



OPTIONSMART
3-D OPTION TRADING STRATEGIES

Released on 8/29/2008

3-D Research Note on QQQQ



Chart courtesy of StockCharts.com

#	Date	Most Recent News	Stock's Reaction
1	18-Aug	(AFTER CLOSE) SYMC to acquire PC Tools, a provider of software products designed to protect the privacy and security of Windows computer users.	negative
2	19-Aug	(AFTER CLOSE) ADI reported Q3 earnings of \$0.44 per share vs. \$0.45 estimates	positive
3	19-Aug	(AFTER CLOSE) HPQ reported earnings of \$0.83, topped expectations by \$0.03 thanks to 10.5% year-over-year revenue growth	positive
4	26-Aug	BRCM downgraded to Outperform	negative
5	28-Aug	(AFTER CLOSE) DELL: FQ3 EPS of \$0.31 missed by \$0.05. MRVL: Q2 EPS of \$0.24 beat by \$0.02	-

OUR RECOMMENDATION: STRONG BUY

RECOMMENDED TRADING VEHICLE:

Bullish Debit Call Spread

Buy to Open QQQLQ QQQQ Dec 43 Call IV 24.9 Delta .78

Sell to Open QQQLT QQQQ Dec 46 Call IV 24.0 Delta .61

Debit 2.30

Position Net Delta .17

Max Gain 0.70

Max Risk 2.30

Target Credit 2.65

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WEEKLY CHART

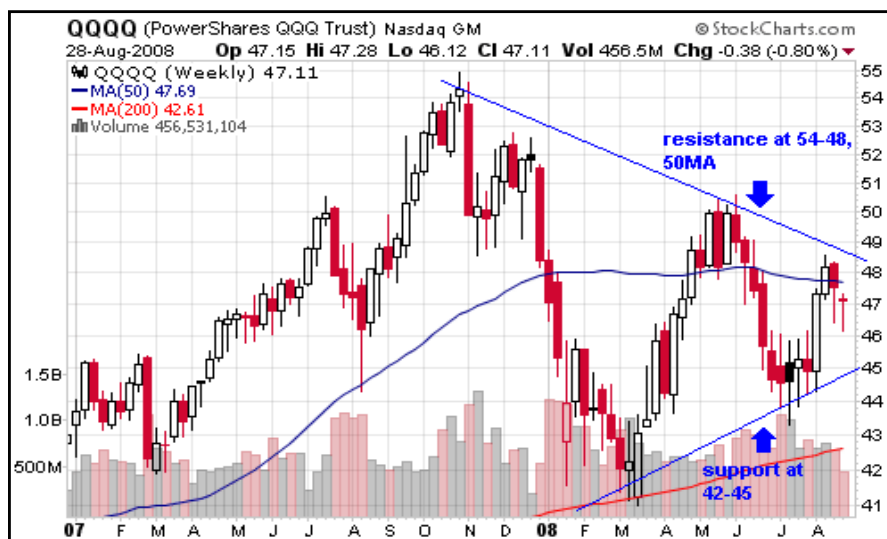


Chart courtesy of StockCharts.com

Key sector components	Fundamentals
APPLE INC (AAPL)	Trailing P/E (34); Forward P/E (28); PEG Ratio (1.4); EPS Trends- bearish
MICROSOFT CP (MSFT)	Trailing P/E (15); Forward P/E (12); PEG Ratio (1.16); EPS Trends- bearish
QUALCOMM INC (QCOM)	Trailing P/E (26); Forward P/E (20); PEG Ratio (1.2); EPS Trends- bullish
GOOGLE (GOOG)	Trailing P/E (31); Forward P/E (20); PEG Ratio (0.8); EPS Trends- bearish

BULLISH	LONG-TERM FACTORS	BEARISH
	Corporate profits fall. Core inflation rose at 2.1% in Q2, while headline inflation jumped to 4.2%. Corporate profits dropped by \$37.8B to \$1.56T - the lowest in three years. Exports were up 13.2%, while imports fell 7.6%.	✓
✓	Durable goods show surprise growth. July durable goods orders rose an unexpected 1.3% on strong transportation equipment demand vs. a consensus 0.2%.	
✓	Weekly Jobless Claims were 425,000, in-line with consensus, down 10K from last week's revised 435,000. Continuing claims were 3.42M. 4-week moving average falls by 6K to 446,250.	
	In the U.S. consumer prices rose 4.1% in Q1 while salaries climbed a meeker 3.3%. So far in Q2, prices have continued to soar while compensation growth has slowed. Conversely, what's good for workers may wreak havoc on the economy, as rising wages can easily trigger price increases, leading to a so-called inflationary spiral.	✓
✓	GDP jumps to 3.3% vs. the advanced estimate of 1.9%. The higher GDP numbers reflect stronger-than-expected exports and inventories that fell less sharply than anticipated.	

3D CHECK LIST

BULLISH	FACTORS	BEARISH
	Technicals	
	daily MACD - bearish	✓
	daily Stochastic Oscillator - bearish	✓
✓	ETF trend (weekly) - strong support at 44-45	
✓	Support at 44.0, 44.5, 50MA, 200MA	
	Resistance at 48.7	✓
✓	Similar stocks or key components are testing bottoms	
	Fundamentals	
✓	Average P/E (19.79)	
	Average P/B (3.78)	✓
	Average P/S (2.26)	✓
	Market Play	
✓	Program trading buy orders at 44.0 after Jul 28	
✓	Implied volatility (21.96%) > Historical volatility (21.54%)	
✓	Unusually high option trading volumes for Sep-Jan9 39-52Puts/Calls	

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
QQQQ	47.11	46.70	46.70	46.70	44.50	2.20	Unlimited	48.50	1.80	3.9%

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
QQQQ	47.11	Dec-08	46.00	.QQQLT	46.70	2.98	48.98	Unlimited	2.98	3.28	0.30	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
QQQQ	47.11	Dec-08	43.00	.QQXQ	46.00	.QQQLT	46.70	1.20	44.80	1.20	1.80	0.90	0.30	16.7%

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
QQQQ	47.11	Dec-08	43.00	.QQLQ	46.00	.QQQLT	46.70	2.30	45.30	0.70	2.30	2.64	0.34	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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