Stephen Leeb's

Aggressive Trader Action Guide

Definitions for Today's Volatile Markets

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The goal of **Stephen Leeb's Aggressive Trader** is to produce outsized short-term profits in all market conditions. Regardless of the market's mood—whether bullish or bearish—we'll seize profits wherever we find them. We'll do this using various investment vehicles, including stocks, options, index options and exchange traded funds (ETFs) and ETF options. Our recommended trades may last just a few hours or we may stay in a position for several months, depending on prevailing conditions.

Our approach to trading is simple: keep the risk/reward parameters in our favor, don't be too greedy, and always admit when we're wrong.

We wait for low-risk opportunities to occur before establishing positions because it's easier to reap strong profits from fewer trades rather than attempting to garner small profits from lots of trades.

To aid us in our decision-making process, we've developed several market timing tools. But because our indicators aren't infallible—they can't factor in a political crisis, for instance—we don't rely on them exclusively. Our years of trading experience play an important role, too.

We've encountered just about every market environment imaginable over the years. We've also watched many successful investors get lured by the Siren song of ever greater profits. But too frequently in attempting to reap greater gains, their profits leap overboard, shrinking considerably in the process, if not ending under water altogether.

So as to avoid such a soaking ourselves, for instance, suppose we're holding a profitable position in call options on the S&P 500. Even if it looks like the market has further to run on the upside, we'll be inclined to get out of the trade if the market's downside risk outweighs its upside potential.

Know Your Limits

We've had considerable success over the years making high risk/high reward trades. And we've made more than a few investors quite wealthy with our rec-

ommendations. But while the allure of fat profits in short-term investments is very strong for all investors, this type of trading isn't suitable for everyone.

Before you take the plunge, consider the following:

- Options can be very volatile. A small move of the price of the underlying stock or index can translate into a big price movement for an option. You should therefore only use a small portion of your total portfolio for speculating. If you don't currently have a diversified portfolio of stocks and/or mutual funds, you should **not** be trading options.

- Never commit more than a small percentage of your allocated capital to any one of our recommended trades. Chances are we'll occasionally suffer through several consecutive losing trades before hitting the mark. Without adequate capital, you'll be left behind when the train finally pulls out of the station.

- Be comfortable with **all** investments you make. If you're new to options trading or short selling and not sure you understand exactly what is going on, your best bet is to remain on the sidelines and "paper trade" our recommendations for a while until you're confident in what you are doing.

The secret to successful speculating is to be patient and only attempt to capitalize on opportunities when they crop up. To do this we take a disciplined approach to trading. And you should too!

Chances are we won't have a new trade every week. In fact, we may go several weeks without finding a suitable trade. But we'd rather incur your ire for our inaction than enter a trade we're less than excited about.

When we do make a recommendation, we want you to follow our advice exactly: buying and selling at our suggested entry and exit points. If you do, we're confident that in the long run you'll be happy with your results.

As we said above, we know from experience that there will be times when we'll suffer a string of losing trades. We'll keep the losses on those trades to a minimum, but they will certainly occur. The thing to remember is not the percentage of profitable trades, but that the dollar gains from our trades should be substantially greater than the dollar losses of the trades that go against us.

Also keep in mind that it won't be unusual for a trade to initially go against us. Losses of any kind, even those on paper, can be hard to stomach. But when our indicators and experience suggest that an unfavorable move will prove to be only short lived, we'll recommend adding to your position.

Conversely, if a trade goes against us and the market's action shows no signs of improving, we'll exit the trade and cut our losses. There's nothing worse in speculating than refusing to admit when you're wrong.

Finally, we're often asked why, if we're so good at making trades, do we share this information with others rather than simply making the trades ourselves. The answer is simple: as anyone who knows my educational background will deduce, I'm an academic at heart. I very much enjoy educating and sharing my knowledge with others. That fact was a primary driver in establishing this service.

I hope you'll not only profit from our recommended trades, but that you'll become a savvier trader in your own right as a result. For some this guide will merely serve as a refresher course in various types of investments. For others, it will serve as a good starting point in your "advanced degree" in speculating.

I wish you much success in your trading.

Sincerely,

Stephen Leeb
Research Chairman

OPTIONS

Option Basics

Stock options have been around since the late 1700s. But it has only been during the past 30 years or so that option trading has really taken off. As volume in option trading has grown, so have the number of options available. Today, in addition to options on thousands of stocks, numerous stock index and ETF options exist, allowing investors to speculate on a wide range of industry sectors and market segments.

Depending upon your goals, there are numerous strategies that you can employ using options. Because of the leverage they offer, options can be used to substantially increase the value of your portfolio while limiting the amount of capital you place at risk in the market. They can be used to lock in profits while offering additional upside potential. And options can be used as insurance to protect a portfolio against a sudden drop in share prices.

You can purchase as well as sell or "write" options. Other strategies are more complex, such as spreads (buying and selling similar options with different strike prices) and straddles (buying a call and a put with the same strike price). Before going into detail on various strategies we may use in this service, let's look at option basics.

