



3-D Research Note on XLK



Chart courtesy of StockCharts.com

#	Date	Most Recent News	Stock's Reaction
1	16-Oct	IBM beat by \$0.02; reaffirmed guidance	positive
2	22-Oct	T: Revenue steady, but Earnings dip (-\$0.04)	negative
3	23-Oct	(after the close) MSFT beat by \$0.01; guided below consensus	negative
4	6-Nov	CSCO: sees slowdown ahead though posted better-than-expected earnings in its fiscal Q1	negative
5	21-Nov	MSFT: Oppenheimer upped to Outperform	positive
6	24-Nov	(after the close) HPQ Earnings release	-

OUR RECOMMENDATION: STRONG BUY

RECOMMENDED TRADING VEHICLE:

Bullish Debit Call Spread

Buy to Open XLKAJ XLK Jan 10 Call IV 78.5 Delta .89

Sell to Open XLKAN XLK Jan 14 Call IV 60.6 Delta .54

Debit 3.00

Position Net Delta .35

Max Gain 1.00

Max Risk 3.00

Target Credit 3.40

WEEKLY CHART



Chart courtesy of StockCharts.com

Key sector components	Fundamentals
Microsoft Corporation (MSFT)	Trailing P/E (10.4); Forward P/E (8.70); PEG Ratio (0.87); EPS Trends-bearish
INTL BUSINESS MACH (IBM)	Trailing P/E (8.83); Forward P/E (8.17); PEG Ratio (0.78); EPS Trends-bearish
AT&T INC. (T)	Trailing P/E (11.11); Forward P/E (8.51); PEG Ratio (1.30); EPS Trends-neutral
Cisco Systems, Inc. (CSCO)	Trailing P/E (11.45); Forward P/E (9.98); PEG Ratio (0.90); EPS Trends-bearish
HEWLETT PACKARD CO (HPQ)	Trailing P/E (10.7); Forward P/E (9.12); PEG Ratio (0.76); EPS Trends-neutral

BULLISH	LONG-TERM FACTORS	BEARISH
✓	Consumer Prices fell 1% after an unchanged September, the Department of Labor says. Prices are still 3.7% higher than a year ago. Expectations were for an 0.8% monthly drop and Y/Y inflation of 4%.	
	Three-month Treasury bill yields fell 1 basis point on Friday to 0.01% - the lowest since at least January 1940	✓
	U.S. sales of clothing and appliances fell dramatically in the first two weeks of November compared to last year, MasterCard Advisors says.	✓
	Euro area enters recession. Euro area GPD fell by 0.2% in Q3, in line with expectations, sending the eurozone into recession. Euro area inflation fell to 3.2% in October from 3.6% in September.	✓
	Japan entered its first recession since 2001 last quarter: GDP shrank an annualized 0.4% last quarter, vs. predictions of 0.1% growth, and had contracted 3.7% in the quarter before; demand for exports falls and the Japanese government faces serious constraints in its ability to stimulate growth.	✓
	Jobless claims jump. Initial jobless claims of 516,000 were substantially worse than the 480,000 economists had expected.	✓

3D CHECK LIST

BULLISH	FACTORS	BEARISH
	Technicals	
	daily MACD - bearish	✓
✓	daily Stochastic Oscillator - oversold	
	ETF trend (weekly) - bearish;	✓
✓	Support at 13.15	
	Resistance at 17.33; 50DMA	✓
✓	Key sector components sentiment (Hardware, Software, Telecoms) -paced the way higher, managed strong gains.	
	Fundamentals	
✓	Average P/E (13.59)	
	Average P/B (2.65)	✓
✓	Average P/S (1.75)	
	Market Play	
✓	Program trading buy orders at 13.83 after Nov 13	
✓	Implied volatility (67.8%) < Historical volatility (82.9%)	
✓	Trading volumes go up after Nov 20;	
✓	Unusually high option trading volumes for Jan 20-25 Puts/Calls;	
✓	<i>Adequate reaction on the latest positive news (see the chart above)</i>	

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
XLK	13.89	13.20	13.20	13.20	12.00	1.20	Unlimited	14.96	1.76	13.3%

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
XLK	13.89	Jan-09	10.00	.XLKAJ	13.20	3.40	13.40	Unlimited	3.40	3.70	0.30	8.8%

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
XLK	13.89	Jan-09	10.00	.XLKMJ	14.00	14.00	13.20	1.35	12.65	1.35	2.65	0.90	0.45	17.0%

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
XLK	13.89	Jan-09	10.00	.XLKAJ	14.00	.XLKAN	13.20	3.00	13.00	1.00	3.00	3.40	0.40	13.3%

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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