

The SectorTrends Newsletter

Released on 10/10/2007

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

WALGREEN CO (WAG)



Stock Symbol	WAG		
Industry	Consumer Staples		
	WAG	Industry	Sector
Valuation Ratios			
P/E, Trailing (ttm)	19.31	23.74	21.20
Price/Sales (ttm)	0.72	0.71	3.06
Price/Book (mrq)	3.51	4.67	4.39
EPS Revisions			
EPS Revisions Trend	Bearish	-	-
Analyst Opinion Change	Down	-	-
Growth Rates			
EPS - Next 5 Years	13.8%	14.0%	13.8%
PEG	1.27	1.38	1.51
Profitability Ratios, %			
Gross Margin	28.35	20.93	43.53
Profit Margin	3.8	3.03	8.67
Operating Margin	5.86	5.21	13.79
Management Effectiveness, %			
Return on Assets	11.2	7.51	6.29
Return on Equity	19.25	16.83	16.19

Support/Resistance Levels		
	Support	Resistance
Short-term	39	44
Intermediate-term	39	50-MA

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

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

Bullish factors	near-term support at 39, intermediate-term support at 44, low PEG, high P/E,
Bearish factors	nearest resistance at 110, intermediate-term resistance at 113, EPS revisions trend - bearish, low 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
WAG	39.19	Nov-07	35.00	.WAGKG	38.00	4.20	39.20	Unlimited	4.20	4.70	0.50	11.9%

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
WAG	39.19	Nov-07	32.50	.WAGWZ	37.50	.WAGWU	38.00	0.70	36.80	0.70	4.30	0.25	0.45	10.5%

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
WAG	39.19	Nov-07	32.50	.WAGKZ	37.50	.WAGKU	38.00	4.00	36.50	1.00	4.00	4.50	0.50	12.5%

BEARISH PLAY

LOCKHEED MARTIN CP (LMT)



Stock Symbol	LMT		
Industry	Industrial		
	LMT	Industry	Sector
Valuation Ratios			
P/E, Trailing	16.98	22.01	22.91
Price/Sales (ttm)	1.14	1.58	1.61
Price/Book (mrq)	6.43	7.22	5.96
EPS Revisions			
EPS Revisions Trend	Bullish	-	-
Analyst Opinion Change	Neutral	-	-
Growth Rates			
EPS - Next 5 Years	11.5%	13.1%	13.3%
PEG	1.38	1.44	1.41
Profitability Ratios, %			
Gross Margin	10.37	24.59	24.40
Profit Margin	7.00	6.81	6.45
Operating Margin	10.63	10.03	9.90
Management Effectiveness, %			
Return on Assets	9.70	7.67	7.51
Return on Equity	38.15	30.51	24.80

Support/Resistance Levels		
	Support	Resistance
Short-term	102	111.5
Intermediate-term	50-MA	115

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

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

Bearish factors	near-term resistance at 111.5, forming top, short-term overbought, high P/B, P/E,
Bullish factors	near-term support at 102, intermediate-term support 50-MA, low P/S, PEG, EPS revisions trend - bullish,

"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
LMT	111.40	Nov-07	115.00	.LMTWC	112.00	5.70	109.30	Unlimited	5.70	6.20	0.50	8.8%

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
LMT	111.40	Nov-07	115.00	.LMTKC	120.00	.LMTKD	112.00	1.10	116.10	1.10	3.90	0.70	0.40	10.3%

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
LMT	111.40	Nov-07	115.00	.LMTWC	120.00	.LMTWD	112.00	3.00	117.00	2.00	3.00	3.50	0.50	16.7%

JOHNSON AND JOHNS DC (JNJ)



