



OPTIONSMART  
3-D OPTION TRADING STRATEGIES

# 3-D Research Note on MSFT



Chart courtesy of StockCharts.com

#	Date	Most Recent News	Stock's Reaction
1	17-Dec	MSFT eyes '09 market-beating Xbox sales	negative
2	7-Jan	MSFT: Jefferies & Co reited Buy	negative
3	8-Jan	MSFT: Davenport reited Buy	positive
4	15-Jan	Rumours(Wall Street Journal): MSFT to cut far less than 15,000 jobs that have been rumored, Friedman Billings reits Outperform	positive
5	22-Jan	MSFT: missed by \$0.02 (\$0.47 vs. \$0.49 consensus), revenue rose 1.6%, net income slipped 11% to \$4.17bln, announced 5,000 jobs cut	negative
6	23-Jan	MSFT: UBS, Collins Stewart, Jefferies & Co, Stanford Research, reited Buy, UBS reited Buy, RBC Capital Mkts reited Sector Perform, Davenport cut to Neutral	positive

**OUR RECOMMENDATION: STRONG BUY**

**RECOMMENDED TRADING VEHICLE:**

Bullish Debit Call Spread

Buy to Open MQFDB MSFT Apr 10 Call Delta 1.00

Sell to Open MQFDC MSFT Apr 15 Call IV 46.7 Delta .77

Debit 4.20

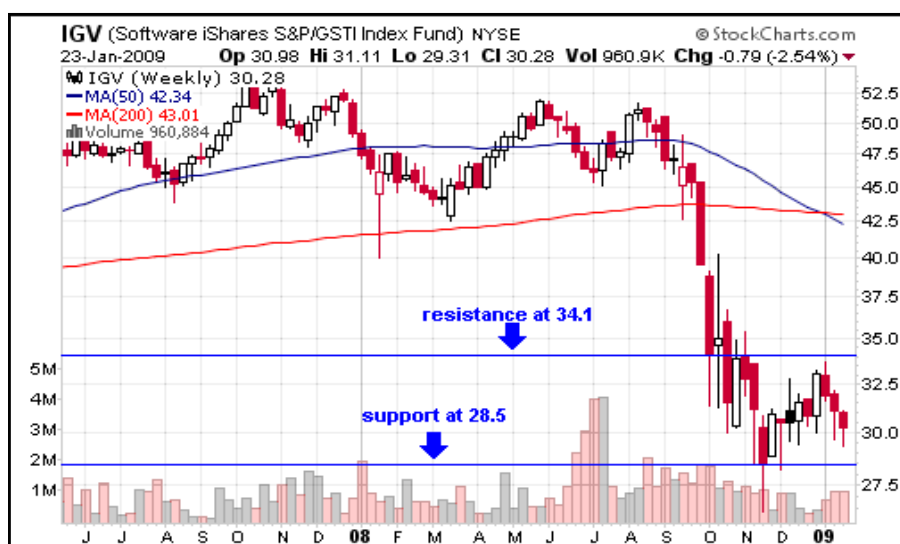
Position Net Delta 0.23

Max Gain 0.80

Max Risk 4.20

Target Credit 4.83

## WEEKLY CHART



Key sector components	Fundamentals
Oracle Corp. (ORCL)	Trailing P/E (15.24); Forward P/E (10.83); PEG Ratio (0.88); EPS Trends-down
Microsoft Corporation (MSFT)	Trailing P/E (9.22); Forward P/E (8.47); PEG Ratio (0.90); EPS Trends-down
Symantec Corporation (SYMC)	Trailing P/E (18.09); Forward P/E (9.11); PEG Ratio (0.92); EPS Trends-neutral
Adobe Systems Inc. (ADBE)	Trailing P/E (12.40); Forward P/E (9.90); PEG Ratio (0.68); EPS Trends-down
Intuit Inc. (INTU)	Trailing P/E (17.62); Forward P/E (11.46); PEG Ratio (0.91); EPS Trends-mixed

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.	✓
	Housing Starts fell 15.5% in December from a month ago to 550K/year. Permits dropped 10.7% from November to 549K. Completions declined 5.2% to 1.015M/year. From a year ago, the trio are down 45%, 36.2% and 25.7%	✓
	Initial Jobless Claims soared 62,000 to 589,000, exceeding consensus of 543,000. Continuing claims +97K to 4.607M.	✓
✓	Retail chain store sales rose 1.1% from a week ago	

## 3D CHECK LIST

BULLISH	FACTORS	BEARISH
	<b>Technicals</b>	
	Bearish weekly and daily MACD	✓
✓	Oversold daily Stochastic Oscillator	
	The stock is in the short-term downward trend	✓
✓	Support at 16.8	
✓	Resistance at 21.0, 50MA	✓
✓	Similar stocks are forming bottom	
	<b>Fundamentals</b>	
✓	Forward P/E (8.47) < Trailing P/E (9.22)	
✓	PEG (0.90)	
✓	Operating Margin (38.06%), ROA (22.15%), ROE (38.06%), P/S (2.47)	
	Bearish EPS revisions trend	✓
	<b>Market Play</b>	
✓	Program trading buy orders at 16.8 after Jan 23	
✓	Implied volatility (43.99%) < Historical volatility (58.48%)	
✓	Unusually high option trading volumes for Feb-Jul 15-22 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
MSFT	17.20	16.90	16.90	16.90	16.30	0.60	Unlimited	18.00	1.10	6.5%

## 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
MSFT	17.20	Apr-09	15.00	.MQFDC	16.90	2.51	17.51	Unlimited	2.51	2.88	0.38	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
MSFT	17.20	Apr-09	10.00	.MQFPB	15.00	15.00	16.90	0.76	14.24	0.76	4.24	0.38	0.38	8.9%

## 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
MSFT	17.20	Apr-09	10.00	.MQFDB	15.00	.MQFDC	16.90	4.20	14.20	0.80	4.20	4.83	0.63	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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