



OPTIONSMART  
3-D OPTION TRADING STRATEGIES

# 3-D Research Note on BBY



Chart courtesy of StockCharts.com

#	Date	Most Recent News	Stock's Reaction
1	8-May	Best Buy and Carphone Warehouse to create a new co	negative
2	12-May	BBY may make offers for DSG Intl, Kesa	positive
3	29-May	Hearing Piper out positive on BBY, discussing potential for higher than expected comps.	positive
4	13-Jun	BBY: BMO Capital beat on upbeat earnings report	positive
5	17-Jun	BBY beat by \$0.06, beat on revs; reaffirmed FY09 EPS guidance and revs guidance	negative

**OUR RECOMMENDATION: STRONG BUY**

**RECOMMENDED TRADING VEHICLE:**

Open Debit Call Spread:

Buy to Open BBYIG BBY Sep 35 Call IV 40.3 Delta .88

Sell to Open BBYIH BBY Sep 40 Call IV 39.9 Delta .70

Debit 3.50

Position Net Delta .18

Max Gain 1.50

Max Risk 3.50

Target Credit 4.03

## 3D CHECK LIST

BULLISH	FACTORS	BEARISH
	<b>Technicals</b>	
	Bearish daily MACD	✓
	Bearish daily and weekly Stochastic Oscillator	✓
✓	The stock is in the short and intermediate-term upward trend	
✓	Support at 40.5, 42.0, 50 MA	
	Resistance at 200 MA, 47.0	✓
✓	Similar stocks or key components in upward trend	
	<b>Fundamentals</b>	
✓	Forward P/E (12.17) < Trailing P/E (13.93)	
✓	PEG (0.92)	
✓	P/S (0.45)	
✓	Operating Margin (5.40%), ROE (26.34%)	
✓	Bullish EPS revisions trend	
	<b>Market Play</b>	
✓	Program trading buy orders at 42.0 after May 9	
✓	Implied volatility (36.54%) < Historical volatility (55.98%)	
✓	Stock reacted adequately on the latest positive news (see the chart above)	
✓	Trading volumes go up after May 19	
✓	Unusually high option trading volumes for Jul-Sep 35-45 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
<b>BBY</b>	43.46	42.00	42.00	42.00	40.50	1.50	Unlimited	44.19	2.19	5.2%

## 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>BBY</b>	43.46	Sep-08	40.00	.BBYIH	42.00	4.48	44.48	Unlimited	4.48	5.15	0.67	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
<b>BBY</b>	43.46	Sep-08	35.00	.BBYUG	40.00	.BBYUH	42.00	1.48	38.52	1.48	3.52	1.08	0.40	11.4%

## 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
<b>BBY</b>	43.46	Sep-08	35.00	.BBYIG	40.00	.BBYIH	42.00	3.50	38.50	1.50	3.50	4.03	0.52	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 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 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

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1. Log into your brokerage account.	1. Log into your brokerage account.
2. Select Xecute, select OptionSmart as an Investor Publisher	2. Select Autotrader, click Sign Up/Newsletter Providers and choose OptionSmart as newsletter provider
3. Select a service	3. Select Autotrader 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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