



OPTIONSMART
3-D OPTION TRADING STRATEGIES

Released on 8/20/2008

3-D Research Note on HPQ

BEAT ESTIMATES AND POISED TO LEAD THE TECH SECTOR



Chart courtesy of StockCharts.com

#	Date	Most Recent News	Stock's Reaction
1	5-Aug	HP: job cuts, printer production relocation	positive
2	7-Aug	HP introduced Multiple Touchscreen Products	positive
3	12-Aug	HP acquired Colubris Networks to expand wireless technology	negative
4	18-Aug	HP introduced Three New Subnotebooks	negative
5	19-Aug	HPQ (After Hours): beat estimates, raised Q4 guidance	-

OUR RECOMMENDATION: STRONG BUY

RECOMMENDED TRADING VEHICLE:

Bullish Debit Call Spread

Buy to Open HPQJU HPQ Oct 37.5 Call IV 35.2 Delta .88

Sell to Open HPQJV HPQ Oct 42.5 Call IV 32.3 Delta .62

Debit 4.00

Position Net Delta .26

Max Gain 1.00

Max Risk 4.00

Target Credit 4.50

WEEKLY CHART



Chart courtesy of StockCharts.com

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

BULLISH	LONG-TERM FACTORS	BEARISH
	Next Week's Economic Calendar: Existing Home Sales; Crude Inventories; Personal Income/Personal Spending	
	The July PPI soared 1.2% vs. 0.6% consensus. Core PPI gained a hot 0.7% vs. 0.2% consensus.	
	Growth in labor costs: the OECD reported a 0.5% rise in industrial labor costs, vs. a 0.1% increase in the last three months of 2007. U.S. costs were up 0.3%, euro-zone +0.2% and Japan +0.6%	✓
✓	Factory output up 0.4%, while industrial production rises 0.2%	
	The Euro-zone's June trade balance was weaker than expected, posting a €0.1B deficit instead of the expected €1.1B surplus. The shortfall indicates a strengthening euro and weakening global demand are hitting exporters hard.	✓
	The European Central Bank [ECB] left interest rates on hold at 4.25% and stated that risks to economic growth were starting to materialize.	✓
✓	The ISM non-manufacturing index came in slightly better than expected in July. However, a decline in new orders and new export orders signaled weaker activity in the non-manufacturing economy in the months ahead.	
	Inflation at the retail level jumps 0.8% in July, marked by big increases in energy, food, clothing, lodging and cigarettes; over the past year, consumer prices are up 5.6%,	✓
✓	July's jobless rate climbs to 5.7%	

3D CHECK LIST

BULLISH	FACTORS	BEARISH
	Technicals	
	daily MACD - switched to bearish	✓
	daily Stochastic Oscillator - bearish	✓
✓	ETF trend (weekly) - horizontal trend;	
✓	Support at 43.0	
	Resistance at 46.0; 200MA	✓
✓	Similar stocks or key components are in the short-terms upward trends	
	Fundamentals	
✓	Forward P/E (10.95) < Trailing P/E (14.15)	
✓	PEG (0.92)	
✓	P/S (0.98)	
	Operating Margin (9.02%), ROE (21.80%)	
	Neutral EPS revisions trend	✓
	Market Play	
✓	Program trading buy orders at 44.80 after Aug 8	
✓	Implied volatility (35.72%) > Historical volatility (23.04%)	
✓	Unusually high option trading volumes for Nov 40-50 Puts/Calls;	

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
HPQ	43.69	42.90	42.90	42.90	40.00	2.90	Unlimited	44.91	2.01	4.7%

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
HPQ	43.69	Oct-08	37.50	.HPQJU	42.90	6.00	43.50	Unlimited	6.00	6.50	0.50	8.3%

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
HPQ	43.69	Oct-08	37.50	.HPQVU	42.50	42.50	42.90	1.37	41.13	1.37	3.63	1.00	0.37	10.2%

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
HPQ	43.69	Oct-08	37.50	.HPQJU	42.50	.HPQJV	42.90	4.00	41.50	1.00	4.00	4.50	0.50	12.5%

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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