

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 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

AMER EXPRESS INC (AXP)



Stock Symbol	AXP		
Industry	Financial		
	AXP	Industry	Sector
Valuation Ratios			
P/E, Trailing (ttm)	16.53	24.49	20.71
Price/Sales (ttm)	2.17	2.38	2.98
Price/Book (mrq)	6.00	3.36	4.42
EPS Revisions			
EPS Revisions Trend	Up	-	-
Analyst Opinion Change	Neutral	-	-
Growth Rates			
EPS - Next 5 Years	11.9%	13.0%	10.2%
PEG	1.34	1.12	1.14
Profitability Ratios, %			
Gross Margin	NM	NM	NM
Profit Margin	13.61	12.13	17.28
Operating Margin	18.64	16.11	28.53
Management Effectiveness, %			
Return on Assets	3.16	3.41	3.65
Return on Equity	38	18.73	16.08

Support/Resistance Levels		
	Support	Resistance
Short-term	54	59
Intermediate-term	50	62

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

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

Bullish factors	near-term support at 54-55, intermediate-term support at 50-51, forming bottom, short-term oversold, low PEG, EPS revisions trend - up
Bearish factors	nearest resistance at 59-60, intermediate-term resistance at 62-64, high P/B, bearish sector 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
AXP	56.49	Dec-07	50.00	.AXPLJ	56.00	7.70	57.70	Unlimited	7.70	8.20	0.50	6.5%

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
AXP	56.49	Dec-07	47.50	.AXPXW	52.50	.AXPXX	56.00	1.00	51.50	1.00	4.00	0.40	0.60	15.0%

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
AXP	56.49	Dec-07	47.50	.AXPLW	52.50	.AXPLX	56.00	3.90	51.40	1.10	3.90	4.40	0.50	12.8%

KB HOME (KBH)



Stock Symbol	KBH		
Industry	Industrial		
	KBH	Industry	Sector
Valuation Ratios			
P/E, Trailing (ttm)	NM	30.76	20.90
Price/Sales (ttm)	0.29	1.19	1.54
Price/Book (mrq)	0.99	5.34	5.43
EPS Revisions			
EPS Revisions Trend	Down	-	-
Analyst Opinion Change	Neutral	-	-
Growth Rates			
EPS - Next 5 Years	11.0%	11.5%	10.0%
PEG	N/A	3.07	2.21
Profitability Ratios, %			
Gross Margin	0.10	11.80	23.23
Profit Margin	-8.48	1.64	6.75
Operating Margin	-14.07	2.56	10.15
Management Effectiveness, %			
Return on Assets	-8.29	4.10	7.82
Return on Equity	-24.56	6.98	26.35

Support/Resistance Levels		
	Support	Resistance
Short-term	24	28
Intermediate-term	20	35

Stock & Sector Trends		
	KBH	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: 75%

Bullish factors	near-term support at 24-25, intermediate-term support at 20-22, forming bottom, low P/S, P/B,
Bearish factors	nearest resistance at 28, intermediate-term resistance at 35, intermediate-term bearish trend, EPS revisions trend - down, negative profit margins,

"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
KBH	25.54	Dec-07	20.00	.KBHLD	25.00	6.00	26.00	Unlimited	6.00	6.50	0.50	8.3%

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
KBH	25.54	Dec-07	17.50	.KBHXW	22.50	.KBHXX	25.00	0.80	21.70	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
KBH	25.54	Dec-07	17.50	.KBHLW	22.50	.KBHLX	25.00	3.10	20.60	1.90	3.10	3.60	0.50	16.1%

KL A-TENCOR CP (KLAC)



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

Stock Symbol	KLAC		
Industry	Technology		
	KLAC	Industry	Sector
Valuation Ratios			
P/E, Trailing	20.76	24.88	28.28
Price/Sales (ttm)	3.25	5.67	5.22
Price/Book (mrq)	2.97	4.80	6.25
EPS Revisions			
EPS Revisions Trend	Down	-	-
Analyst Opinion Change	Neutral	-	-
Growth Rates			
EPS - Next 5 Years	16.5%	15.3%	14.7%
PEG	1.02	1.53	1.54
Profitability Ratios, %			
Gross Margin	56.13	49.21	52.61
Profit Margin	17.17	14.90	14.26
Operating Margin	21.94	16.34	17.39
Management Effectiveness, %			
Return on Assets	10.80	11.85	11.34
Return on Equity	14.12	15.92	14.74

