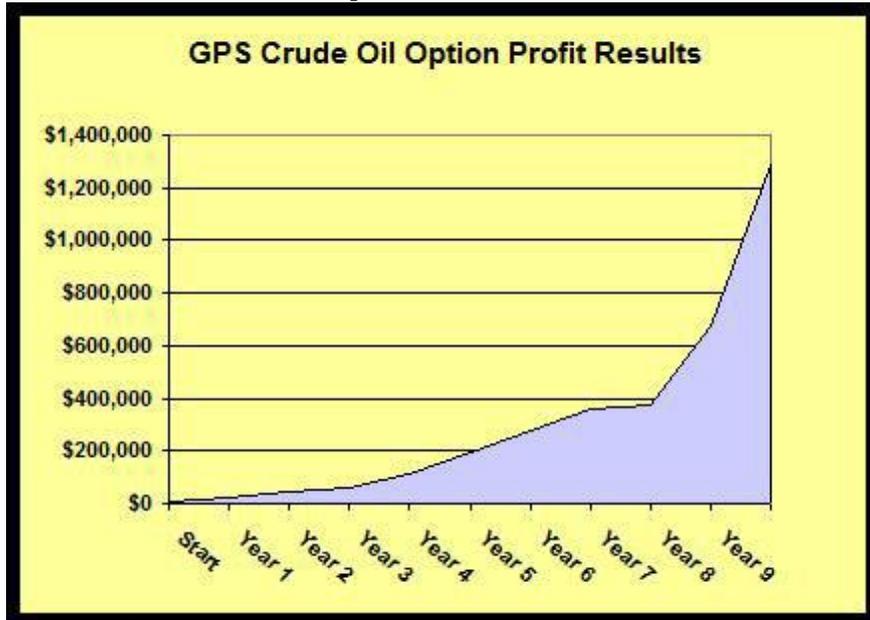
The *GPS Major Trend System* option historical profit results for individual markets are displayed in the Profit Results Equity Graphs and Profit Results Tables that follow.

Emerging Market Option Profit Results



Initial Investment	\$10,000
Number Years	5
Profit	\$365,744
Total Return	3,657%
Avg Annual Return	731%
Profit:Loss Ratio	No Losses

Crude Oil Option Profit Results



Initial Investment	\$10,000
Number Years	9
Profit	\$1,281,372
Total Return	12,813%
Avg Annual Return	1,423%
% Winning Trades	60%
Profit:Loss Ratio	10 to 1

Europe Index Option Profit Results



Initial Investment	\$10,000
Number Years	7
Profit	\$515,347
Total Return	5,153%
Avg Annual Return	736%
% Winning Trades	100%
Profit:Loss Ratio	No Losses

Treasury Bond Option Profit Results



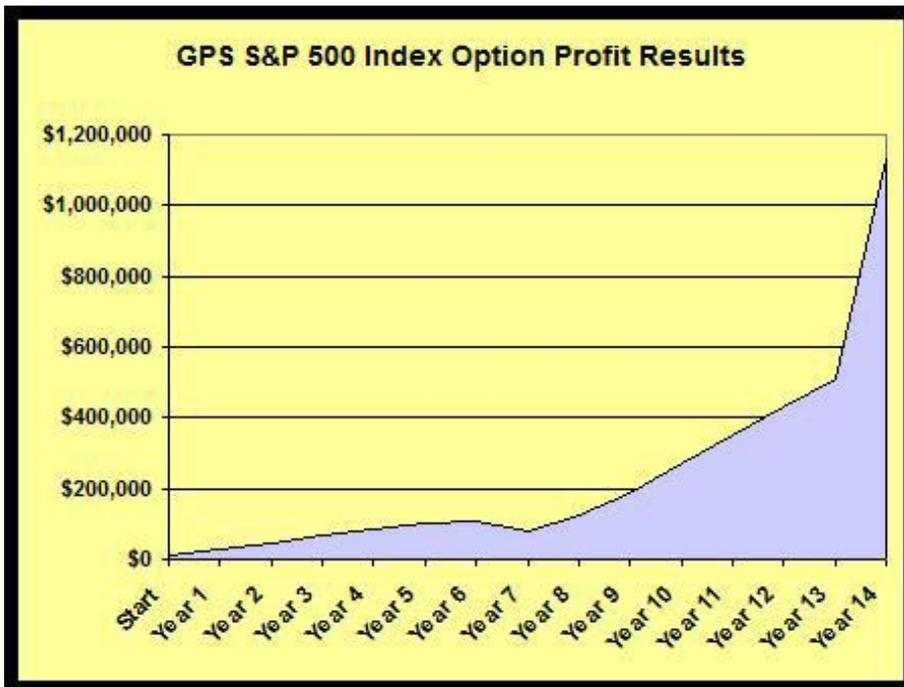
Initial Investment	\$10,000
Number Years	5
Profit	\$53,626
Total Return	536%
Avg Annual Return	107%
% Winning Trades	100%
Profit:Loss Ratio	No Losses

Brazil ETF Option Profit Results



Initial Investment	\$10,000
Number Years	5
Profit	\$906,672
Total Return	9,066%
Avg Annual Return	1,813%
Profit:Loss Ratio	No Losses

S&P 500 Index Option Profit Results



Initial Investment	\$10,000
Number Years	14
Profit	\$1,121,884
Total Return	11,218%
Avg Annual Return	801%
Profit:Loss Ratio	15 to 1

Euro Currency Option Profit Results



Initial Investment	\$10,000
Number Years	6
Profit	\$47,654
Total Return	476%
Avg Annual Return	79%
% Winning Trades	67%
Profit:Loss Ratio	25 to 1

Latin America Option Profit Results



Initial Investment	\$10,000
Number Years	5
Profit	\$597,224
Total Return	5,972%
Avg Annual Return	1,194%
Profit:Loss Ratio	No Losses

Real Time Option Results

75.4% Average Return in Seven Weeks

My brokerage account Profit/Loss Report shows my option portfolio with an average gain of 75.4 % for the option trades listed below. Five of the six trades are ETF option trades. I used the *GPS Major Trend* and *Short Term Trend Systems* to select these ETF trades in the energy, financial, small cap, NASDAQ and S&P 500 sectors. The average holding period for these trades is seven weeks.

Security	Open Date	Quantity	Open Unit Cost	Open Amount	Current Price	Current Value	Gain/Loss	Gain/Loss Percent
				\$93.33		\$93.33	\$0.00	
				\$93.33		\$93.33	\$0.00	
PCS CASH TR SER PRIME CASH		93.33	1	\$93.33	1	\$93.33	\$0.00	
				\$13759.40		\$24212.00	\$10452.60	75.97%
				\$13759.40		\$24212.00	\$10452.60	75.97%
.CAT052111C80 CATERPILLAR INC CALL CAT 052111 80		2	11.772	\$2354.40	26.15	\$5230.00	\$2875.60	122.14%
.DIG061811C43 PROSH ULTRA OIL&GAS ETF CALL DIG 061811 43		2	8.372	\$1674.40	15.3	\$3060.00	\$1385.60	82.75%
.FAS041611C25 DRXN FIN BL 3X NEW ETF CALL FAS 041611 25		4	6.342	\$2536.80	9.5	\$3800.00	\$1263.20	49.80%
.NVM031911C72 ISHRS RUSSELL 2000 ETF CALL NVM 031911 72		3	7.302	\$2190.60	11.44	\$3432.00	\$1241.40	56.67%
.QLD041611C70 PROSH ULTRA QQQ ETF CALL QLD 041611 70		2	14.572	\$2914.40	22.35	\$4470.00	\$1555.60	53.38%
.SSO031911C44 PROSH ULTRA S&P 500 ETF CALL SSO 031911 44		4	5.222	\$2088.80	10.55	\$4220.00	\$2131.20	102.03%
				\$13852.73		\$24305.33	\$10452.60	75.46%

Bullish Option Spreads

Let's now take a look at an example of an ETF bullish option spread. Bullish option spreads can be initiated when the *GPS Major Trend System* or *Short Term Trend System* indicate a price up trend by purchasing a call option and selling a call option with a higher strike price. The call option purchase and sale can be done simultaneously or you can "leg in" to the spread by purchasing a call option and selling a call option to create a spread at a later date.

The price chart below displays the 1-Month/20-Month EMA for the Europe, Australia & Far East ETF (EFA). When I initiated a bullish call option spread the EFA ETF was in a *GPS Major Trend System* bullish mode with its 1-Month price above the 20-Month EMA (chart courtesy of stockcharts.com).



My brokerage confirmation below shows that I purchased 10 of the EFA January 70-Strike call options symbol LXLAR in increments with an average price of 8.83. I then sold 10 of the EFA January 84-Strike call options symbol LXLAF at 4.00 points on June 4th. The maximum profit potential for this spread trade is realized if the EFA ETF closes at or above 84.0 at option expiration.

USD - US DOLLAR						
Trades						
Trade Date	Settlement Date	Trade Time	Action	Quantity	Symbol	Price
01/24	01/25	1:20:24 pm	Buy to Open	1	-LXLAR	8.600000
01/24	01/25	1:51:18 pm	Buy to Open	4	-LXLAR	8.800000
02/02	02/05	3:57:37 pm	Buy to Open	5	-LXLAR	8.900000
06/04	06/05	11:25:48 am	Sell to Open	-10	-LXLAF	4.000000

The sale of the 84-Strike options created a bullish option spread that increases the profit potential of the 70-Strike call option purchase and also provides down side protection in the event the EFA ETF declines in price.

The Spread Analysis below displays the profit potential for buying the EFA ETF January 70-Strike call option for 8.83 points and selling the January 84-Strike call for 4.0 points.

The Analysis displays potential profit results for various price changes for the EFA ETF at option expiration from a 7.5% increase to a 7.5% decrease in price. The EFA ETF was trading at 81.70 when the spread was created. The cost of this spread is 4.83 points or \$483 and is calculated by subtracting the 4.0 points I received from the sale of the 84-Strike call from the 8.83 cost of the 70-Strike call purchase. The maximum risk on this trade is the cost of \$483.

Wealth Creation Alliance							
Call Option Spread Analysis							
Stock Symbol	Current Stock Price	Buy Strike	Buy Price	Sell Strike	Sell Price		
EFA	81.70	70	8.83	84	4.0		
Cost						<input type="button" value="Calculate"/> <input type="button" value="New Analysis"/> <input type="button" value="Print"/>	
	\$4.83						
% Change	7.5%	5.0%	2.5%	0.0%	-2.5%	-5.0%	-7.5%
Stock Price	\$87.83	\$85.79	\$83.74	\$81.70	\$79.66	\$77.62	\$75.57
Call Buy Value	\$17.83	\$15.79	\$13.74	\$11.70	\$9.66	\$7.62	\$5.57
Call Sell Value	\$-3.83	\$-1.79	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Spread Value	\$14.00	\$14.00	\$13.74	\$11.70	\$9.66	\$7.62	\$5.57
Spread Cost	\$4.83	\$4.83	\$4.83	\$4.83	\$4.83	\$4.83	\$4.83
Spread Profit	\$9.17	\$9.17	\$8.91	\$6.87	\$4.83	\$2.79	\$0.74
Spread % Ret	189.9%	189.9%	184.5%	142.2%	99.9%	57.7%	15.4%

The Spread Analysis reveals that if the EFA ETF price remains flat at 81.70 at option expiration a 142.2% return will be realized (circled). A 5% increase in price for the EFA ETF to 85.79 results in a 189.9% return and a 5% decrease in price to 77.62 results in a 57.7% return (circled).

