



3-D Research Note on **AIG**



Chart courtesy of StockCharts.com

#	Date	Most Recent News	Market Reaction
1	11-Feb	NEGATIVE: AIG to expand disclosures related to CDOs	adequate
2	11-Feb	NEGATIVE: AIG looks at a \$5 bln write-down	adequate
3	12-Feb	NEGATIVE: AIG downgraded to Equal-weight from Overweight	non-adequate
4	12-Feb	NEGATIVE: S&P and Moody's lowered outlook to negative	non-adequate
5	12-Feb	POSITIVE: AIG believes that losses on AIGFP will not be material to the co	adequate

CONCLUSION: The stock just started to react positively on any news.

OUR RECOMMENDATION: STRONG BUY

RECOMMENDED TRADING VEHICLE:

Bullish Credit Put Spread

Buy to Open AIGOH AIG Mar 40 Put IV 73.1 Delta -.23

Sell to Open AIGOI AIG Mar 45 Put IV 65.2 Delta -.41

Credit 1.60

Position Net Delta -.18

Max Gain 1.60

Max Risk 3.40

Target Debit 1.10

3D CHECK LIST

BULLISH	FACTORS	BEARISH
	Technicals	
	MACD	✓
✓	Stochastic Oscillator - deeply oversold	
✓	Indusrty trend - XLF bottoming out	
✓	Support at 44.5	
✓	Resistance at 50	✓
✓	Similar stocks or key components sentiment	
	Fundamentals	
	EPS revisions trend down	✓
✓	P/E trailing (8.05) >> P/E forward (6.91)	
✓	PEG (0.58)	
	Market Play	
✓	Program trading buy orders at 44.5 after Feb 11	
✓	Implied volatility (60.16%) > Historical volatility (55.43%)	
✓	Stock reacted not adequately on the latest positive news (see the chart above)	
✓	Trading volumes dramatically go up after Feb 11	
✓	Unusually high option trading volumes for Mar, Apr 35, 40,45 Calls and Puts	

Overall Rating: BULLISH

COMMENTARY

The stock is being accumulated by large traders at the 44.5 level, will bottom out very soon. Investors bet on the upturn and don't allow to drop any further.

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
AIG	46.14	45.90	45.90	45.90	44.00	1.90	Unlimited	50.00	4.10	8.9%

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
AIG	46.14	Mar-08	40.00	.AIGCH	45.90	7.45	47.45	Unlimited	7.45	8.00	0.55	7.4%

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
AIG	46.14	Mar-08	40.00	.AIGOH	45.00	.AIGOI	45.90	1.60	43.40	1.60	3.40	1.10	0.50	14.7%

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
AIG	46.14	Mar-08	40.00	.AIGCH	45.00	.AIGCI	45.90	3.40	43.40	1.60	3.40	3.90	0.50	14.7%

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, 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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