



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	16-Jul	EBAY beat by \$0.02; guided in-line	positive
2	17-Jul	EBAY: AmTech Research cut to Sell	negative
3	20-Aug	EBAY cut listing fees as competition increased; Intel, Yahoo Teamed Up To Bring Web to TV	negative
4	21-Aug	EBAY: UBS reiterated Neutral	negative
5	2-Sep	EBAY: Stifel Nicolaus reiterated Buy	negative

OUR RECOMMENDATION: STRONG BUY

RECOMMENDED TRADING VEHICLE:

Bullish Debit Call Spread
 Buy to Open QXBAD EBAY Jan9 20.0 Call IV 40.9 Delta 1.00
 Sell to Open QXBAN EBAY Jan9 24.0 Call IV 37.6 Delta .62
 Debit 2.70
 Position Net Delta .38
 Max Gain 1.30
 Max Risk 2.70
 Target Credit 3.00

WEEKLY CHART



Chart courtesy of StockCharts.com

Key sector components	Fundamentals
AMAZON.COM INC (AMZN)	Trailing P/E (59.2); Forward P/E (38.2); PEG Ratio (2.01); EPS Trends-bullish
YAHOO INC (YHOO)	Trailing P/E (26.11); Forward P/E (34.09); PEG Ratio (2.37); EPS Trends-bearish
TIME WARNER INC (TWX)	Trailing P/E (16.5); Forward P/E (14.3); PEG Ratio (1.21); EPS Trends-bullishh
MCAFEE, INC (MFE)	Trailing P/E (42.5); Forward P/E (17.7); PEG Ratio (1.52); EPS Trends-bullish
TD AMERITRADE HLDG (AMTD)	Trailing P/E (15.12); Forward P/E (14.57); PEG Ratio (1.00); EPS Trends-bullish

BULLISH	LONG-TERM FACTORS	BEARISH
	July personal income fell 0.7%; The PCE deflator was up 0.6%, reflecting higher gas prices.	✓
	Corporate profits fall. Core inflation rose at 2.1% in Q2, while headline inflation jumped to 4.2%. Corporate profits dropped by \$37.8B to \$1.56T - the lowest in three years. Exports were up 13.2%, while imports fell 7.6%.	✓
✓	Factory output up 0.4%, while industrial production rises 0.2%	
✓	Unemployment claims fall slightly. Weekly Jobless Claims were 425,000, in-line with consensus, down 10K from last week's revised 435,000.	
✓	Q2 GDP above expectations (3.3%) seasonally-adjusted annual rate vs. the advanced estimate of 1.9%.	
	July Construction Spending Dips	✓
✓	Semiconductor chip sales during July increased 7.6% from last year. Chip sales continue to benefit from healthy demand: from personal computers to increasingly sophisticated cell phones.	

3D CHECK LIST

BULLISH	FACTORS	BEARISH
	Technicals	
	daily MACD - neutral	✓
✓	daily Stochastic Oscillator - bullish	
✓	ETF trend (weekly) - found support at 24.0	
✓	Support at 24-25	
	Resistance at 50MA; 27.0	✓
✓	Similar stocks or key components are in the short-terms upward trends	
	Fundamentals	
✓	Forward P/E (12) < Trailing P/E (65)	
✓	PEG (0.88)	
	P/S (3.83)	✓
	Operating Margin (25.75%), ROE (4.50%)	
	Neutral EPS revisions trend	✓
	Market Play	
✓	Program trading buy orders at 24.50 after Aug 18	
✓	Implied volatility (35.75%) > Historical volatility (33.29%)	
✓	Unusually high option trading volumes for Oct 22.50-27.50 Puts/Calls;	

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	24.90	24.90	24.90	24.90	24.90	0.00	Unlimited	24.90	0.00	0.0%

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	24.90	Jan-09	20.00	.QXBAD	24.90	5.50	25.50	Unlimited	5.50	5.90	0.40	7.3%

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	24.90	Jan-09	20.00	.QXBMD	24.00	24.00	24.90	1.20	22.80	1.20	2.80	0.80	0.40	14.3%

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
EBAY	24.90	Jan-09	20.00	.QXBAD	24.00	.QXBAN	24.90	2.70	22.70	1.30	2.70	3.00	0.30	11.1%

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.

Copyright © 1998-2008 OptionSmart.com (Stock Markets Institute). All rights reserved.

Released on 09/03/08