A 7.5% decrease in price for the EFA ETF at option expiration results in a positive 15.4% return for the spread.

The spread realizes a net profit even if the EFA ETF decreases 7.5% in price due to the sale of the 84-Strike call which profits as the EFA ETF decreases in price. Profiting on a call option spread trade even when the price of the underlying ETF decreases in price reduces risk and results in a higher percentage of winning trades.

The maximum profit potential of 9.17 points for this spread is reached if the EFA ETF closes at or above 84 at option expiration which is the strike price of the short call.

Note: Option spreads can be closed out any time prior to option expiration. I normally will close out a spread and take profits if the spread reaches about 90% of its maximum profit potential. In this example the maximum profit potential is 9.17 points. 90% of the maximum profit potential would be 8.25 points. The cost of the spread is 4.83 points so if the value of the spread reaches about 13.08 points I would have an 8.25 point profit (13.08 spread value – 4.83 cost = 8.25 profit) and would normally close the spread. The value of the spread is calculated by subtracting the current price of the short call from the current price of the long call.

When you create an option spread by purchasing a call option and selling a call option with a higher strike price:

- The call option purchased profits if the price of the underlying ETF increases in price
- The call option sold profits if the price of the underlying ETF decreases in price
- In most cases the spread can profit if the price of the underlying ETF increases, remains flat or decreases moderately
- Your risk is limited to the cost of the spread

The preceding Spread Analysis reveals that the EFA ETF option spread offers an attractive profit potential with limited risk. This spread trade can profit if the price of the EFA ETF increases, remains flat or decreases 7.5%.

A 5% Increase in Price for EFA = 189.9% Return

A Flat Price for EFA = 142.2% Return

A 5% Decrease in Price for EFA = 57.7% Return

Note: In this example we used a bullish option spread. The same advantages of creating a bullish option spread would also apply to bearish option spreads. The Call Option Spread Analysis displays the profit potential for this call option spread example but is not required to invest successfully using call option spreads.

Trading Service ETF Trading Results

In addition to my personal ETF option spread trading, I make ETF and ETF option trade recommendations through my trading service website. You can see from the profit results below that the trading service allowed members to take full advantage of the high profit potential available through ETF and ETF option trading (results do not include commissions). These bearish trades were taken during the last bear market when most global markets were in a *GPS Major Trend* and *Short Term Trend System* price down trend.

Note: Smaller accounts can trade the recommended portfolio by trading one option contract per signal.

Trading Service Currency ETF Portfolio

ETF/ETF Option	Entry	Qty	Last	Gain	Percent
	Price		Price		Gain
Euro ETF Mar 160 put	\$15.60	6	\$33.75	10,890.00	116.3%
Australian Dollar 100 put	\$15.40	6	\$32.85	10,470.00	113.3%
Short Euro Fund	\$40.46	250	\$56.94	4,120.00	40.7%
British Pound Mar 210 put	\$20.00	6	\$55.00	21,000.00	175.0%
Total Profit / Average Gain				\$46,480.00	114.2%

Trading Service Commodity ETF Portfolio

ETF/ETF Option	Entry	Qty	Last	Gain	Percent
	Price		Price		Gain
Short Materials Fund	\$37.22	100	\$76.00	3,878.00	104.2%
Coal ETF Apr 55 put	\$13.40	4	\$39.10	10,280.00	191.8%
Agricultural ETF Feb 60 put	\$11.40	4	\$32.90	8,600.00	188.6%
Basic Mtrls Fund Mar 82 put	\$12.80	4	\$42.55	11,900.00	232.4%
Steel ETF Dec 95 put	\$17.10	3	\$64.35	14,175.00	276.3%
Total Profit / Average Gain				\$48,833.00	204.4%

Trading Service Equity ETF Portfolio

ETF/ETF Option	Entry	Qty	Last	Gain	Percent
	Price		Price		Gain
Russia ETF Nov 50 put	\$9.20	4	\$31.95	9,100.00	247.3%
BRIC ETF Dec 55 put	\$9.80	4	\$30.75	8,380.00	213.8%
Short Emerg Mrkt Fund	\$80.98	80	\$85.84	388.80	6.0%
Emrg Mrkt Jan 60 put	\$15.50	4	\$35.77	8,108.00	130.8%
EAFE ETF Jan 84 put	\$12.90	4	\$40.30	10,960.00	212.4%
So Korea ETF Jan 65 put	\$11.20	4	\$36.80	10,240.00	228.6%
China Fund Jan 60 put	\$12.40	4	\$34.55	8,860.00	178.6%
Total Profit / Average Gain				\$56,036.80	160.7%

Trading Service Current Profit Results Average Return of 77.3% with 99% Winning Trades

I make stock, ETF and option trade recommendations through my *Inner Circle Trading Service* Currently the *Inner Circle Trading Service* has \$1,083,879.58 in open trade profits and an average return of 77.3% (before commissions). There are currently 132 winning trades and one losing trade resulting in 99% winning trades.

Inner Circle Trading Service Current Open Trade Profit Results

132 Winning Trades, 1 Losing Trade = 99% Accuracy

Portfolio	Profit/Loss	Percent	Winning	Losing
		Return	Trades	Trades
Stock and ETF Portfolio	\$264,740.70	89.8%	28	1
Dividend Portfolio	\$141,691.50	56.8%	25	0
Option Portfolio	\$170,396.00	95.7%	18	0
Option Spread Portfolio	\$47,401.00	36.2%	15	0
Buy Write Portfolio	\$74,078.28	32.0%	21	0
Micro Cap Portfolio	\$385,572.10	153.4%	25	0
Total Profits/ Avg Return	\$1,083,879.58	77.3%	132	1

Log on to ChuckHughesIC.com for Updated Profit Results

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Chuck Hughes Inner Circle Trading Service

Welcome to Chuck Hughes Inner Circle Trading Service

Greetings and welcome to the Chuck Hughes Inner Circle Trading Service website! I want to take this opportunity to introduce myself and tell you a little bit about my trading programs. I have been trading stocks, options, currencies and commodities for more than 25 years.

I developed simple trend following systems that trade with the trend. When the price trend is up we buy and when the price trend is down we sell short. Now even though this concept sounds very simple it really works. My trend following and option strategies produced \$4,569,797.88 in actual profits providing my family and I with financial security and allowed me to retire from my job at age 48.

Now we all know that the markets have been very volatile lately but this increased volatility has created some great trading opportunities. My trend following programs have been taking full advantage of this increased volatility and have been on the right side of the trend in global markets. In my 25 years of trading experience there has never been a better time to profit from market trends than now.

Members of Chuck Hughes Inner Circle receive access to an exclusive service which provides trading recommendations for my trend following and option strategies. All recommended trading signals are posted on a 'Members Only' proprietary web page enabling members to benefit from the continued success of my trend following and option strategies.

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The Wealth Building Formula
By Chuck Hughes and Ryan Christopher

MARKET VOLATILITY PROFIT SECRETS
How I made more than one million dollars in 28 days
by Chuck Hughes and John Weston

Bearish Trade Examples

One of the great advantages of ETF trading is that it allows you to take both long and short positions with limited risk. Unlike short selling, there are short or inverse ETFs that allow you to short a market sector without actual short selling. Short selling is high risk and can result in margin calls if your short stock increases in price. You are also responsible for paying dividends when you are short a stock. Short or inverse ETFs are limited risk trades and you can't lose more money than you invest. This is a very important distinction especially with volatile markets. If you are a short seller, an adverse market move can wipe out your trading account and result in margin calls requiring you to wire money to your broker to cover losses.

Trading From the Short Side with Limited Risk

The Short EAFE ETF symbol EFU would be an example of a short or inverse ETF. The EAFE ETF consists of a basket of stocks from Europe, Australia and Far East countries which comprise the MSCI EAFE Index. The Short EAFE ETF moves inverse to the MSCI EAFE Index. If the EAFE Index declines in price, the short fund increases in price. If the EAFE Index increases in price, the short fund decreases in price. The EAFE ETF monthly price chart below shows that the EAFE ETF was in a *GPS Major Trend System* down trend with its 1-Month price below the 20-Month EMA and short positions can be initiated.



My brokerage account Profit/Loss Report below shows that I purchased 300 shares of the short EAFE ETF symbol EFU at an average price of 114.08. The EAFE ETF subsequently declined in price and the short EFU rallied up to 133.53 which produced a \$5,834.50 open trade profit. This short position was established while the *GPS Major Trend System* was in a major price down trend and is a good example of the profit opportunities available with short ETFs.

Unrealized P&L on Open Positions							
Symbol	Description	Position	Avg Price	Cost Basis	Market Value	Type	Unrealized Val.
EFU	Proshares Tr Ultr Shrt Msci	300	\$114.0817	\$34,224.50	\$40,059.00	Equities	\$5,834.50

Put Option Purchases

The monthly price chart below shows that the South Korea ETF was in a *GPS Major Trend System* price down trend with its 1-Month price below the 20-Month EMA. Short positions can be initiated when an ETF is in a *GPS Major Trend System* price down trend (chart courtesy of stockcharts.com).



My brokerage account trade confirmation below shows that I purchased 5 South Korea ETF (EWY) January 60-Strike put options at 15.70 points when the *GPS Major Trend System* was in a major price down trend. This put option purchase is a bearish position that profits as the EWY ETF declines in price.

USD - US DOLLAR

Trades

Trade Date	Settlement Date	Trade Time	Action	Quantity	Symbol	Price
08/27/	08/28	3:35:11 pm	Buy to Open	5	-EWMH	15.700000

At the time I purchased these EWY put options the EWY ETF was trading at 44.50. The EWY 60-Strike put option was an in-the-money put as the ETF price of 44.50 was lower than the 60-Strike put. When purchasing call or put options I prefer to purchase in-the-money options.

In-the-money options have less time value than out-of-the-money options. Remember that the time value of an option is a wasting asset as the option gets closer to expiration. At option expiration options lose all time value so the less time value an option contains the better.

The Put Option Purchase Analysis below shows that the EWY 60-Strike put only has .20 points of time value (circled). The EWY ETF only has to decline .20 points or 1/2 of 1% to 44.30 for this trade to break even. This in-the-money put purchase has a much higher probability of being profitable than purchasing an out-of-the-money put option which typically would require anywhere from a 10% to 25% price decline to break even.

The Put Option Purchase Analysis below displays the profit potential for buying the EWY ETF January 60-Strike put option for 15.70 points. The Analysis displays potential profit results for various price changes for the EWY ETF at option expiration from a 30% decrease to a 10% increase in price. The EWY ETF was trading at 44.50 when I purchased the put options. The maximum risk on this trade is the \$1,570 cost of the option.

The Analysis shows that if the EWY ETF declines in price 30% at option expiration to 31.15 an 83.8% profit would be realized and a 10% price increase to 48.95 would result in a 29.6% loss (circled). If the EWY ETF price remains flat at 44.50 a 1.3% loss would be realized. The EWY ETF subsequently declined to 24.24 and this put option trade had a 20.1 point open trade profit and a 128% return.

