

## The SectorTrends Newsletter

Released on 7/25/2007

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](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**

**WALT DISNEY-DISNEY C (DIS)**



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

Stock Symbol	DIS		
Industry	Consumer Discretionary		
	DIS	Industry	Sector
Valuation Ratios			
P/E, Trailing (ttm)	16.44	24.81	20.31
Price/Sales (ttm)	1.96	2.60	2.87
Price/Book (mrq)	2.15	2.43	4.24
EPS Revisions			
EPS Revisions Trend	Neutral	-	-
Analyst Opinion Change	Neutral	-	-
Growth Rates			
EPS - Next 5 Years	13.2%	12.6%	13.7%
PEG	1.38	2.22	1.52
Profitability Ratios, %			
Gross Margin	18.12	44.95	42.89
Profit Margin	13.36	8.06	8.36
Operating Margin	20.95	16.21	13.73
Management Effectiveness, %			
Return on Assets	8.31	3.01	6.41
Return on Equity	15.74	8.66	15.45

Support/Resistance Levels		
	Support	Resistance
Short-term	34	35.7
Intermediate-term	32	37

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

Bullish factors	near-term support at 34, intermediate-term support at 32-33, forming bottom, low PEG, P/B, high profit & operating margins, EPS revisions trend up
Bearish factors	near-term resistance at 37, intermediate-term bearish trend, 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
DIS	34.75	Oct-07	30.00	DISJF	34.00	5.50	35.50	Unlimited	5.50	6.20	0.70	12.7%

**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
DIS	34.75	Oct-07	30.00	DISVF	35.00	DISVG	34.00	1.10	33.90	1.10	3.90	0.30	0.80	20.5%

**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
DIS	34.75	Oct-07	30.00	DISJF	35.00	DISJG	34.00	3.78	33.78	1.22	3.78	4.28	0.50	13.2%

**JOHNSON AND JOHNS DC (JNJ)**



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

Stock Symbol	JNJ		
Industry	Health Care		
	JNJ	Industry	Sector
Valuation Ratios			
P/E, Trailing (ttm)	17.12	25.95	27.28
Price/Sales (ttm)	3.12	4.02	5.12
Price/Book (mrq)	NM	5.20	5.51
EPS Revisions			
EPS Revisions Trend	Neutral	-	-
Analyst Opinion Change	Neutral	-	-
Growth Rates			
EPS - Next 5 Years	7.9%	9.7%	11.2%
PEG	1.92	1.83	1.66
Profitability Ratios, %			
Gross Margin	71.30	72.86	68.24
Profit Margin	18.52	17.58	12.94
Operating Margin	24.59	22.65	18.57
Management Effectiveness, %			
Return on Assets	NM	11.27	7.29
Return on Equity	NM	21.58	15.41

Support/Resistance Levels		
	Support	Resistance
Short-term	61	50-MA
Intermediate-term	59.5	64

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

Bullish factors	near-term support at 61, intermediate-term support at 59.5, low P/E,
Bearish factors	near-term resistance at 50-MA, high PEG, EPS revisions trend - neutral,

**"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	61.47	Oct-07	55.00	JNJJK	61.00	6.90	61.90	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
JNJ	61.47	Oct-07	55.00	JNJVK	60.00	JNJVL	61.00	0.95	59.05	0.95	4.05	0.50	0.45	11.1%

**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
JNJ	61.47	Oct-07	55.00	JNJJK	60.00	JNJJL	61.00	2.85	57.85	2.15	2.85	3.35	0.50	17.5%

GOOGLE (GOOG)



