



OPTIONSMART  
3-D OPTION TRADING STRATEGIES

# 3-D Research Note on ORCL



Chart courtesy of StockCharts.com

#	Date	Most Recent News	Stock's Reaction
1	19-May	ORCL: planed new facility in Utah to start operations in early 2010	positive
2	17-Jun	ORCL: Citigroup saw a seasonally strong Q4 results, but growth in 2009 to slow down, conservative guidance expected for the Q1, reiterated with BUY and set target of \$25	negative
3	23-Jun	ORCL to buy Skywire Software	negative
4	25-Jun	(AFTER THE CLOSE)ORCL beat by \$0.03 (\$0.47 vs. \$0.44 estimates), Q4 profit up 27%	positive
5	26-Jun	ORCL issued disappointing sales forecast for the current quarter ending in August (10- 20% growth vs. 35% growth y-o-y, 27% growth in Q3)	negative

**OUR RECOMMENDATION: STRONG BUY**

**RECOMMENDED TRADING VEHICLE:**

Open Debit Call Spread:

Buy to Open ORQIQ ORCL Sep 16 Call IV 30.5 Delta .98

Sell to Open ORQIY ORCL Sep 21 Call IV 32.8 Delta .58

Debit 3.60

Position Net Delta .40

Max Gain 1.40

Max Risk 3.60

Target Credit 4.15

WEEKLY CHART



Chart courtesy of StockCharts.com

Key sector components	Fundamentals
Oracle Corp. (ORCL)	Trailing P/E (20.09); Forward P/E (12.20); PEG (1.04); EPS Trends-bullish
Symantec Corporation (SYMC)	Trailing P/E (38.19); Forward P/E (12.61); PEG (1.14); EPS Trends-bullish
Adobe Systems Inc. (ADBE)	Trailing P/E (27.37); Forward P/E (18.64); PEG Ratio (1.37); EPS Trends-bullish
Microsoft Corporation (MSFT)	Trailing P/E ( 15.51); Forward P/E (12.26); PEG Ratio (1.25); EPS Trends-bullish
Electronic Arts Inc. (ERTS)	Trailing P/E (N/A); Forward P/E (19.03); PEG Ratio (1.44); EPS Trends-bearish

BULLISH	LONG-TERM FACTORS	BEARISH
✓	Personal income for May came in at 1.9%, well above the 0.4% economists forecast and also above the previous month's 0.3%. Personal spending exceeded expectations, up 0.8% in May, the final GDP reading for the first quarter indicated the economy grew at 1.0% ious month's 0.3%. Personal spending also exceeded expectations, up 0.8% in May. The May PCE deflator came in at 3.1%, which is slightly below expectations. Core PCE came in at 0.1%, which is also slightly below expectations for May.	
	Consumer confidence in June slipped 13% to its lowest level since 1992, after consumers were bombarded with reports of spiking food and energy costs and rising	✓
✓	Microsoft vs. VMware: The virtualization battleground takes shape: Microsoft (MSFT) to put increasing pressure on VMware (VMW) by releasing a low cost product	
✓	Symantec to buy SwapDrive for \$123 million	

## 3D CHECK LIST

BULLISH	FACTORS	BEARISH
	<b>Technicals</b>	
	Bearish daily MACD, weekly MACD turns bearish	✓
✓	Daily Stochastic Oscillator oversold, weekly Stochastic Oscillator turns bearish	
✓	The stock is in the intermediate-term upward trend	
✓	Support at 20.7, 200MA	
	Resistance at 23.0, 50MA	✓
✓	Similar stocks or key components are forming bottom	
	<b>Fundamentals</b>	
✓	Forward P/E (12.25) < Trailing P/E (20.18)	
✓	PEG (1.04)	
	P/S (5.22)	✓
✓	Operating Margin (35.71%), ROE (27.64%)	
✓	Bullish EPS revisions trend	
	<b>Market Play</b>	
✓	Program trading buy orders at 20.7 after Apr 30	
✓	Implied volatility (30.45%) < Historical volatility (33.00%)	
✓	Mixed reaction on the latest positive news (see the chart above)	
✓	Trading volumes go up after Jun 24	
✓	Unusually high option trading volumes for Jul-Jan9 19-23 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
ORCL	21.31	20.50	20.50	20.50	18.70	1.80	Unlimited	21.47	0.97	4.7%

## 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
ORCL	21.31	Sep-08	16.00	.ORQIQ	20.50	4.61	20.61	Unlimited	4.61	5.30	0.69	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
ORCL	21.31	Sep-08	16.00	.ORQUQ	21.00	.ORQUY	20.50	1.32	19.68	1.32	3.68	0.99	0.33	9.0%

## 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
ORCL	21.31	Sep-08	16.00	.ORQIQ	21.00	.ORQIY	20.50	3.60	19.60	1.40	3.60	4.15	0.55	15.3%

## 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 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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