

M & A PROFITS

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Beat The Market Using
Mergers And Acquisitions

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Chapter 1: Introduction

The "M&A" in the title of this e-book refers to mergers and acquisitions. Mergers and acquisitions occur in the business world on a regular basis. The M&A Profits strategy provides an effective way to profit from these deals and beat the market. It is easy to learn and can be used by beginners and experienced stock traders. You will not need any charting software or subscription services to use the M&A Profits strategy. All of the information that you need to use this stock trading strategy is included in this e-book.

The M&A Profits strategy can be used in both good markets and bad markets. It has a certain amount of safety built into it that enables it to still be successful in bad markets, however, it is not risk free. Stock trading involves risk. Only risk capital should be used for trading stocks. It is a good idea to begin by trading on paper when you are learning a new stock trading strategy. Everyone's financial situation, risk tolerance, and schedule are different. By trading on paper, you can decide which of the M&A Profits strategies will best suit your needs.

We wish you the best of luck with your trading and hope that you will be able to beat the market for many years to come with the M&A Profits strategy!

Chapter 2: Mergers and Acquisitions

Mergers and acquisitions come in a variety of shapes and sizes. A merger occurs when two companies, usually of equal size, join together to form a new company. This is commonly referred to as a merger of equals. An acquisition occurs when one company buys another company and the company that was purchased no longer exists. Technically, mergers and acquisitions are two different types of transactions. However, since they are very similar, they are grouped together and commonly referred to as M&A's. Wall Street investment bankers usually have an M&A department to handle these types of business deals.

Let's take a closer look at mergers. When two companies agree to merge into a new company, there will be a financial transaction to close the deal. The two companies must come to an agreement on how this transaction will be handled. There will be an exchange of either stock or cash, or both, to close the deal.

In some cases, the stock of both companies will be surrendered and new stock will be issued to the shareholders of both companies. For example, Company A and Company B are merging to form Company AB.

The stocks of Company A and Company B will be surrendered. The new company will issue new shares of stock called Company AB that will be distributed to all of the shareholders of Company A and Company B.

These new shares of stock will replace the old shares of stock that the shareholders surrendered.

In other cases, the stock of Company A will be retained and the stock of Company B will be surrendered. Shareholders of Company B will then receive shares of Company A to replace the shares of Company B that they own. For example, the merger agreement may say that shareholders of Company B will receive 1.25 shares of Company A stock for each share of Company B stock that they own, or perhaps 1.35 shares of Company A stock for each share of Company B stock that they own.

In some cases, a merger may be completed with a combination of cash and stock, or just cash. For example, the shareholders of Company B may receive 1.30 shares of Company A stock and \$10.00 in cash for each share of Company B stock that they own. Sometimes, shareholders of Company B may receive just cash for their shares of Company B stock. The merger agreement may say that they will receive \$25.00 per share for each share of Company B stock that they own.

When an agreement to merge has been reached between two companies, the board of directors of each company will vote to approve the merger. They will also recommend that shareholders of both companies vote to approve the merger. The shareholders of both companies then have a chance to voice their opinion and vote whether to approve the merger or not. In most cases, these votes by the board of directors and the shareholders of both companies go according to plan and the mergers are approved by both sides.

The merger may also have to go through regulatory approvals. Depending on the type of businesses involved, they may need regulatory approval from the Federal Trade Commission or the Federal Communications Commission, or other regulatory bodies.

Now, let's take a closer look at acquisitions. Acquisitions are more straightforward than mergers. The two companies involved in an acquisition will announce that one company is acquiring the other company. Company A will acquire Company B, and Company B will no longer exist. There will be a financial transaction to complete the acquisition. The acquisition may be completed with stock, or a combination of stock and cash, or just cash.

For example, the shareholders of Company B may receive 1.30 shares of Company A stock for each share of Company B stock that they own. Or, the shareholders of Company B may receive 1.30 shares of Company A stock and \$10.00 in cash for each share of Company B stock that they own. Or, shareholders of Company B may receive just cash for their shares of Company B stock. The acquisition agreement may say that they will receive \$35.00 per share for each share of Company B stock that they own.

When an acquisition agreement has been reached between two companies, the board of directors of each company will vote to approve the acquisition. They will also recommend that shareholders of both companies vote to approve the acquisition. The shareholders of both companies then have a chance to voice their opinion and vote whether to approve the acquisition or not. In most cases, these votes by the board of directors and the shareholders of both companies go according to plan and the acquisitions are approved by both sides.

The acquisition may also have to go through regulatory approvals. Depending on the type of businesses involved, they may need regulatory

approval from the Federal Trade Commission or the Federal Communications Commission, or other regulatory bodies.

Mergers and acquisitions may be two different types of business deals; however, for the purposes of the M&A Profits strategy, they are the same. They are the same as long as they meet a certain standard, which you will learn about in the next chapter.

Chapter 3: The M&A Profits Strategy

The M&A Profits strategy is designed to find and take advantage of specific mergers and acquisitions. As mentioned in the previous chapter, for the purposes of the M&A Profits strategy, mergers and acquisitions are the same as long as they meet a certain standard. That standard can be summed up with one word, cash. Cash is the key that will unlock the M&A Profits strategy!

Before detailing the strategy, let's take a look at the objective of the M&A Profits strategy. The objective of this strategy is to consistently beat the market and to do it in a way that is easy to implement. Let's further define what "beating the market" means. On Wall Street, the two main indexes that are used to gauge the performance of the stock market are the Dow Jones Industrial Average and the S&P 500 Index. These two indexes are the measuring sticks that are used to judge the performance of mutual funds, money managers, and brokerage firms. All of these Wall Street professionals are trying to beat the market. That is, they are trying to outperform the Dow Jones Industrial Average and the S&P 500. If they produce better annual returns than the Dow Jones and the S&P 500, then

they have beaten the market. Beating the market is the objective of the M&A Profits strategy.

The Dow Jones Industrial Average and the S&P 500 Index have produced averaged returns of approximately 9% to 10% per year over the last 10 years. This is the benchmark that professional money managers are trying to beat each year. These professionals are making a lot of money trying to outperform the Dow and the S&P. Most of them are unable to beat the market.

With the M&A Profits strategy, you will have the opportunity to make a 15% annual return, or a 20% annual return, or maybe even a 30% annual return. You can beat the market with the M&A Profits strategy and you will beat those high priced money managers as well.

Now, let's take a look at the details of the M&A Profits strategy. Remember, cash is the key to the M&A Profits strategy. Also, you will recall from the previous chapter that the financial transactions to complete a merger or an acquisition can be done in a variety of ways. The M&A Profits strategy is interested in only one type of these transactions. That is a cash transaction. Any merger or acquisition that will be completed with cash, and only cash, is an opportunity to make a profit with the M&A Profits

strategy. These are the specific mergers and acquisitions that you can use to beat the market.

The company that the M&A Profits strategy will focus on is the company that will receive the cash to complete the merger or acquisition. If you refer back to the previous chapter, the examples refer to this company as Company B. For example, Company A is merging with Company B, or Company A is acquiring Company B. In either case, to complete the deal, let's say that shareholders of Company B will receive \$35.50 for each share of Company B stock that they own. This is what the M&A Profits strategy is looking for.

Let's take a closer look at this example and expand upon it. Let's say that this deal was an acquisition. Company A is acquiring Company B and shareholders of Company B will receive \$35.50 for each share of Company B stock that they own. The two companies publicly announce the agreement along with the terms of the agreement. These announcements are usually made after the stock market closes or before the stock market opens. The terms of these agreements will include the price that the shareholders will receive and a general time frame for when the acquisition

will be completed. For example, it may say that the deal will close sometime in the next quarter or sometime in the 1st quarter.

In our example, the agreement was announced on a Monday after the stock market closed. The price of Company B's stock was \$30.00 when the stock market closed on Monday. The agreement between Company A and Company B states that shareholders of Company B will receive \$35.50 for each share of Company B stock that they own. When the stock market opens on Tuesday, the stock price of Company B will open at a price that will be at or near \$35.50.

The stock price will open near the \$35.50 buyout price because this acquisition agreement is almost a guarantee that people who own shares of Company B stock will receive \$35.50 for each share that they own when the acquisition is completed. It is almost a guarantee, but not an absolute guarantee. There is one risk involved with buying one of these merger or acquisition stocks. There is a possibility that the merger or acquisition will not go through as planned. This may occur for a variety of reasons. For example, it's possible that the shareholders may vote against the merger or acquisition, or regulatory approvals may not be granted, or financing for the deal may fall through. If the merger or acquisition does not go through as

planned, then the stock price of Company B will fall back to where it was before the merger or acquisition agreement was announced. In our example with Company B, the stock price would fall back to around \$30.00.

