

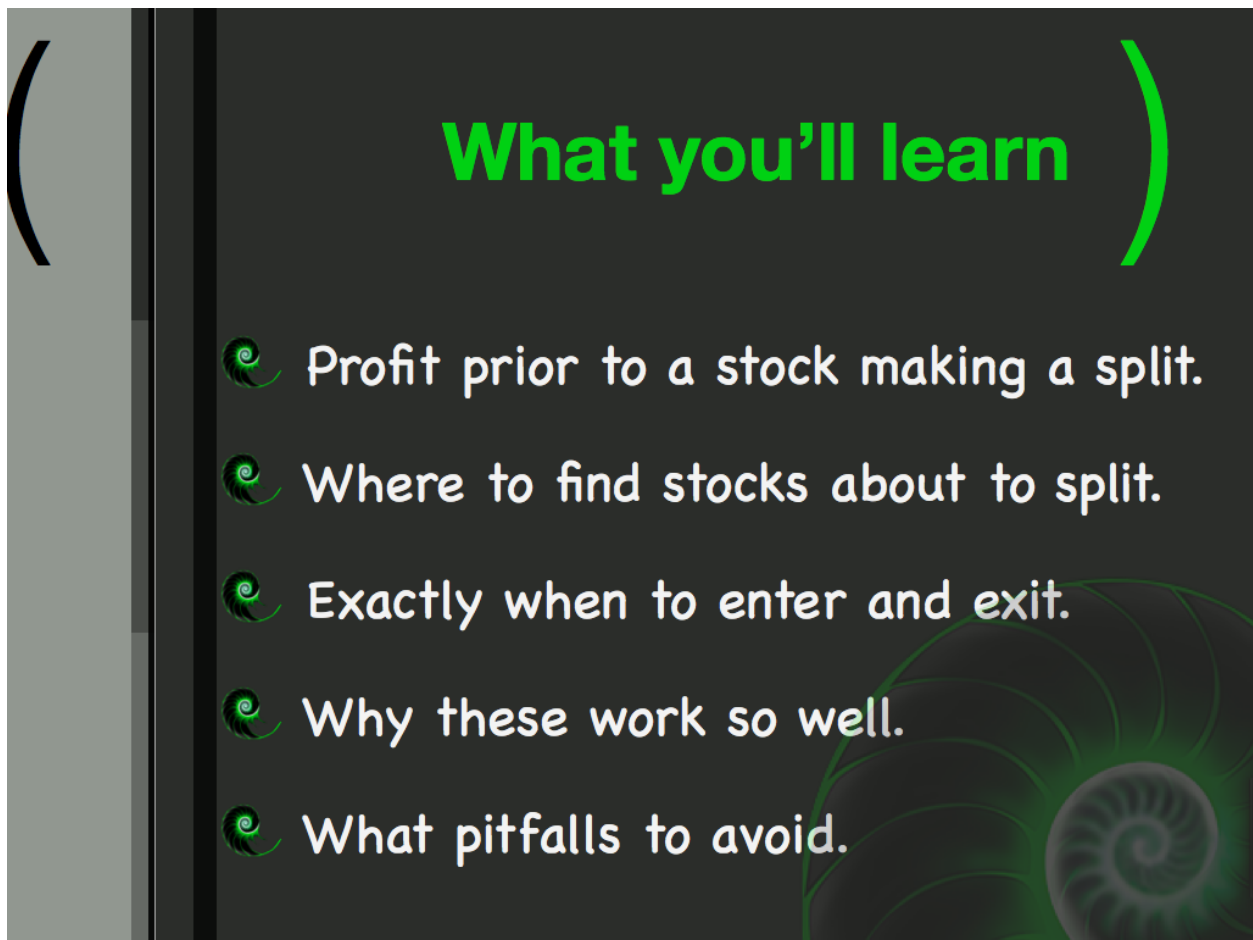
# **How To Find & Harvest Huge Cash Rewards From Stock Splits**

**By Rob Roy**

## OptionAxiom Stock Split Strategy

Stock splits are a very normal occurrence in the market place. There are many reasons why a company may want to split their stock. The majority of the time a trader does not particularly care *why* a company decides to split their stock, rather a trader simply cares when the event is.

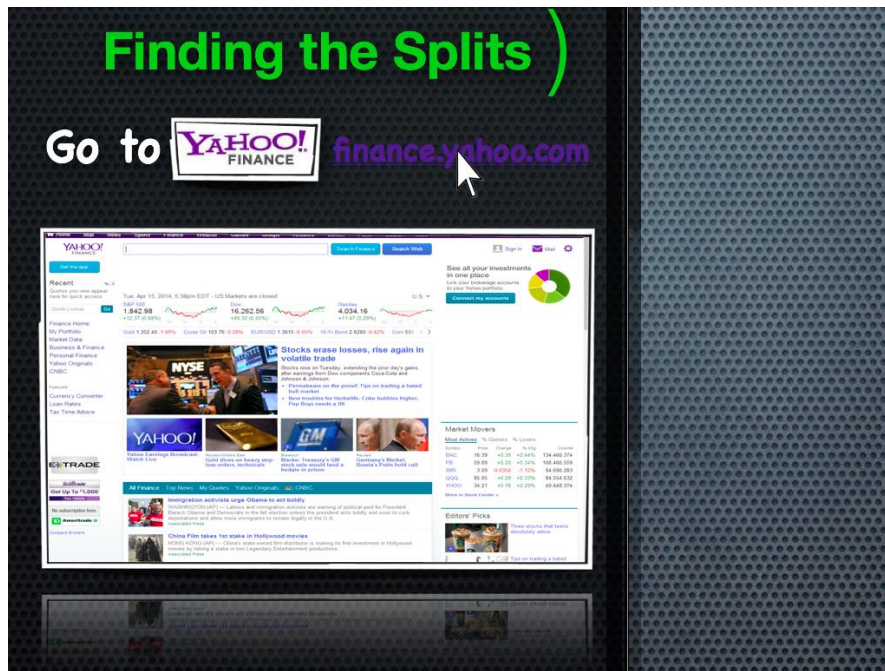
This manual is a companion to the accompanying DVD where Rob Roy details how he uses this powerful technique to take advantage of a company's stock split.



