



OPTIONSMART
3-D OPTION TRADING STRATEGIES

3-D Research Note on MSFT



Chart courtesy of StockCharts.com

#	Date	Most Recent News	Stock's Reaction
1	12-May	MSFT and RIMM to bring Windows Live services to BlackBerry smartphone customers	positive
2	14-May	MSFT: AmTech viewed positive prospects for MSFT Client business	positive
3	14-May	MSFT expected sales of its Windows Mobile platform products will account for 40% of the global smartphone market in fiscal 2012	positive
4	16-May	MSFT: Earthquake has minimal impact on MSFT office in Chengdu	negative
5	19-May	MSFT: Raised EDD ests (FYQ4 EDD Y/Y growth from 35% to 47%, tFY09 ests from 20% to 28%) on strong gaming outlook and blockbuster GTA launch	negative
6	21-May	MSFT announced Microsoft Live Search cashback program	negative
7	4-Jun	Microsoft didn't violate Alcatel-Lucent patent, jury said	positive

OUR RECOMMENDATION: STRONG BUY

RECOMMENDED TRADING VEHICLE:

Open Debit Call Spread:
 Buy to Open MSQJD MSFT Oct 24 Call IV 35.5 Delta .85
 Sell to Open MSQJT MSFT Oct 28 Call IV 29.0 Delta .61
 Debit 3.00
 Position Net Delta .24
 Max Gain 1.00
 Max Risk 3.00
 Target Credit 3.45

3D CHECK LIST

BULLISH	FACTORS	BEARISH
	Technicals	
✓	Bullish daily MACD	
	Daily Stochastic Oscillator turns bearish	✓
	The stock is in the short and intermediate-term sideways	✓
✓	Support at 47.0, 27.25, 50 MA	
	Resistance at 200 MA, 31.7	✓
✓	<i>Similar stocks or key components in upward trend</i>	
	Fundamentals	
✓	Forward P/E (13.33) < Trailing P/E (16.73)	
✓	PEG (1.35)	
✓	P/S (4.63)	
✓	Operating Margin (36.77%), ROE (45.28%)	
	Neutral EPS revisions trend	✓
	Market Play	
✓	Program trading buy orders at 27.25 after Jun 4	
✓	Implied volatility (30.82%) < Historical volatility (36.59%)	
	Mixed reaction on the latest positive news (see the chart above)	✓
✓	Trading volumes go up after Jun 9	
✓	Unusually high option trading volumes for Jun-Oct 24-30 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
MSFT	28.80	28.00	28.00	28.00	26.50	1.50	Unlimited	29.44	1.44	5.1%

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
MSFT	28.80	Oct-08	28.00	.MSQJT	28.00	1.93	29.93	Unlimited	1.93	2.22	0.29	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
MSFT	28.80	Oct-08	24.00	.MSQVD	28.00	.MSQVT	28.00	1.21	26.79	1.21	2.79	0.84	0.36	13.0%

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
MSFT	28.80	Oct-08	24.00	.MSQJD	28.00	.MSQJT	28.00	3.00	27.00	1.00	3.00	3.45	0.45	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 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 Autotrader, click Sign Up/Newsletter Providers and choose OptionSmart as newsletter provider
3. Select a service	3. Select Autotrader 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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