

# Market on Fire!

*Plus, a brand-new reco ready to take off...*



I have to admit: I absolutely loved the way the market bounced last week. Take a look...

As you can see from this chart of the S&P 500 — a good gauge of the broader U.S. stock market — last week's bounce has ignited a mini-rally that is just plain joy to see. In fact, from a low last Monday, the S&P 500 has surged a mind-blowing 15%. Wow!

Even better: The market's latest action snapped a series of down days that had just about everyone running ragged, me included.

The market also bounced on higher volume, another big plus for a straightforward reason: When up-market moves are accompanied by higher-than-average volume, it's a clear sign that bullish investors are attracted by the positive market action and are willing to buy shares to prove it.

But that's not all. Last week's bounce was not just a big volume day: It was the highest-volume day out of the previous *seven trading days*. I have to go all the way back to the bounce of late November to find a similar surge in buying volume.

Significant? You bet. When the market bounced late last November, it immediately began a run that didn't end until the S&P 500 hit 944 on Jan. 6 of this year. From the November low of 741, that run marked a massive 203-point surge.

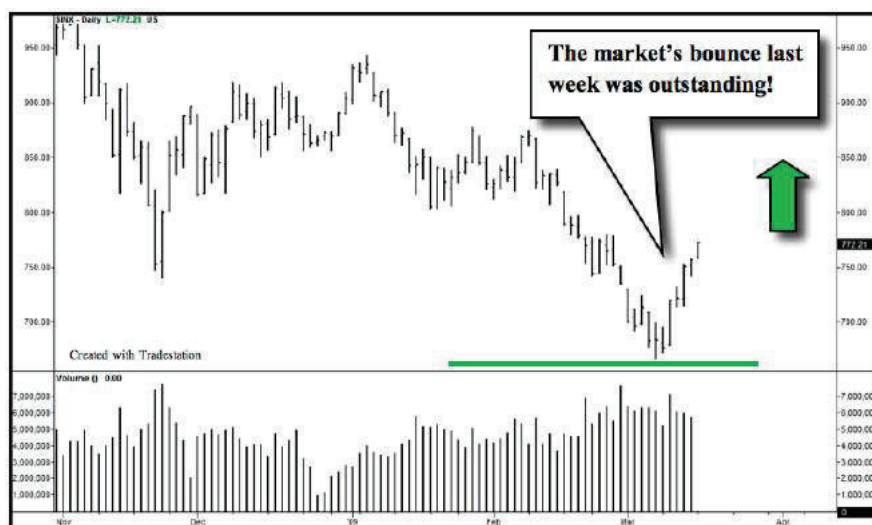
Translation: A bounce similar to last week's ushered in a whopping 27% upside bullish run on the S&P 500 just a few months ago. Given that we've moved 15% in just a matter of days, this run could best last November's by a long shot.

Now, I'm not about to say that it's time to pop open the champagne. But facts are facts, and current market action is certainly a step in the right direction.

Now let's take a look at some market action that everybody thinks is heading in the wrong direction.

## China's Looking Good!

I tell you, I shouldn't be surprised at how fast both Main Street and Wall Street dismiss investment themes. After all, they're like most everybody else: They have very short attention spans and even



shorter memories.

But the way that one of the most robust investment juggernauts of my lifetime — China — has been thrown out the door is simply mind-blowing. In fact, if you listen to just about anybody out there, you'd think this Asian powerhouse was falling apart at the seams.

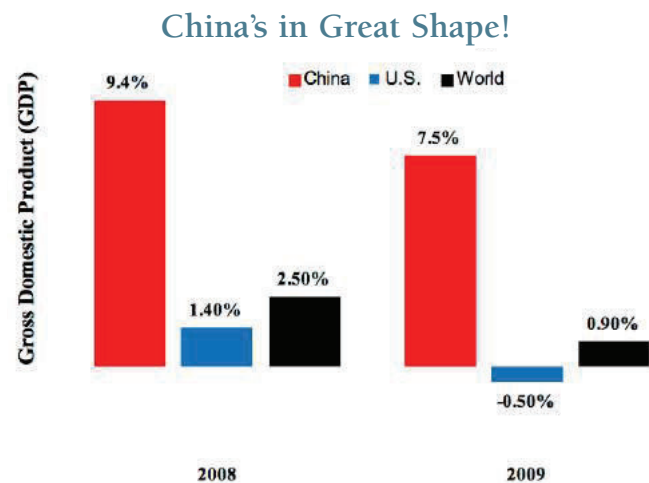
The fact is nothing could be further from the truth. And that's a huge plus for us.