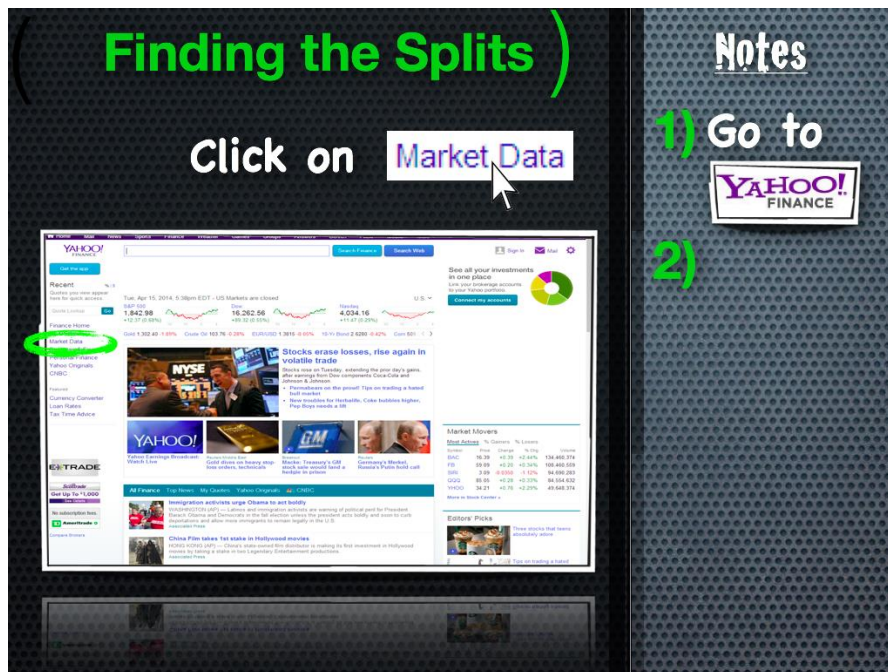
### What you'll learn

- Profit prior to a stock making a split.
- Where to find stocks about to split.
- Exactly when to enter and exit.
- Why these work so well.
- What pitfalls to avoid.

# How to Find Stocks with Upcoming Splits



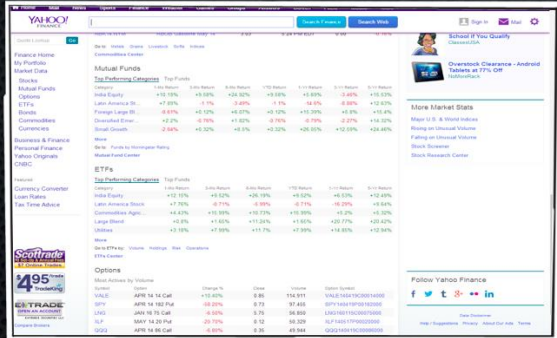
You can find stock split candidates for free using Yahoo Finance by going to <http://finance.yahoo.com>





In the left-hand column, click on "Market Data".

**Finding the Splits** )

**Scroll to Bottom**

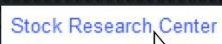


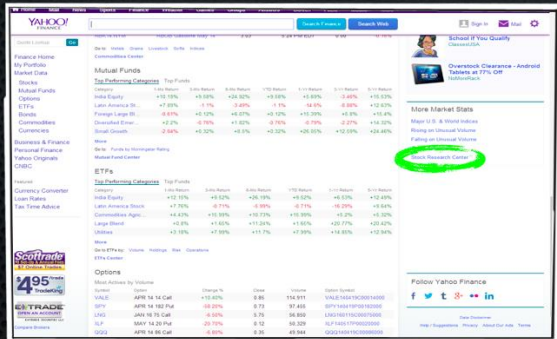
**Notes**

- 1) Go to 
- 2) Click on 
- 3)



Scroll to the bottom of the page.

**Finding the Splits** )

**Click on** 



**Notes**

- 1) Go to 
- 2) Click on 
- 3) Scroll to Bottom
- 4)

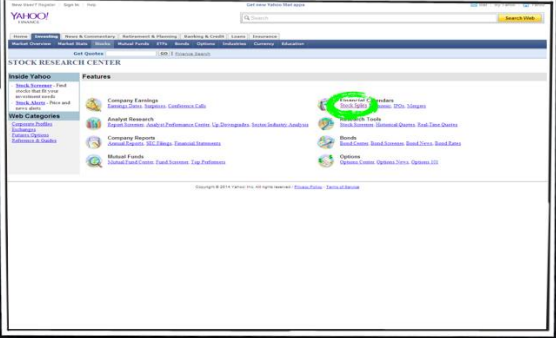
In the right-hand column under “More Market Stats” click on “Stock Research Center”.



