

## The SectorTrends Newsletter

Released on 11/21/2007

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](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**

**AMAZON.COM INC (AMZN)**



Stock Symbol	AMZN		
Industry	Consumer Staples		
	AMZN	Industry	Sector
Valuation Ratios			
P/E, Trailing (ttm)	91.18	34.52	20.08
Price/Sales (ttm)	2.48	2.33	2.88
Price/Book (mrq)	42.81	10.28	4.31
EPS Revisions			
EPS Revisions Trend	Neutral	-	-
Analyst Opinion Change	Bullish	-	-
Growth Rates			
EPS - Next 5 Years	23.4%	13.8%	13.8%
PEG	3.02	1.17	1.36
Profitability Ratios, %			
Gross Margin	23.07	39.69	43.45
Profit Margin	2.79	4.21	8.11
Operating Margin	4.42	7.18	13.4
Management Effectiveness, %			
Return on Assets	9.31	7.5	6.11
Return on Equity	76.7	22.2	16.02

Support/Resistance Levels		
	Support	Resistance
Short-term	77.5	50-MA
Intermediate-term	67.5	96.7

Stock & Sector Trends		
	AMZN	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 77.5, intermediate-term support at 67.5, forming bottom, short-term oversold, MACD -bullish,
Bearish factors	nearest resistance at 50-MA, high P/E, PEG, EPS revisions trend - Neutral

**"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
AMZN	80.39	Jan-08	85.00	.ZQNAQ	80.00	4.00	89.00	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
AMZN	80.39	Jan-08	70.00	.ZQNMN	75.00	.ZQNMO	80.00	1.90	73.10	1.90	3.10	0.80	1.10	35.5%

**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
AMZN	80.39	Jan-08	70.00	.ZQNaN	75.00	.ZQNAO	80.00	3.50	73.50	1.50	3.50	4.00	0.50	14.3%

ADOBE SYSTEMS INC (ADBE)



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

Stock Symbol	ADBE		
Industry	Technology		
	ADBE	Industry	Sector
Valuation Ratios			
P/E, Trailing (ttm)	36.18	26.82	26.49
Price/Sales (ttm)	8.04	6.59	4.81
Price/Book (mrq)	4.99	8.29	5.75
EPS Revisions			
EPS Revisions Trend	Neutral	-	-
Analyst Opinion Change	Neutral	-	-
Growth Rates			
EPS - Next 5 Years	13.7%	13.9%	14.8%
PEG	1.94	1.50	1.48
Profitability Ratios, %			
Gross Margin	88.54	74.99	52.72
Profit Margin	23.38	19.71	14.51
Operating Margin	25.44	25.97	17.52
Management Effectiveness, %			
Return on Assets	12.14	15.16	11.46
Return on Equity	14.20	28.66	21.74

Support/Resistance Levels		
	Support	Resistance
Short-term	40	50-MA
Intermediate-term	38.5	48

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

Bullish factors	near-term support at 40, intermediate-term support at 38.5, forming bottom, low PEG, high ROA, ROE
Bearish factors	nearest resistance at 50-MA, intermediate-term resistance at 48, EPS revisions trend - neutral, high P/S, 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
ADBE	42.30	Jan-08	40.00	.AEQAH	42.00	3.70	43.70	Unlimited	3.70	4.20	0.50	13.5%

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
ADBE	42.30	Jan-08	35.00	.AEQMG	40.00	.AEQMH	42.00	0.90	39.10	0.90	4.10	0.40	0.50	12.2%

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
ADBE	42.30	Jan-08	35.00	.AEQAG	40.00	.AEQAH	42.00	4.00	39.00	1.00	4.00	4.50	0.50	12.5%

POWERSHARES QQQ TR 1 (QQQQ)



Stock Symbol	QQQQ		
Industry	NASDAQ 100 TRUST SER1		
	QQQQ	Industry	Sector
Valuation Ratios			
P/E, Trailing	23.69	NM	NM
Price/Sales (ttm)	NM	NM	NM
Price/Book (mrq)	NM	NM	NM
EPS Revisions			
EPS Revisions Trend	N/A	-	-
Analyst Opinion Change	N/A	-	-
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	49	50-55
Intermediate-term	46	55

