



OPTIONSMART
3-D OPTION TRADING STRATEGIES

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3-D Research Note on MER



Chart courtesy of StockCharts.com

#	Date	Most Recent News	Stock's Reaction
1	15-Apr	MER: Temasak invests further \$600 mln in MER	positive
2	16-Apr	MER to report \$6 bln to \$8 bln in new write-downs on Apr 17	positive
3	17-Apr	MER missed by \$0.21 (loss of \$2.20 per share vs consensus loss of \$1.99), missed on revs. Fitch Ratings and Moody's to review MER for downgrade	positive
4	18-Apr	MER: target lowered at UBS, Lehman	positive
5	24-Apr	MER maintained quarterly dividend of \$0.35	positive
6	25-Apr	Merrill and TPG in talks on closer ties regarding the possibility of a capital investment from the private equity firm	positive
7	30-Apr	MER: CNBC reported that MER was in talks to hire former GS co-head of asset mgmt Kraus	positive

OUR RECOMMENDATION: STRONG BUY

RECOMMENDED TRADING VEHICLE:

Open Debit Call Spread:

Buy to Open MERFC MER Jun 42.5 Call IV 41.5 Delta .92

Sell to Open MERFW MER Jun 47.5 Call IV 42.5 Delta .75

Debit 4.00

Position Net Delta .17

Max Gain 1.00

Max Risk 4.00

Target Credit 4.60

3D CHECK LIST

BULLISH	FACTORS	BEARISH
	Technicals	
✓	Daily and weekly MACD bullish	
✓	Daily Stochastic Oscillator overbought, weekly Stochastic Oscillator turns bearish	✓
✓	The stock is in the short-term upward trend	
✓	Support at 40.0-42.0, 48.0 and 50 MA	
	Resistance at 56.0, 58.0 and 200 MA	✓
	Similar stocks or key components looking for direction	✓
	Fundamentals	
	EPS revisions trend down	✓
✓	PEG (3.69)	✓
	Market Play	
✓	Program trading buy orders at 49.6 after Apr 28	
✓	Implied volatility (43.27%) < Historical volatility (61.31%)	
✓	Stock reacted positively on any news (see the chart above)	
✓	Trading volumes go up after Apr 29	
✓	Unusually high option trading volumes for May, Jun, 42.5, 47.5, 50.0 Calls 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
MER	51.75	51.00	51.00	51.00	48.04	2.96	Unlimited	52.91	1.91	3.8%

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
MER	51.75	Jun-08	47.50	.MERFW	51.00	5.11	52.61	Unlimited	5.11	5.88	0.77	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
MER	51.75	Jun-08	42.50	.MERRC	47.50	.MERRW	51.00	1.13	46.37	1.13	3.87	0.83	0.31	7.9%

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
MER	51.75	Jun-08	42.50	.MERFC	47.50	.MERFW	51.00	4.00	46.50	1.00	4.00	4.60	0.60	15.0%

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)

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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