

## 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**

**ML SEMICOND HLDR1240 (SMH)**



Stock Symbol	SMH		
Industry	Semiconductor		
	SMH	Industry	Sector
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	35.5	38.19
Intermediate-term	34.7	40.5

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

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

Bullish factors	near-term support at 35.5, intermediate-term support at 34.7, forming bottom, long-term bullish trend,
Bearish factors	nearest resistance at 38.19, 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
SMH	37.00	Sep-07	35.00	SMHIG	36.50	2.50	37.50	Unlimited	2.50	3.00	0.50	20.0%

**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
SMH	37.00	Sep-07	32.50	SMHUZ	37.50	SMHUU	36.50	1.12	36.38	1.12	3.88	0.30	0.82	21.1%

**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
SMH	37.00	Sep-07	32.50	SMHIZ	37.50	SMHIU	36.50	3.65	36.15	1.35	3.65	4.15	0.50	13.7%

APPLE INC (AAPL)



Stock Symbol	AAPL		
Industry	Technology		
	AAPL	Industry	Sector
Valuation Ratios			
P/E, Trailing (ttm)	34.48	30.55	26.82
Price/Sales (ttm)	4.69	3.15	4.34
Price/Book (mrq)	7.92	6.62	4.80
EPS Revisions			
EPS Revisions Trend	Bullish	-	-
Analyst Opinion Change	Down	-	-
Growth Rates			
EPS - Next 5 Years	23.8%	15.2%	14.6%
PEG	1.38	1.46	1.46
Profitability Ratios, %			
Gross Margin	33.04	28.25	51.42
Profit Margin	13.85	9.34	13.59
Operating Margin	17.49	11.42	16.52
Management Effectiveness, %			
Return on Assets	17.05	12.97	10.53
Return on Equity	27.57	38.39	20.47

Support/Resistance Levels		
	Support	Resistance
Short-term	115	130
Intermediate-term	99	145.3

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

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

Bullish factors	near-term support 115, intermediate-term support at 99, 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
AAPL	122.22	Sep-07	115.00	QAAC	122.00	10.50	125.50	Unlimited	10.50	11.00	0.50	4.8%

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
AAPL	122.22	Sep-07	115.00	QAAC	120.00	QAAD	122.00	1.60	118.40	1.60	3.40	0.50	1.10	32.4%

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
AAPL	122.22	Sep-07	115.00	QAAC	120.00	QAAD	122.00	3.20	118.20	1.80	3.20	3.70	0.50	15.6%

**PRAXAIR INC (PX)**



Stock Symbol	PX		
Industry	Chemical Manufacturing		
	PX	Industry	Sector
Valuation Ratios			
P/E, Trailing	22.24	24.58	18.38
Price/Sales (ttm)	2.66	2.27	1.83
Price/Book (mrq)	4.80	3.81	3.51
EPS Revisions			
EPS Revisions Trend	Bullish	-	-
Analyst Opinion Change	Up	-	-
Growth Rates			
EPS - Next 5 Years	12.9%	10.7%	10.3%
PEG	1.61	1.48	1.44
Profitability Ratios, %			
Gross Margin	40.51	32.77	29.80
Profit Margin	12.51	8.58	10.20
Operating Margin	18.64	13.39	15.31
Management Effectiveness, %			
Return on Assets	9.46	6.78	9.79
Return on Equity	23.51	16.15	13.19

Support/Resistance Levels		
	Support	Resistance
Short-term	68	78
Intermediate-term	64	82

Stock & Sector Trends		
	PX	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 at 68, intermediate-term support at 64, forming bottom, low PEG, EPS revisions trend - up
Bearish factors	near-term resistance at 78, 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
PX	73.85	Sep-07	70.00	PXIN	73.00	5.20	75.2	Unlimited	5.20	5.70	0.50	9.6%

**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
PX	73.85	Sep-07	65.00	PXUM	70.00	PXUN	73.00	0.60	69.40	0.60	4.40	0.20	0.40	9.1%

**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
PX	73.85	Sep-07	65.00	PXIM	70.00	PXIN	73.00	4.35	69.35	0.65	4.35	4.85	0.50	11.5%

**BEARISH PLAY**

**MATERIALS SS SPDR FD (XLB)**



Stock Symbol	<b>XLB</b>		
Industry	<b>Materials</b>		
	<b>XLB</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	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

<b>Support/Resistance Levels</b>		
	Support	Resistance
Short-term	35.5	50-MA
Intermediate-term	35.5	41.8

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

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

Bearish factors	near-term resistance at 40.5, intermediate-term resistance 41.8, short-term bearish trend,
Bullish factors	near-term support at 35.5,

**"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>XLB</b>	37.59	Sep-07	35.00	XLBUI	38.00	0.55	34.45	Unlimited	0.55	1.05	0.50	90.9%

**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
<b>XLB</b>	37.59	Sep-07	39.00	XLBIM	44.00	XLBIR	38.00	0.93	39.93	0.93	4.07	0.30	0.63	15.5%

**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
<b>XLB</b>	37.59	Sep-07	39.00	XLBUM	44.00	XLBUR	38.00	4.15	39.85	0.85	4.15	4.65	0.50	12.0%

## 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
SMH	37.00	36.50	36.50	36.50	34.70	1.80	Unlimited	38.19	1.69	4.6%
AAPL	122.22	122.00	122.00	122.00	115.00	7.00	Unlimited	135.00	13.00	10.7%
PX	73.85	73.00	73.00	73.00	66.00	7.00	Unlimited	78.10	5.10	7.0%

## "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
SMH	37.00	Sep-07	35.00	SMHUG	36.50	0.45	0.45	34.55	0.45	6.25	0.30	0.15	2.4%
AAPL	122.22	Sep-07	120.00	QAAUD	122.00	4.80	4.80	115.20	4.80	27.20	1.90	2.90	10.7%
PX	73.85	Sep-07	70.00	PXUN	73.00	1.30	1.30	68.70	1.30	12.90	0.50	0.80	6.2%

## "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
SMH	37.00	Sep-07	40.00	SMHIH	36.50	0.19	0.19	36.31	3.69	36.31	37.50	0.69	0.50	1.3%
AAPL	122.22	Sep-07	125.00	APVIE	122.00	4.80	4.80	117.20	7.80	117.20	122.72	5.30	0.22	0.2%
PX	73.85	Sep-07	80.00	PXIP	73.00	0.43	0.43	72.58	7.43	72.58	74.35	0.93	0.85	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
XLB	37.59	38.00	38.00	38.00	40.50	2.50	Unlimited	35.50	2.50	6.6%

## 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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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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