# OptionAxiom

**Finding the Splits**

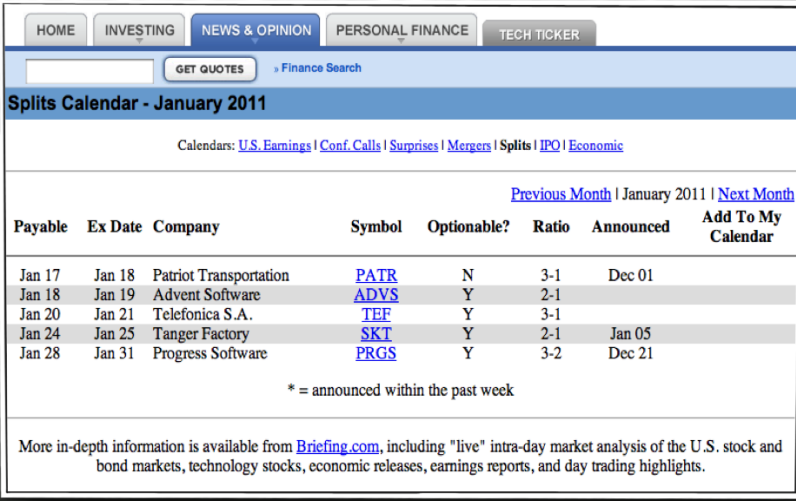
Click on [Stock Splits](#)



**Notes**

- 1) Go to [YAHOO! FINANCE](#)
- 2) Click on [Market Data](#)
- 3) Scroll to Bottom
- 4) Click on [Stock Research Center](#)

After the page loads, click on “Stock Splits”.



**Splits Calendar - January 2011**

Calendars: [U.S. Earnings](#) | [Conf. Calls](#) | [Surprises](#) | [Mergers](#) | [Splits](#) | [IPO](#) | [Economic](#)

[Previous Month](#) | January 2011 | [Next Month](#)

Payable	Ex Date	Company	Symbol	Optionable?	Ratio	Announced	Add To My Calendar
Jan 17	Jan 18	Patriot Transportation	<a href="#">PATR</a>	N	3-1	Dec 01	
Jan 18	Jan 19	Advent Software	<a href="#">ADVS</a>	Y	2-1		
Jan 20	Jan 21	Telefonica S.A.	<a href="#">TEF</a>	Y	3-1		
Jan 24	Jan 25	Tanger Factory	<a href="#">SKT</a>	Y	2-1	Jan 05	
Jan 28	Jan 31	Progress Software	<a href="#">PRGS</a>	Y	3-2	Dec 21	

\* = announced within the past week

More in-depth information is available from [Briefing.com](#), including "live" intra-day market analysis of the U.S. stock and bond markets, technology stocks, economic releases, earnings reports, and day trading highlights.

Yahoo Finance will provide you a list of stocks that have splits upcoming.

## Criteria for Stock

- General Markets are Bullish.
- Stock must be optionable.
- Is not a reverse split.
- Split is at least a 2:1.
- No other news events.

### Criteria for the Stock

**1. General markets are Bullish.**

This stock splits technique works best when the general markets are bullish. This criteria however is somewhat self-regulating as it is unusual for a stock to undergo a split in a confirmed bearish market.

**2. Stock must be optionable.**

The stock must have options trading on it and the options must have some liquidity (more on this later).

**3. Is not a reverse split.**

A reverse split is not the same as a regular split. You will typically see a reverse split notated with a 1:3 under the "Ratio" column.

**4. Split is at least a 2:1.**

The split needs to be at least 2:1 or "Two for one". A larger split such as a 3:1 or 10:1 will work as well, and has no affect on this strategy.

**5. No other news events.**

Double check that the company does not have any other major news events planned before the stock split as that can affect the stock.

Calendars: [U.S. Earnings](#) | [Conf. Calls](#) | [Surprises](#) | [Mergers](#) | [Splits](#) | [IPO](#) | [Economic](#)

[Previous Month](#) | January 2011 | [Next Month](#)

Payable	Ex Date	Company	Symbol	Optionable?	Ratio	Announced	Add To My Calendar
<del>Jan 17</del>	<del>Jan 18</del>	<del>Patriot Transportation</del>	<del><a href="#">PATR</a></del>	<del>N</del>	<del>3-1</del>	<del>Dec 01</del>	
Jan 18	Jan 19	Advent Software	<a href="#">ADVS</a>	Y	2-1		
Jan 20	Jan 21	Telefonica S.A.	<a href="#">TEF</a>	Y	3-1		
Jan 24	Jan 25	Tanger Factory	<a href="#">SKT</a>	Y	2-1	Jan 05	
<del>Jan 28</del>	<del>Jan 31</del>	<del>Progress Software</del>	<del><a href="#">PRGS</a></del>	<del>Y</del>	<del>3-2</del>	<del>Dec 21</del>	