Once bearish trades are established (in this example a put option purchase) I use the Trade Management Guidelines presented in Chapter 2 or a *GPS Major Trend System* reversal to a price up trend to exit bearish trades.

Wealth Creation Alliance							
Put Option Purchase							
Stock Symbol	Current Stock Price	Option Strike	Option Premium				
EWY	44.50	60	15.70				
Time Value	Intrinsic Value			Calculate	New Analysis	Print	
\$0.20	\$15.50						
% Change	-30.0%	-20.0%	-10.0%	0.0%	2.5%	5.0%	10.0%
Stock Price	\$31.15	\$35.60	\$40.05	\$44.50	\$45.61	\$46.73	\$48.95
Option Value	\$28.85	\$24.40	\$19.95	\$15.50	\$14.39	\$13.28	\$11.05
Profit/Loss	\$13.15	\$8.70	\$4.25	\$-0.20	\$-1.31	\$-2.43	\$-4.65
% Profit/Loss	83.8%	55.4%	27.1%	-1.3%	-8.4%	-15.4%	-29.6%

In-the-Money versus Out-of-the-Money Puts

You may recall from the previous Chapter that at option expiration an option loses all time value and is comprised of only intrinsic value. An in-the-money put option is comprised of both time value and intrinsic value. The deeper an option is in-the-money the more intrinsic value it will have. In this example the EWY 60-Strike put option is comprised of 15.50 points of intrinsic value and only .20 points of time value and only requires a .20 point price decrease in the EWY ETF to break even.

Purchasing out-of-the-money put options will produce a higher percentage return than in-the-money put options if there is a substantial price decrease in the underlying ETF. While in-the-money option put purchases have less profit potential than out-of-the-money purchases, they contain less time value and have a much closer break even price. This results in a higher percentage of winning trades and less risk for in-the-money trades.

If you purchase an out-of-the-money put option and the underlying ETF price remains flat or increases at option expiration the put would expire worthless resulting in a 100% loss for the trade.

ETF Price Flat or Increases at Option Expiration = 100% Loss for Out-of-the-Money Put

Remember that when you invest in options you must be correct not only about the future price movement of the underlying ETF but you must also be correct about the time frame during which this movement must occur (before option expiration). You must plan on the possibility that you are not correct about the price movement and/or time frame. If you are wrong about the price direction or time frame you could lose your whole investment with an out-of-the-money option. This is not an acceptable risk if you want to 'stay in the game'.

Note: The Put Option Purchase Analysis displays the profit potential for this put option purchase example but is not required to invest successfully using put options.

Bearish Option Spread

Now let's take a look at an example of an ETF bearish option spread. Bearish option spreads can be initiated when the *GPS Major Trend System* or *Short Term Trend System* indicate a price down trend by purchasing a put option and selling a put option with a lower strike price. The put option purchase and sale can be done simultaneously or you can "leg in" to the spread by purchasing a put option and selling a put option to create a spread at a later date. The price chart below shows that the Russia ETF (RSX) is in a *GPS Short Term Trend System* price down trend with its 50-Day EMA below the 100-Day EMA (chart courtesy of Yahoo Finance).



My brokerage confirmation below shows that I purchased 10 of the RSX ETF November 50-Strike put options symbol RSXWX in increments with an average price of 14.50. At a later date sold 10 of the RSX November 45-Strike put options symbol RSXWS at 13.60 points. The sale of the 45-Strike put options created a bearish option spread that increases the profit potential of the 50-Strike put option purchase and also provides up side protection in the event the RSX ETF increases in price.

USD - US DOLLAR						
Trades						
Trade Date	Settlement Date	Trade Time	Action	Quantity	Symbol	Price
08/26	08/27	3:51:00 pm	Buy to Open	5	+RSXWX	13.000000
09/08	09/09	2:04:39 pm	Buy to Open	5	+RSXWX	16.000000
09/09	09/10	3:51:09 pm	Sell to Open	-4	+RSXWS	13.600000
09/09	09/10	3:51:12 pm	Sell to Open	-4	+RSXWS	13.600000
09/09	09/10	3:51:15 pm	Sell to Open	-2	+RSXWS	13.600000

The Spread Analysis below displays the profit potential for buying the RSX ETF November 50-Strike put option for 14.50 points and selling the November 45-Strike put for 13.60 points. The Analysis displays potential profit results for various price changes for the RSX ETF at option expiration from a 30% decrease to a 30% increase in price.

The RSX ETF was trading at 34.20 when the spread was created. The cost of this spread is .90 points or \$90 and is calculated by subtracting the 13.60 points I received from the sale of the 45-Strike put from the 14.50 cost of the 50-Strike put purchase. The maximum risk on this trade is the cost of \$90.

Wealth Creation Alliance							
Put Option Spread							
Stock Symbol	Current Stock Price	Buy Strike	Buy Price	Sell Strike	Sell Price		
RSX	34.20	50	14.50	45	13.60		
Cost						<input type="button" value="Calculate"/> <input type="button" value="New Analysis"/> <input type="button" value="Print"/>	
	\$0.90						
% Change	-30.0%	-20.0%	-10.0%	0.0%	-10.0%	-20.0%	-30.0%
Stock Price	\$23.94	\$27.36	\$30.78	\$34.20	\$30.78	\$27.36	\$23.94
Put Buy Value	\$26.06	\$22.64	\$19.22	\$15.80	\$19.22	\$22.64	\$26.06
Put Sell Value	\$-21.06	\$-17.64	\$-14.22	\$-10.80	\$-14.22	\$-17.64	\$-21.06
Spread Value	\$5.00	\$5.00	\$5.00	\$5.00	\$5.00	\$5.00	\$5.00
Spread Cost	\$0.90	\$0.90	\$0.90	\$0.90	\$0.90	\$0.90	\$0.90
Spread Profit	\$4.10	\$4.10	\$4.10	\$4.10	\$4.10	\$4.10	\$4.10
Spread % Ret	455.6%	455.6%	455.6%	455.6%	455.6%	455.6%	455.6%

The Spread Analysis reveals that if the RSX ETF price remains flat at 34.20 at option expiration a 455.6% return will be realized (circled). A 30% decrease in price for the RSX ETF to 23.94 results in a 455.6% return and a 30% increase in price to 44.46 also results in a 455.7% return (circled).

This bearish spread realizes a net profit even if the price of the RSX ETF increases 30% at option expiration due to the sale of the 45-Strike put which profits as the RSX ETF increases in price. Profiting on a bearish put option spread trade even when the price of the underlying ETF increases in price reduces risk and results in a higher percentage of winning trades.

When you create a bearish option spread by purchasing a put option and selling a put option with a lower strike price:

- The put option purchased profits if the price of the underlying ETF decreases in price
- The put option sold profits if the price of the underlying ETF increases in price
- In most cases the spread can profit if the price of the underlying ETF decreases, remains flat or increases moderately
- Your risk is limited to the cost of the spread

The preceding Put Option Spread Analysis for my current RSX bearish spread trade demonstrates the attractive profit potential available with low risk for the put option spread strategy:

- 455% Spread Return if RSX is **Down** 30% at Option Expiration
- 455% Spread Return if RSX is **Flat** at Option Expiration
- 455% Spread Return if RSX is **Up** 30% at Option Expiration
- Maximum Risk of \$90 Per Option

Note: In this example we used a bearish option spread. The same advantages of creating a bearish option spread would also apply to bullish option spreads. The Put Option Spread Analysis displays the profit potential for this put option spread example but is not required to invest successfully using put option spreads.

'Enhancing' Our Returns

One way to increase our returns with the *GPS Major Trend System* would be to purchase 'Enhanced' bullish ETFs when a buy signal is generated and buying 'Enhanced' bearish ETFs when a sell signal is generated.

'Enhanced' Major Trend System Rules

- Close out short positions and buy an Enhanced Bullish ETF if its 1-Month price is above the 20-Month EMA
- Close out long positions and buy an Enhanced Bearish ETF if its 1-Month price is below the 20-Month EMA

There are currently "enhanced" funds available for numerous ETFs such as the Europe Australia Far East Index, Emerging Market, Japan Index, China Index, 10-Year Treasury, 20-Year Treasury, S&P 500 Index, NASDAQ 100, Dow Jones Industrial, MidCap 400, Small Cap 600, Russell 2000, Basic Materials, Consumer Goods, Consumer Services, Financials, Health Care, Industrials, Oil & Gas, Real Estate, Semiconductors, Technology, Telecommunications, Utilities, Russell 1000, Value, Russell 1000 Growth, MidCap Value, Mid Cap Growth, Russell 2000 Value and Russell 2000 Growth.

'Enhanced' funds use leverage to increase their returns. For example, the objective of the bullish Ultra S&P 500 Fund is to provide investment returns that are 200% of the S&P 500 Index. So if the S&P 500 Index increases in value 10% then the value of the Ultra S&P 500 Fund will increase 20% if the fund meets its objective. And if the S&P 500 Index decreases in value 10% then the value of the Ultra S&P 500 Fund will decrease in value 20% if the fund meets its objective. Although enhanced funds use leverage they are still limited risk in that an investor cannot lose more than their initial investment.

The objective of the bearish Ultra Short S&P 500 Fund is to provide investment returns that are 200% inverse of the S&P 500 Index. So if the S&P 500 Index increases in value 10% then the value of the Ultra Short S&P 500 Fund will decrease 20% if the fund meets its objective. And if the S&P 500 Index decreases in value 10% then the value of the Ultra Short S&P 500 Fund will increase in value 20% if the fund meets its objective.

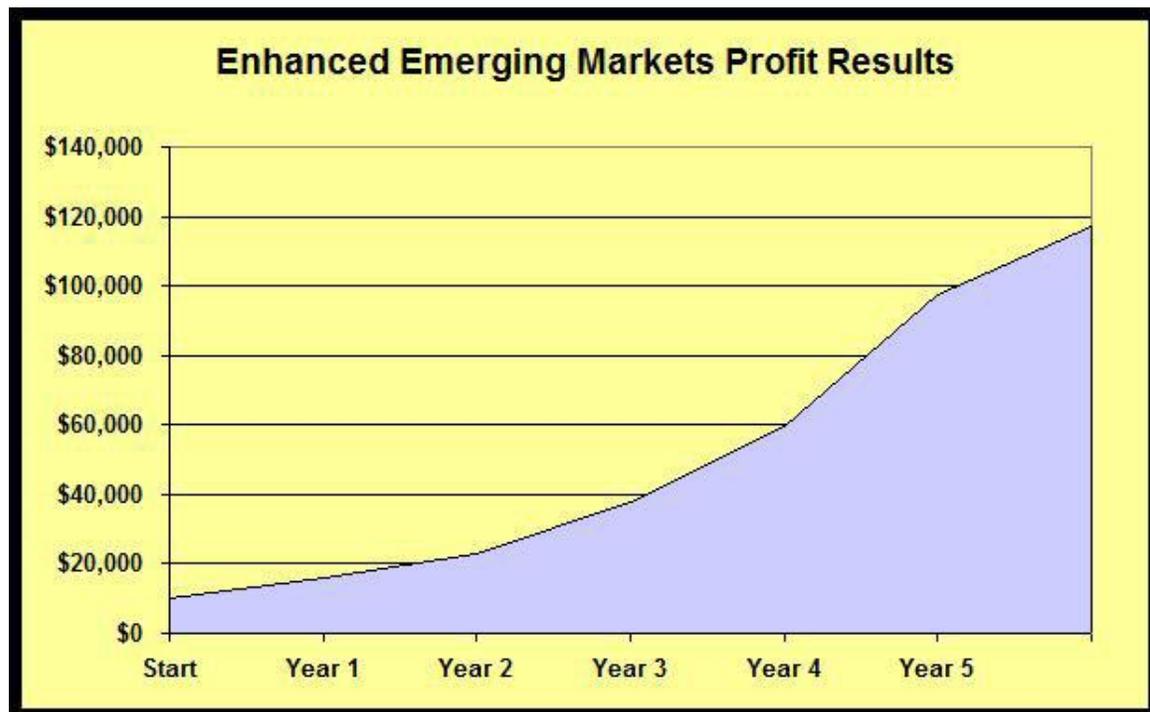
Of course the use of leverage is a 'double edged sword' which increases your returns if price movement is favorable but it also increases your losses if price movement is unfavorable. Investors in leveraged funds must be aware that market fluctuations will have a dramatic effect on their principal, but if their intermediate-term outlook for the market is correct, the rewards can be substantial.