Once an agreement has been announced, the stock price will trade near the buyout price, but it will not necessarily be right at the buyout price. It may be 1% or 2% below the buyout price and sometimes more than 2% below the buyout price. This is the risk premium. In our example, let's say that the stock price of Company B was trading at \$35.00. That is 1.4% below the buyout price. This occurs because of the risk involved. The stock market is trying to gauge the likelihood that the merger or acquisition will go through as planned.

This is where the M&A Profits strategy comes in. In our example, there is no way to get in on the profit from the closing price of Company B's stock on Monday, at \$30.00 per share, and the opening price of the stock on Tuesday near \$35.50 per share. However, there is a way to profit on this acquisition deal. For our example with Company B, let's say that the agreement also states that the deal will close near the end of the next quarter. Let's say that will be approximately 3 months from the time the announcement was made. The M&A Profits strategy will be used to make

profits during that 3 month time period, from the time the announcement is made until the acquisition is completed. There are three strategies that can be used; the M&A Short Term strategy, the M&A Long Term strategy, and the M&A Final 1% strategy. Let's take a look at these three strategies.

1. M&A Short Term strategy

On the first trading day following the merger or acquisition announcement, the stock will trade near the buyout price. Then, over time, the stock price may drift lower and then higher again. This may occur several times between the announcement and the completion of the merger or acquisition. This provides opportunities to make profits. The profits will be small, but they will add up. The M&A Short Term strategy is designed to make a 1% profit on each trade. While that may not sound like much, you will be surprised at the profit potential when the numbers are crunched and added up. You will see that in the next chapter.

Let's detail the M&A Short Term strategy using the example with Company B. Company B's stock price has opened near \$35.50, the buyout price, on the first day of trading following the announcement of the acquisition. A week later, the stock price may have drifted down to \$35.00.

This is the time to buy the stock. You will look to buy the stock when it has drifted about 1% to 2.5% below the buyout price, or more preferably, 1.5% to 2.5% below the buyout price.

In our example, you can buy the stock at the \$35.00 price that it has drifted down to. That is 1.4% below the buyout price. You then immediately place a limit order to sell your shares at 1% above the price that you paid for the stock. In our example, you purchased the stock at \$35.00. Take that price of \$35.00 and multiply it by 1% (0.01) and you get a profit of \$0.35 cents. Add this to your purchase price of \$35.00 and you get an exit price of \$35.35. Place a limit order to sell the stock at that exit price of \$35.35 and when the stock reaches that price, your order will be executed and you will make your profit. You will then watch the stock and see if the price drifts lower again. If the price drifts 1% to 2.5% below the buyout price again, or more preferably, 1.5% to 2.5% below the buyout price, then you buy the stock again and look to make another 1% profit on the same stock. You can do this over and over again up until the day the acquisition is completed.

This strategy works because you know that the stock will get back to the \$35.50 buyout price as long as the acquisition is completed. On the day

that the acquisition is completed, anyone who owns shares of Company B stock will receive \$35.50 for each share that they own. The day that the acquisition is completed is like a safety net. In our example, you purchased the stock at \$35.00. The stock may not move at all from that point or it may move lower, however, you know that as long as the acquisition is completed, you will receive \$35.50 per share for the stock.

It is important to note that with the M&A Short Term strategy, you are not looking to hold the stock until the acquisition is completed. That is just your safety net. You will try to make your 1% profit on a trade and then wait for another chance to do it again with the same stock.

The M&A Short Term strategy is designed to make small gains over and over again in a shorter period of time, so you are not holding the stock for a longer period of time. This can help offset the risk that you may be holding a stock when a deal gets canceled. There are examples in Chapter 5 that illustrate the M&A Short Term strategy.

2. M&A Long Term strategy

On the first trading day following the merger or acquisition announcement, the stock will trade near the buyout price. Then, over time,

the stock price may drift lower. This provides opportunities to make profits. The M&A Long Term strategy is designed to make a 3% to 5% profit on each trade, and sometimes more. While that may not sound like much, you will be surprised at the profit potential when the numbers are crunched and added up. You will see that in the next chapter.

Let's detail the M&A Long Term strategy using the example with Company B. Company B's stock price has opened near \$35.50, the buyout price, on the first day of trading following the announcement of the acquisition. A week or two later, the stock price may have drifted down to \$34.25. This is the time to buy the stock. You will look to buy the stock when it has drifted anywhere from 3% to 5% below the buyout price.

In our example, you can buy the stock at the \$34.25 price that it has drifted down to. That is 3.5% below the buyout price. You then immediately place a limit order to sell your shares at or near the buyout price. In our example, you purchased the stock at \$34.25. The buyout price is \$35.50. Place a limit order to sell the stock at the buyout price of \$35.50, or just below the buyout price, perhaps at \$35.25. When the stock reaches your limit order price, your order will be executed and you will make your profit.

The stock may not reach the buyout price until the day that the acquisition is completed. With the M&A Long Term strategy, you will hold the stock for a longer period of time, perhaps as long as 2 to 3 months. The M&A Long Term strategy provides the opportunity to make larger profits than the M&A Short Term strategy, but you will also have more risk because you will hold the stock for a longer period of time and there is the possibility that the merger or acquisition may not go through as planned.

This strategy works because you know that the stock will get back to the \$35.50 buyout price as long as the acquisition is completed. On the day that the acquisition is completed, anyone who owns shares of Company B stock will receive \$35.50 for each share that they own. The day that the acquisition is completed is like a safety net. In our example, you purchased the stock at \$34.25. The stock may not move at all from that point or it may move lower, however, you know that as long as the acquisition is completed, you will receive \$35.50 per share for the stock.

With the M&A Long Term strategy you can choose to sell the stock before the merger or acquisition is completed or you can wait until the merger or acquisition is completed. If you are still holding the stock when the merger or acquisition is completed, that is alright. Your stock will be

surrendered and you will receive the buyout price for each share that you own. Your broker can handle that for you.

The M&A Long Term strategy is designed to make one large profit in a longer period of time. The larger profit can help offset the risk that you will be taking by holding the stock for a longer period of time. By holding the stock for a longer period of time, there is more of a chance that you may be holding a stock when a deal gets canceled. There are examples in Chapter 5 that illustrate the M&A Long Term strategy.

3. M&A Final 1% strategy

With this strategy, you will look to make a profit just before the merger or acquisition is completed. The profits will be small, but they will add up. The M&A Final 1% strategy is designed to make a 1% profit on each trade. While that may not sound like much, you will be surprised at the profit potential when the numbers are crunched and added up. You will see that in the next chapter.

Let's detail the M&A Final 1% strategy using the example with Company B. The buyout price for Company B's stock is \$35.50. As the merger or acquisition moves closer to being completed, the stock price will move

closer to the buyout price because the odds of the deal going through increase. You will look to buy the stock around 1% below the buyout price or lower. You will look to buy the stock anywhere from 1 to 6 weeks before the merger or acquisition is completed. Follow the news on the stock to see if regulatory approvals have been given, as well as the status of shareholder votes.

In our example, you will try to buy the stock at a price of around \$35.15 or lower. The \$35.15 price is about 1% below the buyout price. You then immediately place a limit order to sell your shares at the buyout price of \$35.50, or just below the buyout price, perhaps at \$35.40. When the stock reaches your limit order price, your order will be executed and you will make your profit.

You will try to make only one trade on a merger or acquisition with this strategy. If the stock price reaches the buyout price before the merger or acquisition is completed, then take your profit and move on to the next merger or acquisition deal. If the buyout price is not reached until the merger or acquisition is completed, then sell the stock on that day. If you are still holding the stock when the merger or acquisition is completed, that

is alright. Your stock will be surrendered and you will receive the buyout price for each share that you own. Your broker can handle that for you.

This strategy works because you know that the stock will get back to the \$35.50 buyout price as long as the acquisition is completed. On the day that the acquisition is completed, anyone who owns shares of Company B stock will receive \$35.50 for each share that they own. The day that the acquisition is completed is like a safety net. In our example, you purchased the stock at \$35.15. The stock may not move at all from that point or it may move lower, however, you know that as long as the acquisition is completed, you will receive \$35.50 per share for the stock.

The M&A Final 1% strategy is designed to make a small profit in a shorter period of time, so you are not holding the stock for a longer period of time. Also, you are waiting until it is near the completion of the merger or acquisition to buy the stock. By this time, most of the voting and regulatory approvals should be complete and the odds of the deal going through have increased. This can help offset the risk that you may be holding a stock when a deal gets canceled. There are examples in Chapter 5 that illustrate the M&A Final 1% strategy.

Chapter 4: Adding Up The Profits

The M&A Profits strategies are designed to make anywhere from a 1% profit on each trade to a 3% to 5% profit on each trade, and sometimes more. That may not sound like much, but it does add up. The strategies work best if you are using a discount broker and a margin account.

If your brokerage account is a margin account, you can buy twice as much stock as the amount of money that you have in your account. It is buying on credit. If you have \$5,000.00 in your margin account, then you can buy up to \$10,000.00 worth of stock. Buying stock on margin should be considered high risk. It is possible that you may get a margin call. If you are unfamiliar with margin accounts, then contact your broker for a full explanation of margin accounts.

