



OPTIONSMART
3-D OPTION TRADING STRATEGIES

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3-D Research Note on CSCO



Chart courtesy of StockCharts.com

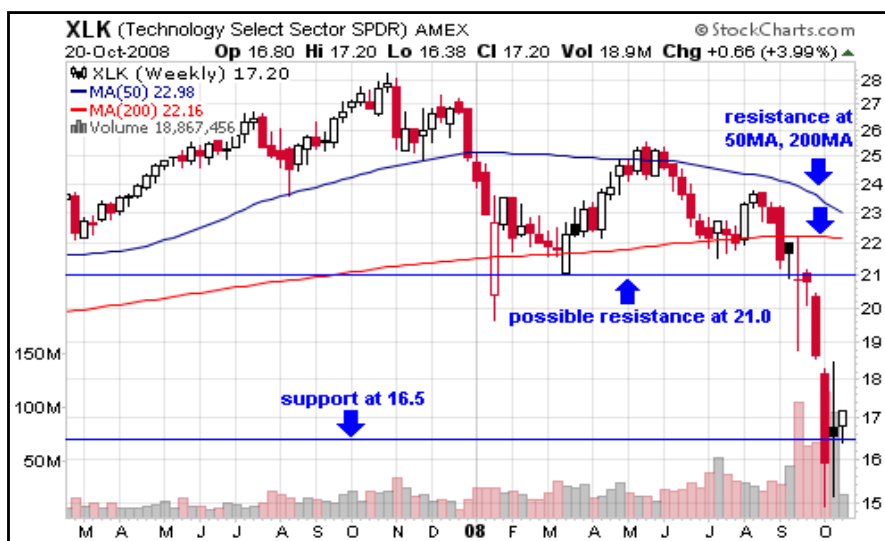
#	Date	Most Recent News	Stock's Reaction
1	16-Sep	CSCO to team up with VMware to enhance data center virtualization	positive
2	19-Sep	CSCO to buy messaging software company Jabber	positive
3	24-Sep	CSCO to team up with Verizon to offer new productivity-enhancing services using Cisco collaboration portfolio	positive
4	15-Oct	Tata Communications first to launch Cisco TelePresence Rooms for public use	negative
5	20-Oct	Morgan Keegan upgraded Cisco to "Outperform" from "Market Perform."	positive

OUR RECOMMENDATION: STRONG BUY

RECOMMENDED TRADING VEHICLE:

Bullish Debit Call Spread
 Buy to Open CYQAV CSCO Jan9 12.5 Call IV 67.4 Delta .924
 Sell to Open CYQAW CSCO Jan9 17.5 Call IV 53.4 Delta .674
 Debit 3.35
 Position Net Delta .250
 Max Gain 1.65
 Max Risk 3.35
 Target Credit 3.85

WEEKLY CHART



Key sector components	Fundamentals
APPLE INC. (AAPL)	Trailing P/E (19); Forward P/E (17); PEG Ratio (0.85); EPS Trends- mixed
AT&T INC. (T)	Trailing P/E (11.6); Forward P/E (8.32); PEG Ratio (1.18); EPS Trends- bearish
CISCO SYS INC (CSCO)	Trailing P/E (14); Forward P/E (9.80); PEG Ratio (0.75); EPS Trends- bearish
MICROSOFT CP (MSFT)	Trailing P/E (12); Forward P/E (10.0); PEG Ratio (1.0); EPS Trends- bearish
INTL BUSINESS MACH (IBM)	Trailing P/E (11.37); Forward P/E (9.98); PEG Ratio (0.93); EPS Trends- bearish

BULLISH	LONG-TERM FACTORS	BEARISH
	Fed cut key lending rate by 50 BPs to 1.5%. In coordinated effort, ECB and Bank of England each dropped their key rates by 0.5%, to 3.75% and 4.5% respectively.	✓
	Same-store sales figures: 71% of stores missed analyst expectations, while overall retail sales growth fell to just 0.8% - the worst since at least 2000.	✓
	Home prices down 16.3% from previous year in 20 major metro areas, according to S&P/Case Shiller	✓
	Manufacturing plunges. The ISM's index of factory activity fell to 43.5 in September, compared with 49.9 in August and 50.0 in July, well below consensus forecasts of 49.5. A reading below 50 indicates contracting economic activity.	✓
✓	FDIC's new liquidity guarantee program: The government insurer will cover \$1.4T in senior unsecured debt and \$400-500B in transaction deposit accounts, which businesses use to meet payrolls and pay vendors.	
✓	Initial jobless claims declined to 478,000 from last week's revised figure of 498,000 better than economists's 480K consensus.	
	RBC Consumer Attitudes and Spending by Households [CASH] Index dropped 32 points in October - the largest-single month drop since the index began in 2002. The current level stands at 37, vs. 69.2 in September.	✓

3D CHECK LIST

BULLISH	FACTORS	BEARISH
	Technicals	
	Bearish daily and weekly MACD	✓
✓	Oversold weekly Stochastic Oscillator	
✓	The stock trying to form a bottom	
✓	Support at 16.5	
	Resistance at 21.0, 50MA, 200MA	✓
✓	Similar stocks or key components are trying to form a bottom	
	Fundamentals	
✓	Forward P/E (10.14) < Trailing P/E (14.51)	
✓	PEG (0.75)	
	P/S (2.83)	✓
✓	Operating Margin (23.89%), ROE (24.46%), ROA (10.53%)	
	Bearish EPS revisions trend	✓
	Market Play	
✓	Program trading buy orders at 16.5 after Oct 10	
✓	Implied volatility (55.55%) < Historical volatility (79.40%)	
✓	Adequate reaction on the latest positive news (see the chart above)	
✓	Unusually high option trading volumes for Jan9 17.5-22.5 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
CSCO	18.96	18.20	18.20	18.20	17.50	0.70	Unlimited	19.50	1.30	7.1%

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	18.96	Jan-09	17.50	.ORQAW	18.20	2.51	20.01	Unlimited	2.51	2.89	0.38	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
CSCO	18.96	Jan-09	12.50	.ORQMU	17.50	17.50	18.20	1.50	16.00	1.50	3.50	1.10	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
CSCO	18.96	Jan-09	12.50	.ORQAU	17.50	.ORQAW	18.20	3.35	15.85	1.65	3.35	3.85	0.50	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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