\* = announced within the past week

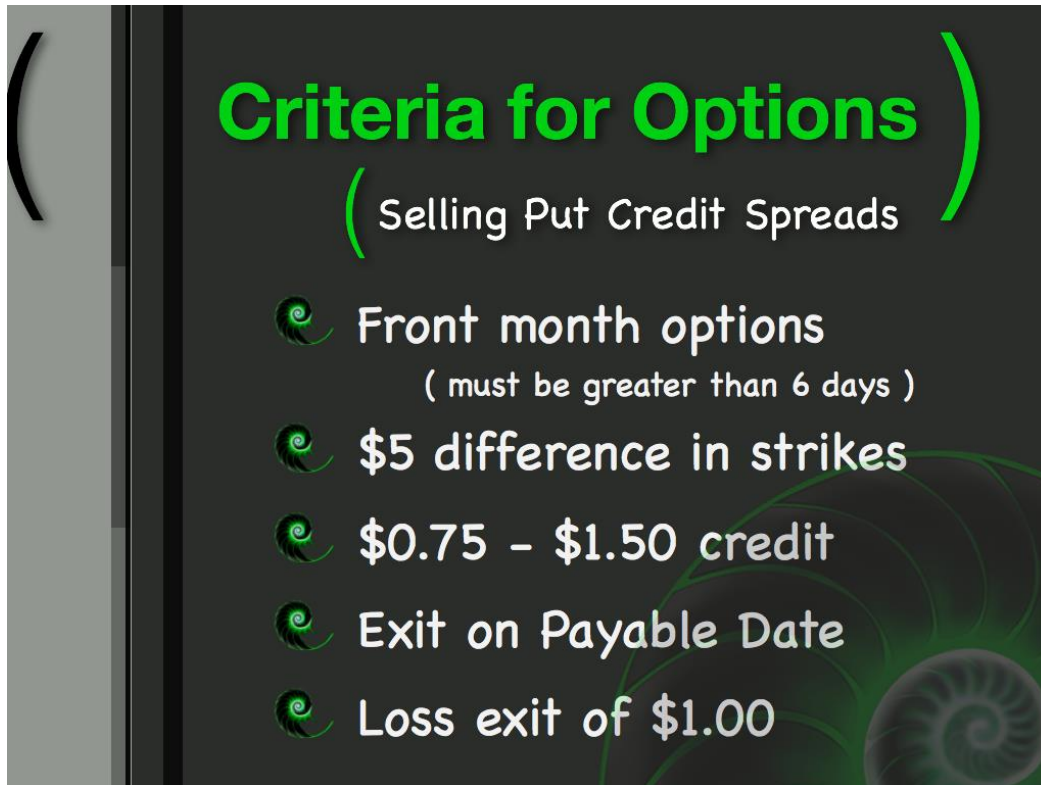
More in-depth information is available from [Briefing.com](#), including "live" intra-day market analysis of the U.S. stock and bond markets, technology stocks, economic releases, earnings reports, and day trading highlights.

## Filtering by the stock criteria.

Using the criteria for stock on the previous page, the results above can now be filtered to find candidates.

PATR can be crossed off the list as it is not an optionable stock.

PRGS can be crossed off the list as the split is a 3:2 ratio.



## Criteria for the Options

- 1. Enter 10 Market Days before the Payable Date.**

Enter the trade 10 market days, don't count the weekends, before the Payable Date of the stock.
- 2. Use front month options.**

Front month options refers to options that will be expiring the soonest. Note that if there is less than 6 days to expiration, the next available expiration of options can be used.
- 3. \$5.00 difference in strikes.**

The difference in strikes needs to be \$5.00.
- 4. \$0.75 - \$1.50 credit.**

The amount of the credit is important. Less than \$0.75, the reward is not worth the risk. More than \$1.50 credit can indicate other stock news.
- 5. Exit on the Payable Date.**

The Payable Date is listed on the webpage and is the day to exit the Put Credit Spread. After the Payable Date the option values and strikes can change significantly.
- 6. Loss exit of \$1.00.**

Should the stock move down and not up, a good general loss exit would be to exit at \$1.00 loss. Note that this guideline can be changed to match the traders risk tolerance.



