

Excela Equities Trade Note: Recommendation

5th December 2012

2012 XJO 12 MONTH CONDOR CALENDAR CREDIT SPREAD

Quick Summary:

4320	calls		puts	
	sell	buy	sell	buy
Jan-12	4400	4450	3950	3900
Feb-12	4400	4450	3900	3850
Mar-12	4350	4400	3850	3800
Jun-12	4550	4600	3200	3150
Sep-12	4550	4600	3550	3500
Dec-12	4550	4600	3650	3600

Income Received: If actioned today this trade would generate approx 165 points on 10 contracts or **\$16,500** gross.

Projected Return

Breakeven varies depending on where the market closes at each month's expiry.

WIN

January Expiry: If the market closes between 3950 & 4400 the JAN legs will expire worthless netting the January credit. The risk on the trade will be reduced by 50 points from 135 to 85.

February Expiry: If the market closes between 3900 & 4400 the FEB legs will expire worthless netting the February credit. The risk on the trade will be reduced by 50 points from 85 to 35.

March Expiry: If the market closes between 3850 & 4350 the MAR legs will expire worthless netting the March credit. The risk on the trade will disappear altogether and the minimum return on the trade will be 15 points (\$1500).

June Expiry: If the market closes between 3200 & 4550 the JUN legs will expire worthless netting the June credit. The profit on the trade will increase by 50 points to 65 points (\$6500).

September Expiry: If the market closes between 3550 & 4550 the SEP legs will expire worthless netting the September credit. The profit on the trade will increase by 50 points to 115 profit (\$11,500)

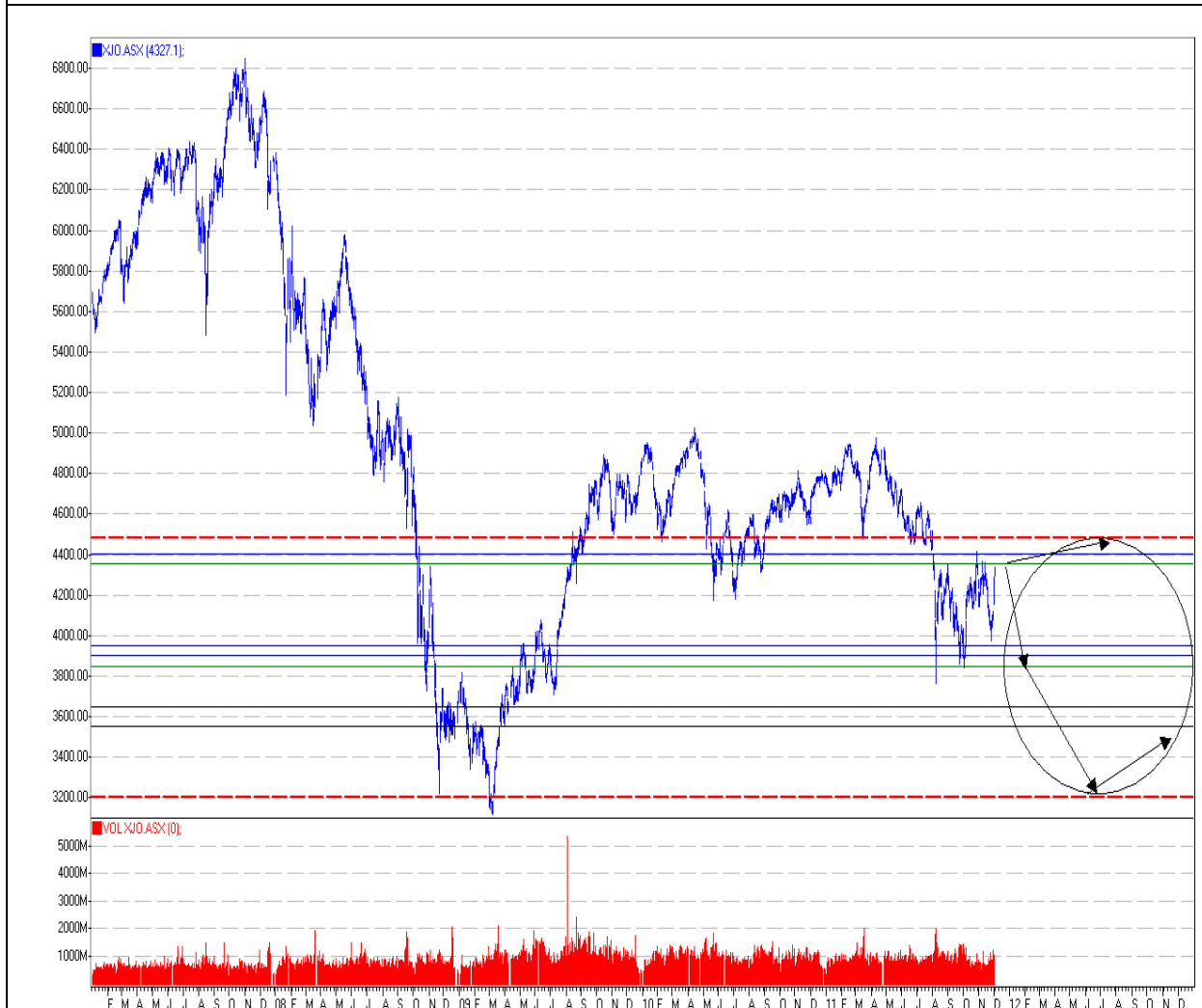
December Expiry: If the market closes between 3650 & 4550 the DEC legs will expire worthless netting the December credit. The profit on the trade will increase by 50 points to 165 profit or max profit of \$16,500 gross.