Support/Resistance Levels		
	Support	Resistance
Short-term	47	52
Intermediate-term	40	60

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

Bullish factors	near-term support at 47-49, intermediate-term support at 40-42, forming bottom, short-term oversold, low PEG, high profit & operating margins, ROA & ROE
Bearish factors	near-term resistance at 52-55, intermediate-term resistance at 60, intermediate & short-term bearish trend, EPS revisions trend - down, 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
KLAC	49.92	Dec-07	45.00	.KCQLI	49.00	5.70	50.7	Unlimited	5.70	6.20	0.50	8.8%

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
KLAC	49.92	Dec-07	42.50	.KCQXV	47.50	.KCQXT	49.00	1.00	46.50	1.00	4.00	0.50	0.50	12.5%

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
KLAC	49.92	Dec-07	42.50	.KCQLV	47.50	.KCQLT	49.00	3.80	46.30	1.20	3.80	4.30	0.50	13.2%

BEARISH PLAY

UNITED STATES STEEL (X)



Stock Symbol	X		
Industry	Industrial		
	X	Industry	Sector
Valuation Ratios			
P/E, Trailing	9.80	13.10	22.10
Price/Sales (ttm)	0.69	1.11	2.37
Price/Book (mrq)	2.08	3.53	4.14
EPS Revisions			
EPS Revisions Trend	Mixed	-	-
Analyst Opinion Change	Bullish	-	-
Growth Rates			
EPS - Next 5 Years	6.3%	17.0%	12.9%
PEG	1.61	0.73	1.39
Profitability Ratios, %			
Gross Margin	14.69	19.68	30.63
Profit Margin	7.19	8.90	10.45
Operating Margin	8.93	13.55	16.07
Management Effectiveness, %			
Return on Assets	9.74	13.82	9.37
Return on Equity	23.90	30.47	21.53

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

Stock & Sector Trends		
	X	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 89-90, intermediate-term support at 80, low P/E, PEG, P/S

"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
X	94.06	Dec-07	100.00	.XXT	94.50	9.60	90.40	Unlimited	9.60	10.10	0.50	5.2%

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
X	94.06	Dec-07	110.00	.XLB	115.00	.XLC	94.50	0.80	110.80	0.80	4.20	0.20	0.60	14.3%

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
X	94.06	Dec-07	110.00	.XXB	115.00	.XXC	94.50	4.30	110.70	0.70	4.30	4.80	0.50	11.6%

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
AXP	56.49	56.00	56.00	56.00	53.00	3.00	Unlimited	61.00	5.00	8.9%
KBH	25.54	25.00	25.00	25.00	22.50	2.50	Unlimited	28.00	3.00	12.0%
KLAC	49.92	49.00	49.00	49.00	47.50	1.50	Unlimited	53.00	4.00	8.2%

"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
AXP	56.49	Dec-07	47.50	.AXPXW	56.00	0.76	0.76	46.74	0.76	3.46	0.20	0.56	16.2%
KBH	25.54	Dec-07	17.50	.KBHXL	25.00	0.20	0.20	17.30	0.20	-2.30	0.10	0.10	-4.3%
KLAC	49.92	Dec-07	42.50	.KCQXV	49.00	0.35	0.35	42.15	0.35	3.65	0.20	0.15	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
AXP	56.49	Dec-07	60.00	.AXPLL	56.00	1.80	1.80	54.20	5.80	54.20	56.99	2.30	0.49	0.9%
KBH	25.54	Dec-07	30.00	.KBHLF	25.00	0.63	0.63	24.38	5.63	24.38	26.04	1.13	0.54	2.1%
KLAC	49.92	Dec-07	55.00	.KCQLK	49.00	0.70	0.70	48.30	6.70	48.30	50.42	1.20	0.92	1.8%

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
X	94.06	94.50	94.50	94.50	115.00	20.50	Unlimited	90.00	4.50	4.8%

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](#)

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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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