

Profitable INVESTING Tips

Stock Market Investing Tips, Techniques, and Resources



Target Corporation: Buy or Sell Short?

Regarding Target Corporation, is it time to buy yet or still sell short? We wrote about the Target security breach in December after it was revealed that about 110 million Target customers had personal data stolen from the Target credit card system. We noted that the world is set to move to EMV cards which are much more difficult to hack. Then we find out that the way into the Target system was by way heating and ventilation software. Target already had a system in place to detect malware and then, when its team in Bangalore detected a problem and sounded the alarm, no one in Minneapolis responded... First Target's information office went out the door and now the company's CEO is gone. Has this gone far enough or is there more? Is it time to buy the stock and wait for a recovery or do need to sell short and ride the stock downward some more? What does fundamental analysis of the situation tell us?

Target Stock Price

Target currency sells for about \$60 a share. It was selling for around \$73 a share before the data breach become an issue. The stock fell to \$55 a share and then recovered a bit. Customers have stayed away and the extent of damages from law suits is uncertain. Nevertheless, quarterly profits have stayed in the 5 to 5 billion dollar range over the last year. Target does not seem set to go away. Even through customers may be ticked off at the company they still seem to be coming in to the stores. That leaves us with the question of what will happen with law suits for damages or even punitive damages for negligence when it turns out that someone missed the alarm. Our best guess is that the stock price will not but hurt by any downturn in business unless some global disaster brings on another recession. Rather the news will be full of items about Target not protecting the data of its customers. That sort of news can affect stock prices but tends to closely shadow the 24 hour news cycle. That is to say when the news it go it may be time to buy for the short term and pocket a quick profit. And when the news is bad it may be time to sell short and then take a profit before stock recovers. In the end a good fourth quarter may save the day for Target. If you believe that the company will eventually put all of this behind them, you will make money by investing in Target for the long haul.

Buy, Sell Short, Buy Options

To the extent that Target still appears to be somewhat volatile it might be wise to consider buying options on Target stock. A call option gives you the right to purchase the stock at a set price after it goes up. A put option gives you the right to sell the stock at a set price after it has fallen. A common strategy is called a long straddle. A trader buys both calls and puts on the same stock with the same expiration date and same strike price. He wins if the stock goes either up or down, providing that the rise or fall is sufficient to cover the cost of the

options contracts. And if the stock stands still he only loses the premiums he paid for the options contracts. In the end, whether to buy or sell short on Target is resolved by careful observation and analysis.

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