There are two kinds of options: ***calls*** and ***puts***. A call option gives the holder the right, but not the obligation, to buy 100 shares of a given stock or stock index at a predetermined price, within a certain period of time. A put option is just the opposite: It gives the holder the right to sell 100 shares of a given stock or index at a predetermined price, within a certain period of time.

If you're bullish on a particular stock index, you would therefore buy a call option to profit from a rise in the value of that index. Conversely, if you're bearish, holding a put option would allow you to profit from a decline in a specific market index. But there's a little more you need to know about options before taking the plunge.

Because each option contract covers 100 shares of stocks, all option quotes should be multiplied by 100 as well. So a quote of 6 represents $600. Every option has a strike price and an expiration date. For call options, the ***strike price*** is the price above which you can exercise the option. For put options, the strike is

the price below which you can exercise the option.

Exercising a call option means the holder buys the underlying stock or stock index from the option writer. For put options, the option holder sells the underlying stock to the option writer.

The expiration date is simply the date on which an option contract becomes null, typically the third Friday of the contract month.

Option prices are comprised of two components: ***intrinsic value*** and ***time value***. Intrinsic value is the amount a stock is trading above the option's strike price for a call or below the option's strike price for a put.

For example, suppose the S&P 500 (SPX) is trading at 1120 and a call option with an 1100 strike price is priced at 36. The 20 point difference between the strike price and the current index value (1120 - 1100 = 20) is the call's intrinsic value. The remaining 16 points the option would cost you to purchase is time value.

A call option with a strike price above the value of the underlying stock or index has no intrinsic value: its price is made up entirely of time value. Likewise, put options with strike prices below the underlying stock or index have no intrinsic value.

A call option is ***in-the-money*** when its strike price is below the value of its underlying security; it therefore has intrinsic value. A call option with no intrinsic value (because its strike price is above the price of the underlying security) is said to be ***out-of-the-money***. An option with a strike that's the same as the value of the underlying security is considered to be ***at-the-money***.

Put options, which increase in value when the underlying security falls in price, are just the opposite. Put options are in-the-money when their strike price is above the value of the underlying security. And a put option with a strikeprice that's lower than the value of the underlying security is out-of-the-money.

Time value, also known as ***time premium***, is what you pay for the right to exercise an option between now and the option's expiration. Without going into too much detail, time value is a function of the time to expiration, the spread between the option's strike price and the value of the underlying security, dividends paid on the underlying stock, prevailing short-term interest rates and the volatility of the underlying security or index.

Greater volatility means there is a greater probability for sharp gains in the

stock's price. Likewise, the longer the time until expiration, the greater an option's time premium.

The time premium tends to be highest when the stock is trading at the option's strike price. As the stock moves above or below the strike price, the premium declines. For out-of-the-money options this makes sense since the stock is less likely to reach the strike price, so the option is worth less.

In-the-money options are a bit different: the time premium declines as an option moves deeper into the money. Let's look at two call options for a stock that's trading at 84. The first option has a 75 strike price, the second has a strike of 80.

If each option had the same $2 premium, the 75 call would sell for $11 ($9 intrinsic value + $2 premium), while the 80 call would sell for $6 ($4 intrinsic value + $2 premium). Investors would have absolutely no reason to buy the 75. That's because they could use a smaller investment in the 80 call option to make the same amount of money.

Suppose the stock in our example climbed to 90 shortly before expiration. Both call options would produce a net gain of $4, but the 75 call would have required an $11 investment, while the 80 call would have required only a $6 outlay.

In reality, the 75 call option will carry a smaller premium than the 80 option, so as to make it appealing to potential investors. For example, if the premium on the 75 call was only $0.50 instead of $2 and the stock was still at 84, the option would sell for $9.50 ($9 intrinsic value + $0.50 premium). That price is still higher than the $6 price for the 80 call with its $2 premium. And if the stock climbs to 90 by expiration, the net profit on the 80 call would be $4. The larger investment in the 75 call option would net a greater profit than you would receive on the 80 call option.

Option Strategies

The beauty of stock options is that you can use them to tailor a strategy to meet any contingency. Below we outline several of the strategies we'll likely employ in **Aggressive Trader**.

Buying Calls And Puts

The main attraction of options is the leverage they offer. For instance, suppose it's early June, the S&P 500 is at 1120 and you're bullish. The July 1110 SPX call option is priced at 30. You were right on the market's direction and a week later the S&P has climbed to 1142 (a 2 percent increase). The 1110 call option is now worth roughly 51 – a gain of 70 percent.

Of course this leverage can also work against you. Using the option in the example above, if the S&P 500 falls 2 percent by the following week to 1098, that same option is now worth only approximately 12 – a loss of 60 percent of your investment.

Put options function the same way, only in reverse. Again, it's early June and the SPX is at 1120. But this time you're bearish. The July SPX 1130 put option is selling for 30. A week later the market has fallen roughly 2 percent to 1098. Your 1130 put has soared in value to 51.

Keep in mind that options are a wasting asset. Because the time value of an option erodes as you approach expiration, you can be right on the market's direction and still lose money.

