



OPTIONSMART
3-D OPTION TRADING STRATEGIES

3-D Research Note on SMH



Chart courtesy of StockCharts.com

#	Date	Most Recent News	Stock's Reaction
1	27-Jan	TXN: Davenport upped to Neutral	positive
2	29-Jan	KLAC missed by \$0.06; issued mixed guidance	negative
3	13-Feb	TXN: UBS upped to Buy	positive
4	19-Feb	ADI: UBS reited Buy	negative
5	25-Feb	INTC: Barclays Capital reited Equal Weight	positive
6	2-Mar	ALTR guided in-line	negative
7	3-Mar	XLNX guided above consensus	-

OUR RECOMMENDATION: STRONG BUY

RECOMMENDED TRADING VEHICLE:

Bullish Debit Call Spread

Buy to Open SZSEM SMH May 13 Call IV 57.4 Delta .80

Sell to Open SZSEO SMH May 15 Call IV 52.8 Delta .62

Debit 1.35

Position Net Delta 0.18

Max Gain 0.65

Max Risk 1.35

Target Credit 1.55

WEEKLY CHART



Chart courtesy of StockCharts.com

Key sector components	Fundamentals
Intel Corporation (INTC)	Trailing P/E (43.37); Forward P/E (15.58); PEG Ratio (2.52); EPS Trends-neutral
TEXAS INSTRUMENTS (TXN)	Trailing P/E (9.5); Forward P/E (20.25); PEG Ratio (4.63); EPS Trends-down
Applied Materials, Inc. (AMAT)	Trailing P/E (21.27); Forward P/E (30.52); PEG Ratio (NA); EPS Trends-down
ANALOG DEVICES (ADI)	Trailing P/E (11.96); Forward P/E (22.41); PEG Ratio (2.34); EPS Trends-down
Altera Corporation (ALTR)	Trailing P/E (12.33); Forward P/E (18.2); PEG Ratio (1.73); EPS Trends-down

BULLISH	FACTORS	BEARISH
	No aid for Eastern Europe. EU leaders refused over the weekend to consider a coordinated bailout package for troubled Eastern European economies, sending the euro down along with local stocks.	✓
	The government has stepped in to save AIG (AIG) for the third time, giving it a new \$30B lifeline as it posted a major quarterly loss	✓
	Durable Goods Orders fell 5.2% (\$9.0B) in January, markedly worse than consensus of -2.5%. Inventories decreased 0.8% (\$2.8B) to \$340.7B. Shipments were down 3.7% (\$6.9B) to \$183.1B following December's 1.5% dip.	✓
	Obama's budget will cost a whopping \$3.6T over the next ten years. It projects a \$1.75T deficit which, at 12.3% of GDP, is the highest level since World War II. Among the expenditures, \$634B has been earmarked to expand healthcare, \$750B of new money was set aside for bank bailouts, and \$75B is for Iraq and Afghanistan through this fall.	✓
	New home sales in January fell 10.2% to 309,000 from December, short of the expected 330,000. Dec. was revised to 344,000 from 331,000. Median price was \$201,100. At the current sales rate, there's 13.3 months of supply.	✓
✓	Retail sales rose. Retail chain store sales rose 0.6% from a week ago, ICSC said, and declined 0.8% Y/Y.	

3D CHECK LIST

BULLISH	FACTORS	BEARISH
	Technicals	
	Daily MACD - bearish	✓
	Bearish daily Stochastic Oscillator	✓
✓	ETF trend (weekly) - looking for a bottom	
✓	Support at 15.52; 14.58	
	Resistance at 19.05	✓
	Key sector components (Hardware)-closed in red	✓
	Fundamentals	
✓	Average P/E (15.22)	
✓	Average P/B (1.80)	
✓	Average P/S (1.53)	
	Market Play	
✓	Program trading buy orders at 15.6 after Feb 23	
✓	Implied volatility (55.30%) > Historical volatility (54.81%)	
✓	Unusually high option trading volumes for Mar 15-20 Calls/Puts	
✓	Adequate 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
SMH	15.74	15.60	15.60	15.60	14.30	1.30	Unlimited	19.00	3.40	21.8%

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
SMH	15.74	May-09	13.00	.SZSEM	15.60	3.14	16.14	Unlimited	3.14	3.45	0.31	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
SMH	15.74	May-09	13.00	13.00	15.00	.SZSQO	15.60	0.70	14.30	0.70	1.30	0.62	0.08	6.5%

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
SMH	15.74	May-09	13.00	.SZSEM	15.00	.SZSEO	15.60	1.35	14.35	0.65	1.35	1.55	0.20	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, Specified 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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