

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 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

MCDONALDS CP (MCD)



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

Stock Symbol	MCD		
Industry	DIAMONDS TRUST SER 1		
	MCD	Industry	Sector
Valuation Ratios			
P/E, Trailing (ttm)	21.02	25.18	20.36
Price/Sales (ttm)	2.77	2.17	2.91
Price/Book (mrq)	3.89	5.55	4.15
EPS Revisions			
EPS Revisions Trend	Neutral	-	-
Analyst Opinion Change	Neutral	-	-
Growth Rates			
EPS - Next 5 Years	8.9%	13.9%	13.7%
PEG	2.12	1.58	1.52
Profitability Ratios, %			
Gross Margin	32.52	29	43.03
Profit Margin	13.83	9.2	8.47
Operating Margin	21.27	14.37	13.81
Management Effectiveness, %			
Return on Assets	10.37	10.22	6.34
Return on Equity	19.8	24.12	15.1

Support/Resistance Levels		
	Support	Resistance
Short-term	50	52.7
Intermediate-term	48	52.7

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

Bullish factors	near-term support at 50, intermediate-term support at 48, forming bottom, high profit & operating margins, EPS revisions trend - up
Bearish factors	nearest resistance at 53, high PEG, P/S, P/B, Trailing P/E ~ Forward P/E

"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
MCD	51.38	Sep-07	47.50	MCDIW	51.00	5.50	53.00	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
MCD	51.38	Aug-07	47.50	MCDTW	50.00	MCDTJ	51.00	0.50	49.50	0.50	2.00	0.30	0.20	10.0%

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
MCD	51.38	Aug-07	47.50	MCDHW	50.00	MCDHJ	51.00	2.05	49.55	0.45	2.05	2.55	0.50	24.4%

ADOBE SYSTEMS INC (ADBE)



Probability to Move Higher within the Next 30 Days: 60%

Stock Symbol	ADBE		
Industry	Technology		
	ADBE	Industry	Sector
Valuation Ratios			
P/E, Trailing (ttm)	42.40	27.70	29.04
Price/Sales (ttm)	8.81	5.68	4.96
Price/Book (mrq)	4.55	6.47	5.22
EPS Revisions			
EPS Revisions Trend	Neutral	-	-
Analyst Opinion Change	Buy	-	-
Growth Rates			
EPS - Next 5 Years	13.9%	13.9%	14.7%
PEG	1.92	1.47	1.51
Profitability Ratios, %			
Gross Margin	88.33	75.68	52.00
Profit Margin	21.42	19.94	14.39
Operating Margin	22.40	25.80	17.61
Management Effectiveness, %			
Return on Assets	9.87	13.99	11.01
Return on Equity	11.52	24.54	20.30

Support/Resistance Levels		
	Support	Resistance
Short-term	39.5	42
Intermediate-term	38	43.5

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

Bullish factors	near-term support at 39.5, intermediate-term support at 36-37, forming bottom, high profit operating margins, EPS revisions trend - up,
Bearish factors	near-term resistance at 42, short-term bearish trend, high P/E, P/B, P/S, PEG,

"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
ADBE	40.16	Oct-07	37.50	AEQJU	39.90	4.40	41.90	Unlimited	4.40	4.90	0.50	11.4%

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
ADBE	40.16	Aug-07	35.00	AEQTG	40.00	AEQTH	39.90	1.20	38.80	1.20	3.80	0.50	0.70	18.4%

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
ADBE	40.16	Aug-07	35.00	AEQHG	40.00	AEQHH	39.90	1.65	36.65	3.35	1.65	2.15	0.50	30.3%

AMER EXPRESS INC (AXP)



Stock Symbol	AXP		
Industry	Internet HOLDRs		
	AXP	Industry	Sector
Valuation Ratios			
P/E, Trailing	19.35	16.79	15.30
Price/Sales (ttm)	2.58	3.46	3.79
Price/Book (mrq)	7.00	4.03	2.54
EPS Revisions			
EPS Revisions Trend	Neutral	-	-
Analyst Opinion Change	Neutral	-	-
Growth Rates			
EPS - Next 5 Years	12.3%	12.9%	10.4%
PEG	1.44	1.05	1.20
Profitability Ratios, %			
Gross Margin	NM	NM	NM
Profit Margin	13.77	22.46	19.07
Operating Margin	19.67	21.48	29.90
Management Effectiveness, %			
Return on Assets	3.31	2.69	3.31
Return on Equity	37.14	21.24	15.74