Let's take a look now at the historical returns for enhanced ETFs using the *Enhanced Major Trend System* buy and sell rules presented on the previous page. The historical returns are only theoretical as leveraged ETFs were not available when historical testing began. The profit graph below displays the historical profit results for the Emerging Markets Index using enhanced ETFs for a recent 5-Year period.

Historical results reveal that the *Enhanced Major Trend System* produced excellent profits with very low risk. A \$10,000 investment in grew to \$82,918 over a recent 5 year period. After deducting the initial \$10,000 investment, the total profits were \$72,918 (before commissions) which equates to a 729% return on the initial \$10,000 investment. Over the 5 year test period this translates to a 145.8% average annual return. There were no losing trades.

Enhanced Emerging Markets Profit Results

Initial Investment	\$10,000
Number Years	5
Profit	\$72,918
Total Return	729%
Avg Annual Return	145.8%
Profit:Loss Ratio	No Losses

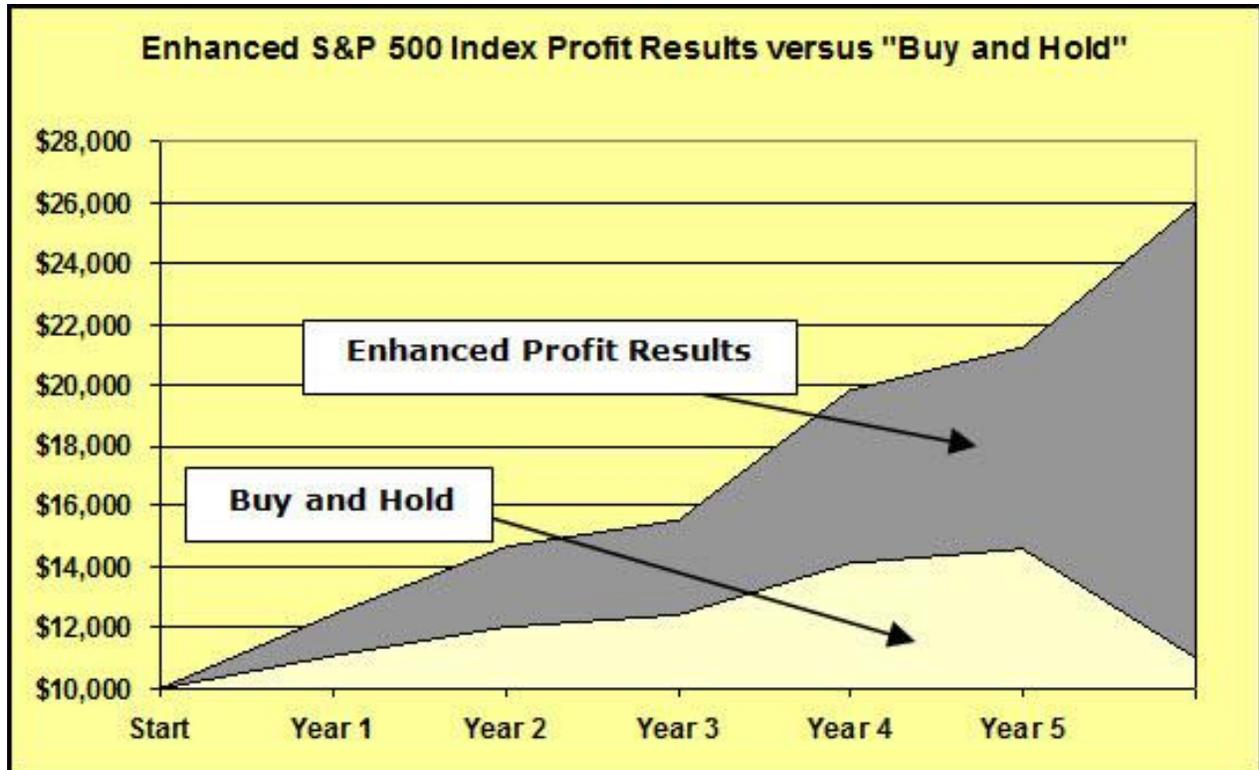


160% Return versus 9% Return

The profit graph below displays the S&P 500 Index historical profit results for the *Enhanced Major Trend System* versus a "buy and hold" approach for a recent 5-year period. Historical results reveal that the *Enhanced Major Trend System* produced consistent profits with no losing trades. A \$10,000 investment grew to \$25,188 over the 5-year period. After deducting the initial \$10,000 investment, the total profits were \$15,979 (before commissions) which equates to a 160% return on the initial \$10,000 investment. Over the 5-year test period this translates to a 32% average annual return. The 160% return compares favorably to a "buy and hold" approach for the S&P 500 Index which produced a 9% profit over the same 5-year time period.

Enhanced S&P 500 Index Profit Results

Initial Investment	\$10,000
Number Years	5
Profit	\$15,979
Total Return	160%
Avg Annual Return	32%
Profit:Loss Ratio	No Losses



Buy Write for Profits

The *GPS Buy Write Strategy* is a strategy designed to generate profits from selling call option premium. A 'buy write' is established by buying an ETF and 'writing' or selling a related call option. Normally one call option is sold for each 100 shares of an ETF that is purchased. A buy write is also known as a 'covered call' and implementing a covered call trade is also known as 'writing a covered call'. Advantages of buy write trades would include:

- 1) Collect cash income in your brokerage account
- 2) Buy ETFs at a discount
- 3) Provide a good profit potential on your discounted ETF purchase
- 4) Provide downside protection in case the underlying ETF declines in price
- 5) Limited risk trades

The sale of a call option generates cash income in your brokerage account. One call option contract normally controls one hundred shares of the underlying ETF. When you sell a call option cash is credited to your brokerage account. For example, if you sell a call option for 5.00 points, \$500 will be credited to your account (\$5.00 x 100 shares = \$500). When you buy an ETF and sell a call option the cash received from the sale of the call reduces the cost basis of your ETF. This provides downside protection in the event the ETF declines in price.

The goal of the buy write strategy is to sell a call option on an ETF that closes at or above the strike price of the short call option at option expiration. This results in the ETF shares being called and the maximum profit potential being realized for the trade.

My brokerage confirmation below shows that I purchased 100 shares of the Brazil ETF (EWZ) at 33.69 and simultaneously sold the Brazil ETF January 40-Strike call option for 7.10 points.

TRANSACTION HISTORY						
SECURITIES PURCHASED OR SOLD						
TRADE DATE	SETTLEMENT DATE	DESCRIPTION	SYMBOL/ CUSIP	TRANSACTION TYPE	QUANTITY	PRICE
10/22	10/27	ISHARES INC MSCI BRAZIL FREE INDEX FD PROSPECTUS ON INITIAL PURCHASE	EWZ	Bought	100	33.6900
10/22	10/23	CALL ISHARES BRAZ JAN 040 **** LONG TERM OPTIONS EXP 01/16 EXP 01/16 OPEN CONTRACT	XWKBA40	Sold	-1	7.1000

The Buy Write Analysis below displays the profit potential for buying the EWZ ETF at 33.69 and selling the January 40-Strike call for 7.10 points. The Analysis displays potential profit results for various price changes for the EWZ ETF at option expiration from a 20% increase to a 20% decrease in price.

The cost of this buy write is 26.59 points or \$2,659 and is calculated by subtracting the 7.10 points I received from the sale of the 40-Strike call from the 33.69 cost of the ETF purchase. The sale of the 40-Strike call allowed me to buy the EWZ ETF at a discounted price of 26.59.

Wealth Creation Alliance							
Buy Write Analysis							
Stock Symbol	Current Stock Price	Call Strike	Call Price				
EWZ	33.69	40	7.10				
Break Even	26.59				Calculate	New Analysis	Print
% Change	20.0%	10.0%	5.0%	0.0%	-5.0%	-10.0%	-20.0%
Stock Price	\$40.43	\$37.06	\$35.37	\$33.69	\$32.01	\$30.32	\$26.95
Stock Prof/Loss	\$673.80	\$336.90	\$168.45	\$0.00	\$-168.45	\$-336.90	\$-673.80
Call Value	\$0.43	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Call Profit/Loss	\$667.20	\$710.00	\$710.00	\$710.00	\$710.00	\$710.00	\$710.00
Net Profit/Loss	\$1,341.00	\$1,046.90	\$878.45	\$710.00	\$541.55	\$373.10	\$36.20
% Return	50.4%	39.4%	33.0%	26.7%	20.4%	14.0%	1.4%

The Buy Write Analysis reveals that if the EWZ ETF price remains flat at 33.69 at option expiration a 26.7% return will be realized (circled). A 20% increase in price for the EWZ ETF to 40.43 results in a 50.4% return and a 20% decrease in price to 26.95 results in a 1.4% return (circled).

This buy write trade realizes a net profit even if the price of the EWZ ETF decreases 20% at option expiration due to the sale of the 40-Strike call option which profits as the EWZ ETF decreases in price. Profiting on a buy write trade when the price of the ETF decreases in price reduces the risk of the ETF purchase and results in a higher percentage of winning trades.

When you create a buy write trade by purchasing an ETF and selling a call option:

- The ETF profits if the price of the ETF increases in price
- The call option sold profits if the price of the underlying ETF decreases in price
- You purchase the ETF at a discounted price which provides downside protection
- In most cases the buy write can profit if the ETF increases, remains flat or decreases at option expiration
- Your risk is limited to the cost of the buy write

The preceding Buy Write Analysis for my current EWZ buy write trade demonstrates the attractive profit potential available with low risk for the buy write strategy:

- 50.4% Return if EWZ is **UP** 20% at Option Expiration
- 26.7% Return if EWZ is **Flat** at Option Expiration
- 1.4% Return if EWZ is **Down** 20% at Option Expiration

Note: The Buy Write Analysis displays the profit potential for this buy write trade example but is not required to invest successfully using buy write trades.

