



OPTIONSMART  
3-D OPTION TRADING STRATEGIES

# 3-D Research Note on WMT



Chart courtesy of StockCharts.com

#	Date	Most Recent News	Stock's Reaction
1	14-Aug	Earnings report: WMT beat by \$0.02; guided in-line	positive
2	4-Sep	Strong Same-Store Sales for WMT	negative
3	5-Sep	WMT: Lazard Capital reiterated Buy	positive
4	11-Sep	WMT: Edward Jones cut to Hold	positive
5	18-Sep	WMT: Credit Suisse reiterated Outperform	positive
6	30-Sep	WMT takes action to end forced child labor in Uzbekistan	positive

**OUR RECOMMENDATION: STRONG BUY**

**RECOMMENDED TRADING VEHICLE:**

Bullish Debit Call Spread  
 Buy to Open WMTKX WMT Nov 52.5 Call IV 36.8 Delta .85  
 Sell to Open WMTKY WMT Nov 57.5 Call IV 33.4 Delta .65  
 Debit 3.80  
 Position Net Delta .20  
 Max Gain 1.20  
 Max Risk 3.80  
 Target Credit 4.30

## WEEKLY CHART



Chart courtesy of StockCharts.com

Key sector components	Fundamentals
HOME DEPOT INC ( <b>HD</b> )	Trailing P/E (12); Forward P/E (14); PEG Ratio (1.32); EPS Trends- neutral
WAL MART STORES ( <b>WMT</b> )	Trailing P/E (17); Forward P/E (15); PEG Ratio (1.45); EPS Trends- bullish
TARGET CP ( <b>TGT</b> )	Trailing P/E (14); Forward P/E (12); PEG Ratio (1.03); EPS Trends- bearish
WALGREEN CO ( <b>WAG</b> )	Trailing P/E (14.65); Forward P/E (12.65); PEG Ratio (1.04); EPS Trends- bearish

BULLISH	LONG-TERM FACTORS	BEARISH
✓	Congress reportedly working on new financial relief plan, expected to be passed before end of week	
✓	Consumer confidence unexpectedly rises in September	
	Home prices down 16.3% from previous year in 20 major metro areas, according to S&P/Case Shiller	✓
	Initial jobless claims for the past week were 455,000, higher than the 440K, and up 10K from last week. The four-week average rose 5K to 445,000.	✓
	The U.S. current-account deficit increased to \$183.1B in Q2 from \$175.6B (revised) in Q1. Consensus was for \$180B.	✓
	August housing starts came in at 895,000 - a 17-year low and a full 55,000 below consensus, sending homebuilder shares diving. streetTRACKS SPDR Homebuilders ETF (XHB) was off 7.7%. Much-watched permits came in at 854K vs. July's revised 827K.	✓
✓	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.	

## 3D CHECK LIST

BULLISH	FACTORS	BEARISH
	<b>Technicals</b>	
✓	Daily MACD switched to bullish	
✓	Strong bullish daily Stochastic Oscillator	
✓	The stock is in the short-term upward trend	
✓	<i>Support at 56-59, 50-MA</i>	
	<i>Resistance at 63.25</i>	✓
✓	Similar stocks or key components have formed bottoms; gained momentums	
	<b>Fundamentals</b>	
✓	Forward P/E (15.5) < Trailing P/E (17.8)	
	PEG (1.45)	✓
✓	P/S (0.59)	
✓	Operating Margin (5.83%), ROE (20.75%)	
	Neutral EPS revisions trend	✓
	<b>Market Play</b>	
✓	Program trading buy orders at 58.13 after Sep 23	
✓	Implied volatility (34.69%) > Historical volatility (28.28%)	
✓	<i>Adequate reaction on the latest positive news (see the chart above)</i>	
✓	Unusually high option trading volumes for Nov 55-65 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>WMT</b>	59.89	58.30	58.30	58.30	56.00	2.30	Unlimited	63.00	4.70	8.1%

## 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
<b>WMT</b>	59.89	Nov-08	52.50	.WMTKX	58.30	7.00	59.50	Unlimited	7.00	7.30	0.30	4.3%

## 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>WMT</b>	59.89	Nov-08	52.50	.WMTWX	57.50	.WMTKY	58.30	1.45	56.05	1.45	3.55	1.05	0.40	11.3%

## 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>WMT</b>	59.89	Nov-08	52.50	.WMTKX	57.50	.WMTKY	58.30	3.80	56.30	1.20	3.80	4.30	0.50	13.0%

## 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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