



OPTIONSMART
3-D OPTION TRADING STRATEGIES

3-D Research Note on GE



Chart courtesy of StockCharts.com

#	Date	Most Recent News	Stock's Reaction
1	22-May	GE reited HOLD at Sterne Agee, target lowered from \$34 to \$33	positive
2	27-May	GE reited HOLD at Deutsche Securities, target lowered from \$35 to \$33	negative
3	16-Jun	GE cut to NEUTRAL at JP Morgan	negative
4	3-Jul	GE reited Hold at Sterne Agee, target lowered to \$31 from \$33	positive
5	11-Jul	GE reported earnings of \$0.54 per share in-line with estimates, revenue rose 10.6%; reaffirmed guidance for all of 2008 (EPS of \$2.20-2.30 vs. consesnsus of \$2.22)	positive
6	11-Jul	GE to sell GE's Japan consumer finance business to Shinsei Bank for over \$5.4 billion	positive
7	14-Jul	GE in \$190M aircraft parts deal with Bell Boeing; GE unit to supply avionics for Lockheed aircraft for \$30M; GE Aviation to supply parts for Gulfstream G650 for about \$100M	

OUR RECOMMENDATION: STRONG BUY

RECOMMENDED TRADING VEHICLE:

Open Debit Call Spread:

Buy to Open GEWIY GE Sep 25 Call IV 35.0 Delta .78

Sell to Open GEWII GE Sep 27.5 Call IV 31.2 Delta .55

Debit 1.80

Position Net Delta .23

Max Gain 0.70

Max Risk 1.80

Target Credit 2.08

WEEKLY CHART



Chart courtesy of StockCharts.com

Key sector components	Fundamentals
General Electric Co. (GE)	ForTrailing P/E (12.78), ward P/E (11.57); PEG (1.13); EPS Trends-neutral
United Parcel Service, Inc. (UPS)	Trailing P/E (137.42); Forward P/E (13.87); PEG (1.32); EPS Trends-bearish
United Technologies Corp. (UTX)	Trailing P/E (13.56); Forward P/E (11.16); PEG Ratio (1.06); EPS Trends-neutral
Boeing Co. (BA)	Trailing P/E (10.98); Forward P/E (9.08); PEG Ratio (0.79); EPS Trends- bearish
3M Co. (MMM)	Trailing P/E (13.42); Forward P/E (11.53); PEG Ratio (1.11); EPS Trends-Neutral

BULLISH	LONG-TERM FACTORS	BEARISH
✓	Strong June same-store sales reports from retailers confirm what has already been apparent in the May real personal consumption expenditure (PCE) data: the fiscal stimulus checks are providing a huge boost to consumer spending. The June same-store sales data were very strong, and this suggests that June retail sales will be up 1% or more. May retail sales were up 1.2%. May real PCE was up 0.4% and a similar increase is now likely for June. For the second quarter, this total measure of consumer spending will be up at a 2.5% or higher annual rate. May personal income was up 1.9% due to the fiscal stimulus checks. This was about	
✓	BA to build heavy-lift blimp	
	Construction spending in May fell 0.4% vs. 0.1% in Apr, ADP Employment: fell 79K in Jun vs. 40K in Apr, Factory Orders in May rose 0.6% vs. 1.1% in Apr, Unemployment Rate in Jun is 5.5% (unchanged), Consumer Credit in May: \$7.8B vs. \$8.9B in Apr, Auto Sales in Jun 4.9M vs. 5.3M in Apr, Truck Sales in Jun 5.0M vs. 5.1M in Apr	✓
	Jul-16: Industrial production report(Industrial production in May fell -0.2% vs. 0.7% in Apr); Core PPI report (in May up to 1.4% vs. 0.2% in Apr); Housing Starts report (975K in May vs. 1008K in Apr); This week earnings reports: UTX, HON	

3D CHECK LIST

BULLISH	FACTORS	BEARISH
	Technicals	
✓	Daily MACD bullish	
✓	Weekly Stochastic Oscillator oversold	
✓	The stock is in the short-term upward trend	
✓	Support at 26.0, 27.0	
✓	Resistance at 50MA, 31.0	✓
	Similar stocks or key components are testing short-term lowest support lines	
	Fundamentals	
✓	Forward P/E (11.57) < Trailing P/E (12.78)	
✓	PEG (1.13)	
✓	P/S (1.59)	✓
✓	Operating Margin (14.36%), ROE (19.03%)	
	Mixed EPS revisions trend	✓
	Market Play	
✓	Program trading buy orders at 27 after Jul 7	
✓	Implied volatility (33.19%) > Historical volatility (32.25%)	
✓	Adequate reaction on the latest positive news (see the chart above)	
✓	Trading volumes go up after Jul 9	
✓	Unusually high option trading volumes for Jul-Sep25-32 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
GE	27.66	27.30	27.30	27.30	25.50	1.80	Unlimited	28.74	1.44	5.3%

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
GE	27.66	Sep-08	25.00	.GEWIY	27.30	3.04	28.04	Unlimited	3.04	3.50	0.46	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
GE	27.66	Sep-08	25.00	.GEWUY	27.50	.GEWUI	27.30	0.95	26.55	0.95	1.55	0.71	0.24	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
GE	27.66	Sep-08	25.00	.GEWIY	27.50	.GEWII	27.30	1.80	26.80	0.70	1.80	2.08	0.28	15.6%

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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