



OPTIONSMART
3-D OPTION TRADING STRATEGIES

3-D Research Note on AAPL



Chart courtesy of StockCharts.com

| # | Date | Most Recent News | Stock's Reaction |
|---|--------|---|------------------|
| 1 | 10-Jun | AAPL tgt upped to \$287 from \$248 at Citigroup | positive |
| 2 | 19-Jun | AAPL: 3G iPhone component suppliers to see expanded revenues in 3Q08 | positive |
| 3 | 24-Jun | AAPL: Credit Suisse sees challenges for iPhone 3G in Hong Kong: 1) competing services and devices, 2) more expensive data packages to | positive |
| 4 | 26-Jun | Apple: Checks show big upward iPhone build revisions; Positive for BRCM, MRVL | negative |
| 5 | 27-Jun | AAPL and CHL: in talks to bring iPhone to mainland China have cleared their biggest hurdle and are now focusing on practical issues | positive |
| 6 | 30-Jun | AAPL: Unprecedented pent-up demand for iPhone 3G | positive |
| 7 | 8-Jul | (AFTER THE CLOSE) AAPL announced plans to sell its iPhone 3G on Friday July 11th at 8 am across time zones | positive |

OUR RECOMMENDATION: STRONG BUY

RECOMMENDED TRADING VEHICLE:

Open Debit Call Spread:

Buy to Open APVHK AAPL Aug 155 Call IV 55.6 Delta .78

Sell to Open APVHL AAPL Aug 160 Call IV 54.4 Delta .72

Debit 3.80

Position Net Delta .06

Max Gain 1.20

Max Risk 3.80

Target Credit 4.38

WEEKLY CHART

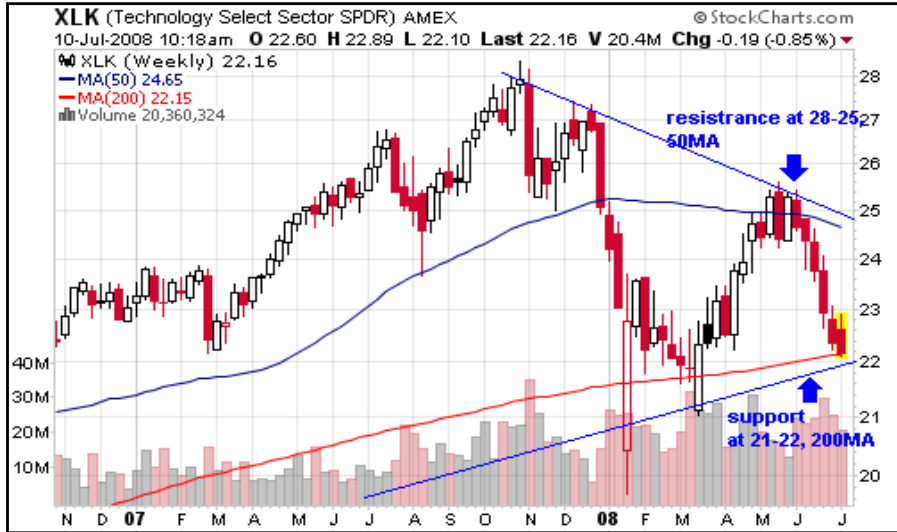


Chart courtesy of StockCharts.com

| Key sector components | Fundamentals |
|--------------------------|--|
| AT&T INC. (T) | Trailing P/E (15.95); Forward P/E (9.74); PEG (1.18); EPS Trends-bearish |
| MICROSOFT CP (MSFT) | Trailing P/E (14.78); Forward P/E (11.77); PEG (1.20); EPS Trends-neutral |
| APPLE INC (AAPL) | Trailing P/E (36.24); Forward P/E (27.55); PEG Ratio (1.31); EPS Trends-neutral |
| CISCO SYS INC (CSCO) | Trailing P/E (17.06); Forward P/E (12.85); PEG Ratio (1.02); EPS Trends-neutral |
| INTL BUSINESS MACH (IBM) | Trailing P/E (15.94); Forward P/E (12.74); PEG Ratio (1.24); EPS Trends- bullish |

