



OPTIONSMART
3-D OPTION TRADING STRATEGIES

3-D Research Note on YHOO



Chart courtesy of StockCharts.com

#	Date	Most Recent News	Stock's Reaction
1	12-Jun	YHOO: MSFT no longer interest in pursuing an acquisition of all of Yahoo	negative
2	13-Jun	YHOO: Stifel Nicolaus upped to Buy, Soleil upped to Hold	positive
3	13-Jun	YHOO announced running ads supplied by GOOG to enhance Yahoo's ability to compete in the "converging search and display marketplace."	positive
4	20-Jun	YHOO: Reorganization announced	negative
5	25-Jun	YHOO: Canaccord Adams upped to Hold	negative
6	7-Jul	Microsoft still open to Yahoo deal	positive

OUR RECOMMENDATION: STRONG BUY

RECOMMENDED TRADING VEHICLE:

Open Debit Call Spread:

Buy to Open YHQHW YHOO Aug 17.5 Call IV 76.4 Delta .92

Sell to Open YHQHD YHOO Aug 20 Call IV 73 Delta .81

Debit 2.10

Position Net Delta .11

Max Gain 0.40

Max Risk 2.10

Target Credit 2.42

WEEKLY CHART



Chart courtesy of StockCharts.com

Key sector components	Fundamentals
YAHOO INC (YHOO)	Trailing P/E (32.4); Forward P/E (38.56); PEG (2.24); EPS Trends-bullish
AMAZON.COM INC (AMZN)	Trailing P/E (63.9); Forward P/E (36.16); PEG (2.44); EPS Trends-neutral
EBAY INC (EBAY)	Trailing P/E (87.59); Forward P/E (14.08); PEG Ratio (0.93); EPS Trends- bullish
TIME WARNER INC (TWX)	Trailing P/E (13.62); Forward P/E (11.97); PEG Ratio (0.97); EPS Trends-neutral
PRICELINE.COM INC (PCLN)	Trailing P/E (32.42); Forward P/E (18.27); PEG Ratio (0.86); EPS Trends- bullish

BULLISH	LONG-TERM FACTORS	BEARISH
✓	Personal income for May came in at 1.9%, well above the 0.4% economists forecast and also above the previous month's 0.3%. Personal spending exceeded expectations, up 0.8% in May, the final GDP reading for the first quarter indicated the economy grew at 1.0% ious month's 0.3%. Personal spending also exceeded expectations, up 0.8% in May. The May PCE deflator came in at 3.1%, which is slightly below expectations. Core PCE came in at 0.1%, which is also slightly below expectations for May.	
	Jobless claims for the week ending June 21 exceeded expectations, totaling 384,000, though they were unchanged from the prior week.	✓
	Consumer confidence in June slipped 13% to its lowest level since 1992, after consumers were bombarded with reports of spiking food and energy costs and rising unemployment	✓ ✓
✓	Existing home sales rose 2% month-over-month to a seasonally adjusted annual rate of 4.99 million, which is better than the expected increase of 1.2%	
✓	AMZN announced the acquisition of Fabric.com, a leading online fabric store and launched AmazonMP3 - a music-download service to rival Apple's iTunes Music Store	

3D CHECK LIST

BULLISH	FACTORS	BEARISH
	Technicals	
✓	Bullish daily MACD	
✓	Daily Stochastic Oscillator bullish, weekly Stochastic Oscillator oversold	
	The stock is in the intermediate-term sideways	
✓	Support at 20.0	
	Resistance at 50MA, 200MA	✓
✓	Similar stocks or key components are forming bottom	
	Fundamentals	
	Forward P/E (38.56) > Trailing P/E (32.4)	✓
	PEG (2.24)	✓
	P/S (4.62)	✓
✓	Operating Margin (9.65%), ROE (10.96%)	
✓	Bullish EPS revisions trend	
	Market Play	
✓	Program trading buy orders at 20.0 after Jul 1	
✓	Implied volatility (68.26%) > Historical volatility (53.30%)	
	Mixed reaction on the latest positive news (see the chart above)	
✓	Trading volumes go up after Jun 30	
✓	Unusually high option trading volumes for Jul-Jan9 20-30 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
YHOO	23.91	23.50	23.50	23.50	21.70	1.80	Unlimited	23.99	0.49	2.1%

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
YHOO	23.91	Aug-08	20.00	.YHQHD	23.50	4.29	24.29	Unlimited	4.29	4.94	0.64	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
YHOO	23.91	Aug-08	17.50	.YHQTW	20.00	.YHQTD	23.50	0.50	19.50	0.50	2.00	0.38	0.13	6.3%

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
YHOO	23.91	Aug-08	17.50	.YHQHW	20.00	.YHQHD	23.50	2.10	19.60	0.40	2.10	2.42	0.32	15.5%

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 **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

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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Released on 07/08/08