



OPTIONSMART  
3-D OPTION TRADING STRATEGIES

Released on 9/15/2008

# 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	positive
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,	negative
6	15-Sep	Google phone to be launched in US by end of Sep	-

**OUR RECOMMENDATION: STRONG BUY**

**RECOMMENDED TRADING VEHICLE:**

Bullish Debit Call Spread

Buy to Open GOPLB GOOG Dec 410 Call IV 42.3 Delta .66

Sell to Open GOPLD GOOG Dec 420 Call IV 41.7 Delta .62

Debit 5.43

Position Net Delta .04

Max Gain 4.57

Max Risk 5.43

Target Credit 6.25

## WEEKLY CHART



Chart courtesy of StockCharts.com

Key sector components	Fundamentals
AT&T INC. ( <b>T</b> )	Trailing P/E (15); Forward P/E (10); PEG Ratio (1.27); EPS Trends- bearish
APPLE INC ( <b>AAPL</b> )	Trailing P/E (30); Forward P/E (25); PEG Ratio (1.23); EPS Trends-bearish
CISCO SYS INC ( <b>CSCO</b> )	Trailing P/E (18); Forward P/E (12); PEG Ratio (0.91); EPS Trends-bearish
INTL BUSINESS MACHC ( <b>IBM</b> )	Trailing P/E (14); Forward P/E (12); PEG Ratio (1.19); EPS Trends- bullish

BULLISH	LONG-TERM FACTORS	BEARISH
✓	Q2 Productivity rose 4.3% vs. +3.5% consensus, revised up from 2.2%. Unit labor costs were -0.5% vs. 0%, revised down from +1.3%. Hourly compensation increased 3.7%, but declined 1.3% after accounting for consumer price inflation.	
✓	Factory output up 0.4%, while industrial production rises 0.2%	
	Initial jobless claims were 445,000 vs. 440,000 consensus, down 6K from last week's 451,000 (revised from 444,000). The four-week average rose 250 to 440,000.	✓
	Lehman (LEH) announced it will file for bankruptcy. With \$600B in assets and \$550B in debt outstanding, a forced liquidation could send shocks reverberating through other companies and markets. Bank of America (BAC) has agreed to buy Merrill Lynch (MER) for about \$50B in stock, or \$29/share, a 70% premium over Friday's closing price.	✓
	Consumer credit outstanding increased by \$4.6B in July - the smallest increase of the year, and short of a \$6.2B consensus. Revolving debt rose at an annual rate of 4.8% - as Americans subsidize their living standards with credit-cards.	✓
✓	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.	
✓	Retail chain store sales rose 0.1% from a week ago, and 2.2% vs. last year, the ICSC reported. "Rampant" sales promotions and cheaper gas prices helped drive traffic.	✓

## 3D CHECK LIST

BULLISH	FACTORS	BEARISH
	<b>Technicals</b>	
	Daily and weekly MACD bearish	✓
✓	Oversold daily and weekly Stochastic Oscillator	
	The stock is in the short-term downward trend	✓
✓	Support at 413	
	Resistance at 50MA, 460	✓
✓	Similar stocks or key components are trying to form a bottom	
	<b>Fundamentals</b>	
✓	Forward P/E (18.23) < Trailing P/E (28.75)	
✓	PEG (0.75)	
	P/S (7.02)	✓
✓	Operating Margin (30.02%), ROE (21.20%)	
	Bearish EPS revisions trend	✓
	<b>Market Play</b>	
✓	Program trading buy orders at 406 after Sep 11	
✓	Implied volatility (44.68%) < Historical volatility (46.73%)	
	Mixed reaction on the latest positive news (see the chart above)	✓
✓	Trading volumes go up after Aug 25	
✓	Unusually high option trading volumes for Sep-Dec430-500 Calls and Puts	

## 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>GOOG</b>	437.66	420.00	420.00	420.00	410.00	10.00	Unlimited	445.00	25.00	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>GOOG</b>	437.66	Dec-08	420.00	.GOPLD	420.00	35.36	455.36	Unlimited	35.36	38.89	3.54	10.0%

## 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>GOOG</b>	437.66	Dec-08	410.00	.GOPXB	420.00	.GOPLD	420.00	4.69	415.31	4.69	5.31	3.75	0.94	17.7%

## 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>GOOG</b>	437.66	Dec-08	410.00	.GOPLB	420.00	.GOPLD	420.00	5.43	415.43	4.57	5.43	6.25	0.81	15.0%

## 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

**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.

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