

The SectorTrends Newsletter

Released on 11/6/2007

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

COSTCO WHOLESALE C (COST)



Stock Symbol	COST		
Industry	Technology		
	COST	Industry	Sector
Valuation Ratios			
P/E, Trailing (ttm)	27.81	36.05	20.91
Price/Sales (ttm)	0.44	2.50	3.03
Price/Book (mrq)	3.34	10.92	4.53
EPS Revisions			
EPS Revisions Trend	Up	-	-
Analyst Opinion Change	Neutral	-	-
Growth Rates			
EPS - Next 5 Years	13.4%	13.8%	13.9%
PEG	1.65	1.22	1.41
Profitability Ratios, %			
Gross Margin	12.35	40.2	43.76
Profit Margin	1.68	4.26	8.21
Operating Margin	2.5	7.35	13.51
Management Effectiveness, %			
Return on Assets	5.84	7.44	6.28
Return on Equity	12.19	22.75	16.36

Support/Resistance Levels		
	Support	Resistance
Short-term	64	68
Intermediate-term	58	70

Stock & Sector Trends		
	COST	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 at 64, intermediate-term support at 58-62, forming bottom, short-term oversold, supportive sector trend, low PEG, EPS revisions trend - down
Bearish factors	nearest resistance at 69, intermediate-term resistance at 70-72, high P/E, 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
COST	65.92	Dec-07	60.00	.PRQLL	65.00	7.20	67.20	Unlimited	7.20	7.70	0.50	6.9%

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
COST	65.92	Dec-07	57.50	.PRQXB	62.50	.PRQXZ	65.00	1.10	61.40	1.10	3.90	0.50	0.60	15.4%

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
COST	65.92	Dec-07	57.50	.PRQLB	62.50	.PRQLZ	65.00	3.80	61.30	1.20	3.80	4.30	0.50	13.2%

ML SEMICOND HLDR1240 (SMH)



Stock Symbol	SMH		
Industry	Semiconductor		
	SMH	Industry	Sector
Valuation Ratios			
P/E, Trailing (ttm)	NM	NM	NM
Price/Sales (ttm)	NM	NM	NM
Price/Book (mrq)	NM	NM	NM
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	NM	NM	NM
Profit Margin	NM	NM	NM
Operating Margin	NM	NM	NM
Management Effectiveness, %			
Return on Assets	NM	NM	NM
Return on Equity	NM	NM	NM

Support/Resistance Levels		
	Support	Resistance
Short-term	33.5	35
Intermediate-term	30	39

Stock & Sector Trends		
	SMH	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: 75%

Bullish factors	near-term support at 33, intermediate-term support at 29-30, forming bottom, short-term oversold,
Bearish factors	nearest resistance at 36, intermediate-term resistance at 39-41, intermediate-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	34.05	Dec-07	30.00	.SMHLF	34.00	4.35	34.35	Unlimited	4.35	4.85	0.50	11.5%

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
SMH	34.05	Dec-07	30.00	.SMHXF	32.50	.SMHXZ	34.00	0.50	32.00	0.50	2.00	0.10	0.40	20.0%

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
SMH	34.05	Dec-07	30.00	.SMHLF	32.50	.SMHLZ	34.00	1.80	31.80	0.70	1.80	2.30	0.50	27.8%

MEDTRONIC INC (MDT)



Stock Symbol	MDT		
Industry	Health Care		
	MDT	Industry	Sector
Valuation Ratios			
P/E, Trailing	NM	NM	NM
Price/Sales (ttm)	NM	NM	NM
Price/Book (mrq)	NM	NM	NM
EPS Revisions			
EPS Revisions Trend	Down	-	-
Analyst Opinion Change	Bullish	-	-
Growth Rates			
EPS - Next 5 Years	13.6%	14.7%	11.4%
PEG	1.35	1.39	1.64
Profitability Ratios, %			
Gross Margin	NM	NM	NM
Profit Margin	NM	NM	NM
Operating Margin	NM	NM	NM
Management Effectiveness, %			
Return on Assets	NM	NM	NM
Return on Equity	NM	NM	NM

Support/Resistance Levels		
	Support	Resistance
Short-term	46	48
Intermediate-term	40	50