Again, suppose you buy the July 1110 call option in early June for 30 and the index is trading at 1120. Now suppose that on the last day of trading before expiration in July, the index has risen to only 1125. Your 1110 call option has 15 points of intrinsic value. But it no longer has any time value built into the price. So while you were correct on the market's direction, you're sitting with a 15 point loss in your option (30 - 15 = 15) – a loss of 50 percent.

It's for these reasons that you should carefully choose your entry points when speculating in options. By waiting for excellent opportunities, which is precisely what we do with our recommendations in **Aggressive Trader**, you'll greatly improve your ratio of profitable trades to losing ones.

Option Writing

When you buy a put or call, it costs you money at the outset. But you can also sell or "write" options against stocks, receiving cash up front.

Suppose you're only neutral on a stock. If you write an out-of-the-money call option and the stock fails to rise above the strike price by expiration, you get

to keep the full amount of the option's price.

On the other hand, if the stock rises above its strike price and the option is called, your loss will be the difference between the stock price and the strike price, less what you earned for writing the option.

If you're bullish on a stock you might consider buying a call option. On the other hand, you might sell calls because you're an outright bear on the stock, or because you're only mildly bullish on the stock.

Selling a call against stock you already own is known as a **covered write**. This is a conservative strategy that can provide you with some downside protection and/or to increase your return.

Covered writes can be successfully employed for various market outlooks. If you're bullish, writing out-of-the-money covered options can give you upside potential. If you're bearish, writing in-the-money calls can give you downside protection. And if you're neutral on the market, you can still profit by writing at-the-money options, which will gain the most if the stock simply stands still.

Suppose you're holding 100 shares of a stock at a healthy profit. You're bullish option writing on its prospects long term, but you think it might go down temporarily, or it has little or no near-term upside potential. Writing a covered call would be an excellent strategy here.

The stock is selling for 49. The option you write will give the buyer the right to purchase 100 shares of the stock from you by expiration in three months at a certain (strike) price of, say, 55 a share. For this right, the option buyer is willing to pay you $50 ($0.50 x 100). You'll keep that $50 regardless of what happens to the stock.

If the stock declines 1⁄2 a point, you're protected thanks to the option you wrote. Moreover, if the stock simply remains unchanged, you've gained an extra $50. Writing the call will work against you, however, if the stock climbs above 551⁄2 before the option contract expires. In that case, you might be forced to sell the stock at 55 when you would prefer to hold on to it.

Of course that's merely an opportunity cost. In the meantime, in our example your stock has risen from its original 49, for a 6 point ($600) gain. And you've collected the $50 premium on the call option.

Your return for writing options is highest if the stock is trading at the option's strike price, since these options will net you the largest premium. However,

Covered Writes

Layabout Resorts	Strike Price	Sept. Call	Premium	Downside Protection Stock	Downside Protection Premium	Upside Potential
55.50	50	7.40	1.90	7.40	5.50	0.00
55.50	55	4.20	3.70	4.20	0.50	0.00
55.50	60	2.10	2.10	2.10	0.00	4.50

when you write at-the-money options you get less downside protection for the stock than you would with writing in-the-money options. By downside protection we mean how much the stock can fall before you start to lose any of the premium you received from writing the call option.

Consider options on ***Layabout Resorts***, which is trading at 55.50. As the table above shows, the Sept. 55 call, which is closest to the money, has the highest premium. The Sept. 60 call has the next closest strike price, and as a result, has the next highest premium. The Sept. 50 call option has the lowest premium because it's furthest from the stock's current price.

Although the Sept. 55 call will provide you with the greatest premium, it also has much less downside protection than the call with the 50 strike price. If Layabout Resorts' stock falls by more than 50 cents, you'll start to lose premium. What's more, if the stock falls more than $4.20, you'll lose your whole investment.

With the Sept. 50 call, on the other hand, you'll make less in the way of premium. But the stock can decline by as much as 51⁄2 and you'll still keep the entire premium. And the entire investment will remain profitable so long as the stock doesn't fall by more than $7.40.

Turning our attention to the Sept. 60 call, you'll notice that any decline in the stock will result in a loss of premium. And the entire investment will be lost if the stock falls by $2.10. On the plus side, this option will give you $4.50 in upside protection before it will be called. With the 55 and 50 calls you have no upside potential because the option will be called above their respective strike prices, so the most you can earn is the premium.

Naked Puts

Selling a put option against a stock you don't own is writing a "naked" put. This type of strategy can be useful if you're mildly bullish or if you're merely neutral in your outlook.

Acting as the underwriter, you collect the premium for selling the option up front. The put's buyer then has the right to sell you the shares at the option's strike price.

If the stock is trading above the option's strike price at expiration, you keep that entire premium. And even if the stock declines somewhat, you can still generate a profit on the trade. This risk, however, is that the stock continues to decline. In that case, the stock may be "put" to you. You'll then have to pony up the funds to buy the shares.

