

The OptionSmarts Newsletter

Released on

02/22/2005

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 pre-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. Probabilities to win ("Are the risks worth the rewards?")

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.

Below you find twelve chapters that include up to four stock option picks each. Every chapter covers a swing type implemented with one of the most effective and popular trading strategies:

Stock Picks (Buy & Sell Short)

"Buy Call"

"Buy Put"

"Bullish Call Spread"

"Bullish Put Spread"

"Bearish Call Spread"

"Bearish Put Spread"

"Sell Covered Call"

"Sell Naked Put"

"Buy/Sell Strangle" ("Volatility Play")

"Buy/Sell Straddle" ("Volatility Play")

"Buy Butterfly" ("Volatility Play")

Each option pick module consists of basic risk/reward parameters. We even calculate these parameters per \$1 invested to allow you an easy comparison of various picks. We also recommend that you pay attention to the daily and weekly technical signals for the stock and its sector.

A short glossary can be found on the last page of this newsletter.

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.

Buy Stocks

Symbol	Last	Target	Stop	Projected Exit Date	Stock Trends		Sector Trends		EPS Revisions Trend
					Daily	Weekly	Daily	Weekly	
SBUX	49.93	51.25	48.60	29 Mar 05	Neutral	Down	Up	Down	Up
PHM	69.53	71.10	67.00	29 Mar 05	Down	Up	Up	Up	Up
CTX	61.76	64.00	57.95	29 Mar 05	Down	Up	Up	Up	Up

SBUX



Buy Stocks

PHM



CTX



Sell Short Stocks

This module is empty because the picks found had very low probability to be profitable!

Symbol	Last	Target	Stop	Projected Exit Date	Stock Trends		Sector Trends		EPS Revisions Trend
					Daily	Weekly	Daily	Weekly	

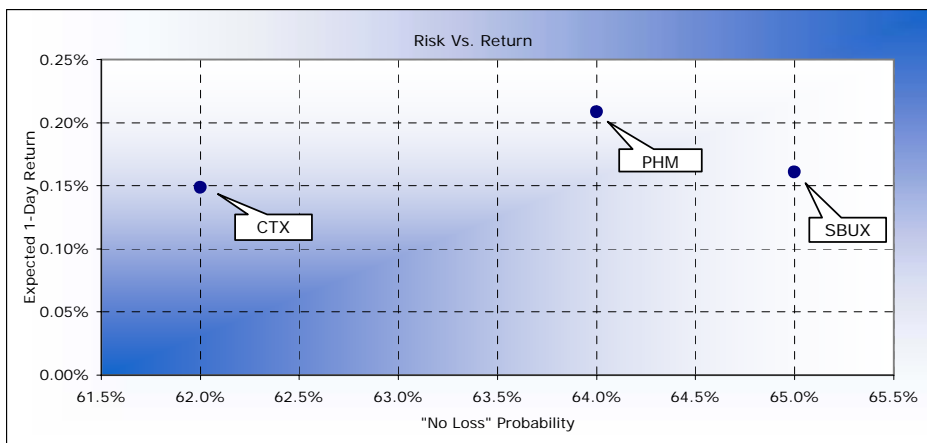
Chart courtesy of StockCharts.com

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BULLISH PLAY: Buy Call Strategy

Symbol	Last	Buy to Open				Last	Target	Stop	1)	2)	Time Value	Stock Trends		Sector Trends		Option Symbol
		Buy	Open	Call at	8.90							Daily	Weekly	Daily	Weekly	
SBUX	49.93	Jan-06	45.0	Call at	8.90	8.70	9.40	4.20	65%	0.2%	3.97	Neutral	Down	Up	Down	WSPAI
PHM	69.53	Jul-05	65.0	Call at	9.60	10.40	10.30	4.00	64%	0.2%	6.60	Down	Up	Up	Up	PHMGGM
CTX	61.76	Jan-06	60.0	Call at	9.60	9.60	10.10	4.90	62%	0.1%	8.14	Down	Up	Up	Up	YYVAL

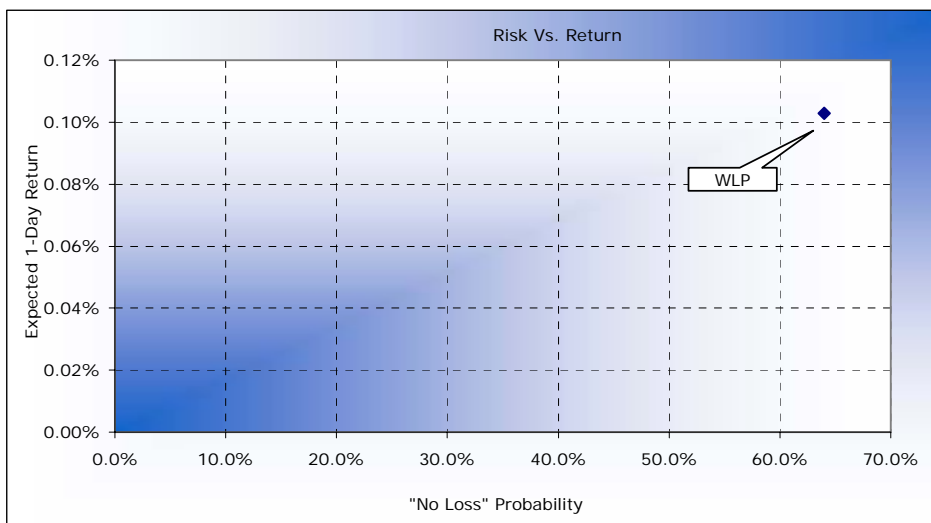
1) "No Loss" Probability. 2) Expected 1-Day Return.



