



OPTIONSMART  
3-D OPTION TRADING STRATEGIES

# 3-D Research Note on SPY



Chart courtesy of StockCharts.com

#	Date	Most Recent News	Stock's Reaction
1	15-Jan	PG: Bernstein cut to Mkt Perform	positive
2	20-Jan	JNJ beat by \$0.02, issued mixed guidance for the FY 2009	negative
3	21-Jan	JNJ: Credit Suisse reited Neutral, Stanford Research reited Buy; GE: Oppenheimer reited Perform	positive
4	23-Jan	GE: earnings in-line, maintained dividend	positive
5	26-Jan	GE: Barclays Capital reited Overweight	positive
6	28-Jan	XOM: UBS cut to Neutral; T missed by \$0.01	positive

**OUR RECOMMENDATION: STRONG BUY**

**RECOMMENDED TRADING VEHICLE:**

Bullish Debit Call Spread

Buy to Open SZCCA SPY Mar 79 Call IV 43.3 Delta .76

Sell to Open SZCCE SPY Mar 83 Call IV 39.7 Delta .67

Debit 2.92

Position Net Delta 0.09

Max Gain 1.08

Max Risk 2.92

Target Credit 3.36

## WEEKLY CHART



Chart courtesy of StockCharts.com

Key sector components	Fundamentals
Exxon Mobil Corp. ( <b>XOM</b> )	Trailing P/E (8.57); Forward P/E (14.70); PEG Ratio (1.19); EPS Trends-down
Procter & Gamble Co. ( <b>PG</b> )	Trailing P/E (15.50); Forward P/E (13.89); PEG Ratio (1.33); EPS Trends-up
General Electric Co. ( <b>GE</b> )	Trailing P/E (7.86); Forward P/E (10.23); PEG Ratio (1.24); EPS Trends-down
AT&T, Inc. ( <b>T</b> )	Trailing P/E (11.42); Forward P/E (9.46); PEG Ratio (1.45); EPS Trends-down
Johnson & Johnson ( <b>JNJ</b> )	Trailing P/E (12.82); Forward P/E (11.98); PEG Ratio (1.855); EPS Trends-down

BULLISH	FACTORS	BEARISH
	The U.S. Budget Deficit swelled to a record \$485B in FQ1, compared to a deficit of \$455B for all of fiscal 2008. December's budget shortfall was \$83.6B, vs. a \$48.3B surplus a year ago.	✓
	65% of Americans now rate the economy as 'poor,' a record in 23 years of weekly polls. ABC's Consumer Comfort Index remains at a dismal -49.	✓
	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%.	✓
	The U.S. business climate is the worst in almost three decades. 47% of respondents reported a fall in demand for goods and services, an all-time high.	✓
	Conference Board's Consumer Confidence Index inched down to an all-time low of 37.7 from December's 38.6. Expectations dipped to 43.0 from 44.2.	✓
	The global payroll lost over 76,000 jobs yesterday as major firms in the U.S. and Europe took additional steps to survive the worsening economic downturn.	✓
✓	Canada will inject C\$40B (\$32.6B) into its economy over the next two fiscal years through tax cuts and increased spending.	

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## 3D CHECK LIST

BULLISH	FACTORS	BEARISH
	<b>Technicals</b>	
✓	Bullish weekly MACD, daily MACD turns bullish	
✓	Bullish daily and Stochastic Oscillators	
✓	ETF trend (weekly) - found support at 80.0	
✓	Support at 82.5, 80.0, 75.0	
	Resistance at 91.2, 95.0	✓
✓	Key sector components (Energy, Healthcare, Financial Services)-are forming bottom	
	<b>Fundamentals</b>	
✓	Average P/E (10.23)	
✓	Average P/B (1.52)	
✓	Average P/S (0.88)	
	<b>Market Play</b>	
✓	Program trading buy orders at 80.0 after Nov 24	
✓	Implied volatility (35.03%) ~ Historical volatility (35.21%)	
✓	Unusually high option trading volumes for Mar, Apr 75-98 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
<b>SPY</b>	87.39	86.00	86.00	86.00	80.00	6.00	Unlimited	90.00	4.00	4.7%

## 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
<b>SPY</b>	87.39	Mar-09	83.00	SZCCE	86.00	6.54	89.54	Unlimited	6.54	7.52	0.98	15.0%

## 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
<b>SPY</b>	87.39	Mar-09	79.00	SZCOA	83.00	SZCOE	86.00	2.27	80.73	2.27	1.73	2.00	0.27	15.8%

## 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
<b>SPY</b>	87.39	Mar-09	79.00	SZCCA	83.00	SZCCE	86.00	2.92	81.92	1.08	2.92	3.36	0.44	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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