



OPTIONSMART  
3-D OPTION TRADING STRATEGIES

# 3-D Research Note on EBAY



Chart courtesy of StockCharts.com

#	Date	Most Recent News	Stock's Reaction
1	30-Jun	EBAY told to pay \$61M to fashion brand for fakes	negative
2	15-Jul	EBAY: RBC Capital Mkts reited Sector Perform	negative
3	16-Jul	EBAY: beat by \$0.02, 2Q profit rose 22% but outlook soft	positive
4	17-Jul	EBAY announced marketplaces executive changes	negative
5	17-Jul	EBAY: downgraded at Thomas Weisel, Goldman lowered eBay to Neutral from Buy and cut its target to \$30 from \$38	negative

**OUR RECOMMENDATION: STRONG BUY**

**RECOMMENDED TRADING VEHICLE:**

Open Debit Call Spread:

Buy to Open QXBID EBAY Sep 20 Call IV 42.5 Delta .95

Sell to Open QXBIE EBAY Sep 25 Call IV 37.5 Delta .59

Debit 3.70

Position Net Delta .36

Max Gain 1.30

Max Risk 3.70

Target Credit 4.37

WEEKLY CHART



Chart courtesy of StockCharts.com

Key sector components	Fundamentals
McDonald's Corp. (MCD)	Trailing P/E (15.72); Forward P/E (15.71); PEG (1.42); EPS Trends-bullish
Comcast Corp. (CMCSA)	Trailing P/E (23.92); Forward P/E (17.44); PEG (1.51); EPS Trends-neutral
Walt Disney Co. (DIS)	Trailing P/E (13.94); Forward P/E (12.47); PEG Ratio (1.08); EPS Trends-bullish
Time Warner Inc. (TWX)	Trailing P/E (13.59); Forward P/E (12.24); PEG Ratio (0.99); EPS Trends-bearish
The Home Depot, Inc (HD)	Trailing P/E (11.72); Forward P/E (13.37); PEG Ratio (1.27); EPS Trends-bearish

✓	U.S. retail sales rose 1.2% during July's first three weeks, slightly less than the 1.4% forecast.	
✓	Consumer Confidence: 51.9 vs. 50.1 consensus and 51 in June - "suggesting there has been no significant improvement, nor significant deterioration, in business or labor market conditions."	
✓	Housing market rescue plan gets presidential ok. President Bush signs homeowner / Freddie (FRE) and Fannie (FNM) rescue plan into law.	
✓	ICSC Retail Sales: +1.2% (previous two weeks +0.1% and +0.2%).	
	The IMF said there's no end to housing slump in sight. The fallout will continue to leak outside of just housing	✓

## 3D CHECK LIST

BULLISH	FACTORS	BEARISH
	<b>Technicals</b>	
✓	Daily MACD turns bullish	
✓	Bullish daily Stochastic Oscillator, weekly Stochastic Oscillator oversold	
✓	The stock is in the short-term downward trend	✓
	Support at 24.0, 24.4	
	Resistance at 50MA, 29.2	✓
	<b>Fundamentals</b>	
✓	Forward P/E (13.02) < Trailing P/E (66.98)	
✓	PEG (0.91)	
✓	P/S (3.96)	✓
✓	Operating Margin (25.75%), ROE (4.50%)	
	Neutral EPS revisions trend	✓
	<b>Market Play</b>	
✓	Program trading buy orders at 24.0 after Jul 22	
✓	Implied volatility (37.81%) < Historical volatility (58.18%)	
	Mixed reaction on the latest positive news (see the chart above)	✓
✓	Trading volumes go up after Jul 23	
✓	Unusually high option trading volumes for Aug-Jan9 20-27.5 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
EBAY	25.52	24.80	24.80	24.80	23.80	1.00	Unlimited	26.24	1.44	5.8%

## 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
EBAY	25.52	Sep-08	25.00	.QXBIE	24.80	1.31	26.31	Unlimited	1.31	1.51	0.20	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
EBAY	25.52	Sep-08	20.00	.QXBUD	25.00	.QXBUE	24.80	1.42	23.58	1.42	3.58	0.92	0.50	13.8%

## 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
EBAY	25.52	Sep-08	20.00	.QXBID	25.00	.QXBIE	24.80	3.70	23.70	1.30	3.70	4.37	0.67	18.0%

## 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 **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

### 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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