You can still use this strategy if your brokerage account is a cash account. It does not need to be a margin account. The examples in this chapter will show the results using a cash account and a margin account.

A discount broker, however, is the best way to use the M&A Profits strategies. Their commissions are very low and the commissions will not eat up too much of your profits. Some well known and respected discount

brokers include Scottrade (\$7.00 per trade), TD Ameritrade (\$9.99 per trade), ETrade (\$9.99 - \$12.99 per trade), and Charles Schwab (\$12.95 per trade).

In this chapter, Section 1 provides profit potential examples using the M&A Short Term strategy, Section 2 provides profit potential examples using the M&A Long Term strategy, and Section 3 provides profit potential examples using the M&A Final 1% strategy.

1. M&A Short Term strategy

Let's see how the profits add up for the M&A Short Term strategy. Scottrade's \$7.00 per trade commissions will be used in the examples. Let's say that Company B will be acquired for \$50.00 per share. On the first trading day following the announcement, the stock trades in a price range of \$49.85 to \$49.95. You watch the stock and a week later the price comes down to \$49.25 per share. You buy the stock at \$49.25 per share. You then set a limit order to sell the stock at 1% above your purchase price, which would be \$49.74 per share in this example.

A) \$5,000.00 in a margin account

Let's say that you have \$5,000.00 in your brokerage account. It is a margin account, so you can buy up to \$10,000.00 worth of stock. You buy 200 shares of Company B stock at \$49.25 per share. You set a limit order to sell the 200 shares at \$49.74. The stock reaches \$49.74 and your order is executed and your shares are sold. You made a profit of \$0.49 per share, multiplied by 200 shares, for a total profit of \$98.00. The commissions were \$7.00 to buy the stock and \$7.00 to sell the stock. Subtract the total of \$14.00 in commissions from your \$98.00 profit and your final profit is \$84.00. You have \$5,000.00 in your brokerage account and you just made a profit of \$84.00. That is a 1.7% profit (\$84.00 divided by \$5,000.00). You set your sell limit order at 1% above your purchase price; however, because you used a margin account, you were able to buy more stock and you ended up with a net profit of 1.7%.

- ✓ If you make 15 of these trades per year, you would make an annual profit of **25.5%**.
- ✓ If you make 20 of these trades per year, you would make an annual profit of **34%**.

- ✓ If you make 25 of these trades per year, you would make an annual profit of 42.5%.

That is certainly enough to beat the market and those high priced money managers!

B) \$10,000.00 in a margin account

Now, let's use the same example with \$10,000.00 in a margin account. You can buy up to \$20,000.00 worth of stock. You buy 400 shares of Company B stock at \$49.25 per share. You set a limit order to sell the 400 shares at \$49.74. The stock reaches \$49.74 and your order is executed and your shares are sold. You made a profit of \$0.49 per share, multiplied by 400 shares, for a total profit of \$196.00. The commissions were \$7.00 to buy the stock and \$7.00 to sell the stock. Subtract the total of \$14.00 in commissions from your \$196.00 profit and your final profit is \$182.00. You have \$10,000.00 in your brokerage account and you just made a profit of \$182.00. That is a 1.8% profit (\$182.00 divided by \$10,000.00). You set your sell limit order at 1% above your purchase price; however, because

you used a margin account, you were able to buy more stock and you ended up with a net profit of 1.8%.

- ✓ If you make 15 of these trades per year, you would make an annual profit of 27%.
- ✓ If you make 20 of these trades per year, you would make an annual profit of 36%.
- ✓ If you make 25 of these trades per year, you would make an annual profit of 45%.

That is certainly enough to beat the market and those high priced money managers!

C) \$5,000.00 in a cash account

Now, let's use the examples above, but this time with a cash account, not a margin account. Let's say that you have \$5,000.00 in your brokerage account. You can buy up to \$5,000.00 worth of stock. You buy 100 shares of Company B stock at \$49.25 per share. You set a limit order to sell the 100 shares at \$49.74. The stock reaches \$49.74 and your order is

executed and your shares are sold. You made a profit of \$0.49 per share, multiplied by 100 shares, for a total profit of \$49.00. The commissions were \$7.00 to buy the stock and \$7.00 to sell the stock. Subtract the total of \$14.00 in commissions from your \$49.00 profit and your final profit is \$35.00. You have \$5,000.00 in your brokerage account and you just made a profit of \$35.00. That is a 0.7% profit (\$35.00 divided by \$5,000.00). You set your sell limit order at 1% above your purchase price; however, because this is a cash account, you were not able to leverage the account to buy more stock. The commissions brought the profit down to 0.7% rather than 1%.

- ✓ If you make 15 of these trades per year, you would make an annual profit of **10.5%**.
- ✓ If you make 20 of these trades per year, you would make an annual profit of **14%**.
- ✓ If you make 25 of these trades per year, you would make an annual profit of **17.5%**.

This is still enough to beat the market and those high priced money managers!

D) \$10,000.00 in a cash account

Now, let's use the examples above, but this time with a cash account, not a margin account. Let's say that you have \$10,000.00 in your brokerage account. You can buy up to \$10,000.00 worth of stock. You buy 200 shares of Company B stock at \$49.25 per share. You set a limit order to sell the 200 shares at \$49.74. The stock reaches \$49.74 and your order is executed and your shares are sold. You made a profit of \$0.49 per share, multiplied by 200 shares, for a total profit of \$98.00. The commissions were \$7.00 to buy the stock and \$7.00 to sell the stock. Subtract the total of \$14.00 in commissions from your \$98.00 profit and your final profit is \$84.00. You have \$10,000.00 in your brokerage account and you just made a profit of \$84.00. That is a 0.8% profit (\$84.00 divided by \$10,000.00). You set your sell limit order at 1% above your purchase price; however, because this is a cash account, you were not able to leverage the account to buy more stock. The commissions brought the profit down to 0.8% rather than 1%.

- ✓ If you make 15 of these trades per year, you would make an annual profit of 12%.
- ✓ If you make 20 of these trades per year, you would make an annual profit of 16%.
- ✓ If you make 25 of these trades per year, you would make an annual profit of 20%.

This is still enough to beat the market and those high priced money managers!

2. M&A Long Term strategy

Now, let's see how the profits add up for the M&A Long Term strategy. Scottrade's \$7.00 per trade commissions will be used in the examples. Let's say that Company B will be acquired for \$50.00 per share. On the first trading day following the announcement, the stock trades in a price range of \$49.85 to \$49.95. You watch the stock and a week or two later the price comes down to \$48.00 per share. That is 4% below the buyout price. The M&A Long Term strategy is intended to be used to make a 3% to 5% profit on a trade. We will go right in the middle of that range and use

4% for the calculations in this example. You buy the stock at \$48.00 per share. You then set a limit order to sell the stock at the buyout price, which would be \$50.00 per share in this example.

A) \$5,000.00 in a margin account

Let's say that you have \$5,000.00 in your brokerage account. It is a margin account, so you can buy up to \$10,000.00 worth of stock. You buy 200 shares of Company B stock at \$48.00 per share. You set a limit order to sell the 200 shares at \$50.00. The stock reaches \$50.00 and your order is executed and your shares are sold. You made a profit of \$2.00 per share, multiplied by 200 shares, for a total profit of \$400.00. The commissions were \$7.00 to buy the stock and \$7.00 to sell the stock. Subtract the total of \$14.00 in commissions from your \$400.00 profit and your final profit is \$386.00. You have \$5,000.00 in your brokerage account and you just made a profit of \$386.00. That is a 7.7% profit (\$386.00 divided by \$5,000.00). You set your sell limit order at 4% above your purchase price; however, because you used a margin account, you were able to buy more stock and you ended up with a net profit of 7.7%.

- ✓ If you make 4 of these trades per year, you would make an annual profit of 30.8%.
- ✓ If you make 5 of these trades per year, you would make an annual profit of 38.5%.
- ✓ If you make 6 of these trades per year, you would make an annual profit of 46.2%.

That is certainly enough to beat the market and those high priced money managers!

B) \$10,000.00 in a margin account

Now, let's use the same example with \$10,000.00 in a margin account. You can buy up to \$20,000.00 worth of stock. You buy 400 shares of Company B stock at \$48.00 per share. You set a limit order to sell the 400 shares at \$50.00. The stock reaches \$50.00 and your order is executed and your shares are sold. You made a profit of \$2.00 per share, multiplied by 400 shares, for a total profit of \$800.00. The commissions were \$7.00 to buy the stock and \$7.00 to sell the stock. Subtract the total of \$14.00 in commissions from your \$800.00 profit and your final profit is \$786.00. You

have \$10,000.00 in your brokerage account and you just made a profit of \$786.00. That is a 7.9% profit (\$786.00 divided by \$10,000.00). You set your sell limit order at 4% above your purchase price; however, because you used a margin account, you were able to buy more stock and you ended up with a net profit of 7.9%.