## OptionAxiom

# No Trade

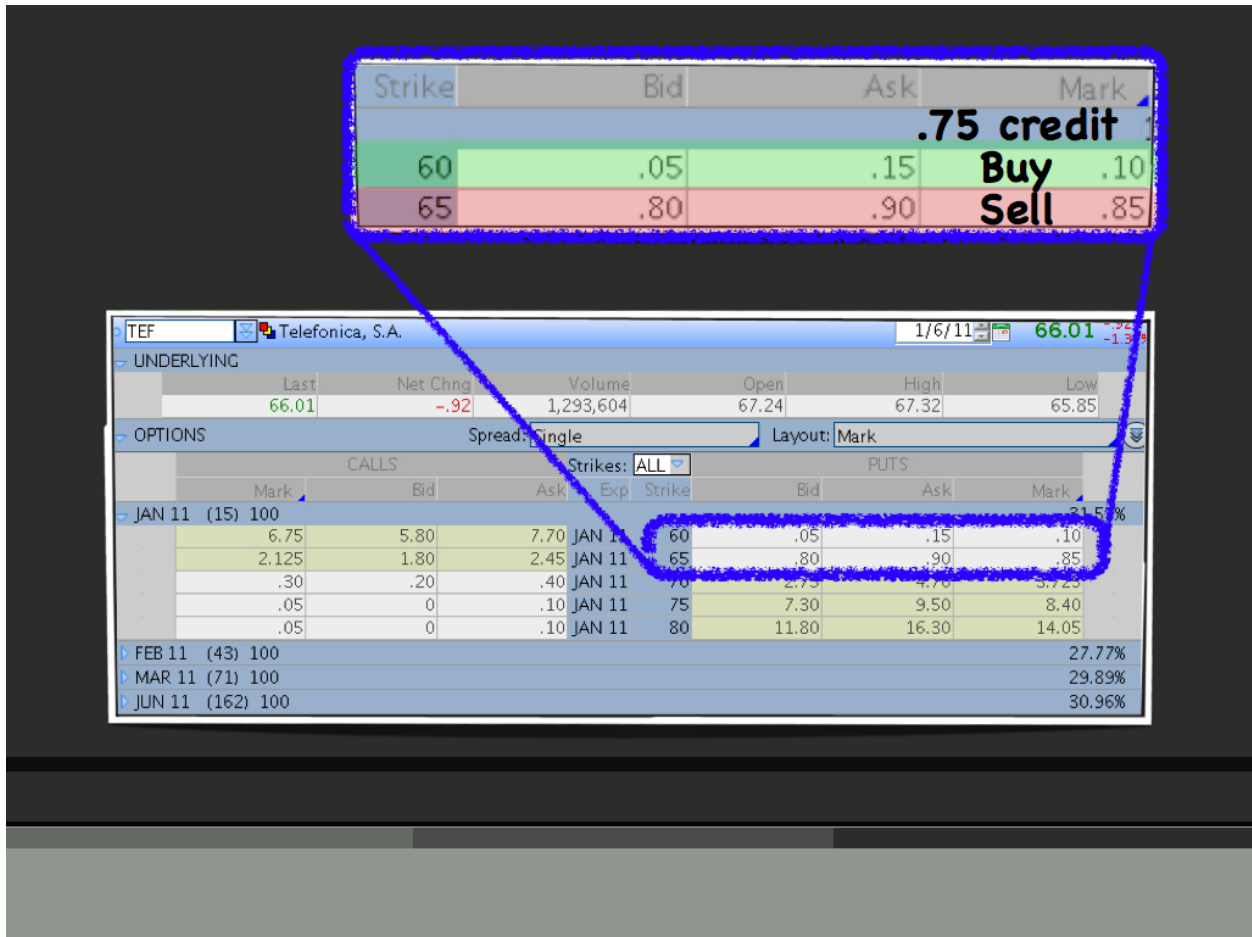
ADVS		Advent Software, Inc.		NASDAQ		1/5/11		57.85 +0.02 +0.03%	
UNDERLYING									
	Last	Net Chng	Volume	Open	High	Low			
	57.85	+0.02	126,699	57.75	58.50	57.3201			
OPTIONS									
		Spread: Single		Layout: Mark					
		CALLS			Strik... ALL		PUTS		
	Mark	Bid	Ask	Exp	Strike	Bid	Ask	Mark	
JAN 11 (16) 100									
	8.10	6.00	10.20	JAN...	50	0	4.90	2.45	76.50%
	3.425	1.15	5.70	JAN...	55	0	5.00	2.50	
	.40	0	.80	JAN...	60	1.00	5.10	3.05	
	2.45	0	4.90	JAN...	65	5.00	9.20	7.10	
FEB 11 (44) 100									
									58.57%
MAY 11 (135) 100									
									34.42%
AUG 11 (226) 100									
									27.81%

## Analyzing ADVS

Above in an options chain for ADVS. The columns listed on this option chain are the Bid, Ask, and Mark. The Bid column shows the price the option can be sold for immediately. The Ask column shows the price the option can be bought for immediately. The Mark column however shows what traders refer to as “the fair price” or the middle between the Bid and the Ask prices.

The Bid price for all the Put options on ADVS are listed at 0.00. This tells the trader that there is no market if they wanted to sell that option. The most likely reason for this kind of pricing stems from a very “thinly” or “lightly” traded underlying stock.

## OptionAxiom



## Analyzing TEF

Above in an options chain for TEF. Looking at the Bid and Ask prices, there is nothing unusual nor anything that raises a flag for the trader. TEF does meet all the stock and option criteria for trading this stock split strategy on.

The next step for the trader would be to create the Put Credit Spread. To do this the trader would put in an order to buy the 60 strike put and to sell the 65 strike put. The net credit for placing this order would be \$0.75.

The next page will show the before and after chart for TEF. Above each chart will be the Put Credit Spread showing the details. Remember that when trading a Put Credit Spread, and this stock split technique, the trader is looking for the stock to move higher as it gets closer to the Payable Date.

