

The SectorTrends Newsletter

Released on 6/5/2007

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

JOHNSON AND JOHNS DC (JNJ)



Probability to Move Higher within the Next 30 Days: 75%

Stock Symbol	JNJ		
Industry	Health Care		
	JNJ	Industry	Sector
Valuation Ratios			
P/E, Trailing (ttm)	18.25	27.05	20.68
Price/Sales (ttm)	3.33	4.17	2.93
Price/Book (mrq)	4.50	5.29	4.18
EPS Revisions			
EPS Revisions Trend	Up	-	-
Analyst Opinion Change	Neutral	-	-
Growth Rates			
EPS - Next 5 Years	8.3%	10.0%	11.5%
PEG	1.89	1.88	1.69
Profitability Ratios, %			
Gross Margin	71.41	73.04	68.49
Profit Margin	18.64	17.6	11.91
Operating Margin	24.61	22.68	17.54
Management Effectiveness, %			
Return on Assets	15.27	11.17	6.69
Return on Equity	25.16	21.42	14.42

Support/Resistance Levels		
	Support	Resistance
Short-term	63	64
Intermediate-term	61	64.5

Stock & Sector Trends		
	JNJ	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 63, intermediate-term support at 60, forming bottom, EPS revisions trend - up,
Bearish factors	nearest resistance at 65, high PEG (1.9), P/S (3.3), P/B (4.5)

"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
JNJ	63.60	Oct-07	60.00	JNJL	63.00	4.80	64.80	Unlimited	4.80	5.30	0.50	10.4%

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
JNJ	63.60	Jul-07	60.00	JNJSL	65.00	JNJSM	63.00	1.85	63.15	1.85	3.15	0.50	1.35	42.9%

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
JNJ	63.60	Jul-07	60.00	JNJGL	65.00	JNJGM	63.00	3.20	63.20	1.80	3.20	3.70	0.50	15.6%

QUALCOMM INC (QCOM)



Stock Symbol	QCOM		
Industry	Technology		
	QCOM	Industry	Sector
Valuation Ratios			
P/E, Trailing (ttm)	27.26	26.90	28.88
Price/Sales (ttm)	8.58	5.32	4.86
Price/Book (mrq)	4.67	3.84	5.19
EPS Revisions			
EPS Revisions Trend	Up	-	-
Analyst Opinion Change	Buy	-	-
Growth Rates			
EPS - Next 5 Years	20.0%	14.9%	14.5%
PEG	1.09	1.52	1.51
Profitability Ratios, %			
Gross Margin	70.54	48.02	52.19
Profit Margin	32.11	12.40	14.43
Operating Margin	33.07	13.14	17.67
Management Effectiveness, %			
Return on Assets	16.38	7.63	11.04
Return on Equity	18.50	14.42	20.29

Support/Resistance Levels		
	Support	Resistance
Short-term	42	44
Intermediate-term	40	45-46

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

Probability to Move Higher within the Next 30 Days: 70%

Bullish factors	near-term support at 42, intermediate-term support at 40, low PEG (1.1), high profit & operating margins (32% & 33%), EPS revisions trend - up
Bearish factors	near-term resistance at 45-46, high P/E: trailing (27.6), forward (20.6), P/B (4.7), P/S (8.7)

"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
QCOM	42.18	Jul-07	37.50	AAOGU	42.00	5.90	43.40	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
QCOM	42.18	Jul-07	37.50	AAOSU	42.50	AAOSV	42.00	1.63	40.87	1.63	3.37	0.50	1.13	33.5%

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
QCOM	42.18	Jul-07	37.50	AAOGU	42.50	AAOGV	42.00	2.35	39.85	2.65	2.35	2.85	0.50	21.3%

PENNEY J C CO HOLDIN (JCP)



Probability to Move Higher within the Next 30 Days: 65%

Stock Symbol	JCP		
Industry	Consumer Staples		
	JCP	Industry	Sector
Valuation Ratios			
P/E, Trailing	16.28	18.08	26.41
Price/Sales (ttm)	0.93	0.74	3.04
Price/Book (mrq)	4.11	3.37	3.99
EPS Revisions			
EPS Revisions Trend	Up	-	-
Analyst Opinion Change	Neutral	-	-
Growth Rates			
EPS - Next 5 Years	15.0%	13.9%	13.7%
PEG	0.86	1.32	1.53
Profitability Ratios, %			
Gross Margin	39.49	28.14	42.94
Profit Margin	5.79	4.05	8.54
Operating Margin	9.14	6.63	13.83
Management Effectiveness, %			
Return on Assets	8.99	8.13	6.34
Return on Equity	26.43	19.57	13.14

