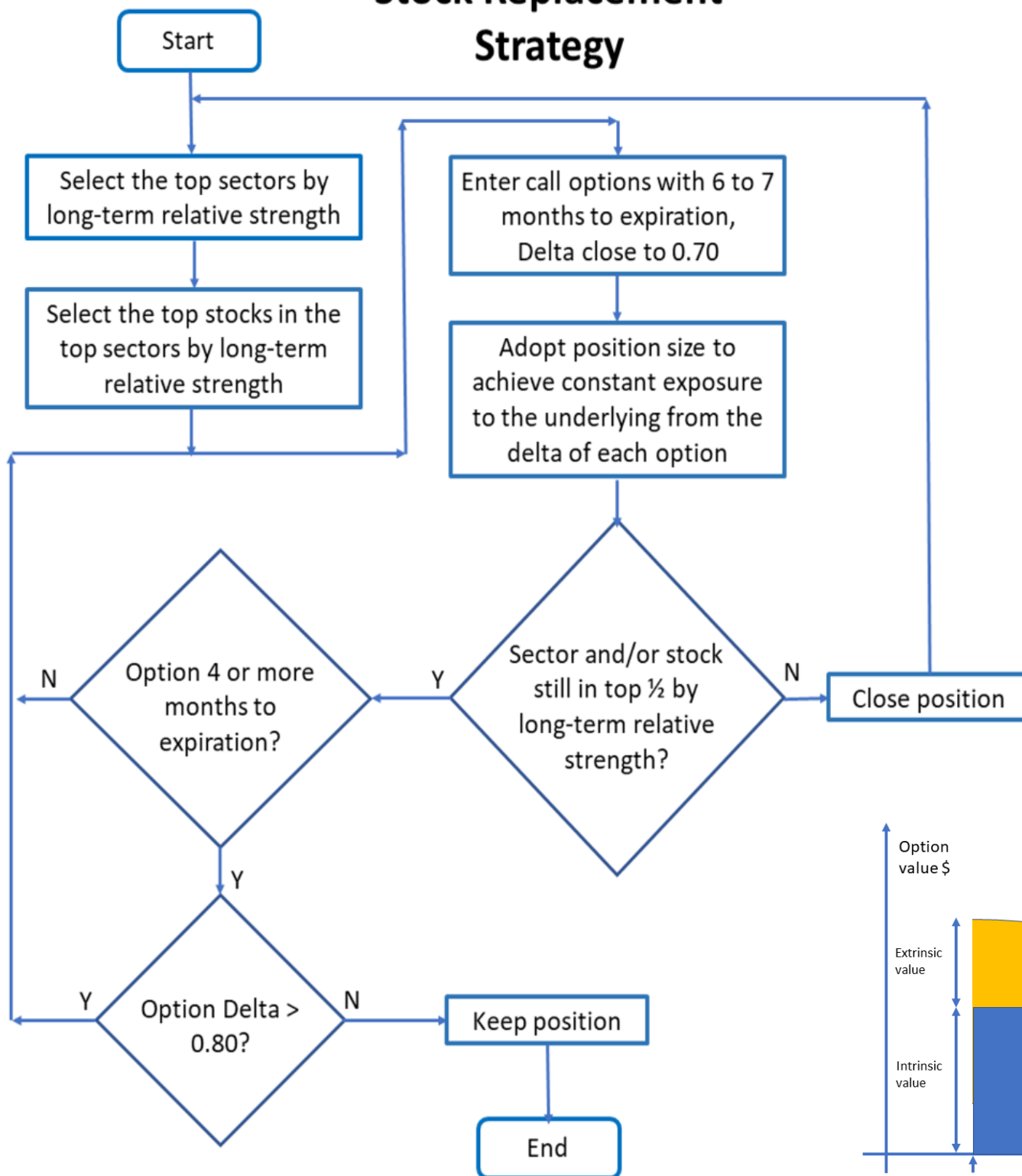


What is the stock replacement strategy

Stock replacement strategy

- Increases leverage
- Increases exposure to upward price movements
- Decreases exposure to downward price movements
- Takes profit and risk off, while maintaining position
- Effective risk management strategy

Stock Replacement Strategy



- RULE**
- Select the strongest sectors by long-term relative strength
 - Select the strongest stocks in the strongest sectors by long-term relative strength
- RULE**
- Check that sectors are still in the top half by long-term relative strength
 - Check that stocks are still in the top half of their sectors by long-term relative strength
- RULE**
- Enter call options with 6 to 7 months to expiration with a strike price, such that Delta is close to 0.70
- RULE**
- Adopt a position size that achieves the same exposure to the underlying from the Delta of each option position.
- RULE**
- Third Thursday of the month, review all positions
 - If the sector and stock are still in the top half by long-term relative strength, then keep and consider Delta and time to expiration.
 - If sector or stock are in lower half by long-term relative strength, then replace with new positions
 - For positions we keep, with more than 4 months to expiration, if Delta < 0.80 do nothing, if Delta > 0.80 roll to a new option.
 - If time to expiration < 4 months, roll to a new option.

