

A MOTLEY FOOL PRO SPECIAL REPORT

HOW YOU CAN WIN — NO MATTER WHO DOES IN NOVEMBER



Meet the *Pro* Team

JEFF FISCHER, ADVISOR

I joined The Motley Fool full-time in 1996, working with Tom and David Gardner on the original Fool Portfolio. I also worked on the *Rule Breaker* Portfolio and Drip Portfolio before launching *Motley Fool Pro*. For the past 12 years, I've been using options to smooth returns and generate income in any market.

NICK CROW, SENIOR ANALYST

I've been investing for 17 years now and using options for about half that time. On the *Motley Fool Pro* team, I'm the guy who says "no" most often. I'm always looking at the risk, trying to talk down some of these guys' best ideas.

BRYAN HINMON, CFA, ANALYST

I've been a part of the Fool community for more than a decade. After helping LUMA Capital launch Aqualane Partners, a covered call-based hedge fund, I launched and ran Bulwark Capital Partners, an investment partnership similar in philosophy and strategy to *Motley Fool Pro*. In 2010, I became an analyst with *Pro*.

How *Pro* Makes Money for Members

Pro's real-money portfolio and its use of options strategies make it unique among Motley Fool services. Unlike many investment vehicles, we don't compare ourselves to a market index. Instead, we seek to make money – positive returns – no matter what the market does. Our aim (similar to that of a hedge fund) is to achieve positive returns over every rolling three-year period and to double our real purchasing power every 10 years. We call this always-positive goal our North Star, and we take a three-pronged approach to pursuing it:

1. Owning great businesses at attractive prices with much of our capital
2. Hedging and shorting to protect our gains and profit in a falling market
3. Using options to generate steady income and increase our returns at low cost

AREN'T OPTIONS RISKY?

Options get a bad rap as speculative, risky investing tools. It's true that many investors can (and do) use them that way, but options strategies themselves are not inherently risky. The Foolish use of options actually *reduces* risk, smoothes results, and makes it possible to earn attractive returns in any market.

At *Pro*, we're business-based options investors, not traders. We analyze the companies on which we employ options, and we use those options to express our theses. This strategy is key to our success; it offers high accuracy and regular profits that options traders can't match.

Options can also help control one of the main causes of poor investing decisions: emotion. You can use options to set risk and return parameters you're comfortable with, taking some of the vacillations of the market out of the picture and allowing you to invest with a calmer temperament. Because you know the potential profit or loss of each position up front, you can more easily avoid hasty buy and sell decisions.

HOW CAN *PRO* BOOST MY RETURNS?

Investment research is profoundly important, but it's only half the battle. *Pro's* flexibility in using different strategies allows us to make the recommendations that best fit our analysis and to hedge our risks without capping our potential. We take pains to employ the optimal strategy for each investing conclusion we reach, protecting our downside *and* maximizing our upside. Here are some of the strategies we use:

Strategy: Options

Ways to Boost Returns:

When we're very confident in a thesis, we can purchase options to define and limit our potential loss and to serve as leverage toward greater potential profit. For long-term holdings, we might enhance returns by writing covered calls, covered strangles, or vertical spreads (these fancy-sounding strategies are all reasonably simple to learn and execute). We'll also write options for income in flat markets (and others).

Strategy: Hedging

Ways to Boost Returns:

We hedge our portfolio or an individual position by taking an offsetting position in a related investment. We do this to reduce market risk and isolate the performance of our stock selection. We also hedge using options (rather than by shorting stocks directly) so an upward-moving market won't result in mounting losses.

Strategy: ETFs

Ways to Boost Returns:

Exchange-traded funds can be an easy way to invest in a broad belief, long or short; some ETFs allow us to use options as well. The world of ETFs is also rife with flawed offerings suitable for shorting.

Strategy: Stock Selection

Ways to Boost Returns:

We prefer businesses with significant long-term profit potential and a strong business model to get them there. Our portfolio is chock-full of companies with recurring revenue bases, large market opportunities, and lasting growth tailwinds.

WHAT ARE WE WATCHING OUT FOR?

