

Another month, another bull rally. It seemed like everyone was waiting for the other shoe to drop, and it just never did. The charge just kept moving forward. SPX in the past month charged up 105 points, which is about 4% gain. Now when you read the news or the market opinion pieces, you can't find a bearish article. That's when I brace for a drop.

For the fundamental trader, trading using options like we are here, these parabolic moves up usually mean we underperform. In some areas, this is the case, as our goal is to get 1-2% per stock pick per month, and like I said above the SPX rose 4%. However, we did have some stocks in our portfolio, so we didn't underperform as much as normal. So, this month was a very good one for the fundamental trader.

This month I have included a past performance chart at the end of this newsletter. This will replace the accounting sections in the newsletter, as it makes for a much better representation of each move. However, I will still keep each trade at roughly \$10K in capital used for scaling purposes on the chart.

Although it is rare with fundamental trades, sometimes there need to be adjustments to the plan. So far, I have been posting them in the blog, and likely will continue to do so. However, for immediate adjustments, please follow me on Twitter. My handle is [@WizofOps](#).

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Fundamental Trade #1



Image Source: [Value Line® Institutional Services Website](#).

Analyst: Arnold Bernhard founded Value Line in 1931 after spending several years on Wall Street as an employee of Moody's Investors Service. When the crash of 1929 and subsequent bear market wiped out what little savings his mother had, he determined that the then-current practice of analyzing stocks was woefully inadequate. He set out to develop a

set of objective measures that would signal when a stock was overvalued and when it was undervalued – measures that would not yield to emotions. What followed revolutionized the practice of securities analysis and sent Value Line on its path to being one of the nation's largest independent investment research services as well as a major money management institution.

New Trade Idea

Verizon Communications (VZ)

Value Line Commentary: Verizon is likely putting the finishing touches on a record year. Notably, this telecommunications giant reported September-interim earnings of \$1.22 a share, two cents **(continued on page 2)**

(Fundamental Trade #1 continued)

above our estimate and a hefty 24% jump relative to the year-ago result, on a 2.8% top-line advance. Once again, Verizon Wireless was the star of the show during the quarter, with the division reporting a 6.5% increase in third-quarter revenues, and service revenues, which had been declining earlier in the year, rising 0.8% year over year during the quarter. In addition, the percentage of phone activations on device payment plans was 83%, compared to 78% in the same period last year. Separately, total revenues for the Wireline division's FiOS fiber-optic-based services were up 1.5% year over year, due to decent demand for high-quality broadband service. Of note, though, the division added 54,000 FiOS Internet connections, yet lost 63,000 FiOS Video connections, due to the ongoing shift away from traditional cable video offerings. Hence, we are confident Verizon will post earnings of \$4.65 a share in 2018, with an advance of a dime a share likely in 2019. The company's finances are in solid shape. Verizon ended the September interim with \$2.5 billion in cash on its ledger (down from \$4.5 billion a year ago), and long-term debt of \$106.4 billion (down from \$115.3 a year ago). Going forward, we would not be surprised to see the company further boost its dividend payout (the quarterly dividend was recently increased by 2.1%, to \$0.6025 a share) and make additional acquisitions. To wit, management has made it clear that it is committed to enhancing Verizon's strategic capabilities and its spectrum assets. At the moment, this blue-chip stock has something for everyone. The equity's Timeliness rank has moved up two notches since our mid-September review and now is expected to best the broader market averages over the next six to 12 months. Moreover, despite the recent uptick in its value, VZ stock still offers worthwhile capital-appreciation potential through the early years of the coming decade. Finally, a dividend yield that is well above the Value Line median only serves to sweeten the pot.

Wizard of Ops Commentary: Verizon has actually dipped since last month, making this an excellent value. Unless there is a market selloff, I doubt these puts will be exercised, but if we do reach the \$52.50 level, I would be excited to own these shares.

The New Trade: Sell 2 VZ \$52.5 15Mar19 puts @ \$.25 credit. ***This trade uses \$10,500 in capital.***

The Plan: Keep this on through expiration. If the options are exercised (VZ closes below \$52.5 at March expiration), we own VZ shares at a discount price. If you execute the trade at \$.25, you will realize a 0.5% return on this trade if the price never drops below \$52.5.

Old News

Kraft Heinz Company (KHC)

Wizard of Ops Commentary: KHC has barely moved since last month. That created a situation where we collected premium, and will once again sell the \$45 puts. It is strange to see a stock like this underperform the market, since it has decent earnings, valuation, and a solid backer in Warren Buffett. Regardless, it is time to sell another put for KHC, as market machinations are of no concern to the value trader.

(continued on page 3)

The Trade: Sell 2 KHC \$45 15Mar19 put @ \$.80 credit. ***This trade uses \$9,000 in capital.***

The Plan: Keep this on through expiration. If the options are exercised (KHC closes below \$45 at March expiration), we own KHC shares at a discount price. If you execute the trade at \$.80, you will realize a 1.8% return on this trade if the price never drops below \$45.