Suppose the stock of *Layabout Resorts* from the above example has fallen from $60 to $55.50 in the past few weeks on what the market perceives as bad news. You like the stock for the long haul and think it won't fall any further, but you aren't convinced it will move up much in the next few months either. Here's where writing a put would be a more attractive trade than buying a call option.

By writing the Sept. 50 put you can collect, say, $2.50 in premium. That money will be deposited to your account. And it's the maximum amount you'll gain from the trade. If the stock climbs, the value of the put you wrote (sold) will decline. So, if a few weeks later Layabout has rallied a few points, you might be able to close the position by buying the option back for, say, $1.50. The $1 difference ($2.50 - $1.50), would be your profit on the trade. If the stock is above the strike price at expiration, when there's no time value remaining, the option will be worthless and you'll keep the entire $2.50.

If, on the other hand, Layabout's share price continues to slide prior to expiration the price of the option will rise. In a worst-case scenario, if Layabout's share price falls much below the strike price, your effective cost of buying the stock (assuming you held until expiration) would be the strike price less the premium you collected for writing the option. In this case, $50 - $2.50 = $47.50. However, we would exit a trade before we ran the risk of having the stock put to us.

In some respects writing a naked put is similar to calling a call option. The difference is you're trading off upside potential in exchange for a chance to turn

a profit even if the stock declines somewhat. Naked puts aren't for everyone though.

If you're new to options trading your broker won't allow you to write naked puts initially. The brokerage will want to see a period of activity in your account as a demonstration you know what you're doing. And once you are approved for put writing, the broker will likely require you to maintain enough assets in the account to cover the cost of buying the stock in the event that it's put to you.

Because not all of our clients are suited for put writing, or they're not interested in writing puts, we'll offer a call option purchase as an alternative trade whenever possible. Keep in mind though that in many cases buying a call as an alternative strategy will be a riskier proposition.

Bull Spreads

Bull and **bear** spreads are conservative option strategies involving the simultaneous purchase and sale of options with different strike prices and the same expiration date. Either calls or puts can be used to place spreads, but we prefer to use calls because they're generally more liquid.

Before putting on a spread, you need to determine several things:

- Your required investment
- The spread's potential profit
- The trade's potential loss
- The stock price at which you make the greatest profit
- The stock price at which you suffer the greatest loss

With bull spreads, you simultaneously buy a call option and sell another call option with a higher strike price in anticipation of the underlying stock rising in value, or at least maintaining its current value. When using put options, you purchase the option with the lower strike price and sell the higher strike price option.

The table on the next page contains the prices of options on *Online Auctions, Inc.* The second table below highlights the three possible bull spreads using the Online Auctions call options.

Your cost of placing a bull spread is also your maximum potential loss. This will occur if the stock is trading below the lower strike price at expiration. With

Online Auctions, Inc.

Stock	Strike Price	Oct. Calls	Oct. Puts
90	65	25.60	0.95
90	70	21.20	1.45
90	75	17.00	2.25
90	80	13.10	3.40
90	85	9.80	5.10
90	90	7.00	7.30
90	95	4.90	10.10
90	100	3.20	13.50

the 80-90 bull spread, if the stock falls below 80 (an 11 percent decline) by expiration, you'll lose the entire investment of $610. With the stock at 80, the option with the 80 strike price will expire worthless and you'll lose the entire 13.10 cost of that option. The 90 call will also expire worthless, but you've already pocketed the 7 premium (13.10 – 7 = 6.10)

Your maximum gain is always the difference between the strike prices of the two options, less your initial investment. With the stock at 90 at expiration, the 80 call is worth 10 while the 90 call is worth nothing. You will have lost 3.10 on the 80 call (13.10 – 10 = 3.10), but you will have captured 7 for writing the 90 call. So with the 80-90 spread, your maximum gain is $390 (7 – 3.10 = 3.90 x 100). While this maximum gain is somewhat low, it will occur if Online Auctions merely remains unchanged at 90 by expiration.

Bull Spreads

Spread	Cost to Buy	Rec. from Sale	Total Cost (Max. Low)	Max. Gain	Reward/ Risk	Required Stock Increase for Max. Profit	Required Stock Decline for Max. Loss
80-90	13.10	7.00	6.10	3.90	0.64	0.0%	-11.1%
85-95	9.80	4.90	4.90	5.10	1.04	5.6%	-5.6%
90-100	7.00	3.20	3.80	6.20	1.63	11.1%	0.0%

The difference in the two strike prices in the 90-100 bull spread is also 10, but the cost of the spread is just 3.80 (7 – 3.20 = 3.80). You'll lose this entire amount unless Online Auctions is trading above its current price of 90 at expiration. At a stock price of 90, both options expire worthless, so you lose the entire 7 on the 90 call, while keeping the 3.20 from the sale of the 100 call.

Your maximum gain on the 90-100 bull spread is 6.20, which will occur if Online Auctions climbs 11 percent by expiration to close above 100. With Online Auctions at 100, the 90 call is worth 10 while the 100 call is worth zero. You'll have made 3 on the 90 call (10 – 7 = 3) and you'll still keep the entire 3.20 for writing the 100 call, for a net gain of 6.20 (3 + 3.20 = 6.20).