Chapter 6

Profiting in Any Type of Market

In this Chapter we focus on strategies that help us increase the profit potential and help protect profits for ETF and ETF option purchases. In today's fast moving markets it is important to protect profits before they develop into losses. There are generally two ways to protect profits for profitable ETF and ETF option purchases:

- 1) Take profits on part of your profitable ETF or ETF option positions
- 2) Sell an option to create a spread on profitable ETF or ETF option positions

We covered taking partial profits on profitable ETF and ETF option positions in Chapter 2 - Trade Management Guidelines. Now let's explore selling options to create spreads on profitable ETF and ETF option positions. Selling options to create spreads not only helps protect profits but has the added benefit of increasing the profit potential of existing trades. Let's look at an actual trade example to help us understand this important concept.

In this example the China ETF was in a *GPS Major Trend System* price up trend. My brokerage confirmation below shows that I purchased 10 of the China ETF (FXI) January 90-Strike call options symbol YOFAW in increments with an average price of 17.44. At a later date I then sold 10 of the China ETF (FXI) January 120-Strike call options symbol YOFAD at 8.00 points. The sale of the 120-Strike call options created a bullish option spread that increases the profit potential of the 90-Strike call option purchase and also provides down side protection in the event the China ETF increases in price. As noted previously I normally will take profits on a spread trade if the spread reaches about 90% of its maximum profit potential. Taking profits many times allows me to exit trades several months prior to option expiration.

USD - US DOLLAR

Trades

Trade Date	Settlement Date	Trade Time	Action	Quantity	Symbol	Price
12/12	12/13	11:13:26 am	Buy to Open	5	-YOFAW	16.200000
12/15	12/18	10:36:35 am	Buy to Open	2	-YOFAW	18.500000
12/15	12/18	11:49:45 am	Buy to Open	1	-YOFAW	18.800000
12/15	12/18	11:49:58 am	Buy to Open	2	-YOFAW	18.800000
05/11	05/14	9:40:20 am	Sell to Open	-10	+YOFAD	8.000000

The Spread Analysis below displays the profit potential for buying the China ETF January 90-Strike call option for 17.44 points and selling the January 120-Strike call for 8.0 points. The Analysis displays potential profit results for various price changes for the China ETF at option expiration from a 10% increase to a 10% decrease in price. The China ETF was trading at 115.90 when the spread was created. The cost of this spread is 9.44 points or \$944 and is calculated by subtracting the 8.0 points I received from the sale of the 120-Strike call from the 17.44 cost of the 90-Strike call purchase. The maximum risk on this trade is the cost of \$944.

Wealth Creation Alliance							
Call Option Spread Analysis							
Stock Symbol	Current Stock Price	Buy Strike	Buy Price	Sell Strike	Sell Price		
FXI	115.90	90	17.44	120	8.00		
Cost						<input type="button" value="Calculate"/> <input type="button" value="New Analysis"/> <input type="button" value="Print"/>	
	\$9.44						
% Change	10.0%	5.0%	2.5%	0.0%	-2.5%	-5.0%	-10.0%
Stock Price	\$127.49	\$121.70	\$118.80	\$115.90	\$113.00	\$110.11	\$104.31
Call Buy Value	\$37.49	\$31.70	\$28.80	\$25.90	\$23.00	\$20.11	\$14.31
Call Sell Value	\$-7.49	\$-1.70	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Spread Value	\$30.00	\$30.00	\$28.80	\$25.90	\$23.00	\$20.11	\$14.31
Spread Cost	\$9.44	\$9.44	\$9.44	\$9.44	\$9.44	\$9.44	\$9.44
Spread Profit	\$20.56	\$20.56	\$19.36	\$16.46	\$13.56	\$10.67	\$4.87
Spread % Ret	217.8%	217.8%	205.1%	174.4%	143.7%	113.0%	51.6%

The Spread Analysis reveals that if the China ETF price remains flat at 115.90 at option expiration a 174.4% return will be realized (circled). A 10% increase in price for the China ETF to 127.49 results in a 217.8% return and a 10% decrease in price to 104.31 results in a 51.6% return (circled). The maximum profit potential of 217.8% for this spread is reached if the China ETF closes at or above 120 at option expiration which is the strike price of the short call.

I purchased the China ETF 90-Strike call in December. The price of the underlying China Fund ETF continued to move up in price after the purchase and the 90-Strike call purchase had a 9.70 point open trade profit when I sold the 120-Strike call to create the spread.

When I sold the 120-Strike call the China ETF was trading at 115.90. The 120-Strike call, therefore, was an out-of-the-money call as the strike price was higher than the current price of the ETF.

Out-of-the-money calls consist of only time value and no intrinsic value. When you sell an out-of-the-money call the full value of the premium in this example 8.00 points becomes all profit at option expiration as options lose all time value at expiration. So the sale of the 120-Strike out-of-the-money call increases the profit potential of the 90-Strike call purchase by 8.00 points regardless of the subsequent price movement of the China ETF.

Increased Profit Potential by 82% and Reduced Risk

The existing 90-Strike call purchase had a 9.70 point open trade profit so the sale of the 120-Strike call increased the profit potential of the call purchase by 82% ($8.00 \text{ points} / 9.70 \text{ points} = 82\%$). In addition to the increased profit potential the sale of the 120-Strike call also reduced risk by providing downside protection for the 90-Strike call purchase in the event the price of the China ETF declined. Creating spreads with existing option purchases increases the profit potential and reduces the risk of the option purchase. This provides one of the best overall risk/reward profiles compared to any other strategy.

Note: In this example we used a bullish option spread. The same advantages of creating a bullish option spread would also apply to bearish option spreads. The Call Option Spread Analysis displays the profit potential for this call option spread example but is not required to invest successfully using call option spreads.

Advantages of Option Spreads versus Option Purchases

1) Increased Profit Potential

A limited risk call option spread is created by purchasing a call option and selling a call option with a higher strike price. If you have an existing profit for a call option purchase, the sale of a call option to create a spread can typically increase the profit potential of an option purchase by 50% to 100% or more.

2) The Option Sale Provides Downside Protection

The sale of a call option results in cash being credited to your brokerage account. This reduces the cost basis of the option purchase and provides downside protection in the event the price of the underlying ETF declines in price.

3) Reduces Risk

In the China ETF example spread trade just presented, the sale of the 120-Strike call reduced the cost basis of the 90-Strike call purchase by 45% which reduces the risk of the 90-Strike call option purchase.

$$\begin{array}{r} 17.44 \text{ Cost of 90-Strike call purchase} \\ - \text{ 8.00 Sale of 120-Strike call} \\ \hline = 9.44 \text{ Cost of spread} \end{array}$$

4) Allows You to Maintain Positions During Volatile Markets

The downside protection provided by the sale of a call option to create a spread can help you maintain your spread trade during volatile markets. If you traded option purchases only, following the Trade Management Guidelines presented in Chapter 2 may force you to sell an option during volatile market moves to prevent large losses.

5) Spreads Can Be Profitable If an ETF Goes Up or Down

Option spreads can be profitable if the underlying ETF price increases, decreases or remains flat at option expiration. In the China ETF spread example, the spread would be profitable if the price of the China ETF increases, remains flat or decreases 10% at option expiration. Without the spread trade, the existing China ETF 90-Strike call option purchase would develop into a loss with a 10% price decrease in the China ETF.

Trading Service Option Spread Trading Results

In addition to my personal ETF option spread trading, I make ETF option spread trade recommendations through my trading service website. You can see from the profit results below that the trading service allowed members to take full advantage of the high profit potential available through option spread trading. These bearish spread trades were taken when these global markets were in a *GPS Major Trend* and *Short Term Trend System* price down trend.

The option spread trades provided substantial downside protection which enabled members to maintain spread trades and profit during the volatile global markets.

Note: Smaller accounts can trade the recommended portfolio by trading one option contract per signal.

Trading Service Currency Spread Portfolio

ETF	Entry	Qty	Last	Gain	Percent
	Price		Price		Gain
Australian Dollar Mar 100 put	\$15.40	6	\$32.85	4,590	347.7%
Australian Dollar Mar 90 put	\$13.20	-6	\$23.00		
British Pound Mar 210 put	\$20.00	6	\$55.00	10,560.00	880.0%
British Pound Mar 190 put	\$18.00	-6	\$35.40		
Euro ETF Mar 160 put	\$15.60	6	\$33.75	4,380.00	317.4%
Euro ETF Mar 150 put	\$13.30	-6	\$24.15		
Total Profit / Average Gain				\$19,530.00	500.8%

Trading Service Commodity Spread Portfolio

ETF	Entry	Qty	Last	Gain	Percent
	Price		Price		Gain
Basic Mtrls Fund Mar 82 put	\$12.80	6	\$42.55	5,670.00	1,890.0%
Basic Mtrls Mar 72 put	\$12.30	-6	\$32.60		
Coal ETF Apr 55 put	\$13.40	8	\$39.10	10,160.00	577.3%
Coal ETF Apr 40 put	\$11.20	-8	\$24.20		
Steel ETF Dec 95 put	\$17.10	6	\$64.35	8,790.00	732.5%
Steel ETF Dec 80 put	\$16.90	-6	\$49.50		
Agricultural ETF Feb 60 put	\$11.40	6	\$32.90	4,890.00	479.4%
Agricultural ETF Feb 50 put	\$9.70	-6	\$23.05		
Total Profit / Average Gain				\$29,510.00	922.2%

Trading Service Equity Spread Portfolio

ETF	Entry	Qty	Last	Gain	Percent
	Price		Price		Gain
EAFE ETF Jan 84 put	\$12.90	6	\$40.30	10,230.00	587.9%
EAFE ETF Jan 64 put	\$10.00	-6	\$20.35		
China Fund Jan 60 put	\$12.40	8	\$34.55	12,320.00	358.1%
China Fund Jan 40 put	\$8.10	-8	\$14.85		
So Korea ETF Jan 65 put	\$11.20	6	\$36.80	9,870.00	483.8%
So Korea ETF Jan 45 put	\$7.80	-6	\$16.95		
Emrg Mrkt Jan 60 put	\$15.50	6	\$35.77	7,074.00	380.3%
Emrg Mrkt Jan 45 put	\$12.40	-6	\$20.88		
BRIC ETF Dec 55 put	\$9.80	7	\$30.75	5,740.00	455.6%
BRIC ETF Dec 45 put	\$8.00	-7	\$20.75		
Russia ETF Nov 50 put	\$9.20	7	\$31.95	6,090.00	669.2%
Russia ETF Nov 40 put	\$7.90	-7	\$21.95		
Total Profit / Average Gain				\$51,324.00	456.2%

Buy Write Trades

Buy write spread trades can also be created by selling call options on existing ETF positions. This is a similar strategy to the option spread strategy just presented. Selling a call option on an existing ETF position creates a buy write spread trade that helps protect profits and increase the profit potential of existing ETF trades. Let's look at an actual trade example to help us understand this important concept.

In this example, the Emerging Market ETF was on a *GPS Major Trend System* price down trend with its 1-Month price below the 20-Month EMA. My brokerage confirmation below shows that I took a short position in the Emerging Market ETF by purchasing 300 shares of the short Emerging Market ETF symbol EEV at 96.80. The value of the short EEV fund increases as the Emerging Market ETF decreases in price.

Two weeks later I sold 3 of the EEV December 120-Strike call options symbol EEVLD at 20.00 points. These options expired in about 3 months. The sale of the 120-Strike call options created a buy write trade that increases the profit potential of the EEV ETF purchase and also provides down side protection in the event the EEV ETF decreases in price.

