

THE BAREFOOT DAY TRADER

FRIDAY, APRIL 11, 2014



Health Care retailer CVS Caremark Corporation (NYSE: CVS) is our featured trade for this issue of the Barefoot Day Trader.

THE COMPANY

CVS Caremark is a pharmacy health care provider. It is the largest drug retailer in the U.S., and it is ranked No. #13 on the Fortune 500.

In addition to pharmacy services, the company sells prescription drugs and general merchandise through its CVS pharmacy retail store, CVS.com, and Longs Drugs retail store.

WHY I LIKE CVS CAREMARK CORPORATION (CVS)

I like this company as a long term trade because its management is positioning CVS to take advantage of the changes occurring in the health care industry. These changes include an emphasis on managing chronic diseases and reducing costs.

Consistent with adjusting to the new health care environment, CVS made headlines earlier this year by announcing that it will cease selling tobacco products by October 1st. of this year.

Tobacco provides only a small percentage of the company's revenue so the company's bottom line won't suffer much, while its new policy could likely attract new customers from competitors such as Walgreens due to the positive publicity it is receiving as a result of the announcement.

Finally, the company's bottom line is doing well. It's earnings per share growth for 2013 was up 23% from the previous year, and its last quarterly earnings report in February exceeded analyst's expectations. The company also raised its earnings estimate for its first quarter of 2014.

THE STOCK CHART

The stock chart for CVS confirms our bullish forecast. The chart indicates that the price is in an uptrend--a trend that should continue in the coming months, barring a significant market decline.

The stock has fallen this week in part due to an announcement that the SEC imposed a large fine imposed on CVS for failure to disclose an item of financial information to investors in 2010.

That said, the primary reason for the recent price decline is the stock fell with the broader market this week as the S&P 500 experienced a sharp decline this past week.

The good news is that the stock is still in a strong uptrend and its recent price decline has put its price nicely within the "Buy Zone."

THE TRADE (OVERVIEW)

This is a bullish "Long Term" Trade. Therefore, be prepared to be in this trade for up to six months if necessary.

The closing price for CVS on Friday, April 11, 2014 is \$72.58.

A. STOCK TRADERS:

The buy zone for CVS is \$72 - \$75.50. When the stock price falls within this zone, you can buy CVS. The sell zone for the CVS begins at \$82.75. Exiting the trade at the sell zone would represent an approximate \$10.25 per share profit.

Remember to sell to cut losses if CVS closes below its 50 Day Moving Average.

B. OPTIONS TRADERS:

The buy zone for CVS is \$72 - \$75.50. When the stock price falls within this zone, you can buy CVS call options with a \$75 strike price and a November expiration date. The current premium is \$3.20 (\$320.00).

The minimum objective for this trade is a 50% return within a maximum 6 month time frame. Strongly consider taking at least some profits when the premium has crossed the 50% return threshold.

Remember, this is a long term options trade. Once in the trade, do not sell the Call option unless or until it reaches the minimum profit objective.

The only other exception is if the Call option is in-the-money within 7 days of its expiration.

Happy Trading!

Doug

Editor/Publisher, The Barefoot Day Trader