

BUYOUT SECRETS

USING SCARCE INFORMATION TO
FIND STOCKS POISED TO EXPLODE



EXAMPLES INCLUDED
13
EXAMPLES INCLUDED



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About CEO

Creator of the OVI, FlagTrader and OptionEasy applications for US stocks and options traders.

“The Big mistake most traders make is failing to use a chart as a reflection of buyer/seller behavior.

When we can look at a chart and spot the behavior of the big leveraged players, we significantly increase our odds.”

Table of Contents

 WiseTraders

What is a buyout?	5
Buyout example	
Why is information important?	6
What is 'scarce' information?	7
1. Examples of 'scarce' information	
2. Trading with 'scarce' information	
3. Legally sourced 'scarce' information	
Buyouts or Profits – who cares?!	11
Buyout Examples	12
Conclusion	26



What is a buyout?

A buyout is where one company buys another.

This action can be executed by way of cash, a share swap, or a combination of the two.

Sometimes this activity is described as a merger, but even the merging of two equal-sized companies is more accurately described as a takeover by one over the other.

Ultimately, one company will end up controlling the new merged entity, so the description “merger” is often motivated by the bruised ego of the target company.

In practice, the target company’s shares are typically acquired for a premium above the pre-announcement share price.

Therefore, any information that can help identify potential buyout target companies, is highly prized.

Interestingly, the aggressor’s share price will often fall while the target company’s rises. This is because there may be a dilution in the profits and/or shares of the aggressor company in order to facilitate the buyout.



Buyout Example

For example, target company ABCD’s shares are trading at \$43.00.

Aggressor company WXYZ makes a bid at \$55.00 per share, a roughly 30% premium to the current share price.

As soon as that news leaks, the shares will jump from \$43.00 to \$55.00.

Anyone holding shares or call options of the target company before the announcement (or rumour) will benefit by the uplift immediately following the announcement (or leak).”

Why is information important?

Corporate buyouts are often cloaked in mystery and mixed signals prior to the event.

Negotiations can fluctuate one way and the other, causing the uncertainty that is (or should be) completely confidential.

As with many other corporate activities, only part of the information that led to the buyout will ever be available to the public before the actual event's announcement.

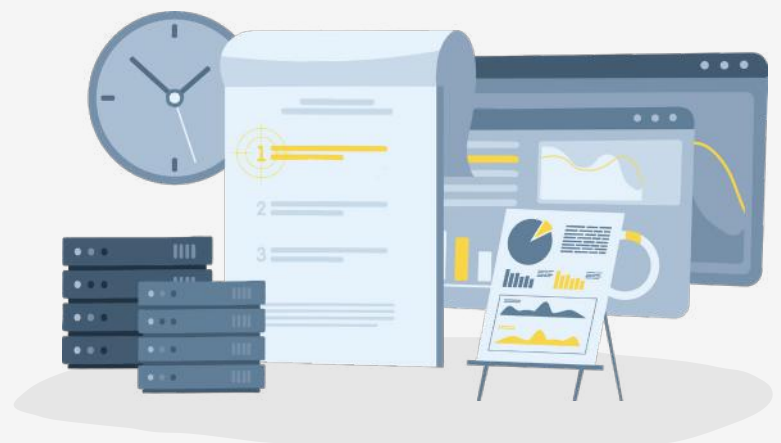
Most of the maneuverings rightly occur behind closed doors. But this is where opportunity lurks because in theory anyone privy to that information is in a position to exploit it.

Anti-insider-trading laws should prevent that from happening, but there are times where you will see significant movement in a share price just days or weeks before a takeover announcement ... and that can be a difficult one to explain!

Similarly, options activity can leave markers in the days or weeks before a takeover announcement. This activity is more subtle, disguised, and difficult to interpret, but it is there.

The important thing to consider is that a buyout is an information-based event, and even more importantly:

A buyout is a “scarce” information-based event.



What is 'scarce' information?

Scarce information is where non-public information exists that could trigger significant movement in a stock price.

The vast majority of information available to traders is generally not scarce.

It may still be highly valuable, but in theory everyone has equal access to it and can interpret its implications.

Not so with scarce information.

Scarce information is potentially transformational.



1. Examples of 'scarce' information



1. The diamond dealer

Consider a diamond dealer - you'll be hard pushed to find a poor one!

A diamond dealer has the scarce information of specific training. The cut, clarity, colour, carat, and source are all specialist pieces of information of which the dealer will have an advantage over the retail customer.

Hence why the diamond dealer will routinely mark up their products by 100% to 200%



2. Coca-Cola

What about Coca-Cola?

