

## The SectorTrends 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 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](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**

**BEST BUY CO INC (BBY)**



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

Stock Symbol	BBY		
Industry	Consumer Staples		
	BBY	Industry	Sector
Valuation Ratios			
P/E, Trailing (ttm)	16.99	23.28	20.05
Price/Sales (ttm)	0.63	0.75	2.84
Price/Book (mrq)	3.68	4.01	4.07
EPS Revisions			
EPS Revisions Trend	Down	-	-
Analyst Opinion Change	Buy	-	-
Growth Rates			
EPS - Next 5 Years	15.0%	13.9%	13.8%
PEG	0.94	1.29	1.50
Profitability Ratios, %			
Gross Margin	24.4	27.49	42.91
Profit Margin	3.84	2.78	8.54
Operating Margin	5.56	4.77	13.81
Management Effectiveness, %			
Return on Assets	10.84	8.26	6.47
Return on Equity	24.04	19.16	15.15

Support/Resistance Levels		
	Support	Resistance
Short-term	46	49
Intermediate-term	40-43	50

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

Bullish factors	near-term support at 46, intermediate-term support at 40-43, forming bottom, low PEG ( 0.95)
Bearish factors	nearest resistance at 50, bearish trend since Oct-06, high P/B (3.7), EPS revisions trend - down Next Earning Date: 19-Jun-07

**"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
BBY	47.41	Oct-07	42.50	BBYIV	47.00	6.30	48.80	Unlimited	6.30	6.80	0.50	7.9%

**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
BBY	47.41	Jul-07	42.50	BBYSV	47.50	BBYSW	47.00	1.54	45.96	1.54	3.46	0.60	0.94	27.2%

**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
BBY	47.41	Jul-07	42.50	BBYGV	47.50	BBYGW	47.00	3.40	45.90	1.60	3.40	3.90	0.50	14.7%

MICROSOFT CP (MSFT)



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

Stock Symbol	MSFT		
Industry	Technology		
	MSFT	Industry	Sector
Valuation Ratios			
P/E, Trailing (ttm)	21.52	28.10	28.29
Price/Sales (ttm)	5.76	5.71	4.80
Price/Book (mrq)	8.17	6.49	5.07
EPS Revisions			
EPS Revisions Trend	Up	-	-
Analyst Opinion Change	Neutral	-	-
Growth Rates			
EPS - Next 5 Years	12.0%	13.5%	14.2%
PEG	1.49	1.51	1.52
Profitability Ratios, %			
Gross Margin	80.66	75.80	52.07
Profit Margin	27.97	19.89	14.45
Operating Margin	37.16	25.71	17.68
Management Effectiveness, %			
Return on Assets	21.20	13.92	11.03
Return on Equity	35.99	24.28	20.26

Support/Resistance Levels		
	Support	Resistance
Short-term	29	31
Intermediate-term	26-27	31

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

Bullish factors	near-term support at 29, intermediate-term support at 26-27, high profit & operating margins (28% & 39%), ROA & ROE (19% & 36%), EPS revisions trend - up
Bearish factors	near-term resistance at 31, high P/E: trailing (21.7), forward (17.6), P/B ( 8.2), P/S (5.8)

"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
MSFT	29.85	Oct-07	25.00	MSQJJ	29.00	5.50	30.50	Unlimited	5.50	6.00	0.50	9.1%

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
MSFT	29.85	Jul-07	27.50	MSQSY	30.00	MSQSK	29.00	0.85	29.15	0.85	1.65	0.30	0.55	33.3%

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
MSFT	29.85	Jul-07	27.50	MSQGY	30.00	MSQ GK	29.00	1.90	29.40	0.60	1.90	2.40	0.50	26.3%

EBAY INC (EBAY)



Stock Symbol	EBAY		
Industry	Consumer Staples		
	EBAY	Industry	Sector
Valuation Ratios			
P/E, Trailing	34.77	25.70	25.41
Price/Sales (ttm)	6.65	2.34	2.77
Price/Book (mrq)	3.76	4.16	3.84
EPS Revisions			
EPS Revisions Trend	Up	-	-
Analyst Opinion Change	Buy	-	-
Growth Rates			
EPS - Next 5 Years	20.0%	13.9%	13.8%
PEG	1.18	1.29	1.50
Profitability Ratios, %			
Gross Margin	78.60	39.55	42.91
Profit Margin	19.77	7.16	8.54
Operating Margin	24.71	10.52	13.81
Management Effectiveness, %			
Return on Assets	9.47	8.75	6.47
Return on Equity	11.49	22.88	13.18