# OptionAxiom

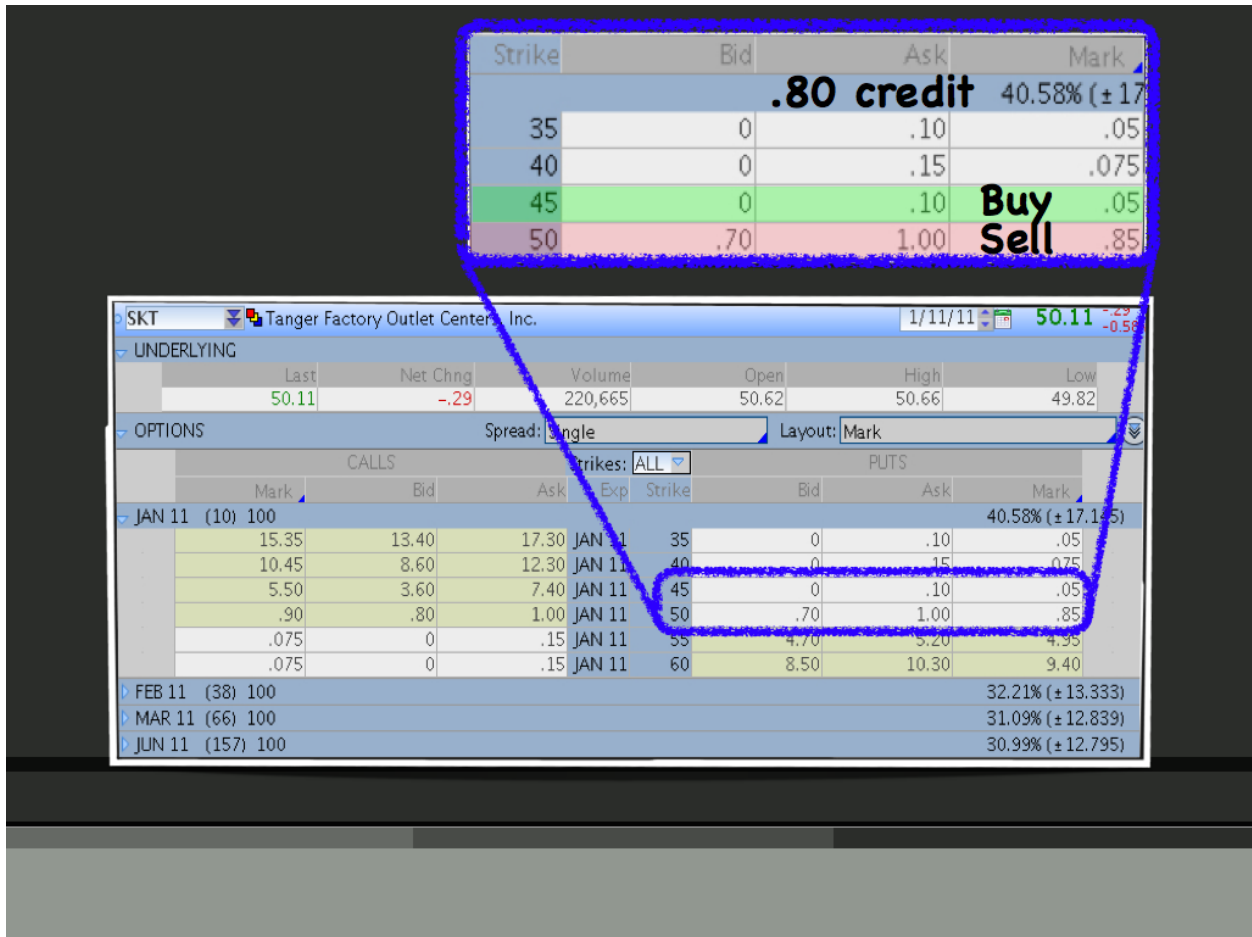


(The chart above is the day the Put Credit Spread was entered.)



TEF moved up as expected heading into the Payable Date and returned the full \$0.75 credit.

