



OPTIONSMART  
3-D OPTION TRADING STRATEGIES

Released on 2/25/2009

# 3-D Research Note on SPY



Chart courtesy of StockCharts.com

#	Date	Most Recent News	Stock's Reaction
1	28-Jan	T missed by \$0.01;	positive
2	30-Jan	XOM beat by \$0.1	negative
3	2-Feb	PG: Barclays Capital reiterated Equal Weight	positive
4	6-Feb	GE: JP Morgan reiterated Neutral	positive
5	19-Feb	XOM: Bernstein cut to Mkt Perform	negative
6	23-Feb	XOM: Deutsche Securities upped to Buy; GE: Deutsche Securities reiterated Hold	negative
7	25-Feb	T upped to overweight by J.P. Morgan	-

**OUR RECOMMENDATION: STRONG BUY**

**RECOMMENDED TRADING VEHICLE:**

Bullish Debit Call Spread

Buy to Open SZCCT SPY Mar 72 Call IV 44.8 Delta .75

Sell to Open SZCCV SPY Mar 74 Call IV 43.2 Delta .68

Debit 1.60

Position Net Delta 0.07

Max Gain 0.40

Max Risk 1.60

Target Credit 1.84

## WEEKLY CHART



Chart courtesy of StockCharts.com

Key sector components	Fundamentals
EXXON MOBIL CP (XOM)	Trailing P/E (8.29); Forward P/E (10.4); PEG Ratio (2.0); EPS Trends-down
GEN ELECTRIC CO (GE)	Trailing P/E (5.29); Forward P/E (6.88); PEG Ratio (0.84); EPS Trends-down
AT&T INC. (T)	Trailing P/E (10.76); Forward P/E (10.29); PEG Ratio (2.66); EPS Trends-down
PROCTER GAMBLE CO (PG)	Trailing P/E (11.47); Forward P/E (12.11); PEG Ratio (1.24); EPS Trends-neutral
JOHNSON AND JOHNS DC (JNJ)	Trailing P/E (11.94); Forward P/E (11.18); PEG Ratio (1.44); EPS Trends-neutral

BULLISH	FACTORS	BEARISH
✓	Obama sees opportunity in crisis. All the rebuilding and recovery carries a price tag, and Obama signalled more taxpayer money will be needed to pull the country out of the credit crisis.	
✓	Banks bounced on Bernanke comments against nationalizing U.S. banks.	
	Consumer confidence fell. Conference Board's Consumer Confidence Index fell to a new all-time low of 25.0 from January's 37.4. Expectations dropped to 27.5 from 42.5.	✓
✓	Retail sales rose. Retail chain store sales rose 0.6% from a week ago, ICSC said, and declined 0.8% Y/Y.	
✓	Big-spending Obama wants to halve the deficit. After inheriting a \$1.3T deficit from the previous administration, equal to 9.2% of GDP, Obama is expected to promise to cut the deficit in half (to \$533B) by the end of his first term.	
	Japan: Recent data showed the country suffered its biggest quarterly contraction since 1974, shrinking 12.7% in Q4 on an annualized basis and 3.3% from the previous quarter, and economists expect further deterioration.	✓
✓	Currency defense in Asia. Thirteen Southeast Asian nations, including Japan, China and South Korea, have agreed to pool \$120B to be used to defend their currencies amid the deepening global recession. The amount is 50% more than the sum proposed last May.	

## 3D CHECK LIST

BULLISH	FACTORS	BEARISH
	<b>Technicals</b>	
	Daily MACD - bearish	✓
✓	Very bullish daily Stochastic Oscillator	
✓	ETF trend (weekly) - tried to form a bottom	
✓	Support at 74.76	
	Resistance at 88.36; 50MA	✓
✓	Key sector components (Healthcare, Energy, Financial Services)-bullish	
	<b>Fundamentals</b>	
✓	Average P/E (10.72)	
✓	Average P/B (1.59)	
✓	Average P/S (0.80)	
	<b>Market Play</b>	
✓	Program trading buy orders at 79.17 after Feb 17	
✓	Implied volatility (40.90%) > Historical volatility (38.68%)	
✓	Unusually high option trading volumes for Mar 73-85 Calls/Puts	
	Indequate 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>	77.48	75.00	75.00	75.00	70.00	5.00	Unlimited	85.00	10.00	13.3%

## 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
<b>SPY</b>	77.48	Mar-09	72.00	.SZCCT	75.00	4.99	76.99	Unlimited	4.99	5.49	0.50	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
<b>SPY</b>	77.48	Mar-09	72.00	72.00	74.00	.SZCOV	75.00	0.78	73.22	0.78	1.22	0.69	0.09	7.7%

## 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>	77.48	Mar-09	72.00	.SZCCT	74.00	.SZCCV	75.00	1.60	73.60	0.40	1.60	1.84	0.24	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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