Support/Resistance Levels		
	Support	Resistance
Short-term	30.5	33.5
Intermediate-term	29	35.5

Stock & Sector Trends		
	EBAY	Sector
Short-term, based on 10-Day SMA	Down	Down
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 30.5, intermediate-term support at 29, low PEG(1.18), high profit & operating margins (19% & 24%), ROA & ROE (8% & 11%), EPS revisions trend - up
Bearish factors	near-term resistance at 33.5, high P/E: trailing (34), forward (19), P/B ( 3), P/S (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
EBAY	30.95	Oct-07	27.50	QXBJY	30.00	4.80	32.3	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
EBAY	30.95	Oct-07	25.00	QXBVE	30.00	XBAVF	30.00	1.40	28.60	1.40	3.60	0.50	0.90	25.0%

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
EBAY	30.95	Oct-07	25.00	QXBJE	30.00	XBAJF	30.00	3.40	28.40	1.60	3.40	3.90	0.50	14.7%

**BEARISH PLAY**

**DIAMONDS TRUST SER 1 (DIA)**



Stock Symbol	<b>DIA</b>		
Industry	<b>DIAMONDS TRUST</b>		
	<b>DIA</b>	<b>Industry</b>	<b>Sector</b>
Valuation Ratios			
P/E, Trailing	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

<b>Support/Resistance Levels</b>		
	Support	Resistance
Short-term	131	135
Intermediate-term	127	137

<b>Stock &amp; Sector Trends</b>		
	DIA	Sector
Short-term, based on 10-Day SMA	<b>Down</b>	<b>Down</b>
Intermediate-term, based on 50-Day SMA	<b>Up</b>	<b>Up</b>

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

Bearish factors	near-term resistance at 135, intermediate-term resistance 137, short-term bearish trend, forming top,
Bullish factors	near-term support at 132, intermediate & long-term bullish trend,

**"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
<b>DIA</b>	132.92	Jul-07	140.00	DAZSJ	133.00	5.70	134.30	Unlimited	5.70	6.20	0.50	8.8%

**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
<b>DIA</b>	132.92	Jul-07	137.00	DAZGG	140.00	DAZGJ	133.00	0.85	137.85	0.85	2.15	0.25	0.60	27.9%

**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
<b>DIA</b>	132.92	Jul-07	137.00	DAZSG	140.00	DAZSJ	133.00	1.70	138.30	1.30	1.70	2.20	0.50	29.4%

## 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
<b>BBY</b>	47.41	47.00	47.00	47.00	46.80	0.20	Unlimited	49.11	2.11	4.5%
<b>MSFT</b>	29.85	29.00	29.00	29.00	28.90	0.10	Unlimited	31.16	2.16	7.4%
<b>EBAY</b>	30.95	30.00	30.00	30.00	30.00	0.00	Unlimited	33.50	3.50	11.7%

## "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
<b>BBY</b>	47.41	Jul-07	42.50	BBYSV	47.00	0.24	0.24	42.26	0.24	5.14	0.10	0.14	2.7%
<b>MSFT</b>	29.85	Jul-07	25.00	MSQSJ	29.00	0.06	0.06	24.94	0.06	1.86	0.01	0.05	2.7%
<b>EBAY</b>	30.95	Oct-07	25.00	QXBVE	30.00	0.55	0.55	24.45	0.55	1.55	0.20	0.35	22.6%

## "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
<b>BBY</b>	47.41	Jul-07	50.00	BBYGJ	47.00	0.75	0.75	46.25	3.75	46.25	47.91	1.25	0.41	0.9%
<b>MSFT</b>	29.85	Jul-07	35.00	MSQGL	29.00	0.02	0.02	28.98	6.02	28.98	30.35	0.52	0.85	2.8%
<b>EBAY</b>	30.95	Oct-07	35.00	XBAJG	30.00	1.23	1.23	28.78	6.23	28.78	31.45	1.73	0.95	3.0%

## 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
<b>DIA</b>	132.92	132.92	132.92	132.92	137.00	4.08	Unlimited	131.00	1.92	1.4%

## 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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