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SL: Here's the Dad-Approved Best Oil Trade Right Now

Dear Fellow Expat:

My father taught me five things when I turned five years old.

1. How to keep score at a baseball game (scorecard)
2. How to read a baseball box score (hits/at bats)
3. How to read the McCormick & Co. (MCK) stock quote in the *Baltimore Sun*.
4. How to pour a vodka, club soda, and lime (2 parts vodka: 3 soda)
5. How to play gin rummy (10 cards).

Aside from my father influencing his own partner in crime to pour him a drink, talk baseball, and play cards... there was a lesson in each.

Mathematics.

You'll find addition, subtraction, pattern recognition, division, and multiplication.

Now, I can't get my daughter to watch much baseball with me.

And I don't drink around her (particularly not at home).

But we have moved into the world of rummy.

Someone gave her a 36-card deck with numbers one through nine.

It's been a week since we started playing...

At first, she was frustrated. She didn't want to play for points, only for "who wins the most hands."

But she had a meltdown after each hand she lost.



Garrett Baldwin
Man of Financial Adventure

Index Momentum

S&P 500
Nasdaq
Russell

GREEN
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GREEN

Once she learned how to keep score - she understood that not every hand mattered. It was a game "in the aggregate." She quickly realized that dumping high cards early in the game was a smart strategy because it meant - at worst - we'd likely end up playing more hands.

Once we started playing for points, that is, adding up the loser's hand and tallying them as the winner's score, she really took off. After each hand, she tallies the points. It forces her to learn how to add two double-digit figures from time to time.

Plus, every time she discards a "9" early in the game, she tells me how smart her play is. That way, she couldn't get stuck with that card.

Here's where my eyes popped. I realized I'd created a monster.

On Friday, in our daily match, we played out the hand and ran out of draw cards. We both had two cards left.

I told her: You have two twos in your hand.

"How do you know?" she asked.

I explained that I was counting all the cards being discarded.

At no point did either of us throw out a two. So, I "deduced" that she had the other remaining two cards.

I then showed her my two cards - which matched hers.

She laughed... like she always does.

Fast forward to last night, and we were down to three draw cards left.

It was the first hand of the game.

She stopped before picking up one of the final cards... looked at me... and said: "You've got a two and two ones."

She was right. We played out the hand. Her cards matched mine.

I haven't won a hand since.

It'll be at least 13 years before she can start "beating the dealer."



But that doesn't mean we can't take the show on the road.

A Winning "Dad Trade"

I've been asked if any trading strategy has an edge.

Does one consistently win?

I've argued time and time again that the answer is yes.

But one must master probabilities and layer each trade with additional factors that can give you conviction and edge.

Today, [I want to revisit a "dad trade"](#) I've recommended countless times over the last year.

Now, dad trades can be boring on the surface. They are conservative. They're grounded in math. And they usually have little to do with exciting technologies or wild speculation.

I focus on good businesses with strong insider buying, positive momentum, and precise price targets built around technical.

So, let's start in oil...

Occidental Petroleum (OXY) is a U.S. oil producer operating primarily in Texas. If you've watched the Houston Astros play this year - the team wears an OXY patch on their left arm.

Warren Buffett has consistently bought this stock under \$58 several times in the last year. Look at the chart below for an area we call the "Buffett Buy Zone."



Rather than speculate on the stock to the upside with call options, we have repeatedly conducted a special trade for 18 months that has a higher probability of success.

We've *sold* puts to other investors/traders at the \$57.50 or \$55.00 level. A put gives someone the right, but not the obligation, to sell a stock at that specific strike price on or before the option expiration date.

So, if we sold an **OXY Oct 20, 2023 \$55 put** and the stock fell to \$50 tomorrow, we would have to pay \$55 each for 100 shares of stock. When you sell puts, you must put up margin with your brokerage in case you do need to buy the stock in the future. A \$55 put sale would require about \$5,400 in margin.

Obviously, there is risk. But we cap that risk and reduce the risk by buying another put at the strike price below the level of the put we sold. In the case of an **OXY Oct 20, 2023 \$57.50 put**, we would buy the \$55.00 put.

We no longer need to put up \$5,400 in margin. Instead, we only need to put up the difference between the two strike prices, which comes to less than \$250.

When we sell put spreads, we receive a credit to our account.

So, on August 9, 2023, I recommended selling the **OXY October 20, 2023 \$57.50/\$55.00 put** spread. Traders would put up about \$217 in risk to generate a \$33 return.

That computes to about a 15.2% return in about 70 days. Traders received the credit of \$33.00.

Fast forward nearly a month, and the value of OXY stock has increased. Shares popped above \$66.00 today for the first time since the start of August.

When the underlying stock rises, the value of the put spread declines - meaning that the person who sold is making money on the position.

But here's the thing. When it comes to these trades, you don't need the stock to go higher. It can trade sideways. Share prices can even decline.

The only thing that matters is that the stock *doesn't* drop under the breakeven price at the start of the trade. In our position, our breakeven for OXY stock is \$57.17 (or \$57.50 minus the credit of \$0.33).

Today, the value of that credit has declined to \$0.10. That means, we've already taken about 70% of the potential premium out of the trade. We can either just take that gain and roll it over into another trade, or we can let it play out and set a tight stop to guarantee we exit with at least half the credit.

All this on a trade that started with a greater than 80% probability of profit. So, before we even made the trade, we knew we had a four out of five chance - based on historical data - of success. Combine this with positive momentum in the energy space, and our conviction could be even stronger.

There's one last thing.

Even if the stock does fall under that level - investors should be happy to back up the truck and buy OXY stock at that level. After all, this has been a very popular stock for **Berkshire Hathaway** (BRK.A) at this range.

I've written a bit about this trade multiple times. And I continue to advocate that traders and investors use the strategy of insider buying entry targets and positive momentum to generate gains and tactically pick their preferred entry points in the event of a sudden market reversal.

[Read more on the Buffett trade here.](#)

Here Are the Key Conclusions

- While golf is Florida's leisurely sport, I always encourage people to play Gin Rummy. It will teach you quickly about how to read an opponent. How they strategize... how they react to positive and negative randomness. How they contain their emotions. While I'm always taking suggestions for the Florida Republic's national sport, Gin Rummy is in the lead (sidenote: It will never be pickleball.)
- Insider buying, positive momentum, and put spreads can and will lead to success as a trader and investor. We want to sell put spreads at key levels around large insider purchases. Today's example of **Occidental Petroleum** (OXY) is a winning Republic Trade that you can do repeatedly.
- We Sell "put spreads..." Why?
 1. If the stock goes up, the value of the spread goes down. As a result, we make money.
 2. If the stock just trades sideways, the value of the spread will decay. As a result, we'd make money.
 3. If momentum is positive and the stock pulls back, we'd be happy to own it at a lower level. But if momentum goes negative, we can just cut our losses and look for an opportunity to reenter this position.

Stay positive,

Garrett Baldwin
Secretary of Finance
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