

07/30/07 - Nude Beaches, Singapore Slings, and An Interesting Dow Diamond...

The Dow took a rather large hit last week, losing almost 800 points. At times like these investors tend to ask themselves, "What the hell do I do: Buy or Sell?"

This of course is the money question, and everyone has a different opinion on the subject. Some are right and some are wrong...

The trick is you have to tailor your investments with regard to your specific portfolio. At this particular juncture the Wall Street Elite portfolio is weighted more on the U.S. long equities side.

This has paid off over the last two months...raking in over 60%. However times have changed and the U.S. market is now looking very unstable. To be perfectly honest with you ? I don't know which way it is going to move...

In previous posts, before the 800-point hit last week, I mentioned my thoughts of the Dow being extremely overweighed. Based on all the given information, I truly felt that there was no solid reason for the market to break through 14,000.

I was right ? the failing housing market and unusually high "non"?core inflation (overall inflation which includes food and energy price fluctuations) finally caught up to the indexes.

But of course I couldn't predict exactly when this was going to happen.

If I could predict future market movement, then I can tell you one thing for certain ? I sure as Sam wouldn't be writing this article. I'd be on some island in the Caribbean, most likely Barbados, enjoying the cool comfort of a Singapore Sling on a secluded white sandy beach.

Now don't be alarmed ? I'm not saying I can't make profitable recommendations in the current situation. For heck's sake ? I am a professional.

We just have to play the field. Explore all possible options. I am an expert in making money in extremely volatile markets. Thus, I think it is time to revisit the Straddle strategy ? except this time we are going to play the actual Dow Jones...

We do this by purchasing call and put options on the Dow Jones index Exchange Traded Fund ? The DIAMONDS (symbol: DIA).

The logic behind this is very simple. Over the last six months the Dow has traded between 12,000 and 14,000 points. This is a very large range and with the sudden short-term price oscillations, we could be in for a very bumpy run.

That's how we make money. We aren't concerned with which way the market moves, as long as it does in fact move.

If the Dow goes up a significant amount then we make money on the call and our existing long stock plays. If the market continues to fall ? then we can minimize our losses with the appreciation of the put options.

Now since we are long about five equity positions in the portfolio, we are going to do an offside options straddle. In this case we are going to use a 2/3 call-to-put ratio when buying the option contracts.

Action to Take: Buy 3 DIAMOND October 2007 134 puts @ \$3.90 (symbol: DAWVD) for every 2 DIAMOND October 2007 134 calls @ \$5.00 (symbol: DAWJD).

Cheers,

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