As is obvious, we're mindful of the coming election, because the outcome could bring sweeping changes to businesses and consumers. The U.S. is heading for a so-called "fiscal cliff" in 2013, after which government spending is due to decrease and taxes to head higher. This would obviously be a drag on the economy, and we would want to be prepared with hedges and short positions in response.

We're also aware that interest rates can't go much lower, and when they do finally start to rise, some companies will benefit tremendously — among them insurance providers, payroll processors, and discount brokers. We plan to invest before those big gains come to fruition. At *Pro*, we invest with context and the long term firmly in mind, and these are just two of the dozens of factors we're considering.

Some *Pro* Trades

Theme	Investment	Thinking
Opportunistic Investing	Bristow Group (NYSE: BRS)	In the wake of the BP oil spill, investors fled the entire energy sector. We used the broad sell-off to invest in Bristow, which owns an impressive fleet of helicopters used to ferry crew, cargo, and supplies to production rigs miles offshore. The company's helicopter fleet is second to none, and Bristow's multi-year contracts mean it earns the bulk of its income whether or not its choppers fly — so even with drilling and production temporarily stunted, we knew most of its income was safe. Shares recovered not long after the disaster, and Bristow has been a winner for <i>Pro</i> . When it dips, members who have not yet bought shares are also advised to write put options on Bristow for income.
Short	Short CurrencyShares Euro Trust (NYSE: FXE)	Believe it or not, right up until late 2011, the euro still traded much closer to its all-time high against the dollar than its low. We shorted the currency last year with a bet against the CurrencyShares Euro Trust ETF. The European Union's lack of fiscal unity has meant that even after falling all year, the euro still looks overvalued compared with the dollar.
Income With Upside (Covered Strangle)	Wells Fargo (NYSE: WFC):	Another 133 banks have gone under since we purchased Wells Fargo in 2010, so clearly we bought in the midst of an ongoing crisis. We're comfortable, though, because Wells Fargo is at heart a community bank. True, it's the No. 1 mortgage and small business lender in the U.S., but it lacks a Wall Street investment banking arm subject to \$2 billion-plus trading losses (like, say, JPMorgan Chase). <i>Pro</i> members are enjoying a nice dividend payment and attractive option income using a covered-strangle strategy that retains significant upside, too.

Theme	Investment	Thinking
Income With Upside (Covered Strangle)	Plum Creek Timber (NYSE: PCL)	In one of <i>Pro's</i> very first trades in 2008, we bought shares of Plum Creek Timber, the largest private landowner in the United States. The uncertain economy led us to seek safety in a company based on hard assets, reasoning that if Plum Creek's land was worth at least as much as its market cap, the share price should hold up. That's exactly what happened, and in the meantime, we collected a 5% dividend yield and wrote puts and calls on the stock. By combining this strategy (a "covered strangle") with share ownership over the following three years, we earned more than 50% in income on top of the rise in the stock's price.

Member Feedback

The refrain I enjoy most is when I hear that we've changed our members' lives — we've changed their investing lives. Our most excited members are usually nearing retirement or recently in retirement, and they can't believe they've been investing so long without knowing how to use these tools. They just see investing completely differently going forward. It's shocking to me that we've had such an impact, but many members do feel that way. Typically, it's the ability to use options to generate income that seems to really light the fire for them, because they're moving into retirement. They are no longer working and now they have a way to earn a solid income, month after month.

— *Nick Crow*

We regularly hear from members that our community is second to none. Our discussion boards operate 24-7 and are populated by active, smart, and generous *Pro* members. Rarely does a question go unanswered for more than a few hours, and the social interaction, thought-provoking content, and personal advice add value every day.

— *Bryan Hinmon*

I love hearing from members that *Pro* has changed how they invest, giving them more financial freedom. When I learned how to use options long ago, that's exactly how I felt. If you can generate your own income even in a weak market, you're that much more likely to stay invested in great companies and win there, too. *Pro* has helped many members become better investors and learn how to generate life-changing income.

— *Jeff Fischer*

***Pro* Opens Its Doors on Tuesday, July 17!**