



3-D Research Note on XLE

MARKET PLAY



Chart courtesy of StockCharts.com

RATIONALE

- XLE tries to form a bottom
- P/E(12), P/B (2) are very low --> fundamentally undervalued
- MACD looks bullish and there is enough room to move higher (up to 71.5)
- unusually high open interest for Mar 70 Calls -->> investors anticipate the upturn
- implied volatility is above the average level -->> the stock is ready to move
- program trading buy orders at 68 (Jan 24,28) -->> poised to bottom out
- large traders place sell orders at 71.5 (Jan 25,28; Feb 1,4) -->> strong resistance visible
- long-term industry trend is supportive
- the stock adequately reacted on positive news (Jan 23 – COP Earnings report, Feb 1– CVX Earnings report, Feb 4 – HAL upgraded) -->> the stock is ready to move higher

OUR RECOMMENDATION: BUY AT THE 67.00 LEVEL

RECOMMENDED TRADING VEHICLE: Bullish Credit Put Spread

Buy to Open XBTOK XLE Mar 63 Put IV 39.00 Delta -.24

Sell to Open XBTOO XLE Mar 67 Put IV 36.90 Delta -.40

Credit 1.80

Position Net Delta .16

Max Gain 1.80

Max Risk 2.20

Target Debit 0.50

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
XLE	68.45	67.00	67.00	67.00	65.00	2.00	Unlimited	71.00	4.00	6.0%

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
XLE	68.45	Mar-08	67.00	.XBTCO	67.00	2.00	69.00	Unlimited	2.00	2.40	0.40	20.0%

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
XLE	68.45	Mar-08	63.00	.XBTK	67.00	.XBTOO	67.00	1.80	65.20	1.80	2.20	0.50	1.30	59.1%

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
XLE	68.45	Mar-08	63.00	.XBTK	67.00	.XBTCO	67.00	2.70	65.70	1.30	2.70	3.20	0.50	18.5%

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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