



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	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. consensus of \$2.22)	positive
2	11-Jul	GE to sell GE's Japan consumer finance business to Shinsei Bank for over \$5.4 billion	positive
3	14-Jun	GE in \$190M 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	negative
4	16-Jul	GE sign nearly \$4 bln in aviation deals at the Farnborough International Air Show	positive
5	22-Jul	GE extended global reach to Middle East	positive
6	25-Jul	GE announced reorganization will help simplify operations and give investors a clearer view of the company.	positive
7	30-Jul	GE Energy has received a contract of US\$500 million to supply equipment to power the world's largest aluminum processing complex in the UAE	positive
8	4-Aug	GE said no plan to sell NBC Universal	negative

**OUR RECOMMENDATION: STRONG BUY**

**RECOMMENDED TRADING VEHICLE:**

Open Debit Call Spread:

Buy to Open GEWLW GE Dec 23 Call Delta 1.0

Sell to Open GEWLB GE Dec 28 Call IV 24.7 Delta .69

Debit 3.80

Position Net Delta .31

Max Gain 1.20

Max Risk 3.80

Target Credit 4.38

## WEEKLY CHART



Chart courtesy of StockCharts.com

Key sector components	Fundamentals
General Electric Co. ( <b>GE</b> )	Trailing P/E (13.79), Forward P/E (12.67); PEG (1.22); EPS Trends-bearish
United Parcel Service, Inc. ( <b>UPS</b> )	Trailing P/E (320.49); Forward P/E (16.26); PEG (1.73); EPS Trends-bearish
United Technologies Corp. ( <b>UTX</b> )	Trailing P/E (14.44); Forward P/E (12.20); PEG Ratio (1.17); EPS Trends- bullish
Boeing Co. ( <b>BA</b> )	Trailing P/E (12.15); Forward P/E (9.79); PEG Ratio (0.94); EPS Trends- mixed
3M Co. ( <b>MMM</b> )	Trailing P/E (14.15); Forward P/E (12.35); PEG Ratio (1.18); EPS Trends- bearish

BULLISH	LONG-TERM FACTORS	BEARISH
	Residential construction will likely decline at a 25% annual rate and take about 1% off the GDP change, but the rate of decline is slowing.	✓
✓	Pending Home Sales rose 5.3% from May to June, the biggest jump since last October, but remain 12.3% lower than a year ago.	
	Jobless Claims climbed to 455,000 vs. 425,000 consensus. Last week: 448K. 4-week moving average jumps 26,750 to 419,500. One factor that may be distorting jobless claims.	✓
	Interest rates for week ending Aug. 1: Fed funds 2.08% vs. 1.99% July 25. 3-month T-bills 1.67% vs. 1.57%. 3-month commercial paper 2.02% vs. 2.11%.	
✓	Personal income was up \$6.8B (+0.1%), vs. -0.2% consensus. Personal consumption +\$57.1B (+0.6%) vs. +0.5% consensus. The PCE price index inflation measure jumped 0.8% in June - the biggest increase since Sept. 2005. Core PCE prices +0.3% vs. +0.2% consensus.	
✓	July factory orders gained 1.7% vs. +0.7% consensus. At almost \$458B, orders are at their highest levels since at least 1992. Shipments also set new records. Factory order strength, up 5% from a year ago, may be one of the great untold stories of the downturn. In the 2001 recession orders plunged 10% - though then they weren't buoyed by a weak dollar.	
	July retail sales disappoint. Discounters were the bright spot in July same-store sales that generally fell short of expectations. Sales were hurt by weak consumer confidence as stimulus-check spending winds down. Teen retailers' sales were notably weak.	✓
✓	Chrysler, Nissan may team up. Chrysler and Nissan (NSANY) are in talks to jointly produce midsize cars; GM, Ford ponder engine JV. In an effort to save on R&D, GM (GM) and Ford (F) are in talks about collaborating on developing new engines, sources say. A deal could give Ford access to GM's Volt technology.	

## 3D CHECK LIST

BULLISH	FACTORS	BEARISH
	<b>Technicals</b>	
✓	Daily and weekly MACD bullish	
✓	Weekly and daily Stochastic Oscillator bullish	
✓	The stock is in the short-term upward trend	
✓	Support at 50MA, 27.6, 26.2	
	Resistance at 30.0, 31.0	✓
✓	Similar stocks or key components are in short-terms upward trends	
	<b>Fundamentals</b>	
✓	Forward P/E (12.67) < Trailing P/E (13.79)	
✓	PEG (1.22)	
✓	P/S (1.63)	
✓	Operating Margin (15.06%), ROE (18.42%)	
	Bearish EPS revisions trend	✓
	<b>Market Play</b>	
✓	Program trading buy orders at 27.6 after Jul 21	
✓	Implied volatility (25.25%) < Historical volatility (34.83%)	
✓	Adequate reaction on the latest positive news (see the chart above)	
✓	Trading volumes go up after Aug 1	
✓	Unusually high option trading volumes for Aug-Dec 24-35 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
<b>GE</b>	29.64	28.50	28.50	28.50	26.70	1.80	Unlimited	30.21	1.71	6.0%

## 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
<b>GE</b>	29.64	Dec-08	28.00	.GEWLB	28.50	1.63	29.63	Unlimited	1.63	1.87	0.24	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
<b>GE</b>	29.64	Dec-08	23.00	.GEWXW	28.00	.GEWXB	28.50	1.25	26.75	1.25	3.75	0.94	0.31	8.4%

## 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
<b>GE</b>	29.64	Dec-08	23.00	.GEWLW	28.00	.GEWLB	28.50	3.80	26.80	1.20	3.80	4.38	0.58	15.3%

## 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 the

**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

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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, 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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