Their secret formula so valuable that it is protected in a secret vault in Atlanta.

This tiny recipe has fostered countless multi-billion-dollar companies involved with producing the famous drink, bottling it, transporting it, etc.



3. Kentucky Fried Chicken

And KFC?

Originally Kentucky Fried Chicken, KFC owns a tiny little recipe for fried chicken rub. That's it!

And yet, that secret recipe is responsible for a multi-billion-dollar business, let alone all the other businesses that rely on that recipe retaining its secrecy.



You see, it's the secrecy – or the scarcity – of the information that concentrates the value within those corporate entities.

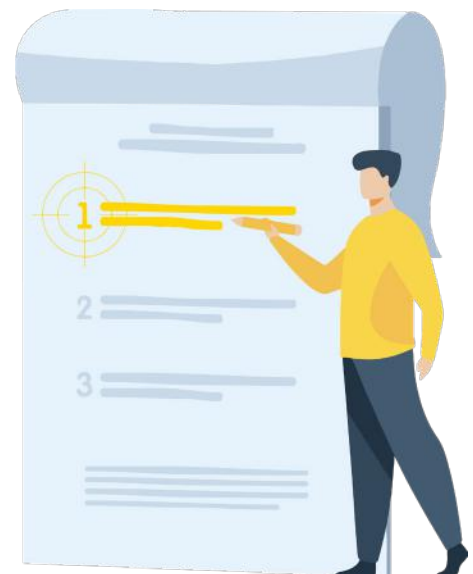
2. Trading with 'scarce' information

As you can see, scarce information means repeatable profits.

That is true in all walks of life, and it is clear from the three examples above:

- The diamond dealer's training
- Coca-Cola's secret formula
- KFC's secret recipe

If you can use scarce information – legal of course – then you too should be able to generate repeatable profits.



3. Legally sourced 'scarce' information

We need to be clear
about information that
is legal vs. information
that is not legal.



Any publicly available information is fair game and totally legal to exploit.

Private sensitive information must be kept private and cannot be exploited by those in possession of it. There are strict rules governing this for anyone connected with it directly or indirectly.

Data on companies, share pricing and derivatives is so vast that efficient market hypothesis (where all information is known and acted upon) is confined to theory only.

Information inefficiency is what causes share prices to fluctuate. Long may this continue!

Because there is so much information and inefficiency, opportunities exist to exploit share price movements by way of superior techniques of analysis.

Hedge funds and large investors will have greater resources for research than the average retail speculator.

When the larger investors smell an opportunity, they will act either on the underlying shares, the options, or both.

Options analysis is far more complex than share price analysis, and therefore any consistent way of exploiting it could be described as legal scarce information.

Buyouts or Profits – who cares?!

Ultimately, what do you care about most? Finding buyout opportunities or making consistent profits?

The truth is that spotting a buyout before it happens is a tough assignment.

What really matters is identifying fertile ground for a buyout and being in position to exploit a rise in the share price.

If you can identify a method for finding potential buyouts, while making consistent profits even if a buyout doesn't materialize, then the buyout is just a bonus.

What will increase your chances of spotting a potential buyout?

Scarce information!



Buyout Examples

What you're looking at

The examples shown below all exhibit a form of scarce information by way of hidden options activity unearthed by a patented formula (the OVI indicator).

Of course, not all buyouts will exhibit such behaviour, but this behaviour is an excellent precursor to more predictable stock price movement.

It goes without saying that a robust trade plan is also an essential requirement. You cannot simply act when you see the "signal". Options data is more nuanced than that, and strict conditions for entries, stops and profit taking are always crucial.

However, you will also find the similarity of the following setups rather uncanny.

And because only a few people can actually view the indicator, it constitutes scarce information.

What you're looking for

In the following charts you'll notice an indicator below the price bars. This indicator fluctuates from blue (positive, bullish) to red (negative, bearish).

When the indicator is persistently blue (for a few days or more) it can mean that large options traders are building bullish positions which may fuel further upside.

When the indicator is persistently red (for a few days or more) it can mean that large options traders are building bearish positions which may fuel further downside.

For the purpose of finding buyouts, we are only interested in the bullish setups.





Twitter

TWTR • 2022



OVI Indicator

With Twitter you can see the blue indicator spiking and staying positive in late March 2022. Only two days into April, Elon Musk announced he had made a 9% acquisition stake in Twitter.

The blue indicator shows options traders potentially building bullish positions in the two weeks prior to the announcement.

It would seem that someone(s) were nicely in **position to take advantage of the 20% uplift** that followed in just one day.