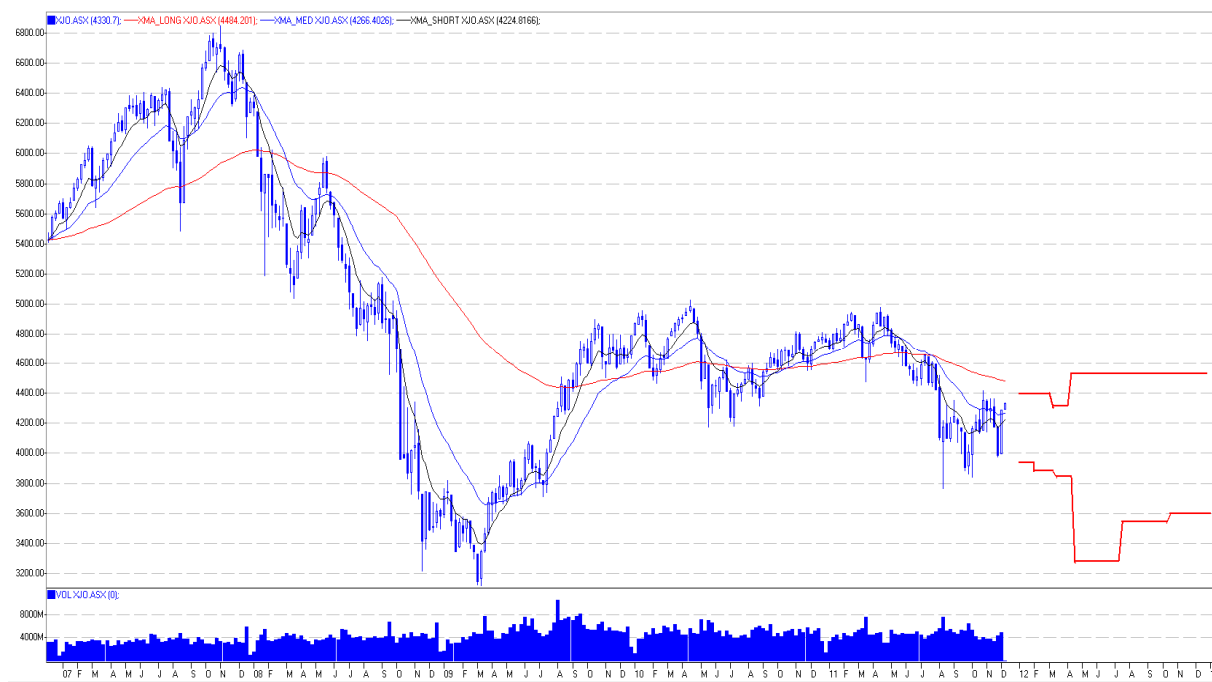
Risk on Trade:

Exposure of 135 points or \$13,500 + brokerage + ACH costs (exposure over a period of 12 months)

Trade Timeframe: 12 months, giving the XJO index approx 40% range to trade in over 2012; trade can be closed out earlier to lock in profits and de-risk the entire trade.

