

The SectorTrends Newsletter

Released on 7/31/2007

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



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

Stock Symbol	QCOM		
Industry	Technology		
	QCOM	Industry	Sector
Valuation Ratios			
P/E, Trailing (ttm)	25.83	32.42	19.69
Price/Sales (ttm)	8.31	5.14	2.80
Price/Book (mrq)	4.46	3.69	4.12
EPS Revisions			
EPS Revisions Trend	Bullish	-	-
Analyst Opinion Change	Neutral	-	-
Growth Rates			
EPS - Next 5 Years	21.2%	15.3%	14.8%
PEG	1.02	1.54	1.50
Profitability Ratios, %			
Gross Margin	70.32	49.16	51.6
Profit Margin	32.52	14.85	14.35
Operating Margin	32.54	14.59	17.45
Management Effectiveness, %			
Return on Assets	16.8	7.98	11.08
Return on Equity	19.25	13.9	20.42

Support/Resistance Levels		
	Support	Resistance
Short-term	41	44
Intermediate-term	39	46

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

Bullish factors	near-term support at 41, intermediate-term support at 39, forming bottom, low PEG, high profit & operating margins, EPS revisions trend - up
Bearish factors	near-term resistance at 44, intermediate-term horizontal 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
QCOM	42.53	Sep-07	40.00	AAOIH	42.00	3.50	43.50	Unlimited	3.50	4.00	0.50	14.3%

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
QCOM	42.53	Sep-07	35.00	AAOUG	40.00	AAOUH	42.00	1.10	38.90	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
QCOM	42.53	Sep-07	35.00	AAOIG	40.00	AAOIH	42.00	3.80	38.80	1.20	3.80	4.30	0.50	13.2%

MICROSOFT CP (MSFT)



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

Stock Symbol	MSFT		
Industry	Technology		
	MSFT	Industry	Sector
Valuation Ratios			
P/E, Trailing (ttm)	20.63	26.38	28.96
Price/Sales (ttm)	5.39	5.57	4.87
Price/Book (mrq)	8.87	6.74	5.25
EPS Revisions			
EPS Revisions Trend	Bullish	-	-
Analyst Opinion Change	Neutral	-	-
Growth Rates			
EPS - Next 5 Years	11.5%	13.9%	14.8%
PEG	1.48	1.45	1.50
Profitability Ratios, %			
Gross Margin	79.08	74.99	51.60
Profit Margin	27.51	19.72	14.35
Operating Margin	36.24	25.69	17.45
Management Effectiveness, %			
Return on Assets	21.19	14.00	11.08
Return on Equity	39.51	25.49	20.42

Support/Resistance Levels		
	Support	Resistance
Short-term	29.2	200-MA
Intermediate-term	28.5	31.5

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

Bullish factors	near-term support 29, intermediate-term support at 28.5, forming bottom, high profit & operating margins, high ROA & ROE, EPS revisions trend up
Bearish factors	nearest resistance at 31, short-term bearish trend, high P/B, P/S,

"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	29.40	Sep-07	27.50	MSQIY	29.00	2.20	29.70	Unlimited	2.20	2.70	0.50	22.7%

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
MSFT	29.40	Oct-07	22.50	MSQVX	27.50	MSQVY	29.00	0.95	26.55	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
MSFT	29.40	Oct-07	22.50	MSQJX	27.50	MSQJY	29.00	4.60	27.10	0.40	4.60	5.10	0.50	10.9%

MONSANTO COMPANY (MON)



Stock Symbol	MON		
Industry	Materials		
	MON	Industry	Sector
Valuation Ratios			
P/E, Trailing	33.76	23.69	18.81
Price/Sales (ttm)	4.23	2.34	1.98
Price/Book (mrq)	4.47	4.03	3.80
EPS Revisions			
EPS Revisions Trend	Bullish	-	-
Analyst Opinion Change	Neutral	-	-
Growth Rates			
EPS - Next 5 Years	28.2%	10.5%	10.4%
PEG	1.24	1.57	1.51
Profitability Ratios, %			
Gross Margin	49.08	32.46	29.97
Profit Margin	12.92	8.09	10.63
Operating Margin	18.53	12.70	15.92
Management Effectiveness, %			
Return on Assets	8.47	6.48	10.09
Return on Equity	14.77	15.38	13.35

