

## 3-D Research Note on XLK

### MARKET PLAY



Chart courtesy of StockCharts.com

### RATIONALE

- the ETF got boost from IBM positive earnings surprise (14-Jan-08)--> bottoming out
- XLK components: AAPL, IBM, ADI, KLAC are gathering momentum
- trade volumes go up after Jan 7 --> the stock is being accumulated by large traders
- implied volatility is above the average level --> the stock is ready to move
- program trading buy orders at 23.5-24 (Jan 11) --> bottoming out
- Stochastic Oscillator is oversold --> the stock is gathering momentum
- negative news on technology sector are already priced in
- unusually high open interest for Feb 24 Calls --> investors bet on the upturn
- this sector is expected to be first to recover

**OUR RECOMMENDATION:** BUY AT THE 21 LEVEL

**RECOMMENDED TRADING VEHICLE:**

Open Debit Call Spread:

Buy to Open XLK Mar 21 Call

Sell to Open XLK Mar 24 Call

Initial Debit 1.30

Target 1.80

## 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>XLK</b>   | 23.10            | 22.00                         | 22.00      | 22.00                    | 20.40                | 1.60                 | Unlimited              | 25.00                     | 3.00                      | 13.6%         |

### 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>XLK</b>   | 23.10            | Mar-08           | 21.00        | .XLKCU        | 22.00                         | 1.90                    | 22.90      | Unlimited                     | 1.90                            | 2.30                      | 0.40                             | 21.1%         |

### 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>XLK</b>   | 23.10            | Mar-08           | 21.00        | .XLKOU        | 24.00         | .XLKOX        | 22.00                         | 1.30         | 22.70      | 1.30                          | 1.70                            | 0.50                      | 0.80                             | 47.1%         |

### 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 |
|--------------|------------------|------------------|--------------|---------------|---------------|---------------|-------------------------------|-------------|------------|-------------------------------|---------------------------------|-----------------------------|----------------------------------|---------------|
| <b>XLK</b>   | 23.10            | Mar-08           | 21.00        | .XLKCU        | 24.00         | .XLKCX        | 22.00                         | 2.00        | 23.00      | 1.00                          | 2.00                            | 2.50                        | 0.50                             | 25.0%         |

## 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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