Time to Act: For expression of interest please contact your broker, or email your interest in the trade – **Call (07) 3308 1808**





Trade Explained

Purpose: to sell risk/volatility out for 12 months at differing index ranges to take advantage of time decay, technical support/resistance levels, while minimizing risks from protected credit spread trades.

We have seen exceptional volatility over the last few months mainly due to the European debt crisis, ratings agencies downgrades, China slowdown and the overall fear gripping market participants.

This continued volatility is offering us the opportunity to sell risk/volatility out for the entire 2012 calendar year.

Current Fundamentals:

CHINA: decreasing growth for the past 2 years; government financing to boost private bank reserves; local government bad debt growth; falling property prices; high commodity and energy prices, diminishing demand from US/EU; contracting PMI data;

US: lackluster property and construction sector; consumer demand lagging; high unemployment; high energy prices; government bailouts persisting; uncertain federal leadership.

EUROPE: government debt issues worsening; high government lending rates (bond yields); push towards ECB lender of last resort; slowing/inexistent growth; lagging property market; high unemployment; civil/political unrest/instability; stock prices not reflecting reality; low consumer confidence; PIIGS woes contagion.

AUSTRALIA: 2 speed economy (resource sector V rest of country); Labour government; resource tax; carbon tax; slowing growth; falling property prices; weak building approvals; high AUD; high cash rate; high labour costs; reliance on China; 22M population; stringent immigration laws

COMMON DENOMINATOR: decreasing growth; falling property sector; continued government bailouts; bulging government debt; quantitative easing/stimulus approach; printing money; high debt/GDP ratio; consumer dropping; inflationary pressures through high commodity cost; labour influences; high energy costs; China dependence.

2012 OUTLOOK: neutral to bearish. Cannot see any bullish fundamentals to support a pro-equity stance. Supported by technicals outlining possible correction beyond GFC lows

KEY POINT: 2008 GFC all about banks going broke; 2012 all about governments going broke

We believe the above presents an opportunity to sell 6 Index condors for the next 12 months, adjusting the sold ranges to the downside through the beginning into mid 2012, later raising the sold put levels in Q3 of 2012. The above ranges in addition to the credit received would allow the XJO to trade within a ~ 40% range from its current 4330 level, with bias to the downside.

Our recommendation is to implement all 6 condors immediately to take advantage of higher current volatility and maximizing the premium received, rather than waiting month-on-month and potentially receiving less for the combined put and call spreads.

At this stage the trade is somewhat of a “set and forget” approach, but will be actively managed with action to be taken where required, given any major announcements or movements in the market.

Maximum Risk

The **maximum risk** on this trade is approx 135 points or

$\$10 \times 135 \times 5 \text{ lots} = \6750 for 5 lots over 12 months

$\$10 \times 135 \times 10 \text{ lots} = \$13,500$ for 10 lots over 12 months

$\$10 \times 135 \times 20 \text{ lots} = \$27,000$ for 20 lots over 12 months

This would occur if the XJO level was above or below the bought legs at each expiry. The risk-reward is approx 45/55, that is, on 10 lots; risk \$13,500 to make \$16,500 (not including commissions, GST and ACH cost to deal)

The **breakeven** on the trade varies depending on where the market closes at each month's expiry.

As each monthly condor expires worthless, the risk-reward improves substantially in the investor's favour due to the time decay affecting the later legs.

****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.**

Important Information

Index options are **European Style Options**: they cannot be exercised early and expire on expiry date based on the OPIC (Opening Price Index Calculation) at around 10.30am on expiry day.

If the options are in the money (loss scenario), they will be automatically cash adjusted, that is, you will not be liable for additional commission charges.

The position can be closed out to take profit or reduce risk **at any time** throughout the period

Margin Requirements

Blue chip stock can be used as margin cover; therefore no cash is required to implement the trade if blue chip stock is held in the account

Margin requirements will be somewhat neutral and maximum risk limited as the market can only finish in one spot, i.e. the index can't simultaneously close @ 3850 & 4600 in the same month. The maximum risk amount will be required if no blue chip stock is held.

To participate in this trade please contact your Excela broker on (07) 3308-1808 (Opt # 1)



excela equities **TRADE NOTE**

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