

## 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**

**ENERGY SELECT SPDR (XLE)**



Stock Symbol	<b>XLE</b>		
Industry	<b>Energy</b>		
	<b>XLE</b>	<b>Industry</b>	<b>Sector</b>
Valuation Ratios			
P/E, Trailing (ttm)	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	N/A	N/A	N/A
PEG	N/A	N/A	N/A
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	66	70
Intermediate-term	66	74.7

Stock & Sector Trends		
	XLE	Sector
Short-term, based on 10-Day SMA	<b>Down</b>	<b>Down</b>
Intermediate-term, based on 50-Day SMA	<b>Neutral</b>	<b>Neutral</b>

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

Bullish factors	near-term support at 66, intermediate-term support at 66, forming bottom, intermediate & long-term bullish trend,
Bearish factors	nearest resistance at 70, short-term bearish 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
<b>XLE</b>	67.80	Dec-07	64.00	XBTL	67.00	7.30	71.30	Unlimited	7.30	7.80	0.50	6.8%

**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
<b>XLE</b>	67.80	Sep-07	60.00	XBTUH	64.00	XBTUL	67.00	0.90	63.10	0.90	3.10	0.30	0.60	19.4%

**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
<b>XLE</b>	67.80	Sep-07	60.00	XBTH	64.00	XBTIL	67.00	3.00	63.00	1.00	3.00	3.50	0.50	16.7%

TEXAS INSTRUMENTS (TXN)



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

Stock Symbol	TXN		
Industry	Semiconductor		
	TXN	Industry	Sector
Valuation Ratios			
P/E, Trailing (ttm)	19.95	26.81	27.51
Price/Sales (ttm)	3.43	4.70	4.26
Price/Book (mrq)	4.12	4.07	4.90
EPS Revisions			
EPS Revisions Trend	Bullish	-	-
Analyst Opinion Change	Unchanged	-	-
Growth Rates			
EPS - Next 5 Years	18.7%	15.2%	14.7%
PEG	1.01	1.52	1.49
Profitability Ratios, %			
Gross Margin	51.31	49.72	51.16
Profit Margin	17.97	15.08	13.60
Operating Margin	23.02	16.63	16.51
Management Effectiveness, %			
Return on Assets	16.61	11.74	10.54
Return on Equity	20.48	15.56	20.42

Support/Resistance Levels		
	Support	Resistance
Short-term	32.8	50-MA
Intermediate-term	30	39

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

Bullish factors	near-term support 32.8, intermediate-term support at 30, forming bottom, high profit & operating margins, EPS revisions trend - up
Bearish factors	nearest resistance at 50-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
TXN	33.17	Oct-07	30.00	TXNJF	33.00	4.00	34.00	Unlimited	4.00	4.50	0.50	12.5%

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
TXN	33.17	Oct-07	27.50	TXNVY	32.50	TXNVZ	33.00	1.15	31.35	1.15	3.85	0.50	0.65	16.9%

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
TXN	33.17	Oct-07	27.50	TXNJY	32.50	TXNJZ	33.00	3.80	31.30	1.20	3.80	4.30	0.50	13.2%

QUALCOMM INC (QCOM)



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

Stock Symbol	QCOM		
Industry	Technology		
	QCOM	Industry	Sector
Valuation Ratios			
P/E, Trailing	23.64	30.60	27.51
Price/Sales (ttm)	7.61	4.94	4.26
Price/Book (mrq)	4.08	3.61	4.90
EPS Revisions			
EPS Revisions Trend	Bullish	-	-
Analyst Opinion Change	Unchanged	-	-
Growth Rates			
EPS - Next 5 Years	20.3%	15.2%	14.7%
PEG	0.97	1.52	1.49
Profitability Ratios, %			
Gross Margin	70.32	47.57	51.16
Profit Margin	32.52	14.58	13.60
Operating Margin	32.54	14.19	16.51
Management Effectiveness, %			
Return on Assets	16.80	7.48	10.54
Return on Equity	19.25	13.59	13.74