Perhaps the best way to evaluate bull spreads is to compare your potential reward with your risk. This is simply the ratio of the greatest possible gain with the maximum potential loss. You'll also want to weigh the potential for the stock to advance the required amount to maximize your spread profits.

With the 80-90 bull spread you're risking 6.10 to make 3.90. That gives you a reward/risk ratio of 0.64 (3.90/6.10). The 90-100 bull spread requires you to risk 3.80 to net a maximum of 6.20, for a reward/risk ratio of 1.63 (6.20/3.80).

But while the 90-100 spread offers more profit potential, the chances that you'll actually earn the maximum amount with this spread are significantly less than reaching your maximum gain with the 80-90 bull spread.

With the stock trading at 90, Online Auctions must climb 10 points (11 percent) by expiration for you to earn the maximum gain on the 90-100 spread. In contrast, the 80-90 spread will hand you the maximum profit if Online Auctions does nothing or it climbs. And you won't lose your entire investment in the 80-90 spread unless Online Auctions declines by 10 or more points.

The lesson is clear: the higher the reward/risk ratio, the easier it is to lose your whole investment and the harder it is to maximize your gain. So if you're very bullish, you should be willing to assume a higher reward/risk ratio. But if you're only moderately bullish, invest in the trade with the smaller reward/risk ratio.

Bear Spreads

Bear spreads are very similar to bull spreads in that you simultaneously buy

and sell options. But as the name implies, you execute a bear spread when you expect the underlying stock to decline in value or, at the very least, not go up and you want to limit your risk.

When using call options in a bear spread, you buy one option and concurrently sell an option with a lower strike price and the same expiration date. Bear spreads using put options require that you buy a put and sell another one with a lower strike price.

Take a look at the table on below. Using the same Online Auctions options in our earlier example, with the stock trading at 90, a 90-80 bear call option spread will result in a net credit to your account of $610. (13.1 – 7 = 6.1 x 100). This is the maximum amount you can earn on the trade, which will occur if Online Auctions stock is trading below 80 at expiration, which would result in both options expiring worthless.

If, however, the stock is selling at 90 by expiration, the 90 call you bought will expire worthless, while the 80 call you sold will be worth 10. In that case, you will lose $390. That's because you'll lose the entire 7 investment on the 90 call and you'll gain 3.10 on the 80 call you sold. (7 - 3.1 = 3.9 x 100). With the stock at any price above 90, the 90 call you bought will increase in value, offsetting your

Bear Spreads

Spread	Cost to Buy	Rec. from Sale	Total Cost (net credit)	Max. Low	Reward/ Risk	Required Stock Decline for Max. Profit	Required Stock Increase for Max. Loss
90-80	7.0	13.1	6.1	3.9	1.56	-11.1%	0.0%
95-85	4.9	9.8	4.9	5.1	0.96	5.9%	5.6%
100-90	3.2	7.0	3.8	6.2	0.61	0.0%	11.1%

loss in the 80 call you wrote.

In other words, your maximum loss with a bear spread using call options is the difference between the spread and the net credit you received in placing the spread (10 - 6.1 = 3.9 x 100 in our example).

The reward/risk ratio for the 90-80 bear spread is pretty attractive. However, to achieve the maximum gain, you'll need to see the underlying stock fall by at least 11 percent. That's a lot to expect from any stock in a relatively short period of time.

Moreover, if the share price climbs at all, you'll lose your entire investment.

Now let's examine the 100-90 bear call spread. In this case, you'll spend 3.2 to buy the 100 call and you'll receive 7 for writing the 90 call, for a net credit of 3.8. If the stock merely stands still between now and expiration, both options will expire worthless, and you'll keep the entire net credit.

If the stock rises 10 points or more (at least 11 percent), you'll reach your point of maximum loss on the spread. At a share price of 100, the call you purchased is worth zero (for a loss of 3.2), while the 90 call you wrote is worth 10 (for a loss of 3). Again, at any price above 100, your gains on the 100 call you bought will offset losses on the 90 call you sold.

So with the 100-90 bear spread, you potentially won't make as much as with the 90-80 spread. Likewise, your potential loss on the 100-90 bear spread is greater than the 90-80 spread. However, you'll profit from the 100-90 spread if the stock just stands still. And the stock will have to rise sharply in a short period of time for you to suffer the maximum loss on the trade.

Like their bull spread counterparts, bear spreads should be evaluated in a

similar manner. The more bearish you are on a stock, the greater the reward/risk ratio you want to look for. If you're only moderately bearish, you should accept a lower reward/risk ratio.

Buying On Margin

To get the most out of our stock picks, we'll recommend that you buy "on margin." This means borrowing half of your initial investment from your broker. This enables you to put up, for example, $10,000 to control a $20,000 investment. That kind of leverage turns a 15 percent gain into a 30 percent profit.

The portion of the purchase price that you must deposit is called margin and is your initial equity in the trade. The loan from the brokerage is secured by the securities you purchase.