LinkedIn

LNKD • 2016



📍 OVI Indicator

I remember LinkedIn all too well as I was in the Seychelles at the time! I had specifically highlighted it as a potential buyout in May, with the blue indicator being persistently positive since mid-April.

The buyout – by Microsoft – caused a **35% jump in the stock price**.



Virgin America

VA • 2016



📍 OVI Indicator

This was a frustrating one, personally speaking! I spotted VA as an excellent opportunity – see **the blue indicator highlighting options activity** and you'll understand why. This was only detectable to a small group of traders, and together with the setup, suggested that someone somewhere might know something.

The only reason I didn't pile in myself was because the rest of the airline sector sucked at the time. The anomaly of VA soon revealed itself. The resulting buyout by Alaska Airlines caused a **41% spike in the VA share price** overnight.



Pharmacyclics

PCYC • 2015



📍 OVI Indicator

This was one of my all-time favourites as I'd made it clear to my private group this was a classic opportunity well ahead of time.

See the earnings gap-up at the beginning of 2015 ... this is a classic setup. The immediate continuation up-move from there had us into that trade and it kept getting better and better ... all the way until AbbVie made the buyout.

The buyout price in March was at a **69% premium to our entry level** just after that January earnings jump.



Slack

WORK • 2020



OVI Indicator

Slack (WORK) had shown bearish options activity according to our special patented indicator for about a month before it abruptly changed in late November.

From that point the stock started to climb until the news broke that it was being bought by Salesforce (CRM) and the stock soared a further **55% in just over one week**.



Mulesoft

MULE • 2018



📍 OVI Indicator

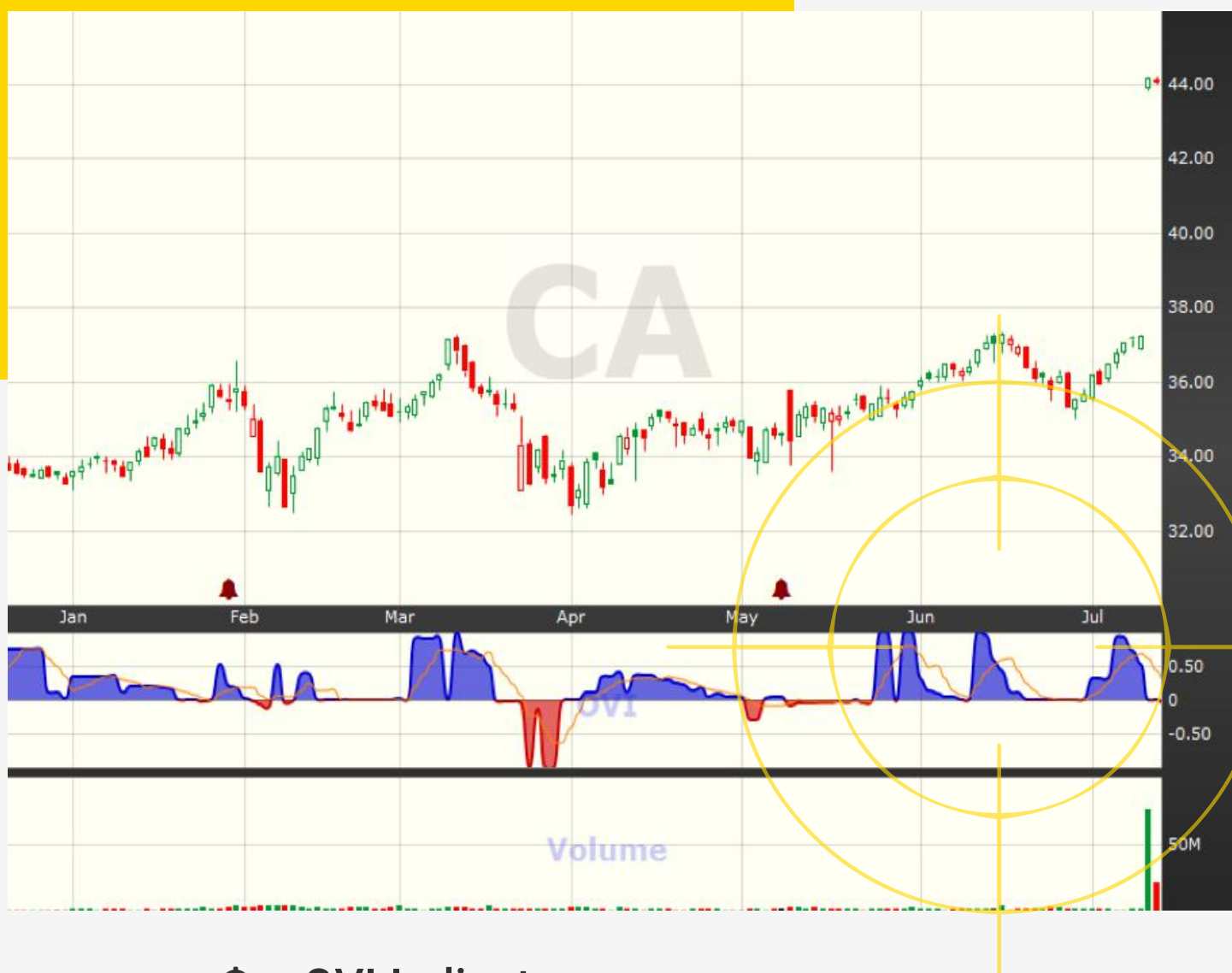
Another aggressive buyout by Salesforce (CRM) this was another wonderful example that were all over.