- ✓ If you make 4 of these trades per year, you would make an annual profit of **31.6%**.
- ✓ If you make 5 of these trades per year, you would make an annual profit of **39.5%**.
- ✓ If you make 6 of these trades per year, you would make an annual profit of **47.4%**.

That is certainly enough to beat the market and those high priced money managers!

C) \$5,000.00 in a cash account

Now, let's use the examples above, but this time with a cash account, not a margin account. Let's say that you have \$5,000.00 in your brokerage

account. You can buy up to \$5,000.00 worth of stock. You buy 100 shares of Company B stock at \$48.00 per share. You set a limit order to sell the 100 shares at \$50.00. The stock reaches \$50.00 and your order is executed and your shares are sold. You made a profit of \$2.00 per share, multiplied by 100 shares, for a total profit of \$200.00. The commissions were \$7.00 to buy the stock and \$7.00 to sell the stock. Subtract the total of \$14.00 in commissions from your \$200.00 profit and your final profit is \$186.00. You have \$5,000.00 in your brokerage account and you just made a profit of \$186.00. That is a 3.7% profit (\$186.00 divided by \$5,000.00). You set your sell limit order at 4% above your purchase price; however, because this is a cash account, you were not able to leverage the account to buy more stock. The commissions brought the profit down to 3.7% rather than 4%.

- ✓ If you make 4 of these trades per year, you would make an annual profit of **14.8%**.
- ✓ If you make 5 of these trades per year, you would make an annual profit of **18.5%**.

- ✓ If you make 6 of these trades per year, you would make an annual profit of **22.2%**.

This is still enough to beat the market and those high priced money managers!

D) \$10,000.00 in a cash account

Now, let's use the examples above, but this time with a cash account, not a margin account. Let's say that you have \$10,000.00 in your brokerage account. You can buy up to \$10,000.00 worth of stock. You buy 200 shares of Company B stock at \$48.00 per share. You set a limit order to sell the 200 shares at \$50.00. The stock reaches \$50.00 and your order is executed and your shares are sold. You made a profit of \$2.00 per share, multiplied by 200 shares, for a total profit of \$400.00. The commissions were \$7.00 to buy the stock and \$7.00 to sell the stock. Subtract the total of \$14.00 in commissions from your \$400.00 profit and your final profit is \$386.00. You have \$10,000.00 in your brokerage account and you just made a profit of \$386.00. That is a 3.9% profit (\$386.00 divided by \$10,000.00). You set your sell limit order at 4% above

your purchase price; however, because this is a cash account, you were not able to leverage the account to buy more stock. The commissions brought the profit down to 3.9% rather than 4%.

- ✓ If you make 4 of these trades per year, you would make an annual profit of 15.6%.
- ✓ If you make 5 of these trades per year, you would make an annual profit of 19.5%.
- ✓ If you make 6 of these trades per year, you would make an annual profit of 23.4%.

This is still enough to beat the market and those high priced money managers!

3. M&A Final 1% strategy

The M&A Final 1% strategy is intended to make a 1% profit on each trade, just as the M&A Short Term strategy is intended to do. You can use the profit potential examples for the M&A Short Term strategy in Section 1 to see how the M&A Final 1% strategy may perform.

4. Summary

Now you have seen the blueprint for making money with the M&A Profits strategy. Take the amount of risk capital that you have for trading and plug it into the examples above in Sections 1 and 2, using either the margin account examples or the cash account examples. Step through the calculations and you will see the potential profits that you may achieve.

It should be noted that if you buy stock on margin, you will have to pay margin interest for the amount of time that you hold the stock. Margin interest is not calculated in the margin account examples in this chapter because the amount of time that you hold a stock will be different for each trade. In some cases, the stock price will reach your sell limit order in a few days and other times it may take a few weeks or a month or two.

Chapter 5: M&A Examples

This chapter contains four examples of mergers and acquisitions. The charts and descriptions show the potential profits that can be made with the three M&A Profits strategies.

Example 1:

In this example, two private companies are acquiring Party City, ticker symbol PCTY. The agreement was announced on 9/26/05. The purchase price is \$17.50 per share. The acquisition was expected to close by the end of 2005 or early in 2006. The news article shown here was published on 9/27/05. The two important points, the amount of cash Party City shareholders will receive and when the deal is expected to be completed, have been highlighted.

AP

Party City to Be Taken Private by Firms

Tuesday September 27, 11:09 am ET

Party City Agrees to Be Acquired by Private Equity Firms for \$360 Million

NEW YORK (AP) -- Party supplies retailer Party City Corp. on Tuesday said it has agreed to be acquired by private equity firms Berkshire Partners LLC and Weston Presidio for \$17.50 per share in cash, or a total of \$360 million.

The offer price represents a 43 percent premium to Party City's Monday closing price of \$12.28. Shares jumped \$4.64, or 37.8 percent, to \$16.92 on the Nasdaq, where it was among the top percentage gainers in the morning session.

In March, the nation's biggest party goods retailer hired a financial adviser and formed a special committee to explore strategic alternatives, as it struggled to reverse several quarters of declining sales. At the time, the decision to explore strategic options prompted the departure of its chief executive officer, who resigned over differences with the board over corporate strategy.

AAH Holdings Corp. -- the holding company for Berkshire Partners and Weston Presidio -- plan to finance the acquisition through a combination of equity contributed by the two private equity firms, and debt financing provided by investment banks Goldman Sachs and Banc of America Securities.

Party City said shareholders would realize "an attractive selling price" from the proposed deal, which would also create "significant opportunities" for customers and franchisees.

Berkshire, which has investments of \$3.5 billion in retail, consumer products and manufacturing companies, said it was drawn to Party City's durable and growing business and its network of company-owned and franchised stores.

The retailer operates or franchises a total of 499 stores around the country, and last year generated chain-wide sales of about \$1 billion.

The acquisition is expected to close by the end of this year or early 2006, pending the receipt of debt financing, regulatory and shareholder approval. Party City's board of directors unanimously approved the deal, and has recommended shareholders approve the transaction.

Let's take a look at the chart for PCTY to see the potential profits. This chart is from 11/11/05. The purple arrow shows the first trading day after the acquisition was announced. The stock traded near \$17.00. The red arrows show opportunities to buy the stock and the green arrows show opportunities to sell the stock.

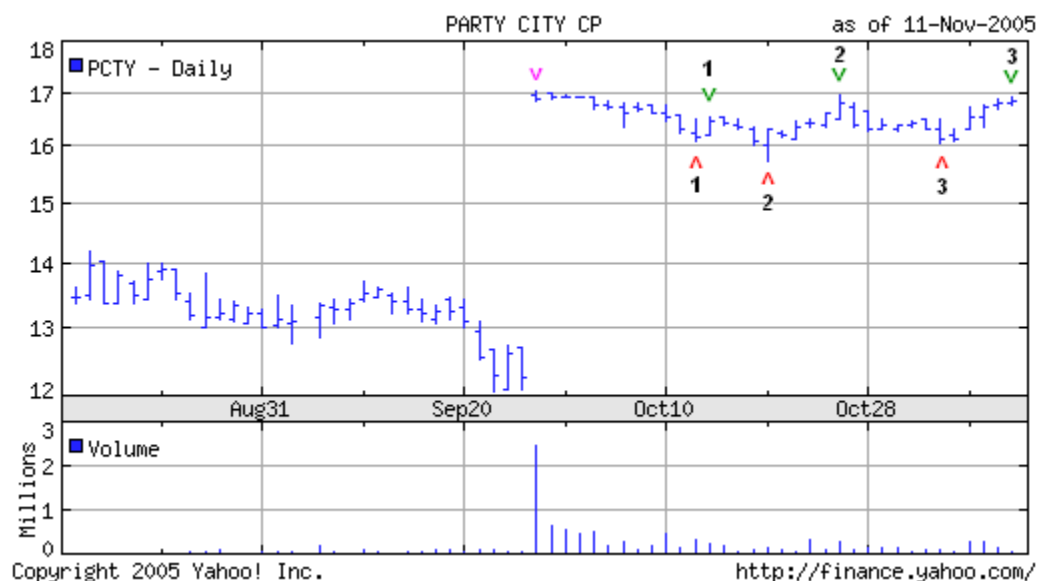
The red arrow labeled #1 points to a day where the stock reached a low of \$16.08. The next day, labeled with the green arrow #1, the stock reached a high of \$16.54.

The red arrow labeled #2 points to a day where the stock reached a

low of \$15.71. Several days later, labeled with the green arrow #2, the stock reached a high of \$16.94.

The red arrow labeled #3 points to a day where the stock reached a low of \$16.05. Several days later, labeled with the green arrow #3, the stock reached a high of \$16.93.