We only use margin when we're unequivocally bullish on a stock, since losses are also doubled when buying on margin. What's more, it's possible to

lose more funds than you deposit in the account. But we'd most likely exit a trade before such a situation occurred. Before buying on margin you need to be familiar with what can happen should a trade go south, however.

If a trade goes against you, your broker will require that you maintain a maintenance margin of anywhere between 25 to 35 percent of the value of your investment in your account, depending on the brokerage.

For example, suppose you originally put up $10,000 for a $20,000 investment and the broker's margin requirement is 30 percent. Now suppose the stock's price declines so the total value of the investment is only $15,000. The margin loan from the brokerage remains $10,000, but your equity in the trade has declined to $5,000. Since the maintenance requirement is 30 percent ($15,000 x .30 = $4,500) you won't have to add to the value of the account.

However, suppose the stock declines further and the investment is now worth only $12,000. Again, the margin loan remains $10,000, but your equity in the trade has now declined to just $2,000. In this case you'll get what's known as a "margin call" from your broker, informing you that your equity in the trade has fallen below the required 30 percent ($12,000 x 0.3 = $3,600). You'll be required to immediately wire a minimum of $1,600 to get the account back above the minimum margin of $3,600.

If you don't wire the required funds to meet the margin call right away, the broker will close out your account, leaving you with a loss on the trade. The broker is also entitled to sell other securities in your account to cover the margin deficiency. Moreover, if the brokerage can't get hold of you, it may sell whatever securities in your account it chooses to meet the deficiency. And you should never expect the brokerage to grant you an extension of time to meet a maintenance margin call.

Short Selling

The underlying principle behind ***Stephen Leeb's Aggressive Trader*** is that we look for profits in all types of markets. So not only will we recommend stocks and options when we're bullish, we'll also take advantage of bearish conditions for both the market as a whole and for individual securities.

Put options are a great way of taking a bearish position, but because the timing of a trade is an important consideration, buying put options isn't always the best approach. Another tactic—one that is not as time sensitive as options—is to

sell stocks short.

The essence of short selling is to sell high and buy low. Selling short entails borrowing stock from your broker and selling it to another investor in anticipation of the stock declining in price. If the share price falls by the time you "cover" or buy back the stock, the difference between your buy price and the price at which you sold is your profit. If, on the other hand, you buy back the stock at a higher price, the difference will be your loss.

For example, suppose you're bearish on a stock. You therefore short 1,000 shares of the stock at $20. After the stock falls to $15 and you cover your position, your profit will be $5,000 ($20,000 - $15,000).

Most stocks can be sold short on margin, meaning you can control $10,000 in stock with just a $5,000 investment. But rather than collecting the proceeds from the sale right away, the broker requires that you place money in your margin account to show "good will." Of course, if the trade goes against you and the stock rises substantially in price, the broker may require that you add to your margin. That's what's known as a "margin call."

Margin investing also entails paying margin interest. This is the interest you pay the broker on the full amount for allowing you to borrow the shares you sold short. Currently, margin rates are anywhere between one to two points above the rate on 10-year Treasuries at most brokers. If a stock pays a dividend while you are short, you'll also be responsible for payout.

In order to prevent speculators from driving down the price of stock short sales can only occur on an uptick or a zero-plus tick in price. That means you can't sell a stock short unless its last price was higher than the previous price, or it trades at the same level after an uptick.

There are several factors to consider when selling short. When you're "long" on a stock, your risk is limited to your initial investment, while your profit potential is theoretically unlimited. When selling short the opposite is true: You'll realize the maximum profit if the stock falls to zero, while your potential loss, in theory anyway, is unlimited.

It pays to keep an eye on a stock's chart when shorting, as important turning points can trigger sharp, technical-related moves. A "short squeeze," or a sharp move up in the price of a stock, can occur when investors who are short a stock cover their positions. That buying can, in turn, push the stock higher still, forcing more shorts to cover their positions.

In the same vein, consider the possibility of a "liquidity squeeze," which can make it difficult for you to cover your position. A liquidity squeeze can occur when there's a lack of buyers or too many shorts covering their positions in a thinly traded stock. As a result, we like to limit our short selling to actively traded stocks, while avoiding stocks with very high short interest.

Finally, in rare instances, if the broker wants back the stock he loaned you, you may be forced to cover your position prematurely. This can reduce your potential profits or, worse, generate a loss if the share price is higher than when you shorted it.

Short selling is essentially the same thing as buying a put option on a stock. But unlike with options, short selling doesn't entail time-sensitive expiration dates, offering you the opportunity to have more patience while waiting for a trade to work out. Likewise, shorting isn't as volatile as options.

The most successful short sales are those of overvalued companies that will likely fail to meet Wall Street's lofty expectations. When those expectations aren't met, on a weak earnings report, for example, a stock is typically dumped in droves and the share price plummets. Such events are reported daily in the news. And you can expect us to get you into great shorts before they tumble.

Remember, though, short selling requires patience since it may take months before a stock declines as expected.

