Doug Fabian's
SPECIAL REPORT

For ***ETF Trader's Edge*** Subscribers Only

How to Supercharge Your ETF Profits in 10 Minutes Per Week

Doug Fabian & Tom Lam
Editors, ***ETF Traders' Edge***

IMPORTANT NOTE: This special report is for information and educational purposes only, based on current data as of February 2016. Do not buy or sell any investments until you have read the latest *ETF Trader's Edge* email update.

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Introduction

This special report for subscribers of Doug Fabian's *ETF Trader's Edge* is intended to explain the little-known secrets to generate big profits using exchange-traded funds and options. The exchange-traded fund (ETF) industry had grown tremendously over the past two decades. Most investors are unaware of what you are about to learn. There are ETFs that are capable of generating gains of more than 10% or even 20% per month. These profits are not generated every month but they are possible if you use the appropriate tools under certain market conditions.

The key to capturing such profits is to be invested when conditions are ripe for big gains. Details on the type of ETFs that fit the profile for supercharged profits are contained in this report. In addition, we will explain the conditions that must be met for these gains to occur. Finally we will describe how to add options strategically to power your profits even higher.

Suitability

Doug Fabian's *ETF Trader's Edge* is a subscription-based trading service that uses ETFs and related options. The goal of this service is to help subscribers generate short-term profits from our buy and sell recommendations. This service is designed for the more speculative portion of your portfolio. Not all trades will be profitable. You may experience higher volatility due to the leveraged nature of these strategies and investments. These recommendations only should be used with the aggressive portion of your portfolio.

Bio of Doug Fabian's Investment Career

Doug Fabian is the editor of the free weekly e-letter, ***Weekly ETF Report*** and his paid financial newsletter, ***Successful ETF Investing*** and trading service ***ETF Trader's Edge.*** All are published by Eagle Financial Publications. Doug has helped his readers successfully navigate bull and bear markets for more than 30 years. His investment newsletter, ***Successful ETF Investing***, has produced double-digit percentage annualized returns since 1977.

Doug has appeared on CNBC, CNN and Fox News, and his views have been featured in *The Wall Street Journal, USA Today, The New York Times, Fortune, Smart Money* and *Barron's*. He became a member of the "SmartMoney 30" in 1999 — a listing of the most influential individuals in the mutual fund industry. In the feature, *SmartMoney* magazine wrote that Doug is the best-known "trend follower" among a $56 billion (and growing) group of financial advisers.

In 2001, Doug wrote *Maverick Investing*, published by McGraw-Hill. Doug has become known for his expert knowledge and timely use of innovative tools such as exchange-traded funds, bear funds and enhanced index funds to profit in any market climate.

Doug began his investment career in 1979 as a market analyst for the *Telephone Switch Newsletter* – a mutual fund investment newsletter started in 1977 by his father, Dick Fabian. Under his father's tutelage, Doug served in a number of key roles, including director of marketing, co-editor and senior editor. Doug currently is the president of Fabian Wealth Strategies, a Registered Investment Advisor specializing in ETFs.

Bio of Tom Lam's Investment Career

Tom Lam has proven his worth on Wall Street for almost 15 years in the investment industry. Much of that time was focused on researching and trading options, bonds and equities. From the fast-paced trading environment at large financial institutions to running a hedge-fund trading desk, Tom has amassed great market insights in identifying market dislocations. Tom seeks to use his expertise to navigate the options market and generate supercharged profitable trades for subscribers under any markets condition.

He is excited at the opportunity of combining his expertise with the investment acumen of Doug Fabian, a veteran of the industry. Together, they hope to provide subscribers with simple and unique trading strategies by combining their fundamental and technical knowledge, as well as their expertise in ETFs and options.

Tom is currently a registered investment advisor at Fabian Wealth Strategies. He also earned a Bachelor of Science degree in Business Administration from the University of Southern California.

My Love Affair with… Options

By Tom Lam

Options are one of the most widely misunderstood and underutilized investment tools. Based on conversations I have had with investors, sentiment on options range from some believing they are risk-free, too risky, lacking sufficient upside or simply just too complicated. I believe all of these sentiments are not accurate. With a basic understanding of how options work and a grasp of your potential risk and reward, you can benefit from using options to tap short-term opportunities. Options are one of the few tools you can use tactically or strategically. A tactical use of options would feature a trade based on a short-term market view. The intent is to seize upon a near-term catalyst, regardless of whether it is driven by technical or fundamental factors. A strategic use of an option would feature a trade that is focused on a longer-term view. For example, certain commodities may appear to be in the bottoming process. Even though it is difficult to know when the exact bottom will hit, my analysis may find an investment that could rise by year end. Investors can use longer-term options to profit from such situations. Whether the trades are tactical or strategic, I intend to help you supercharge your portfolio using both strategies.

