

# OPTION NOTES

Volume 4, Issue 1  
June 11, 2004

## Categories:

### Action Now!

Option trades that are likely to produce results in the immediate future.

### Strategic Wealth Builder

Longer-term opportunities that have macro-economic justification that may not be fully recognized in the market.

## Action Now!

### Cyberonics Inc. (CYBX), Houston Tx., \$18.39.

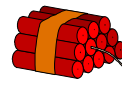
Designs, develops and manufactures and markets medical devices that provide nerve stimulation for the treatment of neurological diseases. The Company is meeting with the FDA on June 15, 2004 to receive the recommendations. As reported by Reuters:

*On Tuesday (June 15, 2004) a U.S. Food and Drug Administration panel of outside experts will meet to discuss whether to recommend the agency approve the device -- already cleared for epilepsy -- for patients with stubborn depression.*

*Analysts say FDA approval of VNS Therapy for depression is key for future growth of the company, which posted a \$1.25 million loss last quarter. The agency usually follows the advice of its outside experts.*

The speculation has driven the market implied volatilities to a very high level. The results will be known on the 15<sup>th</sup> and the volatilities are then expected to decline.

While this would normally be a good straddle or strangle to sell, this does expose you to large moves of the underlying and it is likely that the underlying could make a big move. Therefore, we want to structure a way to protect the upside risk and the downside risk in the context of the trade.



This is the trade based upon the closing prices on June 10, 2004.

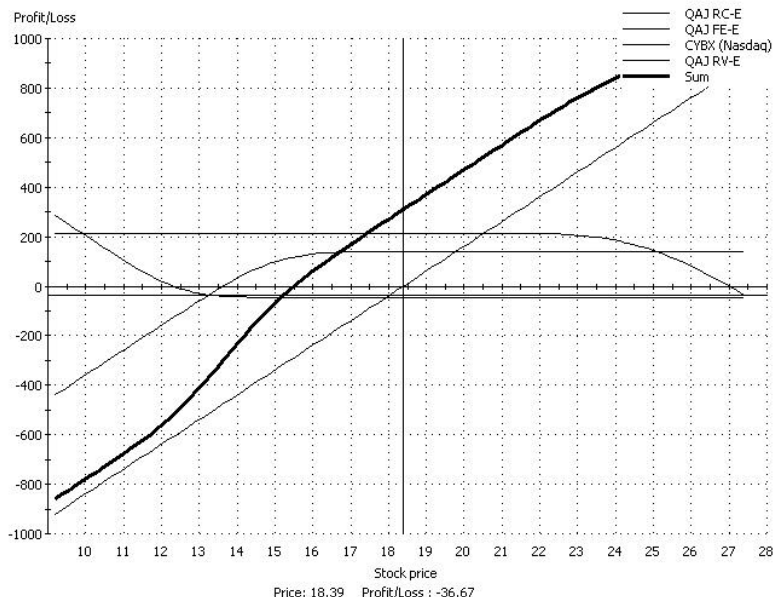
**Buy 100 shares of CYBX at 18**  
**Sell 1 Jun 17.5 put QAJRW @ 2.75**  
**Sell 1 Jun 25 call QAJFX @ 1.90**  
**Buy 1 Jun 12.5 put QAJRV @ .50**

This trade benefits from the expected volatility decline and protects the short call with stock while protecting the stock price decline with the long put.

In the Action Now category we should have the results by Wednesday June 16, 2004.