Exchange Traded Funds (ETFs)

If you want to speculate on a particular sector or country, there's no easie way than with Exchange Traded Funds (ETFs). These are index mutual funds that trade on the American Stock Exchange, just like stocks. More than 125 ETFs are available today.

ETFs have been issued by various institutions, including ***Barclays, State Street Global,*** and ***Vanguard***. The most popular ETFs in terms of daily volume are based on the S&P 500 (SPY) and the NASDAQ 100 (QQQQ). In addition to plays on various blue chip stock indices, ETFs are available for all major sectors of the U.S. market. There are also numerous international ETFs investing in countries and regions around the globe.

While the trading volume in ETFs is miniscule relative to their open-ended cousins, ETFs offer distinct advantages for investors. Because they trade like equities, ETFs can be bought and sold at any time during the trading day. Tradi-

tional mutual funds, on the other hand, are purchased and sold only at the close of business each day, limiting your ability to time your entry and exit points. That can really hurt your returns in fast moving markets.

In addition to increased liquidity, ETFs can be bought on margin and sold short just like stocks, allowing you to leverage your gains. And unlike a growing number of open-end funds, there's no minimum holding period required for you to avoid having to pay a penalty for selling an ETF.

Unlike many open-end funds, ETFs aren't subject to sales loads. However, just like stocks, ordinary brokerage commissions for purchases and sales will apply.

Types Of Orders

There are numerous ways to place an order with your broker. Below are the most commonly used types of orders. Keep in mind that your particular broker may not recognize all of these orders.

Market Order Instructs your broker to buy or sell at the current market price. There is no guarantee of a particular price since the price of a security can change within a second. A purchase will typically be executed at or close to the asked price. A sale will generally be executed at or close to the bid price.

Limit Order An order to buy or sell at a specific price or better. With a security priced at 8, you might place a limit of, say, 8.04, depending on how the security trades, to assure that your order is executed but without paying too much.

Limit orders are accepted on the exchange floor in sequence of receipt. So if the option trades at your specified price, there's still a chance that it won't be executed. If, on the other hand, the option price trades through your limit price, your order will be filled. The one exception to this is an all-or-none order.

Stop/Loss Order This order is used to protect a gain or limit a loss in a trade. It instructs the broker to sell your option if it falls to a specified price. A buy/stop order becomes a market order when the stock or option trades at, or above, your stop price.

A stop order automatically becomes a market order once your stop price is reached. That means in a fast moving market, there's no guarantee that the trade will be executed at your stop price.

Stop-Limit Order This is similar to a stop order in that it specifies a price below which the option should be sold or above which the option should be purchased. But instead of the order becoming a market order once the option trades through your stop price, it becomes a limit order.

Good-Till-Canceled This is a limit order that remains in effect until the order is executed or canceled. Other types of orders that are unfilled usually expire after a given time period, such as a month. If you originally use a good-till-canceled order, but change to another type of order before the trade is executed, be sure to cancel the original order. That way you'll avoid having both orders accidentally executed.

Day Order An order that is good only for that day.

All-or-None This specifies that all or none of an order is executed at once. An all-or-none order protects against an order being executed in several lots, which could result in additional commissions. All-or-none orders aren't given a priority, so at times their execution could be delayed.

Fill-or-Kill This order instructs the broker to cancel the order if it can't be executed immediately.

A Note About Trade Orders

When purchasing a security, you have several options in how the trade can be executed. Quite often we'll recommend using a ***market order*** when entering our recommended trades. The market order will instruct the trader to buy the stock or option at the current market price.

We may, however, use a ***limit order*** for our recommended trades. The limit order will instruct your broker to buy the security at a specific price. Limit orders can help keep a security's price from getting away from us and it can therefore help you maximize your profit potential.

By placing a limit order on a stock at, or just below, the current asking price, you can buy the stock on your own terms, maximizing your profit potential. Of course the risk when using limit orders is that your trade won't be executed and the stock will take off without you. In most cases, this is a risk worth taking.

One order we're not likely to suggest you use is a ***stop/loss order.*** A stop/loss is designed to automatically take you out of a position if it falls below a certain

price, say 10 or 15 percent below your buy price. In theory this makes sense, since you'll be taken out of your position before any more damage can be done. In practice, however, stops rarely function as they're supposed to.

But while the theory behind stops is great, they also create several problems. Once such problem is that if a large number of investors place a stop order at a particular price, savvy traders who take notice are likely to temporarily work the security up or down to that price, taking you out of the trade. And there's nothing worse than being taken out of the trade on what proves to be a simple head-fake.

Rather than placing a stop/loss on the books with your broker, we prefer to use mental stops. Once a security reaches our mental stop point, we'll send you a notice to take action. That way we'll keep ahead of vultures looking to profit at our expense.

A Word On Brokers

To maximize your profits, your best bet is to use a discount broker when trading the securities I recommend in this service. Full-service brokers charge full-service commission rates. These are generally considerably more than the rates you'll pay using a discounter.