Why? Simple. With an exploding middle class, unmatched manufacturing prowess and a work ethic that's second to none, China will continue to be a huge driver of global growth. And that growth is an excellent catalyst for share growth the world over.

So how's China holding up these days? The short answer: absolutely outstanding.

First, China's gross domestic product (GDP) grew 9.4% pace during 2008, according to the World Bank. And while that's down from its blistering 11.9% during 2007, it's far better than what other global participants are booking. Take a look at the chart below.

As you can see, China's 9.4% growth last year blew away the competition. In fact, compared with 1.4% growth in the United States and 2.5% for the world, the Asian powerhouse bettered their rates by factors of 7 and 4, respectively. Huge!



But that's not all...

During the first two months of this year, China's retail sales grew at an astounding 15.2% annual rate. By themselves, these numbers are outstanding. But compared with the dismal 10.3% shrinkage in the U.S. retail market during the same period, they're simply sensational.

Making matters even better: During February, China's vehicle sales surged a stunning 25%. Compared to a bone-crushing 38% drop in car sales in the United States during the same month — including both domestic and imported brands — it's clear that China's car-buying public is in excellent shape.

And don't forget: China's robust retail and vehicle sales numbers aren't just signals that retailers are humming along nicely. They're also an indicator that the Chinese consumer is alive and well. So it's safe to say the country's massive middle class — which is 110 million strong — isn't about to fall off a cliff.

And if you think the credit picture in China is lousy, think again. During February, new lending in China *quadrupled* to 1.07 trillion yuan, or \$157 billion. That means that with only two months under its belt during 2009, China has already driven halfway toward its 2009 5 trillion yuan lending goal.

And when it comes to a stimulus package with legs, you don't have to look much further than Premier Wen Jiabao's 4 trillion yuan package of tax cuts and infrastructure spending. Take a look at the chart on the following page.

During January and February, China spent a whopping 1.03 trillion yuan (\$150 billion) on urban fixed-asset investment — things like roads, bridges, railways. Not only was that a staggering 26.5% improvement over the year-ago spending, it also blew away expectations by 5%!

But here's the best part: According to Lonking Holdings Ltd. — the nation's biggest maker of four-wheeled earthmovers — construction equipment sales in China are earmarked to rise a solid 20% during the



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second half of the year. And that tells me that infrastructure business in China is here to stay. If it weren't, those big-ticket construction equipment sales would be falling, not shooting up.

Now take a look at the chart of the Shanghai Composite Index — the nation's benchmark stock index...

In spite of simply terrible fundamentals in the United States and other global powerhouses, China's investors are smiling. In fact, the Shanghai composite index was recently trading at 2,134. Compared with its beginning level of 1,849 in January, China's stock market has surged a whopping 15%.

Bottom line: Mind-blowing GDP... outstanding retail and vehicle sales... robust lending and infrastructure spending... solid stock market returns. They all add up to a healthy China that no one's talking about. And with this Asian powerhouse a key driver of growth here in the United States and around the world, that's good news for us as stock and option investors. In fact, I have a handful of China- and Asia-related plays that are just about ready to take off. When the time is right, I'll shoot you a recommendation. In the meantime, take a gander at this covered call play with "winner" written all over it...