If you were using the M&A Short Term strategy, you could buy and sell the stock as the example shows with the red and green arrows. If you were using the M&A Long Term strategy, you could buy the stock near one of the red arrows and sell it when it gets near \$17.50 or hold it until the acquisition is completed. As long as the acquisition is completed, you would receive \$17.50 per share.



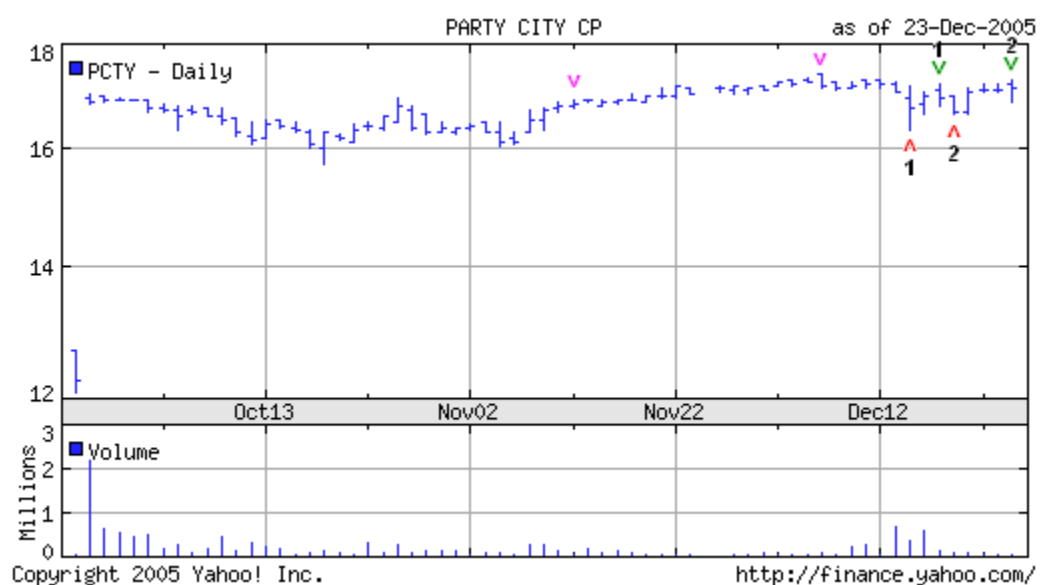
Let's take a look at a second chart for PCTY. The acquisition for PCTY was completed on 12/23/05. This second chart is from that day. The first purple arrow is pointing to 11/11/05. That is the day where the first chart above left off at, labeled with the green arrow #3 on the first chart above. The second purple arrow on the second chart shows the highest price the stock reached before the acquisition was completed, \$17.40. The red and green arrows show more opportunities to buy and sell the stock.

The red arrow labeled #1 points to a day where the stock reached a low of \$16.34. Two days later, labeled with the green arrow #1, the stock reached a high of \$17.24.

The following day, labeled with the red arrow #2, the stock reached a low of \$16.66. The acquisition was completed four days later, labeled with the green arrow #2. The stock reached a high of \$17.30 on that day.

If you were using the M&A Short Term strategy, you could buy and sell the stock as the example shows with the red and green arrows. If you were using the M&A Long Term strategy and purchased the stock near the red arrows on the first chart above, you could sell the stock near the second purple arrow where the stock reached a high of \$17.40 or hold the stock

until the acquisition is completed. As long as the acquisition is completed, you would receive \$17.50 per share.



Example 2:

In this example, Serena Software has agreed to be acquired. Their ticker symbol is SRNA. The agreement was announced on 11/11/05. The purchase price is \$24.00 per share. The acquisition was expected to close in the first quarter of 2006. The news article shown here was published on 11/11/05. The two important points, the amount of cash Serena Software

shareholders will receive and when the deal is expected to be completed, have been highlighted.

AP

Serena Software to Be Acquired for \$1.2B

Friday November 11, 4:38 pm ET

Serena Software Agrees to Sell Itself for \$1.2 Billion to Silver Lake Partners

SAN MATEO, Calif. (AP) -- Serena Software Inc. said Friday it agreed to sell itself for \$1.2 billion to investment firm Silver Lake Partners in a deal that would result in the software maker becoming a private company.

Serena, which provides management software to companies such as General Electric Co., American Express Co. and International Business Machines Corp., said its shareholders will get \$24 in cash for each share they own. The offer represents a 1.5 percent premium over Serena's Thursday closing price of \$23.65. Its shares fell 15 cents to close at \$23.50 Friday on the Nasdaq Stock Market.

Founder and Chairman Douglas Troxel, the company's largest shareholders, would get \$24 per share in exchange for one-third of his shares, and exchange the rest of his holdings for shares in the new company after it goes private. Serena Chief Executive Mark Woodward, Chief Financial Officer Robert Pender and possibly other senior executives would also exchange some of their holdings for a stake in the new company, if the deal goes through, Serena said.

The company said Troxel has already agreed to vote in favor of the deal, which is also backed by the rest of its board.

"Our decision to partner with Silver Lake to take the company private represents the culmination of a thorough review of our standalone plan and strategic alternatives and we believe this is the best value proposition for our shareholders," Woodward said in a statement.

Serena makes change-management software that controls potentially disruptive changes during software additions, deletions, and upgrades across a variety of platforms, including mainframe, client/server, and Web-based environments.

The company expects to close the deal in the first quarter of 2006, subject to shareholder approval and other routine conditions.

Silver Lake was one of seven private investment firms that combined earlier this year to agree to buy SunGard Data Systems Inc., which provides support systems to financial services companies.

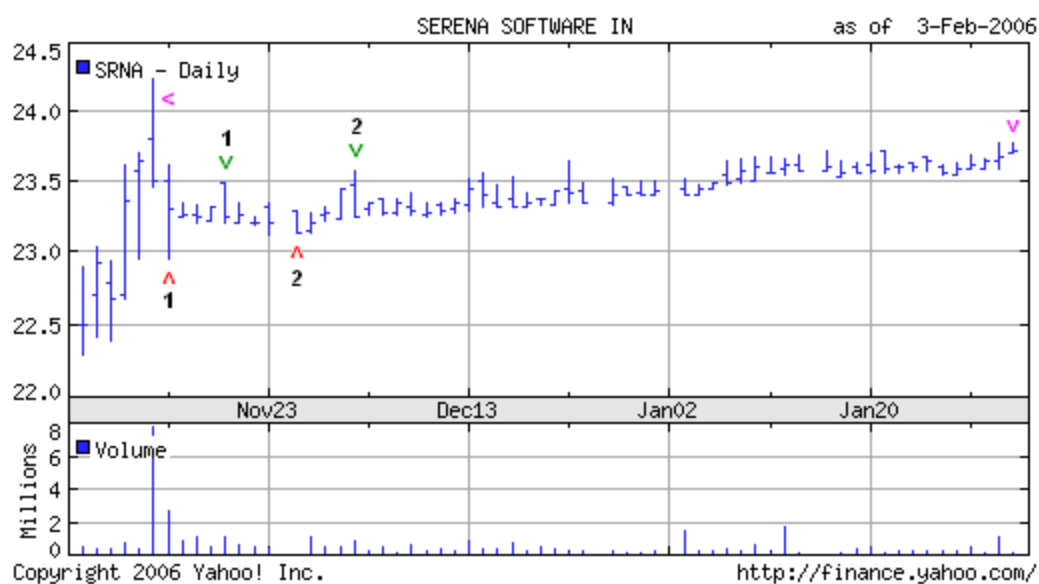
Let's take a look at the chart for SRNA to see the potential profits. This chart is from 2/3/06. The purple arrow shows the first trading day after the acquisition was announced. The stock was already near the \$24.00 buyout price, so it did not have that far to jump. The stock traded above the \$24.00 buyout price on that first trading day. The red arrows show opportunities to buy the stock and the green arrows show opportunities to sell the stock.

The red arrow labeled #1 is pointing to the second trading day following the announced acquisition. The stock reached a low of \$22.95 on that day. Four days later, labeled with the green arrow #1, the stock reached a high of \$23.49.

Four days after that, labeled with the red arrow #2, the stock reached a low of \$23.13. Four days later, labeled with the green arrow #2, the stock reached a high of \$23.57.

After that point, the stock was in the \$23.25 to \$23.35 range and then moved up to the \$23.50 range. It then began moving above \$23.50 on its way to \$24.00. The last day shown on this chart is 2/3/06. It is marked with a purple arrow.

