

## The OptionSmarts Newsletter

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This newsletter features short-term option picks. We use state-of-the-art mathematical models to scan 200,000+ options available in the market and select those with better chances to win.

Our option picking strategy fundamentally differs from those used by other online option services. We use a unique technique based on mathematical statistics to unveil the facts invisible at a glance. Our picks have better chances to win because they account for the following five factors:

1. Technical signals for the underlying stock
2. Technical trends of the corresponding industry/sector
3. Current stock strength in its sector
4. Current sector strength in the entire economy
5. Consistency with fundamentals

All professional money managers keep these factors in mind. However, it takes a long time to scan the market for all necessary inputs and compute the above parameters. Do you have this time? We do.

We take into consideration both technical analysis and option mathematics so that you can reduce risk and enhance return of your portfolio.

You will find three chapters:

- 1. Bullish Swings (with three picks featuring "buy call", "debit call spread" and "credit put spread" option strategies).**
- 2. Bearish Swings (with one pick featuring "buy put", "credit call spread" and "debit put spread" option strategies).**
- 3. Other Trading Strategies (buy/sell stock, naked put and sell covered call).**

We send entry/exit alerts for the following strategies: "buy call", "debit call spread", "credit put spread", "buy put", "credit call spread" and "debit put spread".

Please feel free to mailto: [swings@optionsmart.com](mailto:swings@optionsmart.com) if you have questions about this newsletter and option trading in general.

**DISCLAIMER:** Information for the stock observations was obtained from sources believed to be reliable, but we do not warrant its completeness or accuracy, or warrant any results from the use of the information. Your use of the stock observations is entirely at your own risk and it is your sole responsibility to evaluate the accuracy, completeness and usefulness of the information. You must assess the risk of any trade with your broker and make your own independent decisions regarding any securities mentioned herein.

**BULLISH PLAY**

**ML INTERNET HLDR (HHH)**



Stock Symbol	HHH		
Industry	Internet HOLDRs		
	HHH	Industry	Sector
Valuation Ratios			
P/E, Trailing (ttm)	32.85	32.85	32.85
Price/Sales (ttm)	3.20	3.20	3.20
Price/Book (mrq)	NM	NM	NM
EPS Revisions			
EPS Revisions Trend	NM	-	-
Analyst Revisions	NM	-	-
Growth Rates			
EPS - Next 5 Years	-	-	-
PEG	1.37	1.37	1.37
Profitability Ratios, %			
Gross Margin	65.1%	65.1%	65.1%
Profit Margin	NM	NM	NM
Operating Margin	11.07%	11.07%	11.07%
Management Effectiveness, %			
Return on Assets	NM	NM	NM
Return on Equity	NM	NM	NM

Support/Resistance Levels		
	Support	Resistance
Short-term	54	57
Intermediate-term	52	58.66

Stock & Sector Trends		
	HHH	Sector
Short-term, based on 10-Day SMA	Up	Up
Intermediate-term, based on 50-Day SMA	Up	Up

Bullish factors	near-term support at 53-54, intermediate-term support at 50-52, intermediate & short-term bullish trend
Bearish factors	near-term resistance at 57, short-term overbought

**"FIRST CHOICE" OPTION STRATEGIES:**

**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
HHH	55.52	May-07	50.00	HHHEJ	55.01	5.90	55.90	Unlimited	5.90	6.40	0.50	8.5%

**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
HHH	55.52	May-07	50.00	HHHQJ	55.00	HHHQK	55.01	1.05	53.95	1.05	3.95	0.80	0.25	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
HHH	55.52	May-07	50.00	HHHEJ	55.00	HHHEK	55.01	3.80	53.80	1.20	3.80	4.20	0.40	10.5%