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# Strategic Wealth Builder

**Ballard Power Systems (BLDP), Burnaby BC. Canada. \$9.51**



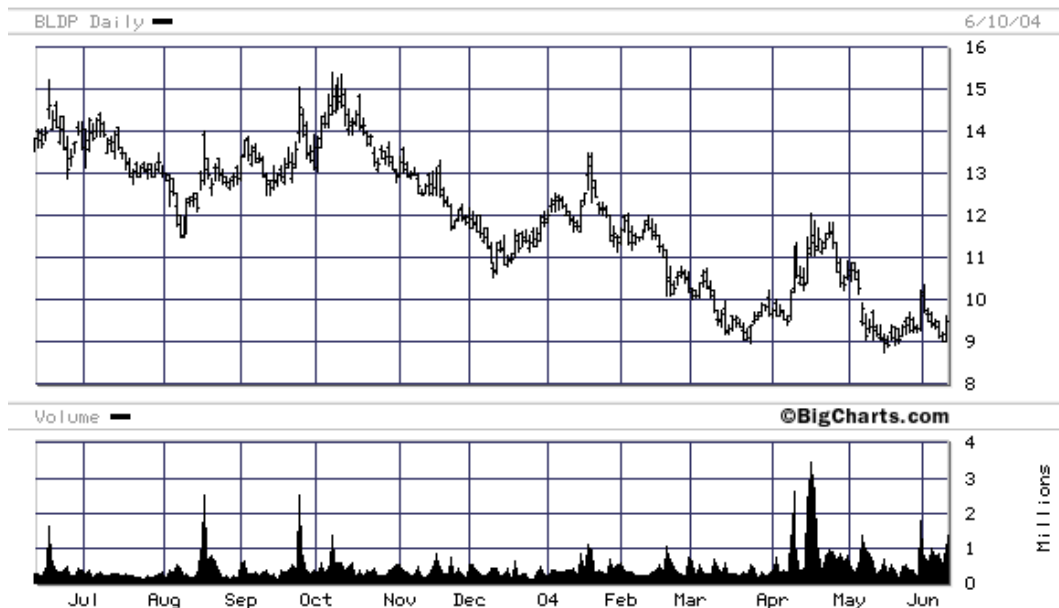
Crude Oil prices have been trending higher as a result of increased demand from worldwide economic growth and the “Saudi” risk premium that now seems to be built in to crude prices.

At higher crude oil prices, alternatives become more economic and the rush will begin for more economical forms for transportation. Fuel Cells are one of the new technologies that have been in development, just waiting for the price tide to turn. The fundamental reason the Fuel Cells make sense is

their efficiency compared to the internal combustion engine. For each unit of energy input, the internal combustion engine gives one unit of output while the comparable Fuel Cell produces two. This of course means that Fuel Cells are twice as efficient as an internal combustion engine.

The leading developer of Fuel Cells for transportation applications is Ballard Power Systems (BLDP), Burnaby BC. Canada. \$9.51

*(Continued on page 3)*



*(Continued from page 2)*

At the height of the tech frenzy this stock was \$135 per share. Now that we are close to implementation of the technology it is only \$9.51.

Wall Street rates it a sell because of its short term profit phobia.

Look at the chart and you will see double bottoms and likely support at \$9.

Because volatility is not high there is no real edge in using spread strategies.

Therefore, the trade to make is the Jan '05 7.5 Call BLDP DUJAU at 2.75 offer.

**Buy 1 Jan '05 Call DUJAU @ 2.75**



BLDP has contracts with Daimler Chrysler and Ford Motor Company. California Governor Arnold Schwarzenegger aims to make the U.S. state the leader in introducing hydrogen-powered cars by building 200 fuel stations this decade.

Hydrogen fueling stations for fuel cell vehicles **increased by a third** in the past year to a total of 87 worldwide. With SUV drivers crying every time they fill up their tanks, it may not be too long before hydrogen fueling takes off.

**Option Notes** is published monthly by:

**Jade Capital**  
7290 Navajo Road  
Suite 202  
San Diego, CA 92119

**Jack Walker – Editor**  
**Carl Snyder – Publisher**

**Phone: 619 469 6824**  
**Fax: 619 464 9453**  
**Email: [info@jadecapital.com](mailto:info@jadecapital.com)**  
**[www.jadecapital.com](http://www.jadecapital.com)**

*All prices are based upon the close as of June 10, 2004. Nothing contained in this letter constitutes a recommendation to buy or sell any security. Before entering a position check to see how the prices compare to those used in the recommendation as the prices are likely to change on the next trading day. Make sure to do your fundamental and technical analysis before making a commitment.*

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**Jade Capital**  
**7290 Navajo Road, Suite 202**  
**San Diego, CA 92119**