



OPTIONSMART
3-D OPTION TRADING STRATEGIES

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3-D Research Note on FXI



Chart courtesy of StockCharts.com

#	Date	Most Recent News	Stock's Reaction
1	24-Jan	Top China bank extended \$37 bln loans in Jan to help stimulate economic growth	positive
2	5-Feb	AllianceBernstein cut holdings in PetroChina	positive
3	7-Feb	China Mobile Chairman said that the company is still growing despite the recession and is even looking at acquisitions!	negative
4	9-Feb	China Mobile will go to Finland to promote Nokia's research and production of TD-SCDMA mobile phones	negative
5	9-Feb	China's Exports May Fall by Most in Decade as Demand Dries Up: shipments tumbled 14 percent from a year earlier	negative
6	10-Feb	China stocks up 1.8 pct, real estate outperforms	-

OUR RECOMMENDATION: STRONG BUY

RECOMMENDED TRADING VEHICLE:

Bullish Debit Call Spread
 Buy to Open FJJET FXI May 20 Call IV 68.8 Delta .87
 Sell to Open FJJEX FXI May 24 Call IV 62.6 Delta .75
 Debit 3.20
 Position Net Delta 0.12
 Max Gain 0.80
 Max Risk 3.20
 Target Credit 3.68

WEEKLY CHART



Chart courtesy of StockCharts.com

Key sector components	Fundamentals
China Mobile Ltd.	Trailing P/E (NA); Forward P/E (NA); PEG Ratio (NA); EPS Trends-NA
China Life Insurance	Trailing P/E (NA); Forward P/E (NA); PEG Ratio (NA); EPS Trends-NA
Industrial & Commercial Bank of China	Trailing P/E (NA); Forward P/E (NA); PEG Ratio (NA); EPS Trends-NA
PetroChina	Trailing P/E (NA); Forward P/E (NA); PEG Ratio (NA); EPS Trends-NA
China Construction Bank	Trailing P/E (NA); Forward P/E (NA); PEG Ratio (NA); EPS Trends-NA

BULLISH	FACTORS	BEARISH
✓	Obama signaled he would be open to expanding the \$700B financial rescue program if need be	
	Wholesale Inventories -1.4% in December, more than the -0.7% consensus, but remain up 3.4% vs. a year ago. Wholesale sales fell 3.6%, and are down 10.7% vs. a year ago.	✓
	Retail sales fell 2.7% from November to \$343.2B, according to the Census Bureau, and were 9.8% lower than a year ago. Consensus was for -1.2% M/M. Excluding auto sales, December was -3.1% M/M vs. estimates of -1.3%.	✓
✓	Barclays' (BCS) H2 profit rose by more than analysts expected, buoyed by one-off gains from the purchase of Lehman assets and the sale of an insurance unit.	
	General Motors (GM) and Chrysler may have to be forced into bankruptcy to assure repayment of \$17.4B in government loans, as U.S. taxpayers currently take a back seat to prior creditors including Citigroup (C), JPMorgan Chase (JPM) and Goldman Sachs (GS).	✓
	Retailers reported weak same-store sales in January as consumers cut back even more on discretionary spending. Sales for the industry as a whole fell 1.6%. A notable exception was Wal-Mart (WMT), which posted a 1.5% gain for the month.	✓
	Initial jobless claims remained elevated, with 588,000 this week after last week's (revised) 585,000 - vs. consensus of 575,000. Continuing claims +66.5K to 4.63M.	✓

3D CHECK LIST

BULLISH	FACTORS	BEARISH
	Technicals	
✓	Bullish daily MACD	
✓	Overbought daily Stochastic Oscillator	
✓	ETF trend (weekly) - found support at 23.40	
✓	Support at 23.35, 50MA	
	Resistance at 31.98, 200MA	✓
✓	Key sector components (Financial Services, Energy, Telecommunication)-paced the way higher	
	Fundamentals	
✓	Average P/E (10.05)	
✓	Average P/B (1.33)	
✓	Average P/S (1.15)	
	Market Play	
✓	Program trading buy orders at 24.65 after Jan 27	
✓	Implied volatility (61.20%) > Historical volatility (59.89%)	
✓	Unusually high option trading volumes for Mar 24-30 Calls/Puts	
	Inadequate reaction on the latest positive news (see the chart above)	✓