**COSTCO WHOLESALE C (COST)**



Stock Symbol	COST		
Industry	Retail (Specialty)		
	COST	Industry	Sector
Valuation Ratios			
P/E, Trailing (ttm)	23.96	31.80	26.19
Price/Sales (ttm)	0.40	2.40	2.90
Price/Book (mrq)	NM	6.54	4.03
EPS Revisions			
EPS Revisions Trend	down	-	-
Analyst Revisions	HOLD	-	-
Growth Rates			
EPS - Next 5 Years	13.0%	13.8%	13.3%
PEG	1.59	1.27	1.49
Profitability Ratios, %			
Gross Margin	12.29	40.63	42.51
Profit Margin	1.73	7.21	8.90
Operating Margin	2.54	10.76	13.95
Management Effectiveness, %			
Return on Assets	NM	8.62	6.42
Return on Equity	NM	18.25	15.17

Support/Resistance Levels		
	Support	Resistance
Short-term	52	56
Intermediate-term	50	58

Stock & Sector Trends		
	COST	Sector
Short-term, based on 10-Day SMA	Up	Up
Intermediate-term, based on 50-Day SMA	Down	Up

Bullish factors	near-term support at 52-53, intermediate-term support at 47-50, short-term oversold, supportive sector trend, EPS revisions trend - neutral,
Bearish factors	near-term resistance at 56-57, high P/B (2.7), P/E (trailing 24, forward 19), PEG ( 1.6), low profit & operating margins (1.7% & 2.6%)

**"FIRST CHOICE" OPTION STRATEGIES:**

**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
COST	54.56	Oct-07	50.00	PRQJJ	54.00	6.80	56.80	Unlimited	6.80	7.30	0.50	7.4%

**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
COST	54.56	May-07	47.50	PRQQW	52.50	PRQQA	54.00	0.65	51.85	0.65	4.35	0.40	0.25	5.7%

**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
COST	54.56	May-07	47.50	PRQEW	52.50	PRQEA	54.00	4.40	51.90	0.60	4.40	4.80	0.40	9.1%

HILTON HOTELS CP (HLT)



Stock Symbol	HLT		
Industry	Services (Lodging)		
	HLT	Industry	Sector
Valuation Ratios			
P/E, Trailing	25.55	24.04	26.19
Price/Sales (ttm)	1.70	2.09	2.90
Price/Book (mrq)	3.70	4.71	4.03
EPS Revisions			
EPS Revisions Trend	Down	-	-
Analyst Revisions	HOLD	-	-
Growth Rates			
EPS - Next 5 Years	13.9%	13.1%	13.3%
PEG	2.06	1.55	1.49
Profitability Ratios, %			
Gross Margin	24.31	27.08	42.51
Profit Margin	7.09	8.94	8.90
Operating Margin	15.61	12.29	13.95
Management Effectiveness, %			
Return on Assets	4.59	7.53	6.42
Return on Equity	17.50	19.13	13.12

Support/Resistance Levels		
	Support	Resistance
Short-term	33	38
Intermediate-term	30	38

Stock & Sector Trends		
	HLT	Sector
Short-term, based on 10-Day SMA	Up	Up
Intermediate-term, based on 50-Day SMA	Up	Up

Bullish factors	near-term support at 33-35, intermediate-term support at 30-33, break-out resistance lines, supportive industry trend, high growth rates,
Bearish factors	nearest resistance at 38, high P/E: trailing (26), forward (23), high PEG (2), P/B (3.7), EPS revisions trend - down,

"FIRST CHOICE" OPTION STRATEGIES:

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
HLT	35.58	Oct-07	30.00	HLTJF	35.00	6.90	36.9	Unlimited	6.90	7.40	0.50	7.2%

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
HLT	35.58	May-07	30.00	HLTQF	35.00	HLTQG	35.00	1.05	33.95	1.05	3.95	0.80	0.25	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
HLT	35.58	May-07	30.00	HLTEF	35.00	HLTEG	35.00	3.85	33.85	1.15	3.85	4.30	0.45	11.7%

**BEARISH PLAY**

**NUCOR CP (NUE)**



Stock Symbol		NUE	
Industry	Basic Materials (Steel & Iron)		
	NUE	Industry	Sector
Valuation Ratios			
P/E, Trailing	11.47	12.43	21.41
Price/Sales (ttm)	1.33	1.31	1.89
Price/Book (mrq)	4.06	3.91	3.79
EPS Revisions			
EPS Revisions Trend	Up	-	-
Analyst Revisions	HOLD	-	-
Growth Rates			
EPS - Next 5 Years	5.8%	7.8%	9.5%
PEG	2.09	1.54	1.59
Profitability Ratios, %			
Gross Margin	23.51	21.96	28.79
Profit Margin	11.92	10.62	9.28
Operating Margin	18.26	15.96	13.86
Management Effectiveness, %			
Return on Assets	23.40	17.00	9.38
Return on Equity	38.61	34.74	19.32