Stock Symbol	JNJ		
Industry	Health Care		
	JNJ	Industry	Sector
Valuation Ratios			
P/E, Trailing (ttm)	18.45	25.07	26.80
Price/Sales (ttm)	3.36	3.79	5.43
Price/Book (mrq)	4.45	4.64	5.40
EPS Revisions			
EPS Revisions Trend	Mixed	-	-
Analyst Opinion Change	Down	-	-
Growth Rates			
EPS - Next 5 Years	7.9%	9.2%	11.0%
PEG	2.07	1.98	1.75
Profitability Ratios, %			
Gross Margin	71.30	72.55	68.14
Profit Margin	18.52	16.82	12.84
Operating Margin	24.59	21.84	18.21
Management Effectiveness, %			
Return on Assets	15.60	10.48	6.87
Return on Equity	25.24	20.35	14.52

Support/Resistance Levels		
	Support	Resistance
Short-term	63.5	66.5
Intermediate-term	50-MA	66.5

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

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

Bearish factors	near-term resistance at 66.5, EPS revisions trend - down, high PEG, P/B, forming top, short-term overbought,
Bullish factors	near-term support at 63.5, intermediate-term support 50-MA,

"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
JNJ	66.25	Nov-07	70.00	.JNJWN	67.00	3.70	66.30	Unlimited	3.70	4.20	0.50	13.5%

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
JNJ	66.25	Nov-07	70.00	.JNJKN	75.00	.JNJKO	67.00	0.60	70.60	0.60	4.40	0.15	0.45	10.2%

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
JNJ	66.25	Nov-07	70.00	.JNJWN	75.00	.JNJWO	67.00	4.20	70.80	0.80	4.20	4.70	0.50	11.9%

3M COMPANY (NYSE:MMM)



Stock Symbol	MMM		
Industry	Industrial		
	MMM	Industry	Sector
Valuation Ratios			
P/E, Trailing	16.34	20.13	20.13
Price/Sales (ttm)	2.89	2.51	2.51
Price/Book (mrq)	6.66	4.00	4.00
EPS Revisions			
EPS Revisions Trend	Bullish	-	-
Analyst Opinion Change	Neutral	-	-
Growth Rates			
EPS - Next 5 Years	11.4%	12.9%	13.3%
PEG	1.69	1.43	1.41
Profitability Ratios, %			
Gross Margin	47.94	39.00	39.00
Profit Margin	18.61	11.80	11.80
Operating Margin	28.04	15.24	15.24
Management Effectiveness, %			
Return on Assets	19.82	5.95	5.95
Return on Equity	39.97	20.98	20.24

Support/Resistance Levels		
	Support	Resistance
Short-term	91.5	96
Intermediate-term	50-MA	96

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

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

Bearish factors	near-term resistance at 96, high P/B, P/S, forward P/E >>trailing P/E,
Bullish factors	near-term support at 91.5, intermediate-term support 50-MA, EPS revisions trend - bullish,

"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
MMM	95.62	Nov-07	100.00	.MNZWT	96.00	4.90	95.10	Unlimited	4.90	5.40	0.50	10.2%

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
MMM	95.62	Nov-07	95.00	.MNZKS	100.00	.MNZKT	96.00	1.90	96.90	1.90	3.10	0.50	1.40	45.2%

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
MMM	95.62	Nov-07	95.00	.MNZWS	100.00	.MNZWT	96.00	3.80	96.20	1.20	3.80	4.30	0.50	13.2%

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
WAG	39.19	38.00	38.00	38.00	37.00	1.00	Unlimited	44.00	6.00	15.8%

"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
WAG	39.19	Nov-07	35.00	.WAGWG	38.00	0.30	0.30	34.70	0.30	4.90	0.10	0.20	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
WAG	39.19	Nov-07	42.50	.WAGKV	38.00	0.33	0.33	37.68	4.83	37.68	39.69	0.83	1.19	3.0%

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
LMT	111.40	112.00	112.00	112.00	115.00	3.00	Unlimited	104.00	8.00	7.1%
JNJ	66.25	67.00	67.00	67.00	67.50	0.50	Unlimited	64.00	3.00	4.5%
MMM	95.62	96.00	96.00	96.00	100.00	4.00	Unlimited	90.00	6.00	6.3%

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](#)

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.

Copyright © 1998-2007 OptionSmart.com (Stock Markets Institute). All rights reserved.

Generated on 10/10/07