Support/Resistance Levels		
	Support	Resistance
Short-term	38	50-MA
Intermediate-term	38	44

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 38, intermediate-term support at 38, forming bottom, low PEG, EPS revisions trend - up
Bearish factors	near-term resistance at 50-MA, high P/E, 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
QCOM	38.92	Oct-07	35.00	AAOJG	38.50	5.10	40.1	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
QCOM	38.92	Oct-07	32.50	AAOVZ	37.50	AAOVU	38.50	1.40	36.10	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
QCOM	38.92	Oct-07	32.50	AAOJZ	37.50	AAOJU	38.50	2.65	35.15	2.35	2.65	3.15	0.50	18.9%

**BEARISH PLAY**

**DUKE ENERGY CP HL CO (DUK)**



Stock Symbol	DUK		
Industry	Energy		
	DUK	Industry	Sector
Valuation Ratios			
P/E, Trailing	13.74	19.47	20.44
Price/Sales (ttm)	1.69	1.77	1.79
Price/Book (mrq)	1.17	3.85	3.65
EPS Revisions			
EPS Revisions Trend	Mixed	-	-
Analyst Opinion Change	Unchanged	-	-
Growth Rates			
EPS - Next 5 Years	5.2%	6.9%	8.0%
PEG	3.16	2.46	2.09
Profitability Ratios, %			
Gross Margin	36.15	35.60	35.18
Profit Margin	12.62	9.11	9.05
Operating Margin	16.66	16.92	16.60
Management Effectiveness, %			
Return on Assets	3.00	3.23	3.47
Return on Equity	7.59	15.75	14.89

Support/Resistance Levels		
	Support	Resistance
Short-term	50-MA	19.75
Intermediate-term	18	20.75

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

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

Bearish factors	near-term resistance at 19.75, intermediate-term resistance 20.75, forward P/E > Trailing P/E, EPS revisions trend - mixed, short-term bearish trend, high PEG
Bullish factors	near-term support at 50-MA, low P/S, P/B, high ROE,

**"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
DUK	19.00	Oct-07	22.50	DUKVX	19.00	3.60	18.90	Unlimited	3.60	4.10	0.50	13.9%

**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
DUK	19.00	Oct-07	20.00	DUKJD	25.00	DUKJE	19.00	0.60	20.60	0.60	4.40	0.30	0.30	6.8%

**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
DUK	19.00	Oct-07	20.00	DUKVD	25.00	DUKVE	19.00	4.70	20.30	0.30	4.70	5.20	0.50	10.6%

## 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>XLE</b>	67.80	67.00	67.00	67.00	66.00	1.00	Unlimited	72.00	5.00	7.5%
<b>TXN</b>	33.17	33.00	33.00	33.00	32.50	0.50	Unlimited	37.00	4.00	12.1%
<b>QCOM</b>	38.92	38.50	38.50	38.50	37.80	0.70	Unlimited	42.50	4.00	10.4%

## "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>XLE</b>	67.80	Sep-07	64.00	XBTUL	67.00	1.70	1.70	62.30	1.70	12.10	0.50	1.20	9.9%
TXN	33.17	Oct-07	30.00	TXNVF	33.00	0.65	0.65	29.35	0.65	4.25	0.30	0.35	8.2%
QCOM	38.92	Oct-07	35.00	AAOVG	38.50	1.20	1.20	33.80	1.20	5.40	0.40	0.80	14.8%

## "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>XLE</b>	67.80	Sep-07	70.00	XBTIR	67.00	1.93	1.93	65.08	4.93	65.08	68.30	2.43	0.80	1.2%
TXN	33.17	Oct-07	37.50	TXNJU	33.00	0.52	0.52	32.48	5.02	32.48	33.67	1.02	0.17	0.5%
QCOM	38.92	Oct-07	42.50	AAOJV	38.50	1.40	1.40	37.10	5.40	37.10	39.42	1.90	0.42	1.1%

## 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>DUK</b>	19.00	19.00	19.00	19.00	20.25	1.25	Unlimited	17.50	1.50	7.9%

## 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](#)

### Auto-trade in 5 easy steps:

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