



OPTIONSMART
3-D OPTION TRADING STRATEGIES

3-D Research Note on IBM



Chart courtesy of StockCharts.com

#	Date	Most Recent News	Stock's Reaction
1	16-Apr	Next Earnings Date	
2	10-Apr	IBM signed an agreement to acquire FilesX	positive
3	11-Mar	Nu Horizons Elec and IBM signed system reseller agreement	positive
4	6-Mar	IBM reaffirms 2008 EPS of \$8.25+ vs \$8.24 consensus	positive

OUR RECOMMENDATION: STRONG SELL

RECOMMENDED TRADING VEHICLE:

Bearish Debit Put Spread

Buy to Open IBMQE IBM May 125 Put IV 30.3 Delta -.74

Sell to Open IBMQD IBM May 120 Put IV 30.7 Delta -.57

Debit 3.50

Position Net Delta -.17

Max Gain 1.50

Max Risk 3.50

Target Credit 4.00

3D CHECK LIST

BULLISH	FACTORS	BEARISH
	Technicals	
	daily MACD	✓
	weekly Stochastic Oscillator - overbought	✓
	ETF trend - XLK trend looking for direction, playing with 50-MA	✓
✓	Support at 113.5 and 50-MA	
	Resistance at 119.9	✓
	Similar stocks or key sector components sentiment	✓
	Fundamentals	
✓	Forward P/E (12) < Trailing P/E (16)	
	PEG (1.35)	✓
✓	P/S (1.64)	
✓	Operating Margin (10.55%), ROE (36.57%)	
	EPS trend -Neutral	✓
	Market Play	
	Program trading sell orders at 119.5 after Mar 24	✓
✓	Implied volatility (30.13%) > Historical volatility (19.52%)	
✓	Stock reacted adequately on the latest positive news (see the chart above)	
	Unusually high option trading volumes for May 115 Puts	✓

COMMENTARY

IBM is under pressure ahead of Earnings date. Weekly IBM chart: forming top. IBM fundamentally overvalued, strong resistance visible at 119.8. Large traders bet on the downturn and don't see reasons to penetrate through the resistance. Positive news are already priced in.

BULLISH PLAY

SELL 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	117.28	117.00	117.00	117.00	122.00	5.00	Unlimited	113.80	3.20	2.7%

BUY PUT

Stock Symbol	Last Stock Price	Expiration Month	Strike Price	Option Symbol	Recommended Entry Stock Price	Entry Put 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	117.28	May-08	125.00	.IBMQE	117.00	8.90	116.10	Unlimited	8.90	9.50	0.60	6.7%

BEARISH PUT 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	117.28	May-08	120.00	.IBMQD	125.00	.IBMQE	117.00	3.50	121.50	1.50	3.50	4.00	0.50	14.3%

BEARISH CALL 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	117.28	May-08	120.00	.IBMED	125.00	.IBMEE	117.00	1.70	121.70	1.70	3.30	0.60	1.10	33.3%

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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