

3-D Research Note on IWM

MARKET PLAY



Chart courtesy of StockCharts.com

RATIONALE

- IWM tried to form a bottom
- ETF key components: CF, BUCY, EQIX, EXH, FLIR, TRA trend higher
- P/E and P/B are very low --> fundamentally undervalued
- main sector components (Financial Services, Industrial Materials, Healthcare) --> paced the way higher
- IWM is deeply oversold
- significant upside from current levels trade volumes go up after Jan 22 --> the stock is being accumulated by large traders
- unusually high open interest for Mar 66 Calls --> investors bet on the upturn
- program trading buy orders at 64 (Jan 22) --> poised to bottom out

OUR RECOMMENDATION: BUY AT THE 62 LEVEL

RECOMMENDED TRADING VEHICLE:

Open Debit Call Spread:

Buy to Open IWM Mar 66 Call

Sell to Open IWM Mar 70 Call

Initial Debit 2.00

Target 2.50

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 |
|--------------|------------------|-------------------------------|------------|--------------------------|----------------------|----------------------|------------------------|---------------------------|---------------------------|---------------|
| IWM | 68.47 | 68.00 | 68.00 | 68.00 | 62.00 | 6.00 | Unlimited | 74.00 | 6.00 | 8.8% |

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 |
|--------------|------------------|------------------|--------------|---------------|-------------------------------|-------------------------|------------|-------------------------------|---------------------------------|---------------------------|----------------------------------|---------------|
| IWM | 68.47 | Mar-08 | 66.00 | .DIWCN | 68.00 | 4.00 | 70.00 | Unlimited | 4.00 | 4.40 | 0.40 | 10.0% |

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 |
|--------------|------------------|------------------|--------------|---------------|---------------|---------------|-------------------------------|--------------|------------|-------------------------------|---------------------------------|---------------------------|----------------------------------|---------------|
| IWM | 68.47 | Mar-08 | 66.00 | .DIWON | 70.00 | .DIWOR | 68.00 | 1.20 | 68.80 | 1.20 | 2.80 | 0.70 | 0.50 | 17.9% |

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 |
|--------------|------------------|------------------|--------------|---------------|---------------|---------------|-------------------------------|-------------|------------|-------------------------------|---------------------------------|-----------------------------|----------------------------------|---------------|
| IWM | 68.47 | Mar-08 | 66.00 | .DIWCN | 70.00 | .DIWCR | 68.00 | 2.00 | 68.00 | 2.00 | 2.00 | 2.60 | 0.60 | 30.0% |

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.

Copyright © 1998-2008 OptionSmart.com (Stock Markets Institute). All rights reserved.

Released on 01/28/08