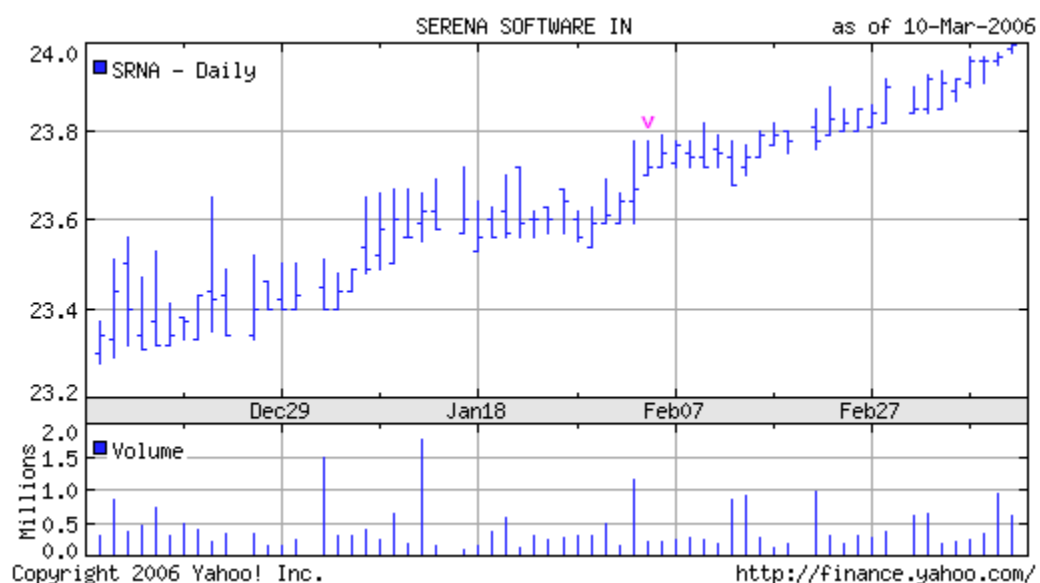
If you were using the M&A Short Term strategy, you could buy and sell the stock as the example shows with the red and green arrows. If you were using the M&A Long Term strategy, you could buy the stock near one of the red arrows and sell it when it gets near \$24.00 or hold it until the acquisition is completed. As long as the acquisition is completed, you would receive \$24.00 per share.



Let's take a look at a second chart for SRNA. The acquisition for SRNA was completed on 3/10/06. This second chart is from that day. The purple arrow is pointing to 2/3/06. That is the last day shown on the previous

chart. It shows that the stock continued on its way up to \$24.00 when the acquisition was completed.

If you were using the M&A Long Term strategy and purchased the stock near the red arrows on the first chart above, you could sell the stock when it reached near \$24.00 or hold the stock until the acquisition is completed. As long as the acquisition is completed, you would receive \$24.00 per share. If you were using the M&A Final 1% strategy, you could buy the stock in early February in the \$23.60 to \$23.80 range and sell the stock when it reached near \$24.00 or hold the stock until the acquisition is completed. As long as the acquisition is completed, you would receive \$24.00 per share.



Example 3:

In this example, Abgenix has agreed to be acquired. Their ticker symbol is ABGX. The agreement was announced on 12/14/05. The purchase price is \$22.50 per share. The acquisition was expected to close in the first quarter of 2006. The news article shown here was published on 12/14/05. The two important points, the amount of cash Abgenix shareholders will receive and when the deal is expected to be completed, have been highlighted.

AP

Amgen Agrees to Acquire Abgenix for \$2.2B

Wednesday December 14, 10:47 pm ET

By Paul Elias, AP Biotechnology Writer

Amgen Agrees to Acquire Abgenix for \$2.2 Billion in Cash, Assumption of Debt

SAN FRANCISCO (AP) -- Biotechnology titan Amgen Inc. said Wednesday it **has agreed to acquire Abgenix Inc.** for \$2.2 billion in cash and the assumption of debt.

Abgenix, based in Fremont, Calif., is a small biotechnology company that genetically engineers mice to produce potential cancer drugs.

If the deal is approved by both companies' boards and regulators, **Abgenix shareholders will receive \$22.50 a share** -- a 54 percent premium over its closing stock price of \$14.65 Wednesday.

"That's a bargain," said Matt Murray, an analyst with Rodman & Renshaw. If Abgenix shareholders and regulators approve the deal, Amgen will acquire all rights to a promising colon cancer drug the two companies are developing. Amgen said Wednesday that it believes sales of the still-experimental drug called panitumumab could exceed \$2 billion a year.

"We think Amgen's low balling," said Murray, who believes annual sales could reach \$3.2 billion. Amgen CEO Kevin Sharer said the company made the offer after the colon cancer drug was found to work better than expected during a large human trial last month.

"We paid a strong premium because we see significant upside," Sharer said. He said the deal will be profitable for Amgen once panitumumab sales reach \$1 billion. But Sharer declined to predict when he expected the cancer drug to reach those lofty goals. Sharer was reminded during a conference call with analysts Wednesday

afternoon that he predicted a key Immunex drug called Enbrel would reach \$3 billion in sales by this year. Enbrel will miss that mark by about \$300 million. "It's hard to know to put a date around it," Sharer said. The results showed the drug slowed the progression of the disease by 46 percent in those receiving the drug compared to those who didn't in the 463-patient experiment. A skin rash was the most common side effect. The companies had expected the disease to progress 33 percent slower in those receiving the drug.

Sharer said Amgen will submit an application to the Food and Drug Administration "within days." He also said the company is optimistic the drug will be effective against head-and-neck cancer.

Panitumumab is produced by mice genetically engineered with human genes to make molecules that help prevent the cancer from growing in patients. Abgenix had earlier sold half the drug's future profits to Immunex Corp., which Amgen acquired in 2002. Abgenix is also developing an osteoporosis drug and several other experimental drugs. But Amgen's chief scientist, Roger Perlmutter, said panitumumab was "the key driver of the transaction."

Amgen said it hopes **the deal will close in the first quarter next year** and expects it to reduce adjusted earnings in 2006 and 2007 by 5 cents to 10 cents a share.

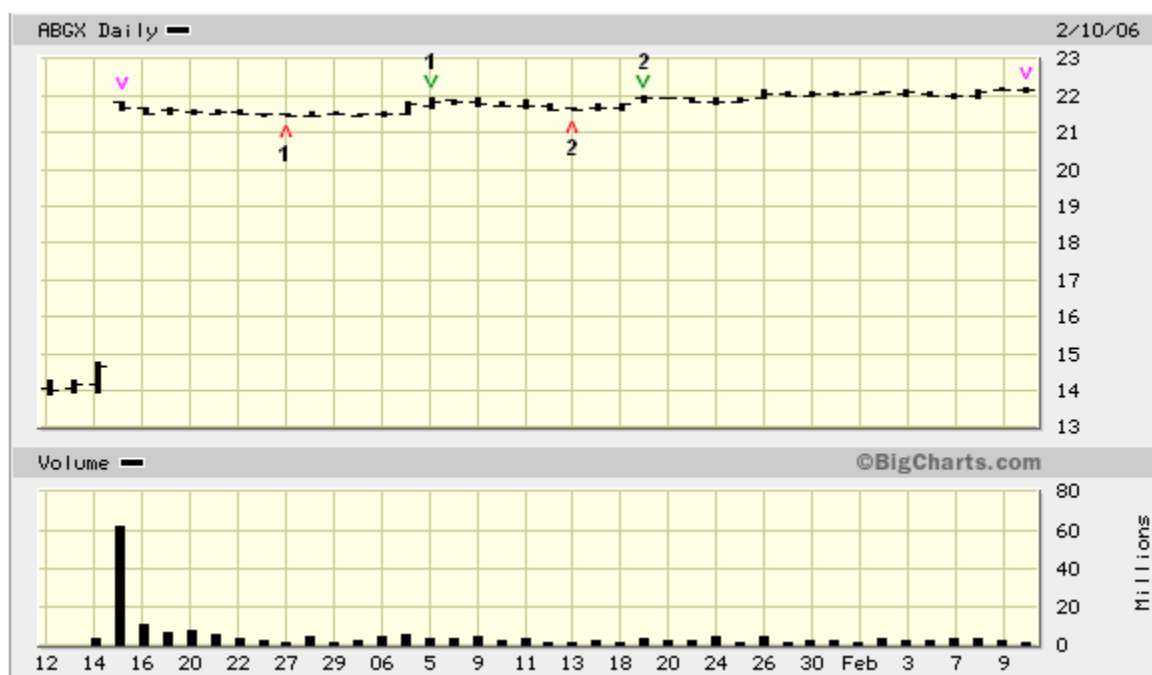
Let's take a look at the chart for ABGX to see the potential profits. This chart is from 2/10/06. The purple arrow shows the first trading day after the acquisition was announced. The stock traded near \$22.00 on that first trading day. The red arrows show opportunities to buy the stock and the green arrows show opportunities to sell the stock.

The red arrow labeled #1 is pointing to the seventh trading day following the announced acquisition. The stock reached a low of \$21.45 on that day. Six trading days later, labeled with the green arrow #1, the stock reached a high of \$21.96.

Six trading days after that, labeled with the red arrow #2, the stock reached a low of \$21.59. Three trading days later, labeled with the green arrow #2, the stock reached a high of \$22.00.

After that point, the stock was in the \$22.00 to \$22.25 range from the end of January through February. The last day shown on this chart is 2/10/06. It is marked with a purple arrow.