| BULLISH | LONG-TERM FACTORS | BEARISH |
|---------|---|---------|
| ✓ | Strong June same-store sales reports from retailers confirm what has already been apparent in the May real personal consumption expenditure (PCE) data: the fiscal stimulus checks are providing a huge boost to consumer spending. The June same-store sales data were very strong, and this suggests that June retail sales will be up 1% or more. May retail sales were up 1.2%. May real PCE was up 0.4% and a similar increase is now likely for June. For the second quarter, this total measure of consumer spending will be up at a 2.5% or higher annual rate. May personal income was up 1.9% due to the fiscal stimulus checks. This was about | |
| | Jobless claims for the week ending June 21 exceeded expectations, totaling 384,000, though they were unchanged from the prior week. | ✓ |
| | Consumer confidence in June slipped 13% to its lowest level since 1992, after consumers were bombarded with reports of spiking food and energy costs and rising unemployment | ✓ |
| ✓ | Excluding memory products, semiconductor sales rose 8.1% in January. For the year, the SIA is predicting 12% PC and 12-15% cellular handset unit growth. | |
| | | |

3D CHECK LIST

| BULLISH | FACTORS | BEARISH |
|----------------|--|----------------|
| | Technicals | |
| ✓ | Daily and weekly MACD turns bullish | |
| ✓ | Daily and weekly Stochastic Oscillator bearish | |
| ✓ | The stock is in the short and intermediate-term upward trend | |
| ✓ | Support at 200MA, 160.0, 165.0 | |
| ✓ | Resistance at 50MA, 185.0, 190.0 | ✓ |
| ✓ | Similar stocks or key components are forming bottom | |
| | Fundamentals | |
| ✓ | Forward P/E (26.98) < Trailing P/E (35.38) | |
| ✓ | PEG (1.37) | |
| ✓ | P/S (5.22) | ✓ |
| ✓ | Operating Margin (19.28%), ROE (28.69%) | |
| | Mixed EPS revisions trend | ✓ |
| | Market Play | |
| ✓ | Program trading buy orders at 163 after June 27 | |
| ✓ | Implied volatility (51.77%) > Historical volatility (51.40%) | |
| ✓ | Adequate reaction on the latest positive news (see the chart above) | |
| ✓ | Trading volumes go up after Jun 23 | |
| ✓ | Unusually high option trading volumes for Jul-Oct 160-180 Calls and Puts | |

Overall Rating: BULLISH

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 |
|--------------|------------------|-------------------------------|------------|--------------------------|----------------------|----------------------|------------------------|---------------------------|---------------------------|---------------|
| AAPL | 174.25 | 172.80 | 172.80 | 172.80 | 171.00 | 1.80 | Unlimited | 177.15 | 4.35 | 2.5% |

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 |
|--------------|------------------|------------------|--------------|---------------|-------------------------------|-------------------------|------------|-------------------------------|---------------------------------|---------------------------|----------------------------------|---------------|
| AAPL | 174.25 | Aug-08 | 160.00 | .APVHL | 172.80 | 19.21 | 179.21 | Unlimited | 19.21 | 22.09 | 2.88 | 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 |
|--------------|------------------|------------------|--------------|---------------|---------------|---------------|-------------------------------|--------------|------------|-------------------------------|---------------------------------|---------------------------|----------------------------------|---------------|
| AAPL | 174.25 | Aug-08 | 155.00 | .APVTK | 160.00 | .APVTL | 172.80 | 1.50 | 158.50 | 1.50 | 3.50 | 1.13 | 0.38 | 10.7% |

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 |
|--------------|------------------|------------------|--------------|---------------|---------------|---------------|-------------------------------|-------------|------------|-------------------------------|---------------------------------|-----------------------------|----------------------------------|---------------|
| AAPL | 174.25 | Aug-08 | 155.00 | .APVHK | 160.00 | .APVHL | 172.80 | 3.80 | 158.80 | 1.20 | 3.80 | 4.38 | 0.58 | 15.3% |

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 month).

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 **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

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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