Stock & Sector Trends		
	QQQQ	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 49, intermediate-term support at 46, forming bottom, short-term oversold,
Bearish factors	near-term resistance at 50-55, intermediate-term resistance at 55,

"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
QQQQ	49.90	Jan-08	46.00	.QQQAT	49.00	5.19	51.19	Unlimited	5.19	5.69	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
QQQQ	49.90	Jan-08	46.00	.QQQMT	49.00	.QQQMW	49.00	0.95	48.05	0.95	2.05	0.50	0.45	22.0%

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
QQQQ	49.90	Jan-08	46.00	.QQQAT	49.00	.QQQAW	49.00	2.30	48.30	0.70	2.30	2.80	0.50	21.7%

**BEARISH PLAY**

**JOHNSON AND JOHNS DC (JNJ)**



Stock Symbol	JNJ		
Industry	Health Care		
	JNJ	Industry	Sector
Valuation Ratios			
P/E, Trailing	18.95	24.31	26.19
Price/Sales (ttm)	3.25	3.65	5.08
Price/Book (mrq)	4.41	4.37	5.02
EPS Revisions			
EPS Revisions Trend	Neutral	-	-
Analyst Opinion Change	Neutral	-	-
Growth Rates			
EPS - Next 5 Years	9.6%	9.7%	11.3%
PEG	1.70	1.81	1.64
Profitability Ratios, %			
Gross Margin	71.06	71.15	67.39
Profit Margin	17.63	16.30	12.55
Operating Margin	23.22	21.24	17.95
Management Effectiveness, %			
Return on Assets	14.83	10.33	7.11
Return on Equity	24.65	20.61	15.19

Support/Resistance Levels		
	Support	Resistance
Short-term	64	68
Intermediate-term	63	68

Stock & Sector Trends		
	JNJ	Sector
Short-term, based on 10-Day SMA	Up	Neutral
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 68, short-term overbought, high P/S, P/B, EPS trend - Neutral
Bullish factors	near-term support at 64, intermediate-term support at 63, low P/E, PEG,

**"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	67.64	Jan-08	75.00	.JNJMO	68.00	7.60	67.40	Unlimited	7.60	8.10	0.50	6.6%

**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	67.64	Jan-08	70.00	.JNJAN	75.00	.JNJAO	68.00	0.55	70.55	0.55	4.45	0.15	0.40	9.0%

**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	67.64	Jan-08	70.00	.JNJMN	75.00	.JNJMO	68.00	4.50	70.50	0.50	4.50	5.00	0.50	11.1%

## 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
AMZN	80.39	80.00	80.00	80.00	72.50	7.50	Unlimited	90.00	10.00	12.5%
ADBE	42.30	42.00	42.00	42.00	39.00	3.00	Unlimited	45.00	3.00	7.1%
QQQQ	49.90	49.00	49.00	49.00	47.50	1.50	Unlimited	52.00	3.00	6.1%

## "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
AMZN	80.39	Jan-08	75.00	.ZQNMO	80.00	3.40	3.40	71.60	3.40	14.40	2.00	1.40	9.7%
ADBE	42.30	Jan-08	40.00	.AEQMH	42.00	1.30	1.30	38.70	1.30	7.70	0.60	0.70	9.1%
QQQQ	49.90	Jan-08	46.00	.QQQMT	49.00	1.20	1.20	44.80	1.20	8.00	0.50	0.70	8.8%

## "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
AMZN	80.39	Jan-08	85.00	.ZQNAQ	80.00	4.03	4.03	75.98	9.03	75.98	80.89	4.53	0.39	0.5%
ADBE	42.30	Jan-08	45.00	.AEQAI	42.00	1.25	1.25	40.75	4.25	40.75	42.80	1.75	0.30	0.7%
QQQQ	49.90	Jan-08	52.00	.QQQAZ	49.00	1.47	1.47	47.53	4.47	47.53	50.40	1.97	0.90	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
JNJ	67.64	68.00	68.00	68.00	70.00	2.00	Unlimited	65.00	3.00	4.4%

## 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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2. Log into your brokerage account and open the auto-trading page.
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5. Allocate min \$1,000 per trade.

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