When using a full-service broker, you're paying for advice and hand-holding. But since we give you specific advice on what to buy, when and how to buy it, as well as when to sell, all you'll get from a full-service broker is order taking and higher fees.

Customer Service

As a subscriber to *Stephen Leeb's Aggressive Trader,* you'll receive our recommended trades, (and closeout signals when the time comes), along with weekly updates. You should be ready to receive e-mailed or faxed buy or sell recommendations at any time. And each Tuesday, we'll send you an update of the current trades along with our market outlook.

Your first step is to open an options account with a broker, if you don't have one already. This can be done through most discount brokers, but it usually takes

a few days to take care of the paperwork and activate the account.

Address Changes

Since we may act on a moment's notice, it's important that we always have your current e-mail or fax number on file. To change your address or to report any delivery problems with your subscription, please call our Customer Service Center toll-free at 877-661-6080, 9:00 am to 5:30 pm ET.

When Traveling

If vacation or other travel plans will prevent you from receiving your bulletins at the e-mail or number we have on file, call the Customer Service Center, 877-661-6080, and request that the bulletins be either suspended or sent elsewhere. Keep in mind that for each subscriber, the bulletins can only be e-mailed or faxed to one address or number.

Glossary Of Terms

Here's a rundown of investment terms you should be familiar with.

All-or-None This specifies that all or none of an order is executed at once.

American Exercise An option that can be exercised at any time until the expiration date.

Arbitrage The simultaneous purchase and sale of identical or equivalent assets in two different markets with the intent of profiting from the price discrepancy.

Asked Price The price at which a seller is offering to sell an option.

At-The-Money An option with an exercise price that is roughly equal to the current market price of the underlying stock or index.

Bearish The belief that a stock or the market in general will decline in price.

Bid Price The price at which a buyer is willing to buy an option.

Bullish The belief that a stock or the market will rise in price.

Call Option A contract which gives the holder the right (but not the obligation) to purchase the underlying stock at a predetermined price. For a call option writer, the contract represents an obligation to sell stock to the holder, if the option is exercised.

Covered Call A strategy in which someone writes a call option against a stock he owns.

Covered Put A strategy in which a put option is written against a cash position sufficient to pay for the stock purchase if the option is assigned.

Cycle The series of months at the end of which a particular option contract expires.

Day Order An order that is good only for that day.

European Exercise An option that can be exercised only on the expiration date.

Exercise To Invok**e** the right granted to the holder of an option contract. For call options, the option holder buys the underlying stock from the option writer. For put options, the option holder sells the underlying stock to option writer.

Exercise Price The price at which an option can be exercised, also known as the strike price.

Expiration Date The date on which an option contract becomes null, typically the third Friday of the contract month.

Good-Till-Canceled This is a limit order that remains in effect until the order is executed or canceled.

Fill-or-Kill This order instructs the broker to cancel the order if it can't be executed immediately.

Hedge A position established to protect an existing position.

In-The-Money An option with intrinsic value. A call option is in-the-money if its strike price is above the price of the underlying stock or index. A put option is in the money if its strike price is below the price of the underlying stock or index.

Limit Order An order to buy or sell at a specific price or better.

Long A position that will gain in value from a rise in the price of the underlying stock or stock index.

Margin The amount of money a purchaser must put up as good faith when buying on credit. Margin is also the term for buying securities when a portion of the investment is borrowed from the brokerage house.

Market Maker An exchange member who has the responsibility of maintaining a fair and orderly market in a security.

Market Order Instructs your broker to buy or sell at the current market price.

Open Interest The total number of contracts that are outstanding for a given option.

Option Buyer A person who purchases a call or put option.

Option Contract The smallest unit of options trading; one contract covers 100 shares of stock.

Option Writer The seller of an option contract. The option writer is obligated to meet the terms of delivery if the option holder exercises his right.

Out-Of-The-Money An option that has no intrinsic value, only time value. A call option is out-of-the-money if its strike price is above the price of the underlying stock or index. A put option is out-of-the-money if its strike price is below the price of the underlying stock or index.

Premium The cost, or price, of an option above its actual price.

Put Option A contract which gives the holder the right (but not the obligation) to sell the underlying stock at a predetermined price.

Roll Over To close out one option position and then immediately establish a similar position in a later contract month.

Round-Turn Commission The total cost of getting into and out of an option position.

Short A position that will gain in value from a decline in the price of the underlying stock or stock index.

Stop-Limit Order Specifies a price below which the option should be sold or above which the option should be purchased.

Stop/Loss Order This order is used to protect a gain or limit a loss in a trade.

Strike Price The stock price at which an option can be exercised.

Time Value The part of an option's price that exceeds its intrinsic value. The price of an out-of-the money option consists entirely of time value.

Unit of Trading The minimum quantity allowed when trading a security. For options, the minimum is one contract, which covers 100 shares of stock.

Volatility A measure of a stock's price fluctuation, expressed as the annualized standard deviation of daily returns.

Record of Trades

Description	Type	Bought			Sold			Profit	Loss
		Date	Shares	Price	Date	Shares	Price		