

The SectorTrends Newsletter

Released on 4/16/2007

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 find will 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 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

FINANCIAL SEL SPDR (XLF)



Stock Symbol	XLF		
Industry	Financial		
	XLF	Industry	Sector
Valuation Ratios			
P/E, Trailing (ttm)	NA	NA	NA
Price/Sales (ttm)	NA	NA	NA
Price/Book (mrq)	NA	NA	NA
EPS Revisions			
EPS Revisions Trend	-	-	-
Analyst Opinion Change	-	-	-
Growth Rates			
EPS - Next 5 Years	-	-	-
PEG	-	-	-
Profitability Ratios, %			
Gross Margin	NA	NA	NA
Profit Margin	NA	NA	NA
Operating Margin	NA	NA	NA
Management Effectiveness, %			
Return on Assets	NA	NA	NA
Return on Equity	NA	NA	NA

Support/Resistance Levels		
	Support	Resistance
Short-term	35.5	36.5
Intermediate-term	34	37.8

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

Bullish factors	near-term support at 35-35.50, intermediate-term, support at 33-34, forming bottom, long-term bullish trend
Bearish factors	nearest resistance at 50-MA, short-term bearish trend

"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
XLF	35.70	Jun-07	31.00	XLFFE	35.20	5.10	36.10	Unlimited	5.10	5.60	0.50	9.8%

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
XLF	35.70	Jun-07	33.00	XLFRG	36.00	XLFRJ	35.20	0.70	35.30	0.70	2.30	0.20	0.50	21.7%

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
XLF	35.70	Jun-07	33.00	XLFFG	36.00	XLFFJ	35.20	2.25	35.25	0.75	2.25	2.75	0.50	22.2%

HOME DEPOT INC (HD)



Stock Symbol	HD		
Industry	Services		
	HD	Industry	Sector
Valuation Ratios			
P/E, Trailing (ttm)	13.64	14.67	27.09
Price/Sales (ttm)	0.82	0.94	2.94
Price/Book (mrq)	2.98	3.17	4.08
EPS Revisions			
EPS Revisions Trend	Down	-	-
Analyst Opinion Change	Buy	-	-
Growth Rates			
EPS - Next 5 Years	12.0%	13.8%	13.4%
PEG	1.06	1.27	1.50
Profitability Ratios, %			
Gross Margin	32.79	34.00	42.88
Profit Margin	6.34	6.43	8.86
Operating Margin	10.65	10.53	13.96
Management Effectiveness, %			
Return on Assets	11.92	11.24	6.41
Return on Equity	22.18	21.87	15.20

Support/Resistance Levels		
	Support	Resistance
Short-term	37.5	38
Intermediate-term	35	39

Stock & Sector Trends		
	HD	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 200-MA, intermediate-term support at 35, forming short-term bottom, low PEG (1), low P/E: trailing (13.6), forward (12.7)
Bearish factors	near-term resistance at 39, high P/B (3), 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
HD	37.89	Nov-07	32.50	HDKZ	37.39	6.65	39.15	Unlimited	6.65	7.15	0.50	7.5%

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
HD	37.89	May-07	32.50	HDQZ	37.50	HDQU	37.39	0.80	36.70	0.80	4.20	0.25	0.55	13.1%

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
HD	37.89	May-07	32.50	HDEZ	37.50	HDEU	37.39	4.15	36.65	0.85	4.15	4.65	0.50	12.0%

GEN ELECTRIC CO (GE)



Stock Symbol	GE		
Industry	Conglomerates		
	GE	Industry	Sector
Valuation Ratios			
P/E, Trailing	17.43	18.02	18.02
Price/Sales (ttm)	2.20	2.09	2.09
Price/Book (mrq)	3.19	3.46	3.46
EPS Revisions			
EPS Revisions Trend	Neutral	-	-
Analyst Opinion Change	Buy	-	-
Growth Rates			
EPS - Next 5 Years	10.0%	10.8%	12.3%
PEG	1.59	1.50	1.37
Profitability Ratios, %			
Gross Margin	52.70	38.80	38.80
Profit Margin	12.68	11.71	11.71
Operating Margin	15.02	15.10	15.10
Management Effectiveness, %			
Return on Assets	3.02	5.71	5.71
Return on Equity	18.94	20.26	20.18

Support/Resistance Levels		
	Support	Resistance
Short-term	35	37.7
Intermediate-term	34.1	36