USD - US DOLLAR						
Trades						
Trade Date	Settlement Date	Trade Time	Action	Quantity	Symbol	Price
08/26	08/29	2:32:13 pm	Buy	300	EFU	107.790000
08/26	08/29	2:39:36 pm	Buy	100	EEV	96.800000
08/26	08/29	2:39:36 pm	Buy	100	EEV	96.800000
08/26	08/29	2:39:36 pm	Buy	100	EEV	96.800000
08/26	08/27	3:51:00 pm	Buy to Open	5	-RSXWX	13.000000

USD - US DOLLAR						
Trades						
Trade Date	Settlement Date	Trade Time	Action	Quantity	Symbol	Price
09/11	09/12	9:59:01 am	Sell to Open	-3	-EEVLD	20.000000

The Buy Write Analysis below displays the profit potential for buying the EEV ETF at 96.80 and selling the EEV December 120-Strike call for 20.0 points. The Analysis displays potential profit results for various price changes for the EEV ETF at option expiration from a 25% increase to a 15% decrease in price. The cost of this buy write 76.80 points and is calculated by subtracting the 20.0 points I received from the sale of the 120-Strike call from the 96.80 cost of the EEV purchase.

Wealth Creation Alliance							
Buy Write Analysis							
Stock Symbol	Current Stock Price	Call Strike		Call Price			
EEV	96.80	120		20.00			
Break Even	76.80	Calculate		New Analysis		Print	
% Change	25.0%	10.0%	5.0%	0.0%	-5.0%	-10.0%	-15.0%
Stock Price	\$121.00	\$106.48	\$101.64	\$96.80	\$91.96	\$87.12	\$82.28
Stock Prof/Loss	\$2,420.00	\$968.00	\$484.00	\$0.00	\$-484.00	\$-968.00	\$-1,452.00
Call Value	\$1.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Call Profit/Loss	\$1,900.00	\$2,000.00	\$2,000.00	\$2,000.00	\$2,000.00	\$2,000.00	\$2,000.00
Net Profit/Loss	\$4,320.00	\$2,968.00	\$2,484.00	\$2,000.00	\$1,516.00	\$1,032.00	\$548.00
% Return	56.3%	38.6%	32.3%	26.0%	19.7%	13.4%	7.1%

The Buy Write Analysis reveals that if the EEV ETF price remains flat at 96.80 at option expiration a 26% return will be realized (circled). A 25% increase in price for the EEV ETF to 121.00 results in a 56.3% return and a 15% decrease in price to 82.28 results in a 7.1% return (circled). The maximum profit potential of 56.3% for this buy write is reached if the EEV ETF closes at or above 120 at option expiration which is the strike price of the short call.

I purchased the EEV ETF August 26th at 96.80 and I sold the 120-Strike call on September 11th when the EEV ETF was trading at 116.75. On September 11th my EEV purchase at 96.80 had a 19.95 point open trade profit. With EEV trading at 116.75, the sale of 120-Strike call was an out of the money call which consists of only time value. When you sell an out-of-the-money call the full value of the premium in this example 20.00 points becomes all profit at option expiration (regardless of the price movement of the EEV ETF) as options lose all time value at expiration.

So the sale of the 120-Strike out-of-the-money call increases the profit potential of the EEV ETF purchase by 20.00 points regardless of the subsequent price movement of the EEV ETF.

Increased Profit Potential by 100% and Reduced Risk

On September 11th the existing EEV ETF purchase had a 19.95 point open trade profit so the sale of the 120-Strike call increased the profit potential of the ETF purchase by 100% (20.00 points/19.95 points = 100%). In addition to the increased profit potential, the sale of the 120-Strike call also reduced risk by providing downside protection for the EEV ETF purchase in the event the price of the EEV ETF declined. Creating buy write trades with existing profitable ETF purchases increases the profit potential and reduces the risk of the ETF purchase.

Like the call option spread previously discussed, this buy write strategy provides one of the best overall risk/reward profiles compared to any other strategy. The call option spread and buy write strategies presented in this Chapter has allowed me and my Trading Service members to profit during any type of market condition.

Note: The Buy Write Analysis displays the profit potential for this buy write trade example but is not required to invest successfully using buy write trades.

ADDENDUM

Now Let's Add the 2nd & 3rd Keys To Lock In Epic Global Profits

One thing I have learned is that life does not grant guarantees. There will always be the unknown variable that disrupts your game plan. It's just that kind of uncertainty that inspired me to create 3 Keys to Epic Global Profits. How can one feel secure about their financial "security" without such a plan? I don't think it is possible. If nothing else I'm a planner. I can't predict the future but I am sure that I have a strong plan A, plan B and a stronger plan C. Financial security for my family is paramount in my life.

The Global PowerTrend System allows you to trade diverse global markets with limited risk... making it possible to earn substantial profits during any type of market; even during the world-wide financial crisis of 2008 and the subsequent recovery. But, we're not done yet.

Now let's add the Profit Guard System to make every profitable trade bulletproof... so it's virtually impossible for you to lose money on those trades.

And we'll also add a Lifetime Income System which exploits an obscure option-pricing anomaly to deposit cash directly into your account week-after-week... with payouts as high as 66% and totaling \$9,948,623 in the past 10 years.

Put it all together and what do you have?

3 Keys to Epic Global Profits: GPS + Profit Guard + Lifetime Income

America is still the land of endless opportunity! Opportunities abound regardless of age, class, caste, religion, race or ethnic group. Our country is beautiful and amazing. It truly is the land of opportunity for all! I am living my American dream. My dream has always been of a full, rich life. What is your American dream?

With **3 Keys to Epic Global Profits** your wealth-creating possibilities are endless. So start living your American Dream today!

Wishing You the Best in Investing Success,



Chuck Hughes

How To Grow Your Profits Essentially Risk-Free In Volatile Markets



Chuck Hughes
10-Time 1st Place Trading Champion

As you probably know, the key to trading success is to cut your losses short and let your profits run.

Yet, human nature being what it is... People often do just the opposite.

Especially in volatile markets that produce soaring profits one day and then plunge the next.

So, today I'm going to teach you a powerful Optioneering[®] strategy I call Profit Guard.

And, once you've seen how it works... I think you'll agree it's a real game-changer.

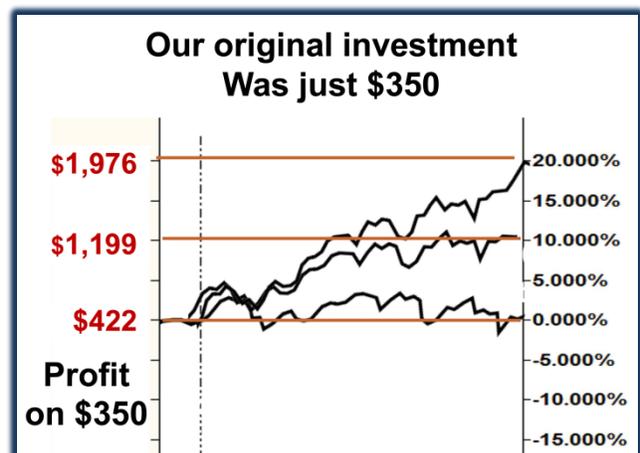
You see, Profit Guard is a strategic way to...

Eliminate Trading Risk And Let Your Profits Run With Confidence

For example, in the trade example to your right... our original investment was just \$350.

And now, if the stock price stays flat, the profit would be \$422.

If it goes up 10% the profit would be \$1,190... And, if it goes up 20% the profit would be \$1,976!



It's Virtually IMPOSSIBLE To Avoid Making Tremendous Gains on this Trade

As we just said, if price goes up 20%, this trade would earn a 564% profit...

But get this... If price goes down 20% this trade would still earn a 337.7% profit... or \$1,182.

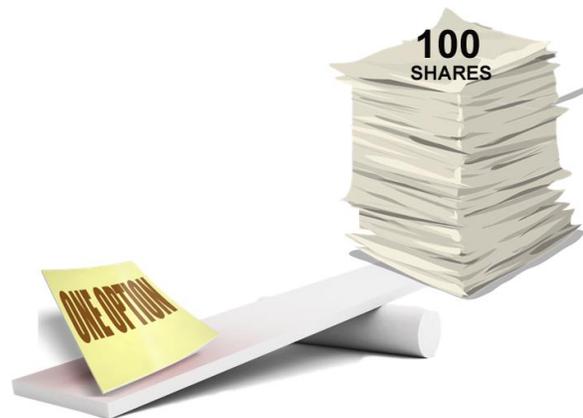
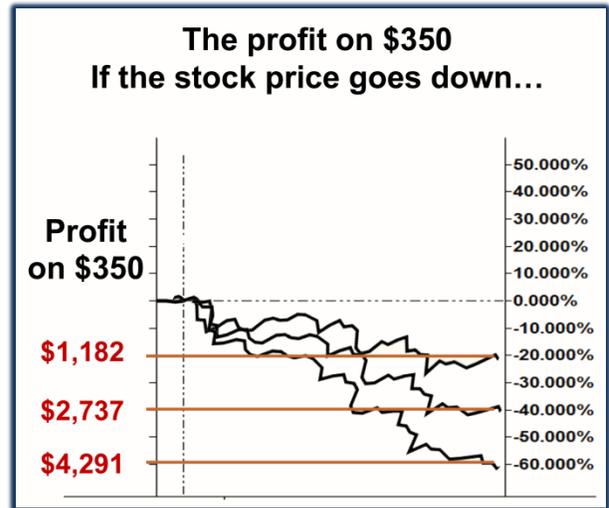
If price goes down 40% it would earn \$2,737 on the original \$350 investment... And if the stock price were to plummet 60% this trade would make a whopping \$4,291!

Lock-in Existing Profits And Boost Ultimate Profit Potential...

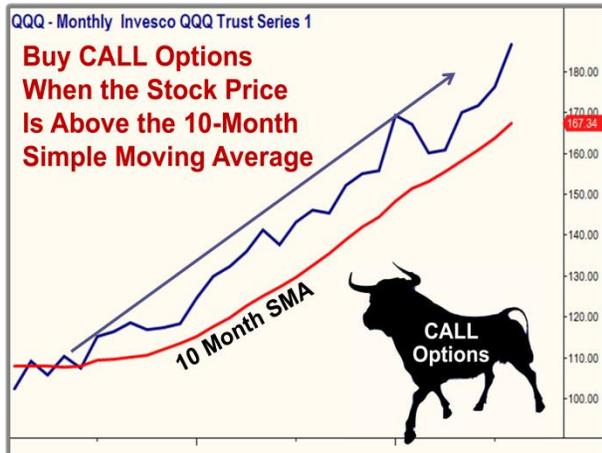
The way this Profit Guard strategy continuously locks-in existing profits while enhancing the trade's ultimate profit potential is just one of many unique advantages to trading options.

So, if you've never traded options before, I think you'll be shocked when you see what you've been missing!

- Trading options is similar to trading stocks...
- You can use just about any brokerage account, including most IRAs...
- Options can be bought and sold over & over again just like any other equity.
- It takes a lot less money to earn essentially the same profit. For example: You might pay as little as \$245 for a CALL option... And earn nearly the same profit as a stock investor who paid \$12,832 for 100 shares of the stock!
- Best of all, option-traders can potentially make just as much money when the market is crashing. Stock traders certainly can't do that!