BULLISH PLAY

BUY STOCK

Stock Symbol	Last Stock Price	Recommended Entry Stock Price	Break-even	Sum Invested (per share)	Projected Stop Price	Max Loss (per share)	Max Profit (per share)	Exit Price (Target Price)	Target Profit (per share)	Target Return
FXI	28.25	27.00	27.00	27.00	23.30	3.70	Unlimited	90.00	63.00	233.3%

BUY CALL

Stock Symbol	Last Stock Price	Expiration Month	Strike Price	Option Symbol	Recommended Entry Stock Price	Entry Call Option Price	Break-even	Max Profit (per one contract)	Sum Invested (per one contract)	Exit Price (Target Price)	Target Profit (per one contract)	Target Return
FXI	28.25	May-09	20.00	.FJJET	27.00	7.90	27.90	Unlimited	7.90	8.69	0.79	10.0%

BULLISH PUT SPREAD

Stock Symbol	Last Stock Price	Expiration Month	Lower Strike	Option Symbol	Higher Strike	Option Symbol	Recommended Entry Stock Price	Entry Credit	Break-even	Max Profit (per one contract)	Sum Invested (per one contract)	Exit Debit (Target Debit)	Target Profit (per one contract)	Target Return
FXI	28.25	May-09	20.00	20.00	24.00	.FJJQX	27.00	1.11	22.89	1.11	2.89	0.97	0.13	4.6%

BULLISH CALL SPREAD

Stock Symbol	Last Stock Price	Expiration Month	Lower Strike	Option Symbol	Higher Strike	Option Symbol	Recommended Entry Stock Price	Entry Debit	Break-even	Max Profit (per one contract)	Sum Invested (per one contract)	Exit Credit (Target Credit)	Target Profit (per one contract)	Target Return
FXI	28.25	May-09	20.00	.FJJET	24.00	.FJJEX	27.00	3.20	23.20	0.80	3.20	3.68	0.48	15.0%

SHORT GLOSSARY

Break-even. Point at which gains equal losses. This is the market price that a stock must reach for an option to avoid loss if exercised. For a call, the break-even equals the strike plus the premium paid.

Call option. The right, but not the obligation, to buy the stock at a predetermined price (also known as the strike) at any moment before the expiration date for a paying a premium.

Put Option - the right, but not the obligation, to sell stock at a predetermined price (also known as a strike) at any moment before the expiration date.

Expiration Date. The day when an option contract becomes void (the Saturday after the third Friday of the expiration

In-the-Money Option. An option that has intrinsic value. A call (put) option is in-the-money if the strike is less (greater) than the current market price of the stock.

Intrinsic Value: The value of an option if it were to expire immediately with the underlying stock at its current price or the amount by which an option is in-the-money. For call options, this is the difference between the stock price and the striking price, if that difference is a positive number, or zero otherwise. For put options it is the difference between the striking price and the stock price, if that difference is positive, and zero otherwise.

Spread. A position with long and short options of the same type on the same underlying stock or index.

Time Value. Amount by which the current market price of an option exceeds its intrinsic value (the difference between the stock price and the strike). This additional value of an option is due to the volatility of the market and the time remaining until expiration.

Auto-trade in 5 easy steps

optionsXpress	thinkorswim
1. Log into your brokerage account.	1. Log into your brokerage account.
2. Select Xecute, select OptionSmart as an Investor Publisher	2. Select Autotrade, click Sign Up/Newsletter Providers and choose OptionSmart as newsletter provider
3. Select a service	3. Select Autotrade Management, click Allocations (per trade)
4. Determine Amount Type (Specific Dollar Amount, # of Contracts/Shares, % of Cash Available, % of Buying Power, % of Total Account Value)	4. Determine Amount Type (Specified Dollar Amount, Srecified Quantity, % of Available Buying Power, % of Net Liquidating Value)
5. Select a Trade Amount	5. Select a Trade Amount

There is risk in trading options. One's financial suitability should be considered carefully before placing any trades. Past performance is not indicative of future results.

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