Notice the big gap-up in mid-February as a result of earnings. The Options Volatility Indicator (OVI) had already been blue for some time. Now it was going to supercharge MULE to new levels, surging a further **46% from its post-earnings level**.



CA Technologies

CA • 2018



OVI Indicator

Broadcom's buyout of CA Technologies was preceded by swathes of bullish options activity – see the blue indicator.

The resulting price pop was **over 18% in a single day**.



Array Biopharma

ARRY • 2019



📍 OVI Indicator

As you can see from blue indicator in the chart, this was a bullish trade for months even before Pfizer's acquisition of ARRY.

The opportunity was especially apparent a few days after the May earnings announcement where the stock price popped up, the OVI remained blue, and the stock then rested for a few days. This is our ideal setup, provided the stock is not overbought. It wasn't overbought here, and the resulting buyout **provided a bonus 70% of gains in just a couple of weeks.**



Genesee & Wyoming Inc

GWR • 2019



📍 OVI Indicator

You may be starting to become familiar with this setup now.

The OVI becomes persistently blue in June, and within a few weeks, this railroad company is being acquired by Brookfield Infrastructure.

The premium is a modest **12% up from its early June price level.**



Fitbit

FIT • 2021



📍 OVI Indicator

Google's buyout of Fitbit wasn't particularly subtle if you observe the charts.

From September onwards the OVI turned blue and stayed blue. From mid-October there were setups to enter just above \$4.00 and \$4.50, leading to an **uplift of between 55-75%** on the buyout announcement in November.



Varian Medical Systems

VAR • 2020



🔗 OVI Indicator

Varian was a classic OVI buyout setup, exhibiting all our “Big Money Footprints”. Ours is not to question why the Big Money was lined up. Our only job is to identify it and follow it with as low risk as possible. In this case Varian was bought by Siemens and the setup was at its optimal in mid-July when the OVI was persistently blue, and the stock price was consolidating just above its 200-day moving average.

On the announcement at the start of August, **the resulting price pop was 34%**.

L Legg Mason

LM • 2020



📍 OVI Indicator

Franklin Templeton's acquisition of Legg Mason was preceded by perfect Big Money behaviour from the stock price and OVI before and after the early February earnings announcement.

The resulting **price pop was at least 25%** depending on your entry date.



Dunkin' Brands

DNKN • 2020



📍 OVI Indicator

We all love a donut, and Dunkin' Brands Group's buyout by Inspire Brands was a peach. For almost three months prior to the buyout in late October, DNKN's OVI stayed deep positive blue, while the stock price rose with near-perfect consolidation patterns meaning low risk entry setups.

From the first discernible setup **in August the eventual uplift was 43%**. From **the next one in September, it was 35%**. And from **the October breakout it was 23%**. Three simple opportunities using our scarce information and favourite setup.

Conclusion

Get in on a buyout ahead of time, and you're likely to make a windfall profit.

The question is, how do you sniff out these buyout opportunities ahead of time?

The reality is that targeting a buyout specifically can be a tortuous exercise with very little end-product to show for all the effort.

Here's what we do know:

- Buyouts are often known about ahead of time.
- Those in-the-know, using this scarce information, may be tempted to take advantage by using options as leverage.
- Using options is much more difficult to spot than buying shares.

Identifying this options activity in itself becomes scarce information.

After extensive independent analysis over many years, it has been proven that it pays to focus on a specific setup that includes "hidden" options activity.

This activity will sometimes coincide with a buyout and will frequently coincide with consistent upside.

So, either way it makes sense to use the scarce information of options information to make profits regardless of whether a buyout happens.

The end result is that you'll be a more successful trader.