If you were using the M&A Short Term strategy, you could buy and sell the stock as the example shows with the red and green arrows. If you were using the M&A Long Term strategy, you could buy the stock near one of the red arrows and sell it when it gets near \$22.50 or hold it until the acquisition is completed. As long as the acquisition is completed, you would receive \$22.50 per share.



Let's take a look at a second chart for ABGX. The acquisition for ABGX was completed on 3/31/06. This second chart is from that day. The purple arrow is pointing to 2/10/06. That is the last day shown on the previous chart. From that point, the stock continued on its way up to \$22.50 when the acquisition was completed.

If you were using the M&A Long Term strategy and purchased the stock near the red arrows on the first chart above, you could sell the stock when it reached near \$22.50 or hold the stock until the acquisition is completed. As long as the acquisition is completed, you would receive \$22.50 per share. If you were using the M&A Final 1% strategy you could buy the stock in late February or early March in the \$22.25 range and sell the stock when it reached near \$22.50 or hold the stock until the acquisition is completed. As long as the acquisition is completed, you would receive \$22.50 per share.



Example 4:

In this example, Aviall has agreed to be acquired. Their ticker symbol is AVL. The agreement was announced on 5/1/06. The purchase price is \$48.00 per share. The acquisition was expected to close by the end of the third quarter of 2006. The news article shown here was published on 5/1/06. The two important points, the amount of cash Aviall shareholders will receive and when the deal is expected to be completed, have been highlighted.

Boeing Will Buy Parts Maker

By THE ASSOCIATED PRESS

CHICAGO, May 1 (AP) — Boeing announced its biggest acquisition in nearly a decade on Monday, **agreeing to buy Aviall**, an aviation parts and services company, for \$1.7 billion in cash, a deal aimed at increasing its already large stakes in the commercial and military aviation markets.

The transaction was the first under W. James McNerney Jr., the chairman and chief executive, and was announced shortly before the company's annual meeting.

If regulators approve the deal, Aviall will become a wholly owned subsidiary under Boeing's commercial aviation services unit. Aviall is based in Dallas and has about 1,000 employees.

Boeing, based here, **agreed to pay \$48 a share for Aviall**, a 27.3 percent premium to its closing price on Friday of \$37.70. It will also assume \$350 million in debt.

Boeing said the acquisition, **which it expects to close by the end of the third quarter**, would increase earnings modestly in 2007 but have no effect this year.

Aviall's businesses include global parts distribution and supply-chain services for aerospace, military and marine industries worldwide. Its 2005 revenue totaled \$1.3 billion, and Boeing said it expected 25 percent growth in 2006. An aerospace analyst, Paul Nisbet of JSA Research, said the deal "makes eminent sense" for Boeing, and with little evident risk. "It's something that with Boeing's economic power could be expanded very considerably," he said. "They're looking at a \$25 billion market and they figure they can probably get a good quarter of that, so you could be adding something on the order of \$6 billion in business — and good-margin business."

In 2005, Boeing had \$54.8 billion in revenue and was expecting that to grow to \$60 billion this year, before the Aviall deal was announced. The company has ridden the momentum of its commercial aircraft business to a strong start to 2006, last week announcing a first-quarter profit up 29 percent.

Let's take a look at the chart for AVL to see the potential profits. This chart is from 9/19/06. The first purple arrow shows the first trading day after the acquisition was announced. The stock price traded in a range from \$46.90 to \$47.95 on that first trading day, and closed at a price of \$46.96. From that point, the stock slowly made its way to the \$48.00 buyout price. The acquisition closed on 9/19/06, where the second purple arrow is pointing. As this example shows, not all of the mergers and

acquisitions provide multiple opportunities for profits as the previous examples show.



Let's take a look at a second chart for AVL. This chart is also from 9/19/06. It is a closer view than the first chart. This chart shows that the stock price went from the \$47.50 range in early August to the \$48.00 buyout price on the day the acquisition closed. The purple arrow is pointing to that day.

If you were using the M&A Final 1% strategy you could buy the stock in early to mid-August in the \$47.50 range and sell the stock when it reached

near \$48.00 or hold the stock until the acquisition is completed. As long as the acquisition is completed, you would receive \$48.00 per share.



Chapter 6: Finding The M&A's

There are several sources that you can use to find the latest announcements and other news pertaining to mergers and acquisitions. You should check these sources every day to find the latest mergers and acquisitions that have been announced. You will also be able to follow the news from mergers and acquisitions that are still pending.

A) Yahoo Finance

Use this link to go directly to the M&A news –

<http://biz.yahoo.com/topic/m-a/>

B) MSN Money

Use this link to go directly to the M&A news –

http://news.moneycentral.msn.com/category/topics.asp?iSub=1&Topic=TOPIC_MERGERS_ACQUISITIO
[NS](#)

C) Reuters

Use this link to go directly to the M&A news –

<http://today.reuters.com/investing/FinanceNewsArchives.aspx?type=mergersNews>

D) Street Insider

Use this link to go directly to the M&A news –

<http://www.streetinsider.com/Mergers+and+Acquisitions>

Chapter 7: M&A Strategy Guidelines

Check the sources listed in Chapter 6 to find the latest mergers and acquisitions that have been announced. When you find an announcement, you need to check the details of the merger or acquisition. The articles written by the Associated Press (AP) appear to be the most concise and straightforward articles to read about a merger or an acquisition, however, you should read the announcements from as many sources as possible to make sure you get all of the information you need. The best way to find the AP articles is to get a quote on the stock from Yahoo Quotes, <http://finance.yahoo.com/q?>. Along with the quote, you will find news headlines for the stock. Look for the AP article and click on the headline to read the article.

There are some guidelines to follow when you are looking for stocks to trade with the M&A Profits strategies. In the guidelines, Company B refers to the company that will receive the cash in the merger or acquisition transaction, as has been described in the previous chapters.

1. Company B must be a publicly traded company. If it is not a publicly

traded company, then they do not have a stock that you can trade.

It is alright if the acquiring company, Company A, is a private company.

2. All of the companies involved in the merger or acquisition, Company A and Company B, must be U.S. companies. Other countries may require approval from a variety of regulatory bodies before a deal can go through.

This will vary from country to country and would be very hard to gauge whether the merger or acquisition would be approved. Also, different currency exchange rates would be confusing.

3. The merger or acquisition must be completed in cash only. Company B should receive a fixed price for their stock. This should be clearly detailed in the announcements.

4. Avoid hostile takeovers. A hostile takeover occurs when a merger or acquisition attempt is made and it is strongly resisted by the target company. For example, Company A is trying to merge or acquire Company B, and Company B does not want the merger or acquisition to occur. It is difficult to know if a deal like this would go through. You only

want mergers and acquisitions in which Company A and Company B have both agreed to the deal.

5. Avoid when either Company A's stock or Company B's stock is traded as an Over The Counter stock (OTC), Bulletin Board stock (OTCBB), or Pink Sheet stock (PK). You are only interested in companies whose stock is traded on the major U.S. stock markets; the NYSE, NASDAQ, or AMEX.

6. Avoid mergers or acquisitions that will need difficult regulatory approvals. For example, the government may not approve a merger if they feel that it would create a monopoly. Avoid these mergers or acquisitions at the beginning; however, if they receive regulatory approval, then you may be able to use the M&A Final 1% strategy.

7. In the announcements, a specific date is usually not given for when the merger or acquisition will be completed. Usually, just a general time frame is given. You should follow the news headlines for Company A and Company B to see the latest developments for the deal, which will include regulatory approvals and shareholder votes. Find out when the next

shareholders meetings will be for Company A and Company B. This will usually be when the deal will be voted on by the shareholders. Often, the deal is completed shortly after the shareholders vote. You can find out when the next shareholders meetings will be held by going to the web sites of the companies involved. You can find the latest news stories for Company A and Company B by getting a quote on each stock from Yahoo Quotes, <http://finance.yahoo.com/q?>.

8. Occasionally, a merger or acquisition may turn into a bidding war for Company B. For example, Company A may be acquiring Company B for \$20.00 per share in cash. Then, Company C steps into the picture and offers to acquire Company B for \$22.00 per share in cash. The stock price of Company B will then jump up near the \$22.00 buyout price offered by Company C. If you are using one of the M&A Profits strategies and you are holding shares of Company B when Company C makes its offer, then sell your shares of Company B when the stock jumps up near \$22.00 and take your profit. You should then avoid this merger or acquisition from that point on. If you were not using one of the M&A Profits strategies and you did not have any shares of Company B when Company C makes its offer, then

avoid this merger or acquisition from that point on. It can become very unclear as to which way this merger or acquisition will go. Company C may withdraw their offer and the stock price of Company B will go back to the original buyout price in the \$20.00 price range. Or, the board of directors and shareholders of Company B may reject Company C's offer and decide to go through with their original merger or acquisition with Company A. If that happens, the stock price of Company B will go back to the \$20.00 price range.