The right investments can let you profit in bearish or bullish conditions. You also can hedge or leverage a position. If those capabilities were not appealing enough, I believe one of the most compelling arguments for using options is the low costs. The prospect of being able to make a trade for the cost of a dollar or two dollars may be too good to pass up. Doug and I have observed first-hand how hedge funds, institutions, pensions and endowments use or invest in strategies that use options. We hope to level the playing field and bring to you some of the same strategies and analysis so you also can benefit and profit from investing in options. There is no reason why options should not be used to supercharge investor portfolios, as long as you also manage the risks.

Action steps

To get started with *ETF Trader's Edge*, you need to do the following:

1. Determine which of the accounts you manage that you will be using to follow our recommendations.
2. Decide how much money you will use to follow recommendations in this service. Keep in mind that we may have up to eight positions at any one time, and that we may add options positions to those ETFs we recommend. We also may recommend options as a standalone investment.
3. If you are planning to follow our options trades, you will need to establish an options agreement with your broker. If you plan to buy all of our options strategies including our enhanced options trades, you will need a margin account.
4. You should have access to email/text/Internet throughout the day. We will be sending emails with our buy and sell advice. In addition, we will send a text message when a new alert has been emailed.
5. Be ready to receive our email every Wednesday and special buy or sell alerts any day.
6. Take advantage of your broker's price alerts, mobile apps and fast order execution.

There are more than 2,000 exchanged-traded products; they fall into two categories, exchange-traded funds (ETFs) and exchange-traded notes (ETNs). ETNs mainly are used in the commodities markets to avoid some tax issues that accompany the rolling over of future contracts. For our purposes, we only are going to focus on those products that give us opportunities for supercharged short-term growth. We also will use some fixed income and currency ETFs that give us some income or options opportunities. In the following paragraphs, we will give you (cont'd on p. 9)

ETF Landscape

Market Segment	No. of ETFS
EMERGING MARKET SECTORS	8
EMERGING MARKET - SINGLE COUNTRY	55
CHINA	37
DEVELOPED MKT - SINGLE COUNTRY	51
JAPAN	28
INTL SECTORS	39
FINANCIALS	27
HEALTHCARE	18
BIOTECH	9
BASIC MATERIALS	12
ENERGY	25
ALT ENERGY	15
COMMODITIES	72
CONSUMER CYCLICAL	36
TECH	42
INDUSTRIALS	12
UTILITIES	9
INVERSE	23
LEVERAGED	162
CURRENCIES	24
TOTAL	**704**

an overview of how we organize the ETF landscape and why these ETFs present us with supercharged profit opportunities. Once you really see how many choices there are in almost every known investment category, you will be as excited as I am to participate in these 21st century investment vehicles.

Sector and industry specific ETFs

When stocks are in a bull market, there is no better place to be then in a sector that is enjoying a market leadership position. In the past five years, health care has been a market leader, along with its biotech subsector. These stocks have far outperformed the averages. Health care has a compounded return of 19% annually, while U.S. blue chips returned 9%. Biotech returns have been closer to 24%. Certain sectors rule in a bull market. The key is identifying the leader, entry point and the right ETF.

Leveraged long ETFs

These investment vehicles work very well under certain market conditions for brief periods of time. The key to leveraged long ETFs is the timing. You must enter and exit quickly but profits make it worth taking some risk. We will not have a leveraged trade on all the time but do so only when circumstances warrant.

Inverse ETFs

You can make money when the market is falling. The easiest way to do so is through the use of inverse ETFs. These are index products designed to only go up when stocks prices are falling. There are different structures to these vehicles. Some inverse products are just the opposite of a long index. For example, SH is a -1 times the S&P 500, SDS is -2 times the S&P. We will use these products sparingly and only during bear markets or short-term corrections.

Single country ETFs

These products focus on a market index within a single country. Think Japan, China or India. There was a trade we made in *Successful ETF Investing* where we bought a single country China ETF and took away a gain of 65%. That works! There are hundreds of these single country ETFs. Some countries have multiple products to choose from. There are more than 30 for Japan alone.

