



market it and then sell it at a higher price. The profit on a single item may not be large but instead small. However, over the long run those small profits add up. Tiny raindrops fill a bucket just like larger raindrops though it may take longer. Those small profits can produce consistent returns on capital.

Investing is not that much different than retailing. Those who have been successful over the years have concentrated on consistent returns. A conservative method to achieve this is a strategy that is quite similar to buying in quantity and selling piecemeal. That method is covered writing.

Here is what we mean and how it works. Buyers of stocks hope to get appreciation on that stock and also dividend income should there be a dividend. Of course, when you purchase a stock you know what the dividend is and you have an idea of where you believe the stock can move. That does not mean the stock will go straight there or even go to that level at all. In the market place, there are those investors as well as analysts with lower expectations as well as those with greater expectations. Those with greater expectations are the ones who will likely provide you with increased returns.

You might ask how this will happen. Well, you sell them a three-month call on the stock you own at a strike price higher than the current price while at the same time close to where you believe the stock can rally to. You don't have to sell calls against all of your position. You can sell it piecemeal, a few at a time if you will, and work your way out of the position. The result can be increased returns and returns which may be more consistent. Should the calls expire worthless, you can come back and sell more calls, repeating the process.

### PHLX FOCUS: MONTHLY MOMENTUM

Along with the US equity market, we are also witnessing the major foreign currencies begin to turn the corner due to the fact that we have observed a group of PHLX foreign currency options switch back to positive weekly momentum, which could suggest a further bounce in those currencies. Another tool that presents an interesting perspective for foreign currencies is monthly momentum, which is basically a one month moving average compared to a five month moving average. When the one month moving average crosses above the five-month, we say the monthly momentum has turned positive. This would suggest higher prices for the stock or currency. When the one month moving average crosses below the

five-month, we say the monthly momentum has turned negative. This would suggest a pullback in the stock (or currency or ETF, etc), or a sideways consolidation is due. Monthly momentum tends to stay positive or negative for six to eight months on average before reversing.

Upon examining the PHLX Currency market, we find that six out of the eleven have had negative monthly momentum for at least five months and four have had negative monthly momentum for nine months or more.

| Symbol     | Name                                    | Monthly Momentum (Length) |
|------------|-----------------------------------------|---------------------------|
| XEV        | ZAR USD Settled Currency Options        | Neg. (12 months)          |
| <b>XDZ</b> | <b>NZD USD Settled Currency Options</b> | <b>Neg. (11 months)</b>   |
| XDV        | NOK USD Settled Currency Options        | Neg.(9 months)            |
| XDA        | AUD USD Settled Currency Options        | Neg. (9 months)           |
| XDC        | CAD USD Settled Currency Options        | Neg. (5 months)           |
| XDM        | MXN USD Settled Currency Options        | Neg.(5 months)            |

As mentioned above, the average length of time on the negative side of the ledger is six months so these currencies are all due for a switch back to positive momentum. Looking at the actual momentum calculations indeed show that the readings are getting less negative and closer to turning positive which suggests in general currencies are shaping up. Not surprisingly, the US Dollar has seen its monthly momentum turn negative for the first time in almost a year.

One particular currency whose monthly momentum has been negative for almost a year, eleven months to be exact, is the NASDAQ OMX PHLX U.S. Dollar-Settled New Zealand Dollar (XDZ). A switch back to positive monthly momentum could suggest a positive bounce on a longer term basis. And, interestingly enough, its weekly momentum has also just flipped to positive. On its point and figure chart, XDZ recently reversed up into X's, taking it up the current level of resistance at \$73, a level it has hit three previous times since April. If it can breakout to \$74, then it will break a quadruple top and its trend will turn positive. We will watch the XDZ and other currencies for more positive action from both their trend charts and momentum pictures.

This publication contains materials that discuss, analyze and evaluate securities performance and investment strategies regarding certain securities traded on the NASDAQ OMX PHLX (PHLX). The publisher, Dorsey, Wright & Associates, Inc, is an independent contractor of the PHLX and retains editorial discretion as to all materials published herein. Accordingly, the opinions and recommendations that appear herein are not those of the PHLX. Readers are advised to have access to independent professional advice and to read specific securities' prospectuses and the Options Disclosure Document before making any particular investment decision. Any questions about PHLX Sector Products can be directed to 215-496-1266.