9. Follow the stock price of Company B and check the bid and ask spread. You want to make sure that the spread is not too large. If it is too large, then it could make it difficult to get in and out of the stock with a 1% profit if you are using the M&A Short Term strategy or the M&A Final 1% strategy.

10. When you read the announcements and find stocks that would be candidates for the M&A Profits strategy, consider taking notes so that you can keep track of all of the stocks that you are considering trading with this strategy. Write down the ticker symbols for Company A and Company B, the buyout price, when the deal is expected to be completed, etc. This can

help you set up a schedule and decide which of the stocks you are going to trade, when you will try to trade them, and which of the three strategies you will use for each trade. For example, one stock may be a good candidate for the M&A Long Term strategy and another may be a good candidate for the M&A Final 1% strategy. Also, write down the stock price of Company B before the merger or acquisition was announced. If the deal does not go through, this is the price the stock will likely go back to. This can also be used to help you decide which of the stocks you will trade. For example, if two stocks were both \$20.00 before they were going to be acquired, and the buyout price of the first stock is \$22.00 and the buyout price of the second stock is \$30.00, you may decide to trade the first stock because it would not fall as far as the second stock if the deals were canceled.

11. In Chapter 5, you saw examples of stocks that would be candidates for trading using the M&A Profits strategies. Let's take a look at some mergers and acquisitions that would not be candidates for trading using the M&A Profits strategies.

A) Example 1

In this example, two companies are merging. Their ticker symbols are SFD and PORK. To complete the merger, shareholders of PORK will receive a combination of cash and stock for their shares of PORK, so this merger would not be a candidate for trading using the M&A Profits strategies. The key points are highlighted in the announcement.

Press Release

Source: Smithfield Foods, Inc.

Smithfield Foods and Premium Standard Farms Agree to Merger

Monday September 18, 7:00 am ET

SMITHFIELD, Va., Sept. 18 /PRNewswire-FirstCall/ -- Smithfield Foods, Inc. (NYSE: [SFD](#) - [News](#)) and Premium Standard Farms, Inc. (Nasdaq: [PORK](#) - [News](#)) today announced that their Boards of Directors have unanimously approved a definitive merger agreement under which Smithfield Foods ("Smithfield") will acquire all of the outstanding shares of Premium Standard Farms ("PSF") through a merger.

Under the terms of the merger, each PSF share will be converted into the right to receive 0.678 Smithfield shares plus \$1.25 in cash. The total combined value of stock and cash is \$21.35, based on Smithfield's average closing price on the New York Stock Exchange over the most recent 10-day trading period.

The share exchange portion will be tax-free to PSF shareholders. The agreement has a total transaction value of approximately \$810 million, including the assumption of PSF's approximately \$117 million of net debt.

"We are excited about the combination of PSF and Smithfield," said C. Larry Pope, Smithfield's President and Chief Executive Officer. "This is a business we know very well and it relates directly to our core competence. We have strong expertise in both live hog production and in fresh pork processing. Strategically, this is a very good long-term fit and near-term, this combination should generate benefits for both organizations and our customers," Mr. Pope said.

John M. Meyer, PSF's President and Chief Executive Officer, stated, "Our agreement to merge with Smithfield enables PSF's shareholders to receive an immediate premium for their shares and continue to participate in the growth of Smithfield, a well-capitalized company with one of the best records of creating long-term shareholder returns of any company in any industry. As part of Smithfield, we will continue to execute our strategy and provide attractive opportunities for our employees, our customers, our hog producers, and the communities in which we live and work."

Paul J. Fribourg, a Director of PSF and Chairman, President and Chief Executive Officer of ContiGroup, PSF's major shareholder, stated, "We are very pleased to support the combination of PSF with Smithfield, and we look forward to continuing to participate in the growth of the combined company."

The transaction will require customary regulatory approvals as well as the approval of PSF's shareholders.

Centerview Partners, LLC is serving as financial advisor to Premium Standard Farms in connection with this transaction. Sidley Austin LLP and Paul, Weiss, Rifkind, Wharton & Garrison LLP are serving as counsel to Premium Standard Farms with respect to this transaction. Simpson Thacher & Bartlett LLP and McGuire Woods LLP are serving as counsel to Smithfield in connection with this transaction.

B) Example 2

In this example, one company is acquiring another company. Their ticker symbols are LVLT and BWNG. To complete the acquisition, shareholders of BWNG will receive a combination of cash and stock for their shares of BWNG, so this acquisition would not be a candidate for trading using the M&A Profits strategies. The key points are highlighted in the announcement.

AP

Level 3 to Acquire Broadwing

Tuesday October 17, 12:23 pm ET

Network Operator Level 3 to Buy Broadwing in \$1.4 Billion Deal

DENVER (AP) -- Communications network operator Level 3 Communications Inc. said Tuesday it plans to acquire Broadwing Corp., which sells communications services, for about \$1.4 billion in a cash-and-stock deal.

Level 3 agreed to pay \$744 million in cash and issue 122 million shares, which will translate to \$8.18 a share in cash and 1.3411 shares for each share of Austin, Texas-based Broadwing. The offer represented a 15 percent premium over Broadwing's closing price of \$13.28 a share on Monday.

The deal is expected to close in the first quarter of 2007 pending approval by regulators and Broadwing shareholders. Shares of both companies rose on the news, with Level 3's stock up 4 percent and Broadwing's stock jumping 15 percent in morning trading.

"We believe the combination of Level 3 and Broadwing will create value for our investors through the elimination of duplicative network and operating costs, the addition of a solid revenue base, and a further strengthening of our financial position," James Crowe, Level 3 chief executive officer, said in a statement.

JP Morgan analyst Jonathan Chaplin said the transaction would be a good move, noting that Broadwing's customer base fits well into Level 3's business. "We believe this acquisition further consolidates supply in the long-haul market and will help in further stabilizing industry pricing," he wrote in a research note.

The Broomfield-based Level 3, which sells wholesale dial-up and broadband Internet services, said it expected to spend between \$110 million and \$130 million to combine the operations. It said Broadwing's operations should start contributing to adjusted operating income next year. Broadwing delivers data, voice and media services to wholesale and business customers over a 19,000 mile intercity fiber network.

C) Example 3

In this example, one company is acquiring another company. Health Care Services Group is a publicly traded company. Their ticker symbol is HCSG. However, the company that is to be acquired, Summit Services Group, is a privately held company. They do not have a stock to trade, so this acquisition would not be a candidate for trading using the M&A Profits strategies. The key points are highlighted in the announcement.

Healthcare Services to Buy Summit Services

BENSALEM, Pa. (AP) - Healthcare Services Group Inc. (HCSG) said Monday it agreed to buy rival Summit Services Group Inc. for \$17.2 million and the assumption of \$1 million in liabilities.

Both companies provide housekeeping, laundry and food services to long-term care facilities. The deal calls for an issuance of 369,000 shares of common stock and a cash payment of \$9.5 million.

Healthcare Services said it expects the buyout of Newton Lower Falls, Mass.-based Summit to add about \$50 million to its annualized revenue. The company posted 2005 revenue of \$466.3 million.

Chapter 8: Review

Mergers and acquisitions occur in the business world on a daily basis. The M&A Profits strategy provides an effective way to profit from these deals and beat the market. The M&A Profits strategy can be used in both good markets and bad markets.

Cash is the key to the M&A Profits strategy. Any merger or acquisition that will be completed with cash, and only cash, is an opportunity to make a profit with the M&A Profits strategy. These are the specific mergers and acquisitions that you can use to beat the market.

Check the sources listed in Chapter 6 every day to find the latest merger and acquisition announcements. Follow the guidelines in Chapter 7 and use them to help select the stocks that you can trade with the M&A Profits strategy.

There are three strategies that you can use; the M&A Short Term strategy, the M&A Long Term strategy, and the M&A Final 1% strategy. Follow the guidelines in Chapter 3 for each strategy and refer to the examples in Chapter 5.

You can refer to the potential profit calculations in Chapter 4 to help you decide which of the strategies you may want to use and what type of account you may want to use. Using a margin account should be considered high risk.

Remember, stock trading involves risk. Only risk capital should be used for trading stocks. It is a good idea to begin by trading on paper when you are learning a new stock trading strategy. Everyone's financial situation, risk tolerance, and schedule are different. By trading on paper, you can decide which of the strategies will best suit your needs.

Web sites that are referenced in this e-book were up to date at the time of publication.

Recommended Resources:

[The Trading Pro System](#) - This course contains over 24 hours of teaching by Dave, in which he covers the options strategies and other techniques that he uses in the daily reviews on this site. These are the techniques that really make money from the market!

[Daily Market Advantage](#) - The daily market reviews are very helpful to make sure you're on the right track and making the best trades each day. When you sign up using this exclusive bonus offer, you will receive a 30 day trial of the Daily Market Advantage for only \$9.95!