

3-D Research Note on IBM

MARKET PLAY

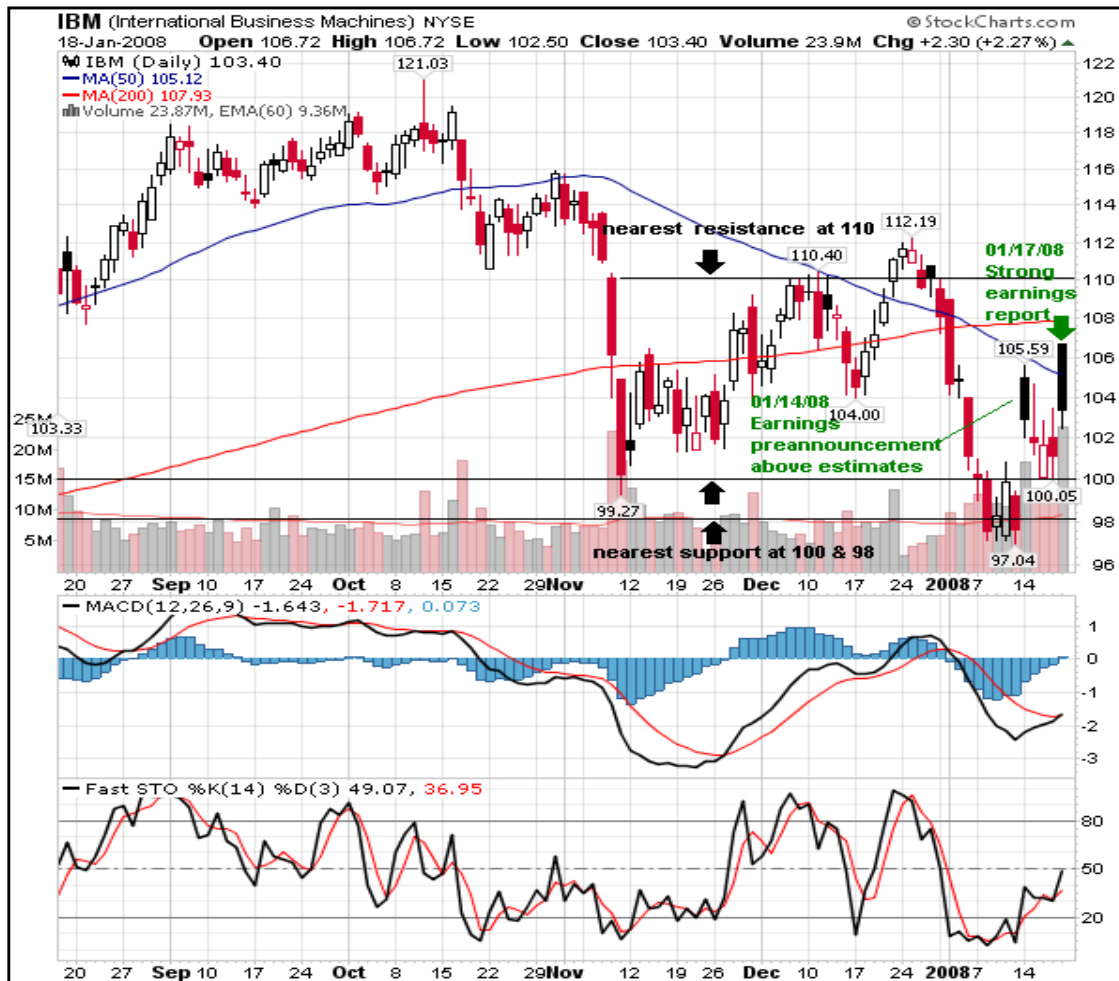


Chart courtesy of StockCharts.com

RATIONALE

- program trading buy orders at 100 (Jan 16-17) and 98 (Jan 8-11) --> large trader don't allow to drop any further
- significant trade volumes after Jan 14 --> the stock is on the move, being manipulated by large traders
- MACD and Stochastic Oscillator look bullish--> the stock is gathering momentum
- low PEG (1.17), Forward P/E (14.4) < Trailing P/E (11.21), bullish EPS trend --> the stock looks undervalued, fundamentals should provide support
- the stock adequately reacted on positive news (Jan 14 - Earnings preannouncement, 17 Jan - Earnings report (after the close)), negative news are already priced in --> bottoming out and ready to move higher

OUR RECOMMENDATION: BUY AT THE 102.5 LEVEL

RECOMMENDED TRADING VEHICLE:

Open Debit Call Spread:

Buy to Open IBM Apr 95 Call

Sell to Open IBM Apr 100 Call

Initial Debit 2.20

Target 2.80

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
IBM	103.40	102.50	102.50	102.50	99.50	3.00	Unlimited	108.00	5.50	5.4%

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
IBM	103.40	Apr-08	95.00	.IBMDS	102.50	11.00	106.00	Unlimited	11.00	11.70	0.70	6.4%

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
IBM	103.40	Apr-08	95.00	.IBMPS	100.00	.IBMPT	102.50	1.80	98.20	1.80	3.20	1.20	0.60	18.8%

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
IBM	103.40	Apr-08	95.00	.IBMDS	100.00	.IBMDT	102.50	3.20	98.20	1.80	3.20	3.80	0.60	18.8%

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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