



OPTIONSMART
3-D OPTION TRADING STRATEGIES

3-D Research Note on UTX



Chart courtesy of StockCharts.com

#	Date	Most Recent News	Stock's Reaction
1	17-Apr	UTX beat by \$0.04, beats on revs; guided FY08 EPS below consensus (\$4.65-4.85 vs. \$4.86), revs in-line	negative
2	18-Apr	UTX initiated with a Hold and a 3-yr tgt of \$90-\$95, following Q108 EPS that exceeded consensus estimates and based on new product	positive
3	20-May	UTX reaffirmed FY08 EPS forecast of \$4.65-4.85	negative
4	2-Jun	UTX increases prices on residential and commercial equipment in North America in mid-July	negative

OUR RECOMMENDATION: STRONG BUY

RECOMMENDED TRADING VEHICLE:

Open Debit Call Spread:

Buy to Open UTXHL UTX Aug 60 Call IV 25.3 Delta .94

Sell to Open UTXHM UTX Aug 65 Call IV 35.8 Delta .79

Debit 4.10

Position Net Delta .15

Max Gain 0.90

Max Risk 4.10

Target Credit 4.70

3D CHECK LIST

BULLISH	FACTORS	BEARISH
	Technicals	
	Daily and weekly MACD bearish	✓
✓	Oversold daily Stochastic Oscillator	
✓	The stock is in the short-term upward trend	
✓	Support at 66.0, 69.0, 69.75	
	Resistance at 200MA, 75.0	✓
	Similar stocks or key components neutral	
	Fundamentals	
✓	Forward P/E (12.95) < Trailing P/E (15.81)	
✓	PEG (1.24)	
✓	P/S (1.24)	
✓	Operating Margin (13.1%), ROE (22.20%)	
✓	Bullish EPS revisions trend	
	Market Play	
✓	Program trading buy orders at 69.75 after May 23	
✓	Implied volatility (31.85%) > Historical volatility (23.29%)	
✓	Stock reacted adequately on the latest positive news (see the chart above)	
✓	Trading volumes go up after May 28	
✓	Unusually high option trading volumes for Aug, Jan9 60-70 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
UTX	70.73	69.50	69.50	69.50	68.00	1.50	Unlimited	72.58	3.08	4.4%

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
UTX	70.73	Aug-08	65.00	.UTXHM	69.50	6.03	71.03	Unlimited	6.03	6.93	0.90	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
UTX	70.73	Jul-08	60.00	.UTXTL	65.00	.UTXTM	69.50	0.86	64.14	0.86	4.14	0.63	0.23	5.6%

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
UTX	70.73	Jul-08	60.00	.UTXHL	65.00	.UTXHM	69.50	4.19	64.19	0.81	4.19	4.69	0.50	12.0%

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 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, 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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