Support/Resistance Levels		
	Support	Resistance
Short-term	60-64	200-MA
Intermediate-term	62	70

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

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

Bullish factors	near-term support 64, intermediate-term support at 62, high profit & operating margins, low PEG, P/E,
Bearish factors	nearest resistance at 200-MA, high P/B, MACD-bearish,

"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
MON	65.04	Sep-07	60.00	MONIL	64.54	6.50	66.5	Unlimited	6.50	7.00	0.50	7.7%

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
MON	65.04	Sep-07	55.00	MONUK	60.00	MONUL	64.54	0.80	59.20	0.80	4.20	0.30	0.50	11.9%

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
MON	65.04	Sep-07	55.00	MONIK	60.00	MONIL	64.54	3.10	58.10	1.90	3.10	3.60	0.50	16.1%

BEARISH PLAY

AMAZON.COM INC (AMZN)



Stock Symbol	AMZN		
Industry	Consumer Staples		
	AMZN	Industry	Sector
Valuation Ratios			
P/E, Trailing	113.95	24.51	24.41
Price/Sales (ttm)	2.80	2.44	2.80
Price/Book (mrq)	62.09	4.22	4.02
EPS Revisions			
EPS Revisions Trend	Bullish	-	-
Analyst Opinion Change	Buy	-	-
Growth Rates			
EPS - Next 5 Years	23.4%	13.8%	13.7%
PEG	3.35	1.24	1.47
Profitability Ratios, %			
Gross Margin	23.13	39.73	42.77
Profit Margin	2.51	7.54	8.40
Operating Margin	4.09	10.87	13.70
Management Effectiveness, %			
Return on Assets	8.56	9.05	6.25
Return on Equity	65.60	25.79	15.65

Support/Resistance Levels		
	Support	Resistance
Short-term	200-MA	90
Intermediate-term	65	90

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

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

Bearish factors	near-term& intermediate-term resistance at 90, forming top, high P/E, PEG, P/B, low profit & operating margins, overbought,
Bullish factors	near-term support at 70.0, high ROE & ROA, 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
AMZN	82.70	Sep-07	40.00	XLIUN	83.00	0.85	39.15	Unlimited	0.85	1.35	0.50	58.8%

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
AMZN	82.70	Sep-07	90.00	ZQNIR	95.00	ZQNIT	83.00	1.10	91.10	1.10	3.90	0.30	0.80	20.5%

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
AMZN	82.70	Sep-07	90.00	ZQNUR	95.00	ZQNUT	83.00	3.20	91.80	1.80	3.20	3.70	0.50	15.6%

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
QCOM	42.53	42.00	42.00	42.00	41.00	1.00	Unlimited	45.00	3.00	7.1%
MSFT	29.40	29.00	29.00	29.00	28.60	0.40	Unlimited	31.50	2.50	8.6%
MON	65.04	64.54	64.54	64.54	62.00	2.54	Unlimited	70.00	5.46	8.5%

"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
QCOM	42.53	Sep-07	40.00	AAOUH	42.00	1.25	1.25	38.75	1.25	7.65	0.50	0.75	9.8%
MSFT	29.40	Oct-07	27.50	MSQVY	29.00	0.90	0.90	26.60	0.90	5.20	0.15	0.75	14.4%
MON	65.04	Sep-07	60.00	MONUL	64.54	1.45	1.45	58.55	1.45	9.82	0.70	0.75	7.6%

"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
QCOM	42.53	Sep-07	45.00	AAOII	42.00	1.25	1.25	40.75	4.25	40.75	43.03	1.75	0.53	1.2%
MSFT	29.40	Oct-07	32.50	MSQJZ	29.00	0.34	0.34	28.66	3.84	28.66	29.90	0.84	0.40	1.3%
MON	65.04	Sep-07	70.00	MONIN	64.54	1.53	1.53	63.02	6.98	63.02	65.54	2.03	0.50	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
AMZN	82.70	83.00	83.00	83.00	90.00	7.00	Unlimited	70.00	13.00	15.7%

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.

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