Support/Resistance Levels		
	Support	Resistance
Short-term	79-80	85
Intermediate-term	75	75

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

Bullish factors	near-term support 79-80, intermediate-term support at 75, forming bottom, break-out resistance, low PEG (0.9), EPS revisions trend - up
Bearish factors	nearest resistance at 85, bearish trend since Feb-07, high P/B (4.1)

"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
JCP	82.25	Jul-07	75.00	JCPGO	81.70	8.00	83	Unlimited	8.00	8.50	0.50	6.3%

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
JCP	82.25	Jul-07	75.00	JCPSP	80.00	JCPSP	81.70	1.20	78.80	1.20	3.80	0.40	0.80	21.1%

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
JCP	82.25	Jul-07	75.00	JCPGO	80.00	JCPGP	81.70	3.73	78.73	1.27	3.73	4.23	0.50	13.4%

BEARISH PLAY



Stock Symbol	CVS		
Industry	Consumer Staples		
	CVS	Industry	Sector
Valuation Ratios			
P/E, Trailing	23.18	24.40	26.41
Price/Sales (ttm)	1.27	0.75	3.04
Price/Book (mrq)	1.74	3.54	3.99
EPS Revisions			
EPS Revisions Trend	Up	-	-
Analyst Opinion Change	Up	-	-
Growth Rates			
EPS - Next 5 Years	16.0%	14.1%	13.7%
PEG	1.26	1.45	1.53
Profitability Ratios, %			
Gross Margin	26.88	22.54	42.94
Profit Margin	3.08	2.99	8.54
Operating Margin	5.57	5.12	13.83
Management Effectiveness, %			
Return on Assets	4.36	7.64	6.34
Return on Equity	6.78	15.70	15.18

Support/Resistance Levels		
	Support	Resistance
Short-term	36-38	39
Intermediate-term	37	39

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

Probability to Move Lower within the Next 30 Days: 75%

Bearish factors	near-term resistance at 39, intermediate & short-term overbought, low ROA (5), ROE (6), forming top, MACD -bearish
Bullish factors	near-term support at 36-38, intermediate & short-term bullish trend, low PEG (1.2), 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
CVS	38.19	Nov-07	40.00	CVSWH	38.80	0.65	39.35	Unlimited	0.65	1.15	0.50	76.9%

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
CVS	38.19	Jul-07	40.00	CVSGH	45.00	CVSGI	38.80	0.79	40.79	0.79	4.21	0.30	0.49	11.6%

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
CVS	38.19	Jul-07	40.00	CVSSH	45.00	CVSSI	38.80	4.31	40.69	0.69	4.31	4.81	0.50	11.6%

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
JNJ	63.60	63.00	63.00	63.00	62.00	1.00	Unlimited	64.50	1.50	2.4%
QCOM	42.18	42.00	42.00	42.00	41.50	0.50	Unlimited	45.00	3.00	7.1%
JCP	82.25	81.70	81.70	81.70	78.20	3.50	Unlimited	84.00	2.30	2.8%

"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
JNJ	63.60	Jul-07	60.00	JNJSL	63.00	0.95	0.95	59.05	0.95	10.55	0.40	0.55	5.2%
QCOM	42.18	Jul-07	40.00	AAOSH	42.00	1.25	1.25	38.75	1.25	7.65	0.30	0.95	12.4%
JCP	82.25	Jul-07	75.00	JCPSO	81.70	0.78	0.78	74.22	0.78	10.42	0.20	0.58	5.6%

"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
JNJ	63.60	Jul-07	65.00	JNJGM	63.00	0.73	0.73	62.28	2.73	62.28	64.10	1.23	0.60	0.9%
QCOM	42.18	Jul-07	45.00	AAOGI	42.00	1.05	1.05	40.95	4.05	40.95	42.68	1.55	0.18	0.4%
JCP	82.25	Jul-07	85.00	JCPGQ	81.70	1.70	1.70	80.00	5.00	80.00	82.75	2.20	0.55	0.7%

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
CVS	38.19	38.19	38.19	38.19	39.20	1.01	Unlimited	36.20	1.99	5.2%

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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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.

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