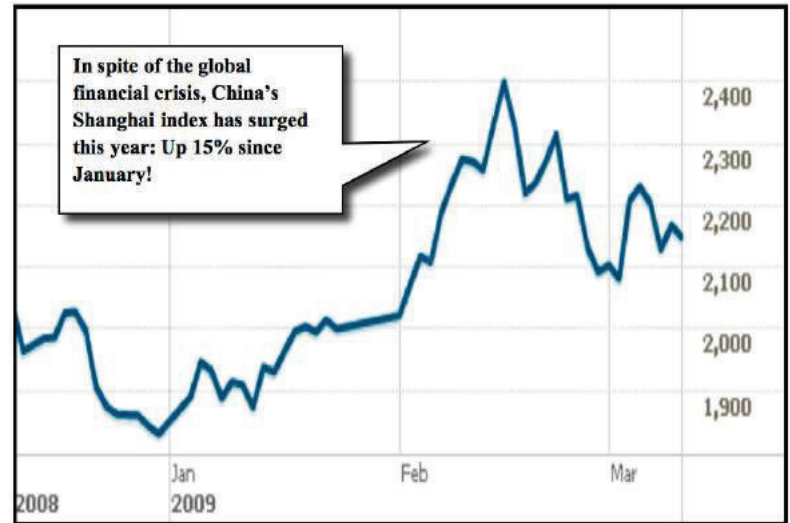
## China's Infrastructure Spending Surges!

Expected

21.5%

Actual

26.5%



# McDonald's: I'm Lovin' It!

When it comes to an icon of the restaurant business, McDonald's takes the cake. This hamburger-slinging fast-food behemoth has delivered outstanding fundamental results no matter what the larger economy and markets are up to. And while that doesn't make it bulletproof, it does make for an outstanding covered call play. Add in attractive volatility that we're going to sell via premium, and McDonald's shapes up to be an excellent recommendation.

## McDonald's Delivers Stellar Results

Just take a gander at the latest fundamental results from McDonald's...

- During 2008, the company grew comparable same store sales a staggering 6.9%, including 4% in the United States, 8.5% in Europe and a whopping 9% in Asia, the Middle East and Africa. All

told, that pushed top-line sales at the restaurant giant to a staggering \$23.5 billion, up from 2007's \$22.8 billion

- The company built and reinforced existing brand loyalty during 2008 through a value-oriented focus, drive-thru enhancements, expansion of McCafe coffee products and the Southern Style chicken biscuit and sandwich. McDonald's also delivered strong results during the fourth quarter in key growth target areas, including breakfast products, chicken and beverages
- McDonald's 2008 operating margin — a key measure of core business activity — jumped a mind-blowing 320 basis points — or 3.2% — to 27.4% last year, after adjustments. When most retailers are happy with a basis point or two of change to the upside, McDonald's shows clearly that its operating prowess is without match

- Earnings per share (EPS) were \$3.76 during 2008, a staggering 90% improvement over the previous year's \$1.98! Those are stellar bottom-line results, for sure. Plus, the company returned \$5.8 billion through share repurchases and dividends, another huge factor that turbocharges shareholder value and share attractiveness.

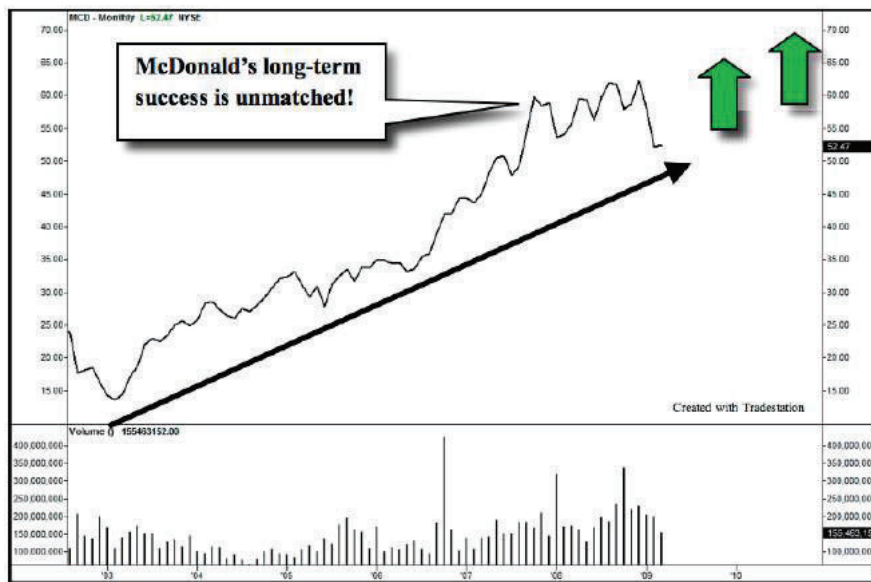
Recession? What recession!