## OptionAxiom

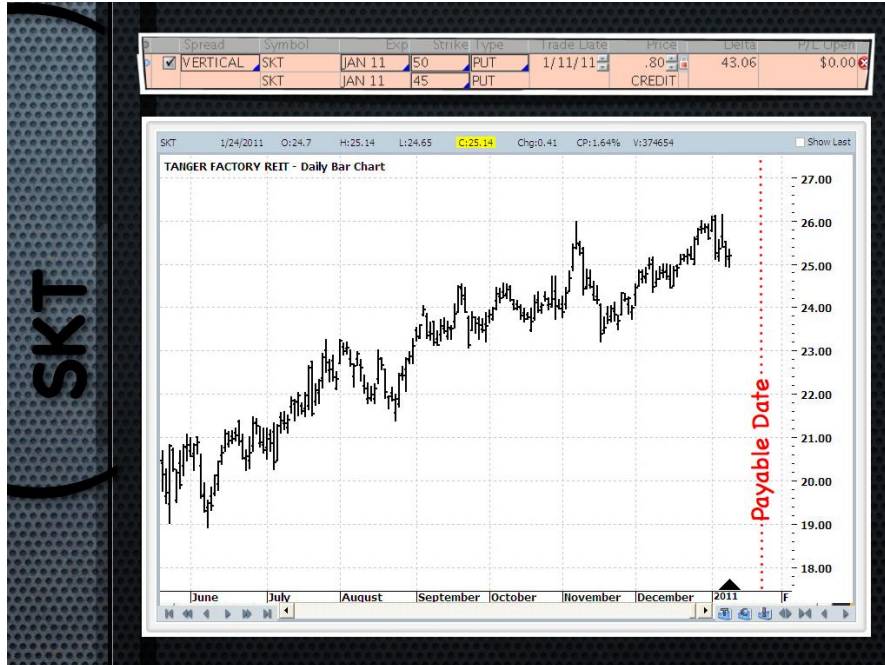


## Analyzing SKT

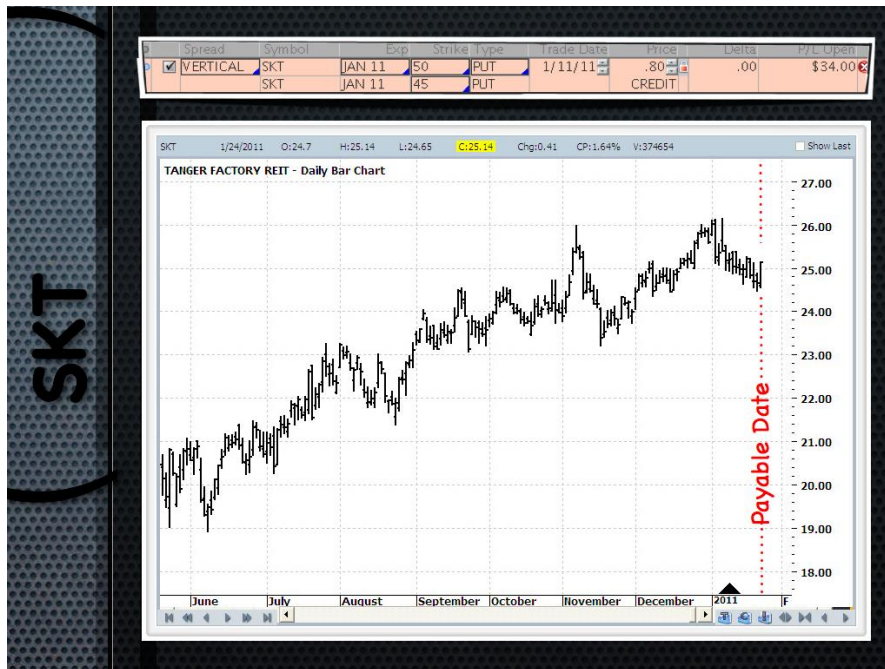
Above in an options chain for SKT and similar to the TEF example there is nothing out of place raising any flag for the trader. Using the options criteria, the trader would select the 45/50 Put Credit Spread with the plan to exit on the Payable Date or at a \$1.00 loss exit.



# OptionAxiom



(The above chart is the day the Put Credit Spread was entered.)



SKT stock price did not move up as it did in the previous example, rather it traded generally sideways. The Put Credit Spread still returned \$0.34 out of the potential \$0.80 partly due to the time passing or theta decay. This illustrates an important nuance that the stock does not need to go up for the Put Credit Spread to profit.

# Case Study Examples

**Exit Date**

Calendars: [U.S. Earnings](#) | [Conf. Calls](#) | [Surprises](#) | [Mergers](#) | [Splits](#) | [IPO](#) | [Economic](#)

Previous Month | February 2011 | Next Month

Payable	Ex Date	Company	Symbol	Optionable?	Ratio	Announced	Add To My Calendar
<del>Feb 01</del>	<del>Feb 02</del>	<del>Freeport-McMoRan</del>	<del>FCX</del>	<del>Y</del>	<del>2-1</del>	<del>Dec 09</del>	
<del>Feb 07</del>	<del>Feb 07</del>	<del>Dollar Financial</del>	<del>DLLR</del>	<del>Y</del>	<del>3-2</del>	<del>Jan 10</del>	
Feb 14	Feb 15	Hormel Foods	HRL	Y	2-1	Dec 13	<a href="#">Add</a>
Feb 15	Feb 16	Ball Corp	BLL	Y	2-1	Jan 26	<a href="#">Add</a>
<del>Feb 17</del>	<del>Feb 18</del>	<del>Southern Holdings</del>	<del>SFUN</del>	<del>N</del>	<del>1-1</del>	<del>Jan 26</del>	<del><a href="#">Add</a></del>
<del>Feb 21</del>	<del>Feb 22</del>	<del>Nad Instruments</del>	<del>NATI</del>	<del>Y</del>	<del>3-2</del>	<del>Jan 25</del>	<del><a href="#">Add</a></del>
<del>Feb 22</del>	Feb 22	Whiting Petroleum	WLL	Y	2-1	Jan 26	<a href="#">Add</a>
<del>Feb 22</del>	<del>Feb 23</del>	<del>Nad Instruments</del>	<del>NATI</del>	<del>Y</del>	<del>3-2</del>	<del>Jan 25</del>	<del><a href="#">Add</a></del>
	Feb 23	Whiting Petroleum	WLL	Y	2-1	Jan 26	<a href="#">Add</a>
Feb 24	Feb 25	Potash	POT	Y	3-1	Jan 26	<a href="#">Add</a>
Feb 25	Feb 28	Eaton	ETN	Y	2-1	Jan 27	<a href="#">Add</a>

\* = announced within the past week

More in-depth information is available from [Briefing.com](#), including "live" intra-day market analysis of the U.S. stock and bond markets, technology stocks, economic releases, earnings reports, and day trading highlights.

The above list of stocks was from the very next month. Already a trader can notice that some months will have more candidates, and some will have less. Using the stock criteria filters, notice several of the stocks have been crossed off the list.

SFUN can be crossed off the list as it is not optionable and therefore a Put Credit Spread cannot be traded on it.

DLLR and NATI can be crossed off the list as the split ratio is 3:2 and does not meet the minimum of 2:1.

