Testy Tuesday - Dow 12,000 or Dow 11,500?

The markets rallied on Tuesday as the Dollar fell to the week's low of 74.3 midday. A better-than-expected retail and food services report showed sales up by 8.0% Yr/Yr, although Tuesday's Producer Price Index showed prices up 7.0% Yr/Yr. The core index (which excludes food and energy costs) showed an increase of only 2.1% Yr/Yr.

"We flipped bullish Monday as we had a minor selloff. We caught it right and were not greedy. Next, we'll see what kind of bounce they can put together but, if it's not a REALLY big one, we're going to lose interest and get back to mainly cash, teeing up for a possible collapse in July." - Phil

Phil wrote, *"We shed most of our bearish bets on Monday's dip and flipped fairly bullish, but we haven't done much bottom fishing yet as our main plan is to use a fake market rally to cash out the longs we have left and flip short into the [July 4] holiday weekend."* Because the Dow has been holding up much better than other indexes, Phil put together a number of hedged trades based on the Dow. *"We have that lovely 12,000 line to use as a stop so lets construct a short hedge that pays big bucks below 12,000... We can make a downside bet on the Dow that simply stops out over the 12,000 line with the DIA July $119/116 bear put spread (you buy the $119 puts and sell the $116 puts) at $0.95. That spread, by itself, pays $3 (up 215%) if the Dow is below 11,600 on July 15. We can enhance the returns by picking a Dow component we REALLY want to own and SELLING puts to offset the cost of the spread."*

Phil then provided 12 trade ideas based on selling puts - i.e., these are bullish trades. They are positioned to gain in a rally and hedged by the DIA July $119/116 bear put spread. (See inset box to the right.)

Tuesday Morning bullish trade ideas - potential positions hedged by the DIA bear put spread. <u>These are based on SELLING puts, and remain actionable trades:</u>

AA July $15 puts at $0.63 - collect $630 (assuming 10 sold), net margin $2,500. (May vary by broker.) Now at $0.76.

BAC 2013 $7.50 puts at $0.60 - collect $600, net margin $750. Now at $0.69.

CSCO Jan $14 puts at $0.92 - collect $920, net margin $1,900. Now at $0.97.

DIS July $37 puts at $0.55 - collect $550, net margin $6,200. Now at $0.59.

GE 2013 $15 puts at $1.40 - collect $1,400, net margin $1,400. Now at $1.42.

HD Aug $32 puts at $0.82 - collect $820, net margin $5,150. Now at $0.63.

HPQ Jan $31 puts at $1.60 - collect $1,600, net margin $3,100. Now at $1.66.

INTC Jan 2013 $20 puts at $2.71 - collect $2,710, net margin $2,700. Now at $2.90.

MMM July $87.50 puts at $0.71 - collect $710, net margin $14,150. Now at $0.70.

MSFT 2013 $22.50 puts at $2.75 - collect $2,750, net margin $3,100. Now at 2.67.

VZ 2013 $35 puts at $5.10 - collect $5,100, net margin $6,318. Now at $5.15.

WMT Jan $50 puts at $2.05 - collect $2,050, net margin $7,750. Now at $2.00.