Stock & Sector Trends		
	GE	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 35, intermediate-term support at 33.50-34.50, high profit & operating margins (13% & 15%), high dividend yield (3.2%), EPS revisions trend - neutral
Bearish factors	nearest resistance at 36, intermediate-term bearish trend, high P/S (2.3), P/B (3.2)

"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
GE	35.38	Sep-07	30.00	GEIF	34.88	5.95	35.95	Unlimited	5.95	6.45	0.50	8.4%

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
GE	35.38	May-07	30.00	GEQF	35.00	GEQG	34.88	0.35	34.65	0.35	4.65	0.12	0.23	4.9%

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
GE	35.38	May-07	30.00	GEEF	35.00	GEEG	34.88	4.60	34.60	0.40	4.60	5.10	0.50	10.9%

BEARISH PLAY

KOHL'S CP (KSS)



Stock Symbol	KSS		
Industry	Services		
	KSS	Industry	Sector
Valuation Ratios			
P/E, Trailing	23.18	17.96	27.09
Price/Sales (ttm)	1.60	0.74	2.94
Price/Book (mrq)	4.51	3.20	4.08
EPS Revisions			
EPS Revisions Trend	Neutral	-	-
Analyst Opinion Change	Buy	-	-
Growth Rates			
EPS - Next 5 Years	17.5%	13.8%	13.4%
PEG	0.97	1.27	1.50
Profitability Ratios, %			
Gross Margin	36.37	28.37	42.88
Profit Margin	7.13	4.02	8.86
Operating Margin	11.68	6.58	13.96
Management Effectiveness, %			
Return on Assets	12.19	8.02	6.41
Return on Equity	19.18	19.37	15.20

Support/Resistance Levels		
	Support	Resistance
Short-term	76.5	79
Intermediate-term	66.8	79

Stock & Sector Trends		
	KSS	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 79, intermediate & short-term overbought, high P/E: trailing (23), forward (17), high P/B (4.5)
Bullish factors	near-term support at 75, short-term bullish trend, low PEG (1), 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
KSS	77.24	May-07	80.00	KSSQP	77.24	3.80	76.20	Unlimited	3.80	4.30	0.50	13.2%

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
KSS	77.24	May-07	80.00	KSSEP	85.00	KSSEQ	77.24	1.05	81.05	1.05	3.95	0.15	0.90	22.8%

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
KSS	77.24	May-07	80.00	KSSQP	85.00	KSSQD	77.24	4.10	80.90	0.90	4.10	4.60	0.50	12.2%

OTHER BULLISH & 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
XLF	35.70	35.20	35.20	35.20	41.00	-5.80	Unlimited	44.50	9.30	26.4%
HD	37.89	37.39	37.39	37.39	35.30	2.09	Unlimited	37.00	-0.39	-1.0%
GE	35.38	34.88	34.88	34.88	49.40	-14.52	Unlimited	51.40	16.52	47.4%

"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
XLF	35.70	Jun-07	35.00	XLFQI	35.20	0.40	0.40	34.60	0.40	7.24	0.20	0.20	2.8%
HD	37.89	May-07	37.50	HDQU	37.39	0.90	0.90	36.60	0.90	8.49	0.30	0.60	7.1%
GE	35.38	May-07	35.00	GEQG	34.88	0.34	0.34	34.66	0.34	7.44	0.12	0.22	3.0%

"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
XLF	35.70	Jun-07	37.00	XLFFK	35.20	0.40	0.40	34.80	2.20	34.80	35.70	0.25	0.65	1.8%
HD	37.89	May-07	42.50	HDEV	37.39	0.10	0.10	37.29	5.21	37.29	37.89	0.05	0.55	1.5%
GE	35.38	May-07	37.50	GEES	34.88	0.07	0.07	34.81	2.69	34.81	35.38	0.04	0.53	1.5%

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
KSS	77.24	77.24	77.24	77.24	77.74	0.50	Unlimited	75.24	2.00	2.6%

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](#)

Auto-trade in 5 easy steps:

1. Subscribe to the SectorTrends Newsletter.
 2. Log into your brokerage account and open the auto-trading page.
 3. Select "OptionSmart" as an investor publisher.
 4. Select "SectorTrends Spreads" and/or "SectorTrends Calls/Puts" as a service.
 5. Allocate min \$1,000 per trade.
- That's it!

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.

Copyright © 1998-2007 OptionSmart.com (Stock Markets Institute). All rights reserved.

Generated on 04/16/07