According to Jim Skinner, chief executive officer...

"2008 was a strong year for McDonald's. Through our strategic focus on menu choice, food quality and value, the average number of customers served per day increased to more than 58 million in 2008. Comparable sales and guest counts were positive across all segments for every quarter, and the company delivered double-digit growth in operating income for the fourth quarter and the year. These accomplishments validate the strength and resilience of McDonald's Plan to Win."

## McDonald's Long-term Technicals Are Solid

Looking for solid long-term price action? Then take a look at this monthly chart of McDonald's...



As you can see from this chart, McDonald's share price has held up nicely, no matter what the larger market and economy are up to. That tells me that this restaurant giant has the operational ability to deliver share value, no matter the challenges or hiccups along the way.

## Bank 4.6% Immediately on This Trade

So, you can see why I'm lovin' this McDonald's trade! It's packed with everything I look for in a winning covered call play: solid fundamentals, good long-term technical outlook and attractive premium.

Here's what to tell your broker...

**Buy McDonald's Corp. shares, symbol MCD, at \$55 or less. Then sell, to open, MCD June 55 calls, symbol MCD FK, at \$1.50 or more.**

I've built some price flexibility into both parts of this trade, so you shouldn't have a problem getting filled. And don't forget: You must buy 100 shares of stock for every one call option contract you want to sell.

Your broker may be able to place this trade as a "combined ticket" or "paired trade." That means that both legs of the trade — both buying the stock and selling the call — are placed on a net investment basis. If your broker can do this, make sure to place the order for a net investment of \$53.50 or less.

Now, here's why I love the profit numbers behind this McDonald's covered call option play...

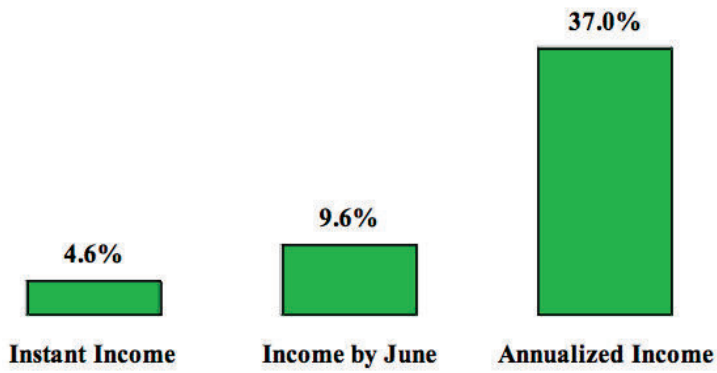
McDonald's shares were recently trading at \$52.48 and the June 55 calls were bid at \$2.30. That translates to a net investment of \$50.18 (\$52.48 less \$2.30) on this trade. Since we'll book \$2.30 per share instantly, we just made an automatic, on-demand return of 4.6% on our net investment. Nice!

Plus, we get to keep that \$2.30 per share no matter what happens to the price of McDonald's stock, no ifs, ands or buts about it.

In June, if IBM's shares move above our \$55 strike price, we'll get to pocket the difference between what we paid for the shares (\$52.48) and the \$55 strike price. That's \$2.52 in additional cash on top of the \$2.30 we already pocketed from selling the call. All told, that's a \$4.82 gain on a net investment of \$50.18. Translation: A 9.6% return from now until June. Annualize that and you come up with 37%. See for yourself in the chart.

And don't forget: This trade also packs solid downside protection. In fact, McDonald's shares would have to fall below \$50.18 at expiration for us to feel any pain

## Your McDonald's Play Is Looking Fantastic!



at all. Given McDonald's technical outlook, that protection gives us plenty of breathing room.

Bottom line: Your latest covered call trade is loaded with upside potential. So get these orders in ASAP. And then keep your eyes peeled for more recommendations and updates!

Best wishes,

Wayne Burritt

Editor, *Income on Demand*