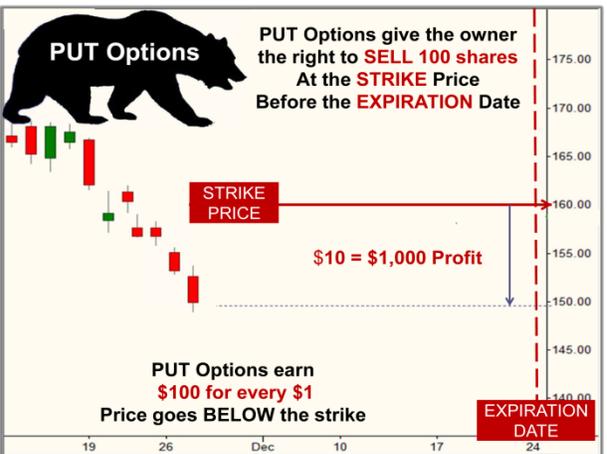
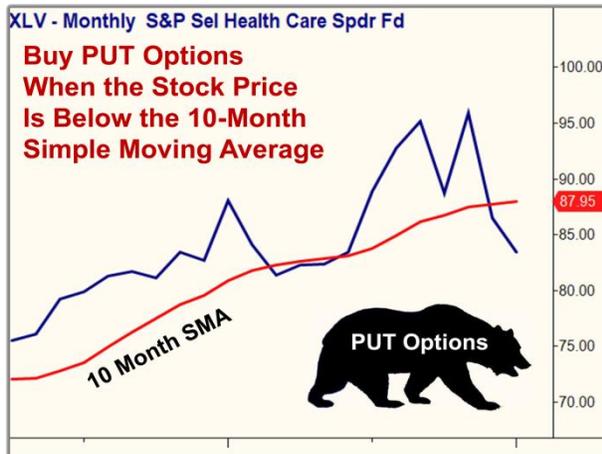
2 Types of Options Give You Huge Profit Potential Up or Down!



CALLs give traders the right to buy 100 shares of the underlying Stock or ETF at the Strike Price... any time before the expiration date.

Consequently, CALL options earn \$100 for every \$1 the price of the underlying stock goes ABOVE the Call Option's strike price.

So, if price goes up \$10, whoever owns the CALL option makes \$1,000.



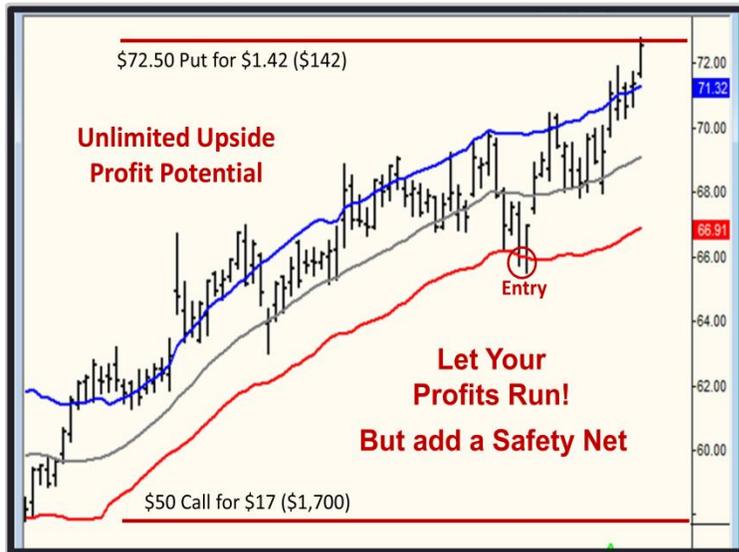
PUT options convey the right to sell 100 shares of the underlying Stock or ETF at the Strike Price... any time before the expiration date.

Consequently, PUT options earn \$100 for every \$1 the price of the underlying stock goes BELOW the PUT Option's strike price.

So, if price goes down \$10, whoever owns the PUT option makes \$1,000.

Now Let's Lock In Those Profits And Go For More!

The Optioneering[®] Profit Guard strategy empowers option traders to lock in existing profits and let potential future profits pile up with 100% confidence!



The Optioneering[®] trade to your left only needed a 29¢ price move in the underlying stock to break even.

And then it earned \$1 profit for every penny the stock price went up after that.

Three weeks after entry the stock was trading \$6 higher.

So, what now? Should we take profits, and thereby avoid a possible correction?

Heck no! If you want to get rich you need to stay in and let those profits run! BUT add a safety net with a cheap 72.50 Put Option that conveys the right to sell at \$72.50 no matter how low price may go.

By filling in the Optioneering[®] Profit Calculator we see the least amount this trade can possibly earn is 22.1%.

If price continues to climb, so will profits with no limit to the upside.

Meanwhile, the profit would also increase if the stock price were to drop MORE than 20%, because the value of the PUT would go up!

Hughes Optioneering[®]

Option Trades Scientifically Engineered For Greater Profit Potential

Stock Symbol	Stock Price	Call Strike	Call Buy Price	Put Strike	Put Buy Price
CI	72.50	50	17	72.50	1.42

Profit Calculator **PROFIT GUARD**

% Change	30%	20%	10%	0%	-20%	-40%	-60%
Stock Price	\$94.25	\$87.00	\$79.75	\$72.50	\$58.00	\$43.50	\$29.00
Call Value	\$44.25	\$37.00	\$29.75	\$22.50	\$8.00	\$0.00	\$0.00
Put Value	\$0.00	\$0.00	\$0.00	\$0.00	\$14.50	\$29.00	\$43.50
Spread Value	\$44.25	\$37.00	\$29.75	\$22.50	\$22.50	\$29.00	\$43.50
Spread Cost	\$18.42	\$18.42	\$18.42	\$18.42	\$18.42	\$18.42	\$18.42
Spread Profit	\$2,583	\$1,858	\$1,133	\$408	\$408	\$1,058	\$2,508
Spread % Return	140.2%	100.9%	61.5%	22.1%	22.1%	57.4%	136.2%

**Traders Don't Have to Worry About Protective Stops...
Bad Earnings Reports or Big Down Moves...
Because This Trade Just CAN'T LOSE!!!**

Up, Down, or Sideways...

Profit Guard Can Guarantee A Win!

Recently we bought the XLV ETF, 50-strike CALL for 9.60... and the trade was profitable so we purchased the 75-Strike PUT to guard our profits



The 50-Strike call option profits as XLV moves up in price



The 75-Strike put profits as XLV moves down in price

Buy XLV 50-Strike call option @ 9.60

Buy XLV 75-Strike put option @ 4.00

Portfolios										
Symbol		Last Trade	Change		Day's Gain	Qty	Price Paid	Total Gain		Market Val
			\$	%				\$	%	
<input type="checkbox"/>	XLV Jan \$50 Call	Opn/Cls 20.70	0.00	0.00%	\$0.00	64	\$9.6034	\$70,964.25	115.36%	\$132,480.00
<input type="checkbox"/>	XLV Jan \$75 Put	Opn/Cls 6.30	0.00	0.00%	-\$960.00*	64	\$4.00	\$9,222.08*	35.94%*	\$34,880.00*

Let's check out the Optioneering[®] profit calculator to learn what the net effect of a move in either direction will be...

Hughes Optioneering [®]								
Option Trades Scientifically Engineered For Greater Profit Potential								
Stock Symbol	Stock Price	Call Strike	Call Buy Price	Put Strike	Put Buy Price			
XLV	71.44	50	9.603	75	4.00			
PROFIT GUARD								
		30%	20%	10%	0%	-40%	-80%	-100%
% Change								
Stock Price	\$92.87	\$85.73	\$78.58	\$71.44	\$42.86	\$14.29	\$0.00	
Call Value	\$42.87	\$35.73	\$28.58	\$21.44	\$0.00	\$0.00	\$0.00	
Put Value	\$0.00	\$0.00	\$0.00	\$3.56	\$32.14	\$60.71	\$75.00	
Spread Value	\$42.87	\$35.73	\$28.58	\$25.00	\$32.14	\$60.71	\$75.00	
Spread Cost	\$13.60	\$13.60	\$13.60	\$13.60	\$13.60	\$13.60	\$13.60	
Spread Profit	\$2,927	\$2,213	\$1,498	\$1,140	\$1,853	\$4,711	\$6,140	
Spread % Return	215.2%	162.6%	110.1%	83.8%	136.2%	346.3%	451.3%	

If price goes nowhere, Profit Guard produces an 83.8% return... A 20% price increase would double the return to 162% and if it goes higher the profit would be higher. There really is no limit to how much this trade can make on the upside... And the downside is looking fantastic too!

Speaking of Downside... Check Out This Profit Run!

Speaking of downside, traders who started buying PUTs in this China Internet ETF last June when the price dropped below the 10-month moving average...

Could have weathered the ups and downs with complete confidence using At-The-Money CALL options...

And possibly be sitting on a sizable profit right now!



Risk Adverse Traders Everywhere Agree...

The Optioneering[®] Profit Guard strategy can be a real game-changer.

Why not see for yourself?

I think you'll be very pleased when you see the results.

Yours for Lifelong Prosperity!

Chuck Hughes



**Award-Winning
Strategy That Can
Create Consistent
Income On A
Shoestring**

By
Chuck Hughes
10-Time 1st Place Trading Champion

The Optioneering[®] income strategy I'm about to show you has been known to change people's entire financial outlook in a most exciting way.

And I see no reason it can't do the same for you.

Enjoy Built-In Profit Potential As High As 66.7% Regardless of Market Conditions!

This particular Optioneering[®] strategy structures each trade so it has profit potential of 35%, 45%, 55%... as high as 66.7%... actually built-in from the minute you enter the trade.

And all that built-in profit potential is what makes it possible for you to invest as little as \$650...

And collect automatic monthly payouts with strictly limited risk...

Best of all...

You Can Often Collect Your Full Cash Payout Even if the Stock Plunges 10% or More!

The unique way this Optioneering[®] strategy makes it possible for you to collect a steady stream of cash payouts...

Whether the trend is up, down, or sideways...

Is just one of many unique advantages to trading options.

So, if you've never traded options before, I think you'll be amazed when I show you the wealth-creating potential you've been missing!

The Mechanics of Trading Options Is Similar to Trading Stocks... The Wealth Creating Potential is Not!

You'll be happy to know you can trade options in just about any account in which you trade stocks... including most IRAs

Even Optioneering[®] spread strategies like the one I'm going to teach you today... which involves buying one option and selling another... can be done with a single mouse click...

Trade							
Spread				Max Profit	Max Loss		
Vertical				2,156.00	-4,844.00		
Side	Open / Cl...	Quantity	Symbol	Expiration	Strike	Type	
Sell	Open	-7	NVDA	15 Dec...	165	Call	X
Buy	Open	7	NVDA	15 Dec...	155	Call	X
Quantity	Order Type	Limit Price					
7	Limit	6.92	Hide Place Order				

And Options can be bought and sold over & over again just like any other equity.

But that's where the similarity ends!

2 Types of Options Make It Possible For You To Keep Ample Cash Flowing No Matter What!



If you're feeling "Bullish" buy CALLS

Each CALL option gives the owner the right to BUY 100 shares of stock...