(Fundamental Trade #1 continued)

Disney Inc. (DIS)

Wizard of Ops Commentary: Earnings didn't disappoint a whole lot, as the stock rose premarket but fell back levels similar to what we saw last month. Time to sell another put and collect the premium. I am, however, moving up the strike to make the premium worth it. Besides, this is the kind of stock we want to own.

The New Trade: Sell 1 DIS \$110 15Mar19 put @ \$1.13 credit. ***This trade uses \$11,000 in capital.***

The Plan: Keep this on through expiration. If the options are exercised (DIS closes below \$110 at March expiration), we own DIS shares at a discount price. If you execute the trade at \$1.13, you will realize a 1% return on this trade if the price never drops below \$110.

JPM

Wizard of Ops Commentary: JPM has pretty much held its levels since last month, which means it is time to sell another \$110 call. Stocks like this, where we are able to sell call after call to enhance our returns is what option trading is all about.

The Trade: We own 100 shares of JPM stock. Sell 1 15Mar19 \$110 calls @ \$.66 credit. ***This trade uses \$10,555 in capital.***

The Plan: This yields \$66 in addition to the capital gains realized by JPM until it passes \$110 by the expiration date. We will sell the appropriate call every month, then decide if we wish to keep the shares and roll the call to a higher strike, or let it expire and have the shares assigned to whomever bought our call.

Fundamental Trade #2



Image Source: Chimera Research Group.

Analyst: David "Dave" Sobek is a disciplined value investor. Using models, research, and fundamental data, Dave devises a value for biotech stocks, buys when significantly undervalued, and sells when significantly overvalued.

New Trade Idea

Biohaven (BHVN)

Dave's Commentary: A new interesting play could be BHVN. Their data has been good and they have some more coming in the first half of

2019. They look to be on the verge of breaking out and assuming it clears the resistance it will be another lag higher.

Wizard of Ops Commentary: BHVN is a neurological stock, with drugs in their pipeline to treat Alzheimer's, OCD, and other neurological diseases. While neurological diseases have been difficult to treat (making their stocks volatile), the data already shown from BHVN has been encouraging.

BHVN has been rangebound, and it is currently at the top of its range. Luckily, it has very high IV and that range is pretty narrow. Occasionally it dips below \$35, but more often than not it stays between \$38 and \$45, which means selling the \$40 put will either give the stock to us towards the bottom half of the range, or be a lucrative put to sell. **(continued on page 4)**

(Fundamental Trade #2 continued)

The New Trade: Sell 3 BHVN \$40 15Mar19 puts @ \$1.70 credit. **This trade uses \$12,000 in capital.**

The Plan: Keep this on through expiration. If the options are exercised (BHVN closes below \$40 at March expiration), we own BHVN shares at a discount price. If you execute the trade at \$1.50, you will realize a 4.3%(!) return on this trade if the price never drops below \$40.

Wizard of Ops Commentary: SRPT actually came close to poking its head above our exercise price, which would have shown quite the rise from last month. As it is, we can now sell the \$150 call at a much higher price, giving us a lot of premium, especially considering there is data that may come out before expiration. That increases the implied volatility, and giving us a lucrative trade.

The Trade: We own 100 shares of SRPT stock. Sell 1 15Mar \$150 calls @ \$7.30 credit. **This trade uses \$13,845 in capital.**

The Plan: This yields \$730 in addition to capital gains realized by SRPT until it passes \$150 by the expiration date. We will sell the appropriate call each month, then decide whether to keep the shares and roll the call to a higher strike, or let it expire and have the shares assigned to whomever bought our call.

Old News

Sarepta Therapeutics (SRPT)

Dave's Commentary: SRPT is continuing to consolidate. It sold off a little on the SLDB gene therapy news but it was actually positive. Now we are waiting for the gene therapy data that should be coming before the end of the quarter.

