



OPTIONSMART  
3-D OPTION TRADING STRATEGIES

# 3-D Research Note on GOOG



Chart courtesy of StockCharts.com

#	Date	Most Recent News	Stock's Reaction
1	25-Jul	GOOG upped to BUY at Soleil	positive
2	8-Aug	Google's AOL Stake at risk of impairment charge	positive
3	20-Aug	GOOG: Edward Jones starts at Buy	negative
4	22-Aug	Verizon, Google to Team Up	positive
5	27-Aug	Google's search lead extends Of the almost 12 billion searches performed by Americans in July, Google accounted for just over 7 billion according to comScore's monthly report, Google's search lead bounced up only a few-hundredths of a percentage point.	-

**OUR RECOMMENDATION: STRONG BUY**

**RECOMMENDED TRADING VEHICLE:**

Open Debit Call Spread:

Buy to Open GOPLJ GOOG Dec 450 Call IV 38.6 Delta .65

Sell to Open GOPLL GOOG Dec 460 Call IV 38.2 Delta .61

Debit 6.00

Position Net Delta .04

Max Gain 4.00

Max Risk 6.00

Target Credit 7.20

## WEEKLY CHART



Chart courtesy of StockCharts.com

Key sector components	Fundamentals
AT&T INC. ( <b>T</b> )	Trailing P/E (14); Forward P/E (11); PEG Ratio (1.14); EPS Trends- neutral
MICROSOFT CP ( <b>MSFT</b> )	Trailing P/E (13); Forward P/E (9); PEG Ratio (1.20); EPS Trends- bearish
APPLE INC ( <b>AAPL</b> )	Trailing P/E (33.9); Forward P/E (28.6); PEG Ratio (1.36); EPS Trends-bearish
CISCO SYS INC ( <b>CSCO</b> )	Trailing P/E (18.55); Forward P/E (12.6); PEG Ratio (0.80); EPS Trends-bearish
INTL BUSINESS MACH ( <b>IBM</b> )	Trailing P/E (15); Forward P/E (12); PEG Ratio (1.24); EPS Trends- bullish

BULLISH	LONG-TERM FACTORS	BEARISH
	Fed Minutes show weak outlook, split on inflation, growth forecast lowered. The interest-rate target remained unchanged at 2%, interest rates expected to raise at some point	✓
	U.S. consumer confidence hits near-record low as gasoline prices remained high, and inflation and unemployment continued to weigh down the economy. The index was down to -50 in the week to Aug. 24, one point lower than the previous week, and dangerously close to the all-time low of -51, reached in May.	✓
✓	U.S. home sales rise 3.1% in July. The number of homes and apartments for sale rose 3.9% in July, adding to the supply glut and further depressing home values.	
	In the U.S. consumer prices rose 4.1% in Q1 while salaries climbed a meeker 3.3%. So far in Q2, prices have continued to soar while compensation growth has slowed. Conversely, what's good for workers may wreak havoc on the economy, as rising wages can easily trigger price increases, leading to a so-called inflationary spiral.	✓
✓	Jobless claims fell for the second week in a row but continue to show signs of a weakening labor market. Jobless claims were down 13,000 to a seasonally adjusted 432K, well below the 443K economists had expected. Economists consider weekly claims above 400K to be a sign of a deteriorating labor market.	

## 3D CHECK LIST

BULLISH	FACTORS	BEARISH
	<b>Technicals</b>	
	Daily MACD turns bearish, weekly MACD bearish	✓
	Weekly and daily Stochastic Oscillator bearish	✓
	The stock is in the short-term downward trend	✓
✓	Support at 460	
	Resistance at 510, 50MA	✓
	Similar stocks or key components are in the short-terms downward trends	✓
	<b>Fundamentals</b>	
✓	Forward P/E (19.66) < Trailing P/E (31.15)	
✓	PEG (0.81)	
	P/S (7.6)	✓
✓	Operating Margin (30.2%), ROE (21.20%)	
	Bearish EPS revisions trend	✓
	<b>Market Play</b>	
✓	Program trading buy orders at 461.90 after Aug 4	
✓	Implied volatility (34.64%) < Historical volatility (43.45%)	
✓	Adequate reaction on the latest positive news (see the chart above)	
✓	Trading volumes go up after Aug 25	
✓	Unusually high option trading volumes for Sep-Jan9 410-540 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
GOOG	474.16	467.00	467.00	467.00	465.50	1.50	Unlimited	491.34	24.34	5.2%

## 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
GOOG	474.16	Dec-08	460.00	.GOPLL	467.00	44.44	504.44	Unlimited	44.44	51.10	6.67	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
GOOG	474.16	Dec-08	450.00	.GOPXJ	460.00	.GOPXL	467.00	2.00	458.00	2.00	8.00	1.50	0.50	6.3%

## 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
GOOG	474.16	Dec-08	450.00	.GOPLJ	460.00	.GOPLL	467.00	6.00	456.00	4.00	6.00	7.20	1.20	20.0%

## 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 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

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, 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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Released on 08/27/08