



OPTIONSMART  
3-D OPTION TRADING STRATEGIES

Released on 9/17/2008

# 3-D Research Note on QCOM



Chart courtesy of StockCharts.com

#	Date	Most Recent News	Stock's Reaction
1	28-Aug	QCOM found in contempt on BRCM patent fight	negative
2	3-Sep	QCOM: cell phone replacements slowing. Consumers are holding onto phones longer in developed markets; keeping the same phone anywhere from a year to two years,	negative
3	4-Sep	QCOM cut to HOKD from BUY at Argus	negative
4	10-Sep	QCOM and Navistar announce alliance to deliver Qualcomm Mobile Computing Platform via Navistar Dealers in the United States	positive
5	10-Sep	Panasonic and QCOM team up to offer Gobi on all new Toughbook Notebooks	positive
6	11-Sep	Qualcomm said 3G demand healthy	positive

**OUR RECOMMENDATION: STRONG BUY**

**RECOMMENDED TRADING VEHICLE:**

Bullish Debit Call Spread

Buy to Open AAOAH QCOM Jan9 40 Call IV 45.1 Delta .77

Sell to Open AAOAI QCOM Jan9 45 Call IV 42.0 Delta .61

Debit 3.11

Position Net Delta .16

Max Gain 1.89

Max Risk 3.11

Target Credit 3.58

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## WEEKLY CHART



Chart courtesy of StockCharts.com

Key sector components	Fundamentals
AT&T INC. ( <b>T</b> )	Trailing P/E (15); Forward P/E (10); PEG Ratio (1.27); EPS Trends- bearish
APPLE INC ( <b>AAPL</b> )	Trailing P/E (30); Forward P/E (25); PEG Ratio (1.23); EPS Trends-bearish
CISCO SYS INC ( <b>CSCO</b> )	Trailing P/E (18); Forward P/E (12); PEG Ratio (0.91); EPS Trends-bearish
INTL BUSINESS MACHC ( <b>IBM</b> )	Trailing P/E (14); Forward P/E (12); PEG Ratio (1.19); EPS Trends- bullish

BULLISH	LONG-TERM FACTORS	BEARISH
	July personal income fell 0.7%; The PCE deflator was up 0.6%, reflecting higher gas prices.	✓
✓	Retail sales fell 1.6% from a week ago, and gained 1.3% on the previous year. Redbook numbers showed national chain store sales fell 1.1% in the first two weeks of September vs. the previous month, but gained 1.4% vs. a year ago.	
	Industrial production fell 1.1% in August, which was much steeper than the expected decline of 0.3%. An 11.9% decline in auto output and a 3.2% decrease in utility output acted as major drags. Capacity fell by one percentage point to 78.7% (consensus 79.6%).	✓
	Lehman (LEH) announced it will file for bankruptcy. With \$600B in assets and \$550B in debt outstanding, a forced liquidation could send shocks reverberating through other companies and markets. Bank of America (BAC) has agreed to buy Merrill Lynch (MER) for about \$50B in stock, or \$29/share, a 70% premium over Friday's closing price.	✓
✓	Consumer prices posted their first drop in nearly two years on lower energy costs and reduced inflationary pressures. The seasonally adjusted Consumer Price Index [CPI] fell 0.1% in August, in-line with consensus. Core CPI rose 0.2%, also in-line with consensus.	
✓	Semiconductor chip sales during July increased 7.6% from last year. Chip sales continue to benefit from healthy demand: from personal computers to increasingly sophisticated cell phones.	
✓	ABC's Consumer Comfort Index showed a sharp increase in consumer confidence, jumping to -41 from -47. Economists expected the index to stay steady at -47.	

## 3D CHECK LIST

BULLISH	FACTORS	BEARISH
	<b>Technicals</b>	
	Bearish daily and weekly MACD	✓
	Bearish daily and weekly Stochastic Oscillator	✓
	The stock is in the short-term downward trend	✓
✓	Support at 45.5, 44	
	Resistance at 49, 50MA	✓
✓	Similar stocks or key components are trying to form a bottom	
	<b>Fundamentals</b>	
✓	Forward P/E (18.02) < Trailing P/E (23.34)	
✓	PEG (1.1)	
	P/S (7.77)	✓
✓	Operating Margin (31.49%), ROE (20.84%)	
✓	Bullish EPS revisions trend	
	<b>Market Play</b>	
✓	Program trading buy orders at 45.5 after Sep 9	
✓	Implied volatility (39.66%) > Historical volatility (35.82%)	
✓	Adequate reaction on the latest positive news (see the chart above)	
✓	Trading volumes go up after Aug 28	
✓	Unusually high option trading volumes for Sep-Jan10 35-52 Calls and Puts	

## 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
<b>QCOM</b>	47.92	45.50	45.50	45.50	44.00	1.50	Unlimited	49.00	3.50	7.7%

## 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
<b>QCOM</b>	47.92	Jan-09	45.00	.AAOI	45.50	4.47	49.47	Unlimited	4.47	4.92	0.45	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
<b>QCOM</b>	47.92	Jan-09	40.00	.AOMH	45.00	45.00	45.50	1.80	43.20	1.80	3.20	1.44	0.36	11.2%

## 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
<b>QCOM</b>	47.92	Jan-09	40.00	.AAOH	45.00	.AAOI	45.50	3.11	43.11	1.89	3.11	3.58	0.47	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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