

# 3-D Research Note on KLAC

## MARKET PLAY



Chart courtesy of StockCharts.com

## RATIONALE

- low PEG (0.9), Forward P/E (13.0) < Trailing P/E (17.7), high profit (17%) & operating (25%) margins--> the stock looks undervalued and attractive at current levels
  - MACD and Stochastic Oscillator look bullish and there is enough room to move higher (up to 47) Stochastic Oscillator is oversold --> the stock is ready to move higher
  - massive program trading buy orders placed at 41.3 (Jan 9-16) --> large traders don't allow to drop below this level
  - the stock adequately reacted on positive news (Oct 25 – Earnings in-line, Dec 19-upgraded)--> the stock is poised to bottom out
  - negative news on technology sector are already priced in
  - significant stock and options trade volumes after Jan 16 --> the stock is ready to move
  - implied volatility is above the average level --> investors bet on the upturn
- Earnings release Jan 24, after market (Stifel expects KLAC to meet ests, revs and its guidance but the main issue is timing of memory orders).

OUR RECOMMENDATION: BUY AT THE 39 LEVEL

RECOMMENDED TRADING VEHICLE:

Open Debit Call Spread:

Buy to Open KLAC Mar 37.5 Call

Sell to Open KLAC Mar 42.5 Call

Initial Debit 2.50

Target 3.00

## 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>KLAC</b>	42.56	39.50	39.50	39.50	37.90	1.60	Unlimited	47.00	7.50	19.0%

### 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
<b>KLAC</b>	42.56	Mar-08	40.00	.KCQCH	39.50	3.40	43.40	Unlimited	3.40	3.80	0.40	11.8%

### 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
<b>KLAC</b>	42.56	Mar-08	37.50	.KCQOU	42.50	.KCQOV	39.50	1.00	41.50	1.00	4.00	0.50	0.50	12.5%

### 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>KLAC</b>	42.56	Mar-08	37.50	.KCQCU	42.50	.KCQCV	39.50	2.50	40.00	2.50	2.50	3.00	0.50	20.0%

## 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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