Support/Resistance Levels		
	Support	Resistance
Short-term	60	63
Intermediate-term	59	65

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

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

Bullish factors	near-term support 59-60, intermediate-term support at 57-58, forming bottom, high profit & operating margins, EPS revisions trend- up,
Bearish factors	nearest resistance at 63, high P/E, P/B

"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
AXP	61.79	Aug-07	57.50	AXPHY	61.00	5.10	62.6	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
AXP	61.79	Aug-07	57.50	AXPTY	60.00	AXPTL	61.00	0.55	59.45	0.55	1.95	0.30	0.25	12.8%

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
AXP	61.79	Aug-07	57.50	AXPHY	60.00	AXPHL	61.00	1.90	59.40	0.60	1.90	2.40	0.50	26.3%

BEARISH PLAY

ORACLE CORP (ORCL)



Stock Symbol	ORCL		
Industry	Technology		
	ORCL	Industry	Sector
Valuation Ratios			
P/E, Trailing	24.51	27.70	29.04
Price/Sales (ttm)	5.66	5.68	4.96
Price/Book (mrq)	6.01	6.47	5.22
EPS Revisions			
EPS Revisions Trend	Up	-	-
Analyst Opinion Change	Neutral	-	-
Growth Rates			
EPS - Next 5 Years	14.2%	13.9%	14.7%
PEG	1.20	1.47	1.51
Profitability Ratios, %			
Gross Margin	76.71	75.68	52.00
Profit Margin	23.75	19.94	14.39
Operating Margin	33.20	25.80	17.61
Management Effectiveness, %			
Return on Assets	13.44	13.99	11.01
Return on Equity	26.77	24.54	20.30

Support/Resistance Levels		
	Support	Resistance
Short-term	19.1	20.1
Intermediate-term	18.5	21.5

Stock & Sector Trends		
	ORCL	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 20.5, intermediate-term resistance 21-21.50, high P/E: trailing (26), forward (17.1), P/S (5.9), P/B (6.3), intermediate & short-term overbought, forming top,
Bullish factors	near-term support at 18.50, intermediate & short-term bullish trend, high profit & operating margins (23% & 34%), high ROA & ROE (12.7% & 25.8%), 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
ORCL	19.92	Aug-07	25.00	ORQTE	20.00	5.60	19.40	Unlimited	5.60	6.10	0.50	8.9%

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
ORCL	19.92	Aug-07	22.50	ORQHX	25.00	ORQHE	20.00	0.55	23.05	0.55	1.95	0.30	0.25	12.8%

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
ORCL	19.92	Aug-07	22.50	ORQTX	25.00	ORQTE	20.00	2.50	22.50	0.00	2.50	3.00	0.50	20.0%

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
MCD	51.38	51.00	51.00	51.00	50.10	0.90	Unlimited	52.69	1.69	3.3%
ADBE	40.16	39.90	39.90	39.90	39.00	0.90	Unlimited	42.00	2.10	5.3%
AXP	61.79	61.00	61.00	61.00	59.30	1.70	Unlimited	63.00	2.00	3.3%

"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
MCD	51.38	Aug-07	47.50	MCDTW	51.00	0.30	0.30	47.20	0.30	7.00	0.10	0.20	2.9%
ADBE	40.16	Aug-07	37.50	AEQTU	39.90	0.45	0.45	37.05	0.45	6.03	0.20	0.25	4.1%
AXP	61.79	Aug-07	57.50	AXPTY	61.00	0.68	0.68	56.82	0.68	9.38	0.30	0.38	4.1%

"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
MCD	51.38	Aug-07	55.00	MCDHK	51.00	0.30	0.30	50.70	4.30	50.70	51.88	0.80	0.38	0.7%
ADBE	40.16	Aug-07	42.50	AEQHV	39.90	0.65	0.65	39.25	3.25	39.25	40.66	1.15	0.26	0.6%
AXP	61.79	Aug-07	65.00	AXPHM	61.00	0.78	0.78	60.23	4.78	60.23	62.29	1.28	0.79	1.3%

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
ORCL	19.92	20.00	20.00	20.00	20.20	0.20	Unlimited	19.15	0.85	4.3%

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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