

Excela Equities Trade Note: Recommendation

11th November 2011

December WES BEAR CALL CREDIT SPREAD

Quick Summary: Sell 33.43 DEC Call - Buy 33.89 DEC Call

Bank the premium, full profit with WES Below 33.43 at expiry

Income Received: This trade today would generate \$2730 on 150 contracts

Projected Return: **Breakeven** WES at 33.60, **WIN** WES below 33.43 keep entire income

Risk on Trade: **Exposure** of \$4650

Trade Timeframe: 6 weeks

Time to Act: NOW. Today. This trade won't be available long.

Trade Explained

Wesfarmers has performed well in recent months, with the stock largely defying the broader market volatility. WES is currently trading around the \$32.70 level, there is strong technical resistance around the \$34.00 level. We feel WES will see profit taking as the share price is approaching consensus analyst price targets around the \$32.90 level. This provides the opportunity to benefit from a sell off, by placing a Bear Call Spread and keeping the credit, should the stock trade below the sold \$33.43 level at the end of December.



Trade Fundamentals:

Wesfarmers has approached consensus analyst price targets at around the 32.90 level. Given the current volatile market, we feel traders will look to take profits and shift funds towards cyclical stocks at lower levels with more price upside potential. WES is trading on a PE ratio of 19.6, which is approaching historically high levels, we feel potential for earnings and growth upgrades are limited in the short to medium term.

Trade Technicals:

WES faces strong technical resistance around the \$34.00 level, where the stock has sold off strongly three times in late 2010 and early 2011. There is currently a Bearish Stochastic divergence in play, Wednesdays Doji candlestick pattern confirms our view that the stock is being distributed at current levels.

Trade Execution:

Sell 150 December \$33.43 Call Options @ 53 cents each
Buy 150 December \$33.89 Call Options @ 36 cents each
= Net credit of 17 cents per contract

Credit Received

Total credit received = \$2730

(.17 cents* 107) * 150 contracts = \$2730

Maximum Risk

The **maximum risk** on this trade is 29 cents per contract or \$4650 if the full 150 contracts were traded. This would occur if the WES share price was above \$33.89 at expiry.

The **breakeven** on the trade occurs at \$33.60.

****NB: Prices are indicative of time when note was prepared and are subject to change; trade size may be adjusted to suit personal risk appetite; all calculations do not factor in commissions, GST or ACH costs.**

To participate in this trade please contact your Excela broker on (07) 3308-1808



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