## OptionAxiom

# No Trade

FCX Freeport-McMoRan Copper & Gold Inc. 1/19/11 115.16 -2.90%									
UNDERLYLING									
	Last	Net Chng	Volume	Open	High	Low			
	115.16	-3.44	9,407,790	119.62	119.6675	114.70			
OPTIONS Spread: Single Layout: Mark									
CALLS					PUTS				
	Mark	Bid	Ask	Exp	Strike	Bid	Ask	Mark	
JAN 11 (2)	100								70.07%
FEB 11 (30)	100								44.61%
	8.525	8.45	8.60	FEB 11	110	3.30	3.45	3.375	
	6.075	6.00	6.15	FEB 11	114	4.90	5.00	4.95	
	5.525	5.45	5.60	FEB 11	115	5.35	5.50	5.425	
	3.70	3.65	3.75	FEB 11	119	7.50	7.65	7.575	
	3.30	3.25	3.35	FEB 11	120	8.10	8.25	8.175	
	2.04	2.03	2.05	FEB 11	124	10.85	11.00	10.925	
MAY 11 (121)	100								43.31%
AUG 11 (212)	100								42.00%
JAN 12 (366)	100								43.08%
JAN 13 (730)	100								35.86%

## Analyzing FCX

FCX appears to be a good candidate initially looking at the options chain until the trader prices out the Put Credit Spread. The total credit would be \$2.05 placing it above the maximum credit restriction of \$1.50 for this strategy.

A larger than \$1.56 credit on a \$5.00 wide Credit Spread could indicate an upcoming news event, expected announcement, or a trading anomaly. Note that this criteria is specifically for use with the OptionAxiom Stock Split Strategy.

No Trade

HRL Hormel Foods Corp. 2/1/11 49.68 +.28 +0.57%										
UNDERLYING										
	Last	Net Chng	Volume	Open	High	Low				
	49.68	+.28	535,813	49.53	49.98	49.40				
OPTIONS Spread: Single Layout: Mark										
CALLS					Strik... 6	PUTS				
	Mark	Bid	Ask	Exp	Strike	Bid	Ask	Mark		
FEB 11 (17) 100									30.11%	
	9.65	9.20	10.10	FEB 11	40	0	.15	.075		
	4.60	4.30	4.90	FEB 11	45	0	.15	.075		
	.775	.65	.90	FEB 11	50	.85	1.15	1.00		
	.075	0	.15	FEB 11	55	5.10	5.70	5.40		
	.075	0	.15	FEB 11	60	10.00	10.70	10.35		
MAR 11 (45) 100									24.30%	
JUN 11 (136) 100									21.73%	
SEP 11 (227) 100									20.56%	

## Analyzing HRL

Looking at the options chain for HRL, a red flap appears under the Bid column. The Bid price for all the Put options on HRL are listed at 0.00. This tells the trader that there is no market if they wanted to sell that option. The most likely reason for this kind of pricing stems from a very “thinly” or “lightly” traded underlying stock.



# OptionAxiom

# No Trade

UNDERLYING					
Last	Net Chng	Volume	Open	High	Low
73.21	+.71	972,738	72.01	73.70	71.95

OPTIONS							
Spread: Single		Layout: Mark					
CALLS				PUTS			
Mark	Bid	Ask	Exp	Strike	Bid	Ask	Mark
FEB 11 (16)	100						27.32%
	18.05	16.10	20.00	FEB 11 55	0	.10	.05
	13.30	13.00	13.60	FEB 11 60	0	.10	.05
	8.30	8.00	8.60	FEB 11 65	.05	.10	.075
	3.60	3.40	3.80	FEB 11 70	.25	.40	.325
	.525	.45	.60	FEB 11 75	2.10	2.45	2.275
	.05	0	.10	FEB 11 80	4.70	8.80	6.75
MAR 11 (44)	100						23.16%
MAY 11 (107)	100						23.48%
AUG 11 (198)	100						21.15%

## Analyzing BLL

The options chain above for BLL does not have any reg flags. However, when the trader calculates the credit for the 65/70 Put Credit Spread it shows the credit would only be \$0.25. That is significantly below the \$0.75 minimum credit needed for trading this strategy.

# Analyzing RVBD



RVBD met all the stock and option criteria resulting in the 55/50 Put Credit Spread for a credit of \$1.50. Looking at the chart below a trader can see that RVBD had a classic climb into the Payable Date returning 42.8%.



# Analyzing RAI



RAI met all the stock and option criteria resulting in the 65/60 Put Credit Spread for a credit of \$1.05. Looking at the chart below a trader can see that RAI moved down rather than up heading into the Payable Date. Due to time decay and the stock price staying above the Put strikes, the Put Credit Spread still profited \$0.47 or a 11.5% return.



# Analyzing ABV



ABV met all the stock and option criteria resulting in the 140/135 Put Credit Spread for a credit of \$1.50. Looking at the chart below a trader can see that ABV stock moved classicy up into the Payable Date. This resulted in a profit of \$1.25 or a 35.8% return.





## Reviewing the Criteria

### Criteria for Stock

- General Markets are Bullish.
- Stock must be optionable.
- Is not a reverse split.
- Split is at least a 2:1.
- No other news events.

### Criteria for Options

( Selling Put Credit Spreads )

- Front month options  
( must be greater than 6 days )
- \$5 difference in strikes
- \$0.75 - \$1.50 credit
- Exit on Payable Date
- Loss exit of \$1.00