



OPTIONSMART  
3-D OPTION TRADING STRATEGIES

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# 3-D Research Note on GS



Chart courtesy of StockCharts.com

#	Date	Most Recent News	Stock's Reaction
1	2-Apr	GS Mgmt: co as liquid as ever	positive
2	3-Apr	GS: Lehman lowered their 2008 EPS est to \$15.60 from \$17.15	negative
3	7-Apr	GS and MYE terminated merger agreement	positive
4	9-Apr	GS Level 3 assets jumped, exceeding rivals	negative
5	10-Apr	GS CEO says credit crisis closer to end than beginning	negative

**OUR RECOMMENDATION: STRONG BUY**

**RECOMMENDED TRADING VEHICLE:**

Open Debit Call Spread:

Buy to Open GPYGL GS May 160 Call IV 45.8 Delta .66

Sell to Open GPYGM GS May 165 Call IV 44.8 Delta .61

Debit 2.85

Position Net Delta .05

Max Gain 2.15

Max Risk 2.85

Target Debit 3.35

## 3D CHECK LIST

BULLISH	FACTORS	BEARISH
	<b>Technicals</b>	
✓	Daily MACD bullish	
	Stochastic Oscillator bearish	✓
✓	GS trys to form a bottom at 175-180	
✓	Support at 160-165	
	Resistance at 200MA	✓
	Similar stocks or key components	✓
	<b>Fundamentals</b>	
✓	EPS revisions trend neutral	✓
	P/E trailing (8.01)-P/E forward (8.29)	✓
✓	PEG (0.94)	
	<b>Market Play</b>	
✓	Program trading buy orders at 167 after Mar 31	
✓	Implied volatility (44.71%) > Historical volatility (67.48%)	
	Stock reacted adequately on the latest mixed news (see the chart above)	
✓	Trading volumes go up after Apr 7	
✓	Unusually high option trading volumes for May, Jul 165, 175, 185 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>GS</b>	170.55	167.00	167.00	167.00	160.00	7.00	Unlimited	182.00	15.00	9.0%

## 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>GS</b>	170.55	Jul-08	165.00	.GPYGM	167.00	16.86	181.86	Unlimited	16.86	19.39	2.53	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>GS</b>	170.55	Jul-08	160.00	.GPYSL	165.00	.GPYSM	167.00	2.13	162.87	2.13	2.87	1.81	0.32	11.1%

## 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>GS</b>	170.55	Jul-08	160.00	.GPYGL	165.00	.GPYGM	167.00	2.85	162.85	2.15	2.85	3.35	0.50	17.6%

## 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)

**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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