Stock & Sector Trends		
	MDT	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: 65%

Bullish factors	near-term support at 46, intermediate-term support at 40-42, forming bottom, low PEG, P/E, high profit & operating margins, ROA & ROE
Bearish factors	near-term resistance at 48, intermediate-term resistance at 50-51, intermediate & short-term bearish trend, EPS revisions trend - down

"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
MDT	46.76	Dec-07	40.00	.MDTLH	46.00	7.10	47.1	Unlimited	7.10	7.60	0.50	7.0%

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
MDT	46.76	Dec-07	40.00	.MDTXH	45.00	.MDTXI	46.00	1.10	43.90	1.10	3.90	0.50	0.60	15.4%

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
MDT	46.76	Dec-07	40.00	.MDTLH	45.00	.MDTLI	46.00	3.80	43.80	1.20	3.80	4.30	0.50	13.2%

BEARISH PLAY

MICROSOFT CP (MSFT)



Stock Symbol	MSFT		
Industry	Software		
	MSFT	Industry	Sector
Valuation Ratios			
P/E, Trailing	24.06	29.36	28.95
Price/Sales (ttm)	6.36	7.69	5.36
Price/Book (mrq)	10.69	9.50	6.47
EPS Revisions			
EPS Revisions Trend	Up	-	-
Analyst Opinion Change	Neutral	-	-
Growth Rates			
EPS - Next 5 Years	12.5%	13.9%	14.7%
PEG	1.63	1.66	1.63
Profitability Ratios, %			
Gross Margin	78.41	75.03	52.59
Profit Margin	27.51	19.65	14.16
Operating Margin	36.93	25.89	17.34
Management Effectiveness, %			
Return on Assets	22.71	15.05	11.28
Return on Equity	43.60	28.38	21.40

Support/Resistance Levels		
	Support	Resistance
Short-term	34	37.5
Intermediate-term	31	40

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

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

Bearish factors	near-term resistance at 37.50, intermediate-term resistance at 40-41, short-term overbought, high P/E, P/S, P/B,
Bullish factors	near-term support at 34-35, intermediate-term support at 31-32, intermediate & short-term bullish trend, high profit & operating margins, 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
MSFT	36.73	Dec-07	45.00	.MSQXI	37.00	8.30	36.70	Unlimited	8.30	8.80	0.50	6.0%

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
MSFT	36.73	Dec-07	40.00	.MSQLH	42.50	.MSQLV	37.00	0.40	40.40	0.40	2.10	0.20	0.20	9.5%

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
MSFT	36.73	Dec-07	40.00	.MSQXH	42.50	.MSQXV	37.00	2.10	40.40	0.40	2.10	2.60	0.50	23.8%

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
COST	65.92	65.00	65.00	65.00	62.00	3.00	Unlimited	68.00	3.00	4.6%
SMH	34.05	34.00	34.00	34.00	33.00	1.00	Unlimited	35.00	1.00	2.9%
MDT	46.76	46.00	46.00	46.00	46.00	0.00	Unlimited	51.00	5.00	10.9%

"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
COST	65.92	Dec-07	60.00	.PRQXL	65.00	0.25	0.25	59.75	0.25	8.25	0.20	0.05	0.6%
SMH	34.05	Dec-07	30.00	.SMHXF	34.00	0.35	0.35	29.65	0.35	3.15	0.30	0.05	1.6%
MDT	46.76	Dec-07	42.50	.MDTXV	46.00	0.35	0.35	42.15	0.35	6.05	0.20	0.15	2.5%

"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
COST	65.92	Dec-07	67.50	.PRQLU	65.00	2.58	2.58	62.43	5.08	62.43	66.42	3.08	0.92	1.4%
SMH	34.05	Dec-07	35.00	.SMHLG	34.00	0.96	0.96	33.04	1.96	33.04	34.55	1.46	0.05	0.1%
MDT	46.76	Dec-07	50.00	.MDTLJ	46.00	0.98	0.98	45.03	4.98	45.03	47.26	1.48	0.76	1.6%

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
MSFT	36.73	37.00	37.00	37.00	38.00	1.00	Unlimited	34.00	3.00	8.1%

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 11/06/07