



OPTIONSMART
3-D OPTION TRADING STRATEGIES

3-D Research Note on HD



Chart courtesy of StockCharts.com

#	Date	Most Recent News	Stock's Reaction
1	1-May	HD updated square footage growth plans; reaffirmed diluted EPS from continuing operations are expected to decline by 19-24% for fiscal 2008	positive
2	16-May	HD: Jefferies noticed the length of the downturn in home improvement spending could keep growth muted longer	negative
3	16-May	New housing data: Seasonally adjusted annualized housing starts for April totaled 1,032,000 vs. 939,000 consensus.	negative
4	20-May	HD beat by \$0.04, but noticed the housing and home improvement markets remained difficult, significant cost pressure as the commodities price up, more risks through the year.	negative
5	21-May	HD reited OVERWEIGHT at Lehman, target lowered from \$35 to \$34	

OUR RECOMMENDATION: STRONG BUY

RECOMMENDED TRADING VEHICLE:

Open Debit Call Spread:

Buy to Open HDHD HD Aug 20 Call Delta 1.00

Sell to Open HDHE HD Aug 25 Call IV 29.2 Delta .77

Debit 4.00

Position Net Delta .23

Max Gain 1.00

Max Risk 4.00

Target Credit 4.46

3D CHECK LIST

BULLISH	FACTORS	BEARISH
	Technicals	
	Daily MACD bearish	✓
	Bearish daily and weekly Stochastic Oscillator	✓
	The stock is in the short-term sideways trend	
✓	Support at 25.0, 27.4	
	Resistance at 30.0 and 200MA	✓
	Similar stocks or key components neutral	
	Fundamentals	
	Forward P/E (13.89) > Trailing P/E (11.56)	✓
✓	PEG (1.40)	
✓	P/S (0.60)	
✓	Operating Margin (9.36%), ROE (19.70%)	
	Neutral EPS revisions trend	✓
	Market Play	
✓	Program trading buy orders at 27.0 after Mar 21	
✓	Implied volatility (28.83%) < Historical volatility (36.27%)	
	Mixed reaction on the latest positive news (see the chart above)	✓
✓	Trading volumes go up after May 15	
✓	Unusually high option trading volumes for Jul-Jan9 20-35Calls 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
HD	27.37	26.00	26.00	26.00	24.50	1.50	Unlimited	28.19	2.19	8.4%

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
HD	27.37	Aug-08	25.00	.HDHE	26.00	2.00	27.00	Unlimited	2.00	2.29	0.30	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
HD	27.37	Aug-08	20.00	.HDTD	25.00	.HDTE	26.00	1.00	24.00	1.00	4.00	0.73	0.27	6.8%

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
HD	27.37	Aug-08	20.00	.HDHD	25.00	.HDHE	26.00	3.98	23.98	1.02	3.98	4.46	0.48	12.0%

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 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, 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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