Stock Symbol	GOOG		
Industry	Technology		
	GOOG	Industry	Sector
Valuation Ratios			
P/E, Trailing	43.69	36.03	29.61
Price/Sales (ttm)	11.92	7.69	4.93
Price/Book (mrq)	8.15	5.88	5.39
EPS Revisions			
EPS Revisions Trend	Bullish	-	-
Analyst Opinion Change	Sell	-	-
Growth Rates			
EPS - Next 5 Years	33.3%	13.9%	14.7%
PEG	1.01	1.52	1.55
Profitability Ratios, %			
Gross Margin	60.18	47.77	51.64
Profit Margin	27.48	16.91	14.46
Operating Margin	32.15	21.28	17.54
Management Effectiveness, %			
Return on Assets	20.61	11.62	11.08
Return on Equity	22.36	16.29	14.67

Support/Resistance Levels		
	Support	Resistance
Short-term	510	200-MA
Intermediate-term	500	560

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

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

Bullish factors	near-term support 510, intermediate-term support at 500, high profit & operating margins, low PEG, P/E,
Bearish factors	nearest resistance at 200-MA, high 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
GOOG	514.00	Sep-07	510.00	GOPIU	510.00	22.00	532	Unlimited	22.00	22.50	0.50	2.3%

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
GOOG	514.00	Sep-07	480.00	GOPUI	490.00	GOPUK	510.00	3.00	487.00	3.00	7.00	2.00	1.00	14.3%

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
GOOG	514.00	Sep-07	480.00	GOPII	490.00	GOPIK	510.00	7.00	487.00	3.00	7.00	7.50	0.50	7.1%

**BEARISH PLAY**

**INDUSTRIAL SPDR (XLI)**



Stock Symbol	XLI		
Industry	INDUSTRIALS		
	XLI	Industry	Sector
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

Support/Resistance Levels		
	Support	Resistance
Short-term	40	41.5
Intermediate-term	50-MA	41.5

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

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

Bearish factors	near-term resistance at 40, intermediate-term resistance 50-MA, forming top,
Bullish factors	near-term support at 41.5, short-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
XLI	40.60	Sep-07	40.00	XLIUN	40.70	0.70	39.30	Unlimited	0.70	1.20	0.50	71.4%

**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
XLI	40.60	Sep-07	42.00	XLIIP	44.00	XLIIR	40.70	0.53	42.53	0.53	1.47	0.30	0.23	15.6%

**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
XLI	40.60	Sep-07	42.00	XLIUP	44.00	XLIUR	40.70	1.58	42.42	0.42	1.58	2.08	0.50	31.6%

## 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>DIS</b>	34.75	34.00	34.00	34.00	33.75	0.25	Unlimited	35.75	1.75	5.1%
<b>JNJ</b>	61.47	61.00	61.00	61.00	60.85	0.15	Unlimited	63.00	2.00	3.3%
<b>GOOG</b>	514.00	510.00	510.00	510.00	500.00	10.00	Unlimited	560.00	50.00	9.8%

## "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
<b>DIS</b>	34.75	Oct-07	30.00	DISVF	34.00	0.17	0.17	29.83	0.17	2.97	0.10	0.07	2.4%
<b>JNJ</b>	61.47	Oct-07	55.00	JNJVK	61.00	0.30	0.30	54.70	0.30	6.50	0.15	0.15	2.3%
<b>GOOG</b>	514.00	Sep-07	510.00	GOPUU	510.00	20.00	20.00	490.00	20.00	122.00	15.00	5.00	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
<b>DIS</b>	34.75	Oct-07	40.00	DISJH	34.00	0.15	0.15	33.85	6.15	33.85	35.25	0.65	0.75	2.1%
<b>JNJ</b>	61.47	Oct-07	65.00	JNJJM	61.00	0.70	0.70	60.30	4.70	60.30	61.97	1.20	0.47	0.8%
<b>GOOG</b>	514.00	Sep-07	520.00	GOPIV	510.00	19.75	19.75	490.25	29.75	490.25	514.50	20.25	4.00	0.8%

## 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>XLI</b>	40.60	40.70	40.70	40.70	41.50	0.80	Unlimited	39.50	1.20	2.9%

## 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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5. Allocate min \$1,000 per trade.

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