



OPTIONSMART  
3-D OPTION TRADING STRATEGIES

# 3-D Research Note on DE



Chart courtesy of StockCharts.com

#	Date	Most Recent News	Stock's Reaction
1	9-Oct	DE announced two entry models to its accomplished lineup of compact utility tractors	positive
2	27-Oct	DE: Argentine clients had canceled orders to buy more than 300 harvesters	negative
3	28-Oct	DE: reiterated Buy at Stifel Nicolaus	positive
4	26-Nov	DE Q4 report: missed by \$0.18, forecasted flat equipment sales in '09	negative
5	26-Nov	DE cut from Outperform to MktPerform at Wachovia	negative

**OUR RECOMMENDATION: STRONG BUY**

**RECOMMENDED TRADING VEHICLE:**

Bullish Debit Call Spread

Buy to Open DEAE DE Jan9 25 Call IV 75.6 Delta .9212

Sell to Open DEAF DE Jan9 30 Call IV 70.8 Delta .7886

Debit 3.65

Position Net Delta .1326

Max Gain 1.35

Max Risk 3.65

Target Credit 4.20

## WEEKLY CHART



Chart courtesy of StockCharts.com

Key sector components	Fundamentals
General Electric Co. (GE)	Trailing P/E ( 7.95); Forward P/E ( 9.25); PEG Ratio ( 0.79); EPS Trends-bearish
United Technologies Corp. (UTX)	Trailing P/E (10.04); Forward P/E (9.29); PEG Ratio (0.91); EPS Trends-mixed
3M Co. (MMM)	Trailing P/E (12.47); Forward P/E (12.07); PEG Ratio (1.11); EPS Trends-mixed
Boeing Co. (BA)	Trailing P/E (8.07); Forward P/E (6.70); PEG Ratio (0.78); EPS Trends-mixed
Union Pacific Corp. (UNP)	Trailing P/E (12.18); Forward P/E (10.05); PEG Ratio (0.63); EPS Trends-bullish

BULLISH	LONG-TERM FACTORS	BEARISH
✓	Consumer Prices fell 1% after an unchanged September, the Department of Labor says. Prices are still 3.7% higher than a year ago. Expectations were for an 0.8% monthly drop and Y/Y inflation of 4%.	
	Three-month Treasury bill yields fell 1 basis point on Friday to 0.01% - the lowest since at least January 1940	✓
	U.S. sales of clothing and appliances fell dramatically in the first two weeks of November compared to last year, MasterCard Advisors says.	✓
	Euro area enters recession. Euro area GDP fell by 0.2% in Q3, in line with expectations, sending the eurozone into recession. Euro area inflation fell to 3.2% in October from 3.6% in September.	✓
	Japan entered its first recession since 2001 last quarter: GDP shrank an annualized 0.4% last quarter, vs. predictions of 0.1% growth, and had contracted 3.7% in the quarter before; demand for exports falls and the Japanese government faces serious constraints in its ability to stimulate growth.	✓
	Jobless claims jump. Initial jobless claims of 516,000 were substantially worse than the 480,000 economists had expected.	✓
	Preliminary Q3 GDP fell 0.5%, in line with consensus, vs. the government's -0.3% advanced estimate. The main factor in the decline was a 3.7% drop in personal consumption vs. -3.2% consensus. Exports rose 3.4%, while imports fell 3.2%	✓

## 3D CHECK LIST

BULLISH	FACTORS	BEARISH
	<b>Technicals</b>	
	Bearish weekly MACD	✓
✓	Oversold weekly and bullish daily Stochastic Oscillator	
✓	The stock is forming a bottom	
✓	Support at 29.2	
	Resistance at 45-40, 50MA	✓
	Similar stocks or key components are looking for direction	✓
	<b>Fundamentals</b>	
✓	Forward P/E (7.41) < Trailing P/E (6.53)	
✓	PEG (0.75)	
✓	P/S (0.52)	
	Operating Margin (11.71%), ROE (27.30%), ROA (5.01%)	✓
	Bearish EPS revisions trend	✓
	<b>Market Play</b>	
✓	Program trading buy orders at 29.2 after Oct 24	
✓	Implied volatility (67.18%) < Historical volatility (107.23%)	
✓	Adequate reaction on the latest positive news (see the chart above)	
✓	Unusually high option trading volumes for Jan9-Jun9 30.0-52.5 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
DE	35.76	32.50	32.50	32.50	30.00	2.50	Unlimited	35.00	2.50	7.7%

## 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
DE	35.76	Jan-09	30.00	.DEAF	32.50	4.53	34.53	Unlimited	4.53	5.21	0.68	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
DE	35.76	Jan-09	25.00	.DEME	30.00	30.00	32.50	1.38	28.62	1.38	3.62	1.01	0.37	10.3%

## 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
DE	35.76	Jan-09	25.00	.DEAE	30.00	.DEAF	32.50	3.65	28.65	1.35	3.65	4.20	0.55	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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