Commodities

Here is another area where there is a high potential for profits. During the past four years, commodities have been in a bear market, with prices of some products falling 50% or more. This kind of price action is what we like to see at *ETF Trader's Edge*. Big falls set up big profits in the future. We will be watching commodities closely going forward and expect big things for what is pulled out of the ground.

Currency ETFs

As you may well know, all currencies are not created equal. They experience price trends and bull and bear markets. Currencies in themselves don't give us big return potential short term but options on currencies do because the pricing trends in the currency markets go on long runs. This gives us the ability to buy and sell options and make money with a greater degree of certainty.

Income ETFs

For our purposes, we will be focusing on higher-yielding products and their options. Again we are looking for large price swings. When you experience that, you get good options pricing. These trades will be lower risk compared to many trades we do but can yield great long-term results when one includes the income, price movement and options profits.

How to supercharge your profits using exchanged-traded funds

We have identified five very profitable ways to use ETFs. We will explain in detail these situations and the conditions that need to be met to achieve supercharged results. We define this as a gain of 10% or more in a matter of days or weeks. In order to capture these kinds of gains, you need to do two things, monitor your email for alerts from us and follow the instructions we send you. On a minute-by-minute basis, we will be monitoring the markets, the ETF universe and the ETF options pricing to determine when an opportunity to supercharge your portfolio is available. The more volatile the markets, the better; the opportunities come out of an environment where there is big price action.

Strategy #1: Concentration

One relatively unknown fact about ETFs is that a great number of them concentrate their focus on a single sector or an industry group or a single country. Most investors have heard of the plain vanilla sector offerings under the SPDR brand but there are more than 300 ETFs that concentrate their portfolios in a specific area of the stock market. In addition to sector funds, there are hundreds more ETFs concentrating their portfolios in the commodities markets such as oil, gold, corn and copper. All of these investment opportunities are now available to investors through the ETF universe.

When we identify a sector in the market that is about to turn higher, or a sector that is poised to outperform, you can make big profits by investing in these specialized ETFs.

Concentration market set-ups

When investing in a concentrated ETF, you must identify the right conditions for a supercharged set up. Here are some of the conditions we monitor for buying opportunities.

1. Bull market conditions exist and the primary trend of the market is positive. Roughly 70% of the time, the market exhibits a bullish trend.

2. Post correction/post bear markets.

3. Market fundamentals are favorable.

4. Momentum – In any given market, some sectors outperform and some underperform. Using our sector screening tools, we will be able to identify the sector attributes.

Strategy #2: Leverage

There two ways an ETF investor can use leverage to enhance returns or even supercharge them. First, buy a direct leveraged ETF. Second, pair the ETF with an option or purchase an option outright. These tools can be used independently or, under the right conditions, simultaneously because there are certain leveraged ETFs that have options available.

A leveraged ETF is an index fund that uses futures and options to enhance the short-term results by a specific factor. There are double- and tripleleveraged ETFs available on major indexes like the S&P 500, Nasdaq 100 and others. There are more than 100 leveraged long ETFs. This means that these funds are intended to move two or three times, respectively, of the direction of their underlying index. These products do have a flaw in the fact that they have a large tracking error over longer time frames. Therefore, the conditions that would allow an investor to profit must be looked at from a short-term perspective.

Adding an option to an ETF or just purchasing an option outright also can supercharge your profits. We will propose different options strategies for use with this service in this report. But in the simplest terms, options can add to the performance of an underlying ETF 20% to 50% or even more.

The conditions in which to profit from the use of a leveraged ETF are similar to those of a sector ETF. Leveraged ETFs are pure index funds. If the conditions are right for a short-term move in the market either up or down, leveraged ETFs can bring home supercharged profits. Here are some of the conditions we monitor for the right time to use leverage.

1. Bull market conditions, with the primary trend of the market positive. The market exhibits a bullish trend about 70% of the time.

2. Post-correction/post-bear markets.

3. Using technical analysis to support a long or short position.

Options, on the other hand, are priced in the market by many different factors. These include time, volume and volatility. The addition of an option to your portfolio should be considered only when certain conditions are met. But when the time and price is right, options can enhance your total returns significantly.

Strategy #3: Out of Favor ETFs

If you have been around the financial markets for any length of time, you have heard the term contrarian investing. This is when investors purchase an out-of-favor sector, industry or commodity. They are going against the majority opinion. They are buying when others are selling. This can be very profitable and risky strategy. Our approach is to be patient with out-of-favor investments. Let's not just buy something because it's out of favor. Let's wait for the condition that will favor a turnaround in a particular investment. This requires a system of research and monitoring for when the conditions are actually right to act. One of the true benefits to ETF Trader's Edge is our research capability. We monitor our entire 1,800 ETF database so we are ready to act when an out-of-favor investment opportunity presents itself.

