

# 3-D Research Note on CSCO

## MARKET PLAY



## RATIONALE

- Reported earnings in-line with expectations but slid after-hours
- MACD looks bullish, the stock is deeply oversold --> there is enough room to move higher (up to 25)
- Unusually high open interest for Apr & Jul 25 & 27 Calls -> investors bet on the upturn
- Implied volatility is unusually high (Implied volatility (50%) vs Historical volatility (34%)) -> the stock is on the move
- P/E fw.(12.75) < P/E tr. (18.33), low PEG (1.03), high Profit (21.85%) and Operating (25.01%) margins, EPS trend bullish --> the stock is undervalued, there is room for substantial upside
- Program trading sell orders at 25 -> strong resistance visible at this level
- Trade volumes go up after Feb 4 --> the stock is being manipulated by large traders

### OUR RECOMMENDATION: BUY AT THE 22 LEVEL

#### RECOMMENDED TRADING VEHICLE: Bullish Debit Call Spread

Buy to Open CYQGW CSCO Jul 17.50 Call IV 46.70 Delta .86

Sell to Open CYQGX CSCO Jul 22.50 Call IV 40.70 Delta .61

Debit 3.00

Position Net Delta .25

Max Gain 2.00

Max Risk 3.00

Target Credit 3.50

## 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
CSCO	23.08	22.65	22.65	22.65	21.00	1.65	Unlimited	25.00	2.35	10.4%

### 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
CSCO	23.08	May-08	20.00	.CYQGD	22.65	4.10	24.10	Unlimited	4.10	4.60	0.50	12.2%

### 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
CSCO	23.08	Feb-08	17.50	.CYQSW	22.50	.CYQSX	22.65	1.70	20.80	1.70	3.30	1.20	0.50	15.2%

### 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
CSCO	23.08	Feb-08	17.50	.CYQGW	22.50	.CYQGX	22.65	3.30	20.80	1.70	3.30	3.80	0.50	15.2%

## 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 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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