Support/Resistance Levels		
	Support	Resistance
Short-term	63	67
Intermediate-term	62	69

Stock & Sector Trends		
	NUE	Sector
Short-term, based on 10-Day SMA	Up	Up
Intermediate-term, based on 50-Day SMA	Up	Up

Bearish factors	near-term resistance at 67-68, intermediate & short-term overbought, high PEG (2), P/B (4),
Bullish factors	near-term support at 50-MA, high profit & operating margins (12% & 20%), ROA & ROE (24% & 39%), EPS revisions trend - up

**"FIRST CHOICE" OPTION STRATEGIES:**

**BUY PUT**

Stock Symbol	Last Stock Price	Expiration Month	Strike Price	Option Symbol	Recommended Entry Stock Price	Entry Put 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
NUE	65.16	May-07	70.00	NUEQN	65.16	6.60	63.40	Unlimited	6.60	7.10	0.50	7.6%

**BEARISH CALL 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
NUE	65.16	May-07	70.00	NUEEN	75.00	NUEEO	65.16	1.05	71.05	1.05	3.95	0.50	0.55	13.9%

**BEARISH PUT 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
NUE	65.16	May-07	70.00	NUEQN	75.00	NUEQO	65.16	4.10	70.90	0.90	4.10	4.60	0.50	12.2%

## OTHER BULLISH &amp; BEARISH STRATEGIES

## 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
HHH	55.52	55.00	55.00	55.00	53.00	2.00	Unlimited	57.00	2.00	3.6%
COST	54.56	54.00	54.00	54.00	51.00	3.00	Unlimited	56.92	2.92	5.4%
HLT	35.58	35.00	35.00	35.00	32.00	3.00	Unlimited	37.00	2.00	5.7%

## "SELL NAKED PUT" OPTION STRATEGY

Stock Symbol	Last Stock Price	Expiration Month	Strike Price	Option Symbol	Recommended Entry Stock Price	Entry Put Option Price	Put Option Time Value	Break-even	Max Profit (per one contract)	Sum Invested (per one contract)	Exit Price (Target Price)	Target Profit (per one contract)	Target Return
HHH	55.52	May-07	55.00	HHHQB	55.01	1.30	1.30	53.70	1.30	12.29	0.25	1.05	8.5%
COST	54.56	May-07	52.50	PRQQA	54.00	0.93	0.93	51.57	0.93	10.23	0.50	0.43	4.2%
HLT	35.58	May-07	35.00	HLTQG	35.00	1.15	1.15	33.85	1.15	8.15	0.50	0.65	8.0%

## "SELL COVERED CALL" OPTION STRATEGY

Stock Symbol	Last Stock Price	Expiration Month	Strike Price	Option Symbol	Recommended Entry Stock Price	Entry Call Option Price	Call Option Time Value	Break-even	Max Profit (per one contract)	Sum Invested (per one contract)	Exit Stock Price	Exit Call Option Price	Target Profit (per one contract)	Target Return
HHH	55.52	May-07	60.00	HHHEL	55.01	0.30	0.30	54.71	5.29	54.71	57.00	0.50	1.79	3.1%
COST	54.56	May-07	55.00	PRQEK	54.00	1.55	1.55	52.45	2.55	52.45	56.92	0.30	4.17	7.3%
HLT	35.58	May-07	40.00	HLTEH	35.00	0.25	0.25	34.75	5.25	34.75	37.00	0.30	1.95	5.3%

## SELL SHORT 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
NUE	65.16	65.16	65.16	65.16	66.20	1.04	Unlimited	63.20	1.96	3.0%

## 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)

**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

[More about KEY OPTION STRATEGIES](#)

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