The conditions under which we would in utilize this strategy include:

1. ETFs underperforming
2. A negative fundamental backdrop that is poised to improve
3. Positive recent price action
4. Extreme negative sentiment

Strategy #4 Income generation from ETFs and options

Most of what we have talked about so far in this report has been about short-term profits but there are hundreds of ETFs that offer great yields of better than 5%. When you marry an income ETF with options you can significantly increase returns. For example, the ETF JNK has a yield in excess of 6%. If you were to buy this ETF when its price trend is rising, you would win three ways. First, you would collect the income. Second, if junk bond prices were rising, your ETF would increase in value. Third, if you sold a call option against your JNK position, you would immediately collect the premium upon the sale and that income goes directly into your trading account. Thus, you'd have three opportunities to profit from one ETF trading idea. Now that is supercharging!

The conditions under which we would in utilize this strategy include:

1. Steady price action of the underlying ETF. We would like to collect income. However, we would not necessarily want to be called away on our ETF.
2. Stable macro backdrop.
3. Special situations. We may want to collect income on a position where we do not object to getting called away on the underlying equity holding.

Strategy #5: Enhanced Options

The fifth way we are going to help subscribers supercharge their profits from ETFs is through the use of enhanced options strategies. This will be the most interesting and educational strategy of our service. A put option can be purchased on an ETF in anticipation of the fund falling in value. A more common move is to buy a call option on an ETF in anticipation that the fund would rise before the option expires. Aside from simply buying put and call options, there are several other ways to profit using options on ETFs.

An investor also can sell puts and calls. In this situation, an investor sells the options contract himself or herself to produce instant income.

There also is the strategy of selling an option and, at the same time, buying the opposite side of the contract by selling a put or buying a call. This strategy is commonly referred to as a risk reversal. These trades can generate instant income to offset the purchase of the call option.

Another way to use options is to purchase long-term options or long-term equity anticipation securities (LEAPS). This give you the right, but not the obligation, to purchase an ETF at a certain price sometime in the future. This strategy would work well with an out-of-favor investing idea.

We also can engage in more complex options trades that can include three or more legs.

We would determine when to use one of these enhanced options strategies when fundamental conditionals are met. Among the tools we use to analyze ETFs, we can determine the underlying pricing of each option. As you know, the price of an option is based upon its intrinsic and extrinsic value. Intrinsic value can best be described as the options net asset value (NAV), based upon that options proximity to the strike. Using my description, the extrinsic value is not just the NAV but includes the markets assumption of volatility plus the value of time. Our tools allow us to determine how these assigned valuations rank in historical context. The rankings help us ascertain whether the option is trading at a discount or at a premium. Essential to any successful investment strategy is to be able to buy low and sell high.

Trading Strategies

Here we want to explain the types of trades that we will be advising subscribers to make.

1. Go long in an ETF. This is the most frequent trade we will be advising. This trade is to purchase an ETF with the expectation that the security will rise in value.
2. Take a long position in a leveraged ETF. This trade is going to carry higher risk, since we are buying a security that is leveraged to the market by a factor of two or three. We know some subscribers may

not be comfortable with the additional risk, so we are identifying this as a higher risk trade.

3. Buy an inverse ETF. Such ETFs can be just one times an index or two or three times that index. These ETFs go up when the market goes down. If we advise the use of a leveraged index, we will call your attention to it so you are aware of the addition risk.
4. Go long in an ETF and make an accompanying option trade. This situation will occur when we buy an ETF and place a call option along with it. The idea is to increase the profitability.
5. Sell options. This is when you would execute the sale of an option and receive income instantly into your brokerage account. You will be carrying a liability when you sell an option.
6. Use options spreads. The term spread refers to putting on multiple options trades. Spreads can be put on to finance trade for income, or to tap a bullish or bearish move.
7. Purchase a LEAP. This is the purchase of a long-term option. LEAPs give an investor the opportunity to gain prolonged exposure to an option that may take time to play out. Again, purchasing an option is a cheaper alternative to an outright stock purchase, so using LEAPs will give you time and allow you to keep more of your capital.

How Do Options Work?

By definition options are a contract giving the buyer the right, but not the obligation, to buy or sell an underlying asset at a specific price on or before a certain date. An option, just like a stock or bond, is a security. It is also a binding contract with strictly defined terms and properties.

