



OPTIONSMART
3-D OPTION TRADING STRATEGIES

Released on 9/10/2008

3-D Research Note on AAPL



Chart courtesy of StockCharts.com

#	Date	Most Recent News	Stock's Reaction
1	28-Aug	AAPL working on iPhone update to fix security flaw	negative
2	2-Sep	AAPL announced Sept 9 event, new products eyed	negative
3	3-Sep	AAPL:iPhone to hit chinese market soon (Apple-China Mobile talks in progress)	positive
4	4-Sep	AAPL: An iPhone customer has sued Apple Inc. and AT&T Inc. for selling too many of the smart phones: the high-speed phone network has been "overloaded" and unable to deliver promised performance.	negative
5	5-Sep	AAPL: Russia's MTS to sell iPhones	negative
6	9-Sep	AAPL: unveiled their new iPod Nanos, Jobs said he's healthy	negative

OUR RECOMMENDATION: STRONG BUY

RECOMMENDED TRADING VEHICLE:

Bullish Debit Call Spread

Buy to Open APVJI AAPL Oct 145 Call IV 47.2 Delta .65

Sell to Open APVJJ AAPL Oct 150 Call IV 46.2 Delta .56

Debit 4.00

Position Net Delta .09

Max Gain 1.00

Max Risk 4.00

Target Credit 4.60

WEEKLY CHART

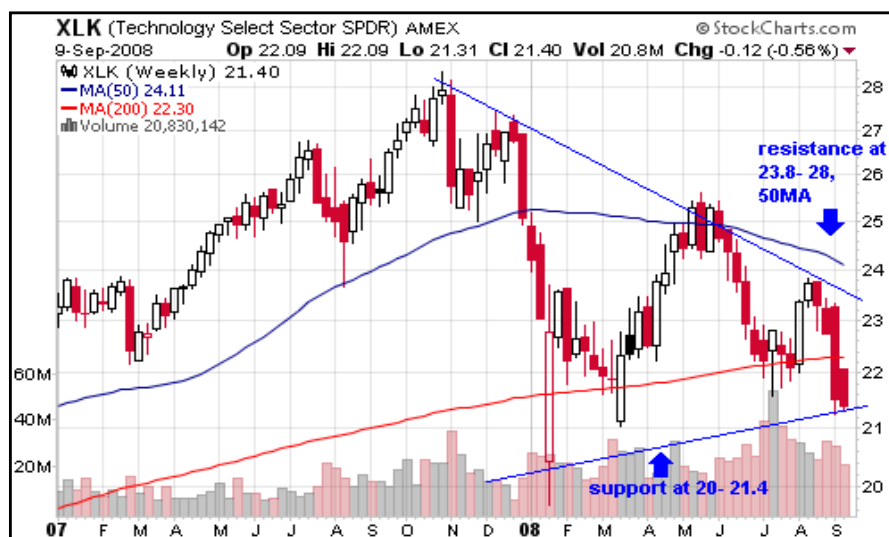


Chart courtesy of StockCharts.com

Key sector components	Fundamentals
AT&T INC. (T)	Trailing P/E (15); Forward P/E (10); PEG Ratio (1.27); EPS Trends- bearish
APPLE INC (AAPL)	Trailing P/E (30); Forward P/E (25); PEG Ratio (1.23); EPS Trends-bearish
CISCO SYS INC (CSCO)	Trailing P/E (18); Forward P/E (12); PEG Ratio (0.91); EPS Trends-bearish
INTL BUSINESS MACHC (IBM)	Trailing P/E (14); Forward P/E (12); PEG Ratio (1.19); EPS Trends- bullish

BULLISH	LONG-TERM FACTORS	BEARISH
	July personal income fell 0.7%; The PCE deflator was up 0.6%, reflecting higher gas prices.	✓
✓	Q2 Productivity rose 4.3% vs. +3.5% consensus, revised up from 2.2%. Unit labor costs were -0.5% vs. 0%, revised down from +1.3%. Hourly compensation increased 3.7%, but declined 1.3% after accounting for consumer price inflation.	
✓	Factory output up 0.4%, while industrial production rises 0.2%	
	Initial jobless claims reached 444,000 vs. consensus of 420,000, up 15,000 from last week's 429,000 (revised from 425K).	✓
✓	Q2 GDP above expectations (3.3%) seasonally-adjusted annual rate vs. the advanced estimate of 1.9%.	
	Consumer credit outstanding increased by \$4.6B in July - the smallest increase of the year, and short of a \$6.2B consensus. Revolving debt rose at an annual rate of 4.8% - as Americans subsidize their living standards with credit-cards.	✓
✓	Semiconductor chip sales during July increased 7.6% from last year. Chip sales continue to benefit from healthy demand: from personal computers to increasingly sophisticated cell phones.	
	Retail chain store sales rose 0.1% from a week ago, and 2.2% vs. last year, the ICSC reported. "Rampant" sales promotions and cheaper gas prices helped drive traffic.	

3D CHECK LIST

BULLISH	FACTORS	BEARISH
	Technicals	
	Daily and weekly MACD bearish	✓
✓	Oversold daily Stochastic Oscillator	
	The stock is in the short-term downward trend	✓
✓	Support at 140, 150	
	Resistance at 50MA, 200MA, 80	✓
	Similar stocks or key components are in the short-terms downward trends	✓
	Fundamentals	
✓	Forward P/E (25.03) < Trailing P/E (29.65)	
✓	PEG (1.23)	
	P/S (4.36)	✓
✓	Operating Margin (19.13%), ROE (27.87%)	
	Bearish EPS revisions trend	✓
	Market Play	
✓	Program trading buy orders at 150 after Jul 22	
✓	Implied volatility (45.87%) < Historical volatility (32.58%)	
	Inadequate reaction on the latest positive news (see the chart above)	✓
✓	Trading volumes go up after Aug 28	
✓	Unusually high option trading volumes for Sep-Jan9 140-200 Calls and Puts	

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	151.68	151.00	151.00	151.00	145.00	6.00	Unlimited	160.00	9.00	6.0%

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	151.68	Oct-08	145.00	.APVJI	151.00	12.46	157.46	Unlimited	12.46	13.70	1.25	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
AAPL	151.68	Oct-08	145.00	.APVVI	150.00	.APVVI	151.00	2.15	147.85	2.15	2.85	1.57	0.58	20.4%

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	151.68	Oct-08	145.00	.APVJI	150.00	.APVJJ	151.00	4.00	149.00	1.00	4.00	4.60	0.60	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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Released on 09/10/08