At the STRIKE Price...

Anytime before Option Expiration.



If you're feeling "Bearish" buy PUTS

Each PUT option gives the owner the right to SELL 100 shares of stock...

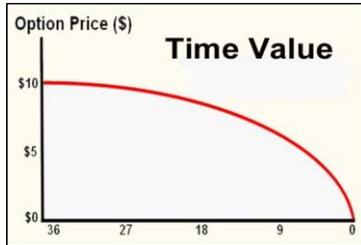
At the STRIKE Price...

Anytime before Option Expiration.

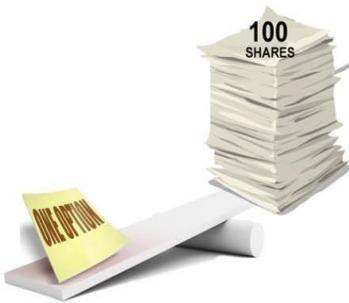
The Hidden Pricing Anomaly

Experienced Traders Don't Even Realize

The price an investor pays for an option is called the Option Premium and it's comprised of two parts... the **Time Value** and the **Intrinsic Value**.



Time value is the price you pay for the privilege of owning the option and it erodes a little each day until Option Expiration... when time value decays to zero



Intrinsic Value is the difference between the current stock price & the Strike price.

For a CALL Option:

$$\text{Stock Price} - \text{Strike Price} = \text{Intrinsic Value}$$

For a PUT Option:

$$\text{Strike Price} - \text{Stock Price} = \text{Intrinsic Value}$$

Now, here's the part even experienced option traders don't realize...

The more INTRINSIC Value an Option has, the less decaying TIME Value is built in...

Here's an option chain for QQQ CALLs I customized to list the Strikes higher-to-lower and list the INTRINSIC & TIME values separately... so you can clearly see the pricing quirk that is normally hidden from view.

Strike Prices in Yellow are higher than the current price of 158.97 so they are Out-of-the-Money and have no INTRINSIC value.

In-the-Money options are listed in the green area.

Look how the Deeper-In-the-Money you go... the more INTRINSIC value there is... and therefore the higher the option price.

Symbol	Description	Last	
QQQ	Invesco QQQ Trust ...	158.97	
Time	Intrinsic	Prem	STRIKE
3.87	0.00	3.87	161
4.37	0.00	4.37	160
3.59	3.80	7.39	155
2.17	8.80	10.97	150
1.25	13.80	15.05	145
0.68	18.80	19.48	140

However, the TIME value... which is essentially your actual expense...

It's getting cheaper & cheaper the Deeper-In-the-Money you go!

Now Let's Turn This Weird Pricing Quirk Into Built-In Profit Potential

Remember, one of the things we love about options is the ease with which you can buy one option and sell another, (that you don't even own) in a single mouse click.... And that's exactly what we're going to do now!



If you're Bullish on the market you'd want to trade CALL options.

QQQ is trading at 158.80 so the 155 Strike CALL has an Intrinsic Value of 3.80 (158.80-155=3.80).

Premium is \$739...

So Time Value is 3.59 (7.39-3.80= 3.59)

That means nearly half the Premium is decaying Time Value.

Meanwhile, the 140 Strike CALL has 18.80 of Intrinsic Value... And the decaying cost of the 140 option is just 68¢.

Sell the 155 CALL... buy the 140 CALL...Voila! \$291 built-in profit potential.

Sell the 155 Strike Call	cr. \$739	3.59 Time Value
Buy the 140 Strike Call	dr <u>\$1,948</u>	- <u>.68 Time Value</u>
Net Investment	\$1,209	\$291 Built-In Profit

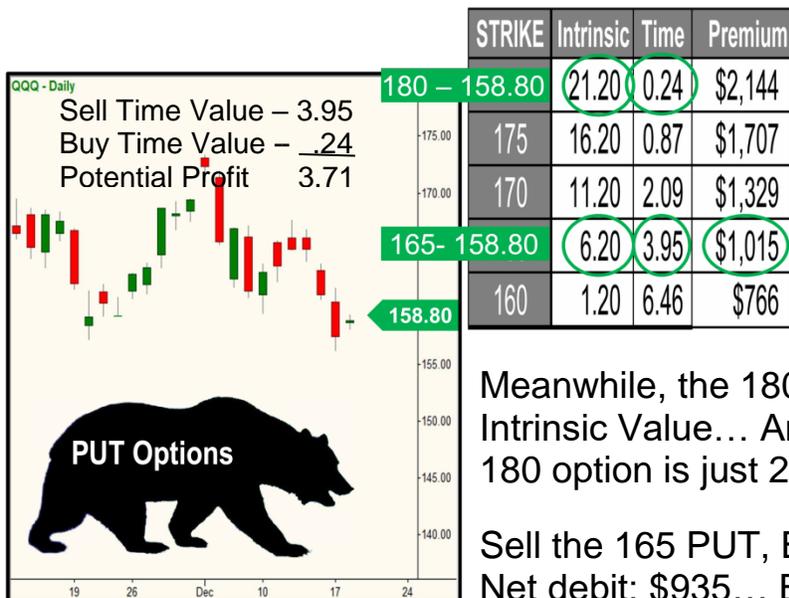
At Option Expiration, all Time Value will have evaporated to nothing.

So you'd liquidate both options for their Intrinsic Values... which are in lock- step... going up or down \$1 for every 1¢ the price of QQQ fluctuates. For example, if QQQ's price went up \$10 to \$168.80...

Liquidate At Option Expiration	
140 CALL You Bought	\$2,880 credit
155 CALL You Sold	<u>1,380</u> debit
	\$1,500 net credit
Less Original Investment	<u>1,290</u>
	\$291 Built-In Profit

Unless QQQ's price were to suddenly plunge... What you'd have in the end would be the same built-in profit you had in the beginning.

And it works just as well with PUTs in a “Bear” market.



QQQ is trading at 158.80 so the 165 Strike PUT has an Intrinsic Value of 6.20 (165 - 158.80 = 6.20).

Premium is \$1,015...

So Time Value is 3.95 (\$1,015 - \$6.20 = 3.95)

Meanwhile, the 180 Strike PUT has 21.20 of Intrinsic Value... And the decaying cost of the 180 option is just 24¢.

Sell the 165 PUT, Buy the 180 PUT...
 Net debit: \$935... Built-in profit potential \$371

**32.86% Built-In Profit Potential
 And It Only Takes 1 Mouse Click to Enter**

Side	Open / Cl...	Quantity	Symbol	Expiration	Strike	Type
Buy	Open	1	QQQ	Jan 19	180	Put
Sell	Open	-1	QQQ	Jan 19	165	Put

Quantity	Order Type	Limit Price	Stop Price	Route	Duration	Account Number
1	Limit	11.29		Intelli...	Day	

An Awful Lot Can Go Wrong Before Your Profit Potential Is The Least Bit Compromised

At this point you’re probably wondering... so what’s the catch?

Is this guaranteed income no matter what happens?

And the answer is “Not quite”.

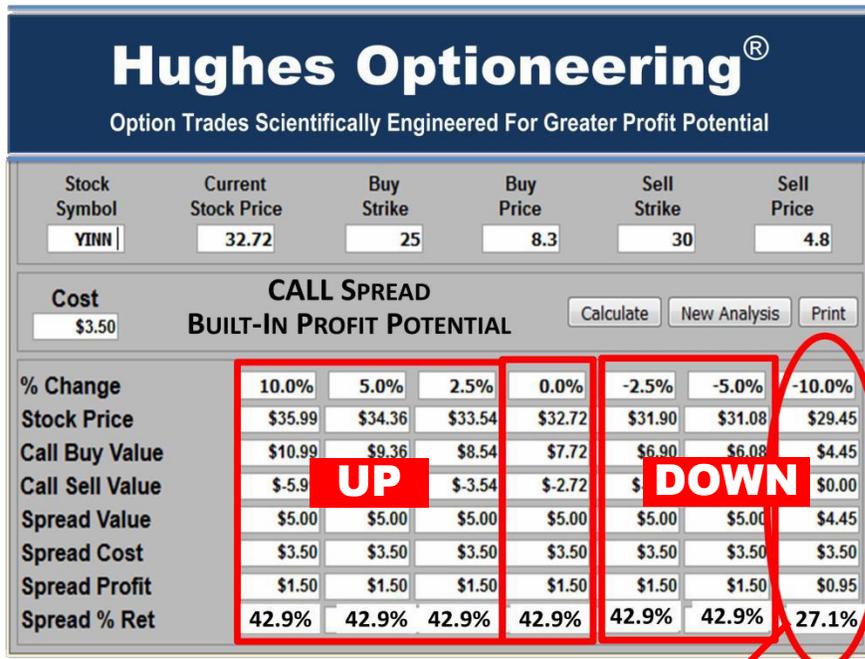
This Optioneering® strategy is engineered to create built-in profit potential... with loads of wiggle room... and strictly limited risk.

And, by trading with the trend we can minimize our risk even further.

But, if you bought CALLs and the underlying stock took an unexpected nosedive... or if you bought PUTs and the underlying stock suddenly soared... you’ll need to exit early to avoid losing your initial investment.

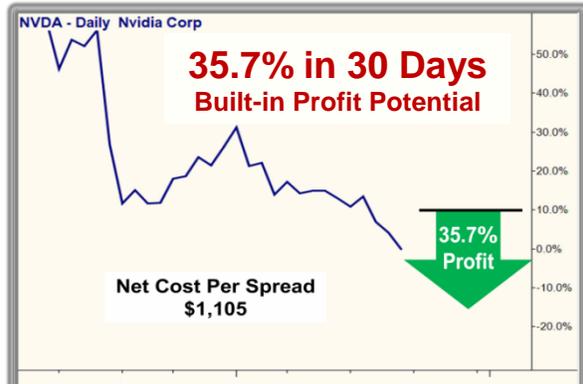
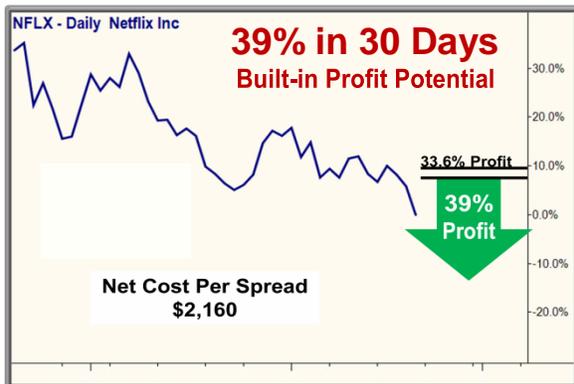
As with all successful trading, It’s a calculated risk. So let’s look at a typical trade on the Optioneering® profit calculator to see how it all shakes out.

For the Greatest Success, Always Trade With the Trend!



One glance at our Optioneering profit calculator and you can see this CALL spread will profit whether the market goes up, down, or sideways.

Even if price were to drop as much as 10%, this trade still stands to make a substantial profit... guaranteed!



It's easy to see why this Optioneering[®] Income Strategy with built-in profit potential and strictly limited risk is so popular with men & women from all walks of life... why not see for yourself?

Yours for Lifelong Prosperity!
Chuck Hughes.