Past Performance

Value Line® Institutional Services

Newsletter Edition	Stock	Put Strike Sold	Expiration	Put Price	# of Puts	Price at Expiration	Call Premiums Collected	Sell Date	Sell Price	% Gain	Total Profit	Cumulative Profit
Jan-18	SLM	\$11	Feb-18	\$0.24	9	\$11.30				2.2	\$216.00	\$216.00
Feb-18	SLM	\$11	Mar-18	\$0.22	9	\$11.24				2.0	\$198.00	\$414.00
Feb-18	GM	\$40	Mar-18	\$0.76	3	\$37.94	\$324	Jun-18	\$40.00	4.6	\$552.00	\$966.00
Mar-18	SLM	\$11	Apr-18	\$0.24	9	\$11.81				2.2	\$216.00	\$1,182.00
Mar-18	AJG	\$70	Apr-18	\$0.85	2	\$69.97	\$213	Apr-18	\$70.25	3.1	\$433.00	\$1,615.00
Apr-18	SBUX	\$55	May-18	\$0.63	3	\$57.16				1.1	\$189.00	\$1,804.00
May-18	CVS	\$62.5	Jun-18	\$0.59	3	\$68				0.9	\$177.00	\$1,981.00
Jun-18	INTC	\$52.5	Jul-18	\$0.55	3	\$51.91	\$651	Feb-19	\$50.00	0.4	\$66.00	\$2,047.00
Jun-18	CMCSA	\$32.5	Jul-18	\$0.56	5	\$36				1.7	\$280.00	\$2,327.00
Jul-18	TXT	\$65	Aug-18	\$0.75	2	\$66.15				1.2	\$150.00	\$2,477.00
Aug-18	TXT	\$65	Sep-18	\$0.82	2	\$71.82				1.3	\$164.00	\$2,641.00
Aug-18	CVS	\$72.5	Sep-18	\$1.25	1	\$79.59				1.7	\$125.00	\$2,766.00
Sep-18	JPM	\$115	Oct-18	\$1.26	1	\$108.09	\$214	Open	\$105.55	-5.3	(\$605.00)	\$2,161.00
Sep-18	NEM	\$31	Oct-18	\$0.53	4	\$32.19				1.7	\$212.00	\$2,373.00
Oct-18	NEM	\$31	Nov-18	\$0.63	4	\$33.32				2.0	\$252.00	\$2,625.00
Oct-18	BK	\$45	Nov-18	\$0.53	2	\$49.39				1.2	\$106.00	\$2,731.00
Nov-18	CAH	\$52.50	Dec-18	\$0.80	2	\$44.44	\$540	Feb-19	\$50.00	1.9	\$200.00	\$2,931.00
Nov-18	BK	\$45	Dec-18	\$0.53	2	\$44.64	\$40	Jan-19	\$50.00	12.7	\$1,146.00	\$4,077.00
Dec-18	DIS	\$105	Jan-19	\$1.80	1	\$111.04				1.7	\$180.00	\$4,257.00
Jan-19	KHC	\$45	Feb-19	\$0.35	2	\$47.62				0.8	\$70.00	\$4,327.00
Jan-19	DIS	\$105	Feb-19	\$0.76	1	\$112.59				0.7	\$76.00	\$4,403.00
Feb-19	KHC	\$45	Mar-19	\$0.80	2			Open		1.8	\$160.00	\$4,563.00
Feb-19	DIS	\$110	Mar-19	\$1.13	1			Open		1.0	\$113.00	\$4,676.00
Feb-19	VZ	\$52.5	Mar-19	\$0.25	2			Open		0.5	\$50.00	\$4,726.00

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(Past Performance Continued)

Chimera Research Group

Newsletter Edition	Stock	Put Strike Sold	Expiration	Put Price	# of Puts	Price at Expiration	Call Premiums Collected	Sell Date	Sell Price	% Gain	Total Profit	Cumulative Profit
Jan-18	NBIX	\$75	Feb-18	\$0.85	2	\$83				1.1	\$170.00	\$170.00
Feb-18	NBIX	\$80	Mar-18	\$1.85	1					2.3	\$185.00	\$355.00
Feb-18	CELG	\$90	Mar-18	\$0.96	1	\$89.61	\$324.00	Jan-19	\$86.27	0.5	\$47.00	\$402.00
Mar-18	VRTX	\$170	Apr-18	\$4.00	1	\$158.15	\$490.00	Jul-18	\$170.00	5.4	\$890.00	\$1,292.00
Apr-18	ALXN	\$105	May-18	\$5.10	1	121.07				4.9	\$510.00	\$1,802.00
Jun-18	CELG	Vertical	Jan-19	\$0.00	-	0		Jan-19	0	-100.0	(\$1,250.00)	\$552.00
Jun-18	BPMC	\$75	Jul-18	\$2.50	1	62.29	\$925.00	Feb-19	75.00	16.2	\$1,175.00	\$1,727.00
Aug-18	SRPT	\$145	Sep-18	\$3.50	1	138.8	\$307.00	Open	138.45	0.0	\$2.00	\$1,729.00
Dec-18	JNJ	\$125	Jan-18	\$2.43	1	130.69				1.9	\$243.00	\$1,972.00
Jan-19	INCY	\$72.5	Feb-19	\$1.50	1	84.15				2.1	\$150.00	\$2,122.00
Jan-19	JNJ	\$125	Feb-19	\$1.20	1	136.38				1.0	\$120.00	\$2,242.00
Feb-19	BHVN	\$40	Mar-19	\$1.70	3			Open		4.3	\$510.00	\$2,752.00

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