Buying an options contract gives you control of a "block" of 100 shares of a particular stock. An option also grants you the right, but not the obligation, to purchase the related shares in that stock at a pre-determined price within a certain period of time. This period of time concludes with an expiration date. I typically like to buy call options that have a life cycle of at least several months to allow enough time for the call options to rise in value sufficiently to sell profitably before expiration.

Why Buy Options?

What is the benefit to buying an option instead of just buying the stock outright? Well, for one, options tend to be far cheaper than their related stocks. As a result, you can buy options with comparatively little investment capital to leverage your money in search of heightened profits. And, your investment risk is fully disclosed up front. You can never lose more than you spent on an options contract. However, the profit potential with options is virtually limitless. Even a tiny move in the underlying stock can yield a tremendous jump in the value of an option.

Let me illustrate this for you with an example from Raytheon Corporation (RTN). In September 2015, Raytheon stock was selling for around $97. In just 12 days, Raytheon was selling for $108. If you had purchased the RTN November $105 Calls at $1.13 cents per contract, the 11% increase in the stock price would have yielded a nearly 500% profit on the options. This exemplifies the amazing profit power of options trading!

Generally speaking, there are two types of options — calls and puts. You would buy a call option when you think the price of a stock is destined to go up. And, you would buy a put option if you think the price of a stock will go down. Both are equally powerful and profitable, given the right set of circumstances.

What Does an Option Recommendation Look Like?

An option is defined by five main components:

1. The ticker symbol
2. The expiration month
3. The strike price
4. Whether it's a call or a put
5. The premium paid to buy the option

Buy the December $25.50 Calls for $2.75 in XYZ Corporation

So, an option recommendation might look something like this: **Buy the December $25.50 Calls for $2.75 in XYZ Corporation.**

This is a completely theoretical recommendation. But let's examine what each component means and how it would impact your investment if this was an actual recommendation.

A **ticker symbol** is quite simply a short-hand description, featuring a unique combination of letters, to help investors identify a specific publicly traded company.

The **expiration month** is just what you would expect. It indicates the month in which an option expires. If the month when the option becomes invalid (or expires) is reported without including a particular year, you can assume that the option expires in the current year. All stock options end their useful life on the Saturday after the third Friday of their expiration month. I'll provide further explanation about expiration dates elsewhere in this report.

The **strike price** of an option is the price that signifies the investment is “in the money” and able to help you turn a profit. I watch for the stock price of a related option to rise to and especially above its strike price. When a given stock rises well beyond the strike price in a call option, the investor can sell the option at a handsome profit. I will alert you to such opportunities through this trading service.

For example, if company XYZ traded at $20 a share, but I think there’s a good chance the stock price will reach *at least* $25.50 per share by the Saturday after the third Friday in October when the related option expires, I might recommend that you buy call options in the stock that have a strike price of $25.50. Of course, I’ll want the stock price to soar above the strike price to enhance the value of the call options. As the related stock price jumps, so does the value of the options.

Call options are bullish investments that are aimed at achieving heightened gains if the price of the underlying stock rises (which is why I recommend the stock in the first place).

Finally, the **premium** is the price that you pay to buy an option. The price of an option typically is written in as a “per-share” value. In the case of our example, featuring the hypothetical company XYZ, each contract that you buy applies to 100 shares. So, if the price of the option is listed as $2.75 then your total premium — or the price you pay for the right but not the obligation to exercise the option — would be $275 per contract.

So, let’s recap the basic terms that we’ve just covered.

Let’s say company XYZ Company has been trading steadily around the $20 mark. But my research and indicators lead me to project that XYZ Company was about to sign a huge deal or launch a breakthrough new product before December. Based on this information I am ready to recommend the stock and the coordinating December call options with a strike price that I feel the company is likely to reach. With this information in hand, I might issue a recommendation to buy XYZ Company December $25.50 Calls for $2.75.

At this point, you would need to tell your broker the information that you would receive in your alert to place your order. You would tell your broker in plain English that you want to purchase the XYZ Company December $25.50 Calls for $2.75 and indicate how many contracts that you would like to purchase. Then you would follow the stock's price and the options to wait for the rise.

Conclusion

The new *ETF Trader's Edge* service is aimed at helping you boost your profits. If you are ready to take additional risk with the potential for heightened returns, this service could be just right for you. Thanks for joining us on this exciting excursion to pursue higher-profit opportunities.

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