BEARISH PLAY: Buy Put Strategy

Symbol	Last	Buy to Open				Last	Target	Stop	1)	2)	Time Value	Stock Trends		Sector Trends		Option Symbol
		Buy	Open	Put at	13.90							Daily	Weekly	Daily	Weekly	
WLP	120.95	Jan-06	125.0	Put at	13.90	15.10	14.4	6.1	64.0%	0.1%	11.05	Down	Up	Down	Down	YFMME

1) "No Loss" Probability. 2) Expected 1-Day Return



BULLISH CALL SPREAD STRATEGY

Symbol	Expirat Month	Buy Strike	Sell Strike	Debit	Max Profit	Break-Even	Max Loss	Profit/Loss	Stock Trends		Sector Trends		Buy Side Symbol	Sell Side Symbol
									Daily	Weekly	Daily	Weekly		
SBUX	Apr-05	45.0	50.0	2.80	2.20	47.80	2.80	0.79	Neutral	Down	Up	Down	WSPA	WSPAJ
PHM	Jul-05	65.0	70.0	4.20	0.80	69.20	4.20	0.19	Down	Up	Up	Up	PHMGM	PHMGN
CTX	Jan-06	60.0	65.0	2.10	2.90	62.10	2.10	1.38	Down	Up	Up	Up	YYVAL	YYVAM

BULLISH PUT SPREAD STRATEGY

Symbol	Expirat Month	Buy Strike	Sell Strike	Credit	Max Profit	Break-Even	Max Loss	Profit/Loss	Stock Trends		Sector Trends		Buy Side Symbol	Sell Side Symbol
									Daily	Weekly	Daily	Weekly		
SBUX	Apr-05	45.0	50.0	1.30	1.30	48.70	3.70	0.35	Neutral	Down	Up	Down	SQXPI	SQXPJ
PHM	Apr-05	65.0	70.0	1.80	1.80	68.20	3.20	0.56	Down	Up	Up	Up	PHMPM	PHMPN
CTX	Mar-05	55.0	60.0	1.30	1.30	58.70	3.70	0.35	Down	Up	Up	Up	CTXOK	CTXOL

SBUX



PHM



BULLISH PUT SPREAD STRATEGY

CTX



Chart courtesy of StockCharts.com

BEARISH CALL SPREAD STRATEGY

This module is empty because the picks found had very low probability to be profitable.

Symbol	Expirat Month	Buy Strike	Sell Strike	Credit	Max Profit	Break- Even	Max Loss	Profit/ Loss	Stock Trends		Sector Trends		Buy Side Symbol	Sell Side Symbol
									Daily	Weekly	Daily	Weekly		
WLP	Mar-05	130.0	125.00	1.00	1.00	126.00	4.00	0.25	Down	Up	Down	Down	WLPCF	WLPCE

BEARISH PUT SPREAD STRATEGY

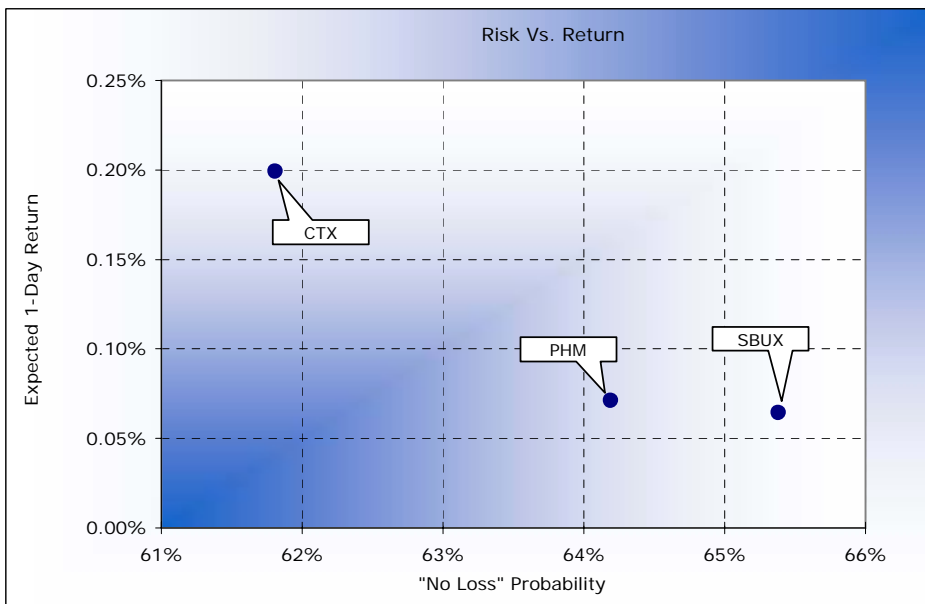
This module is empty because the picks found had very low probability to be profitable.

Symbol	Expirat Month	Buy Strike	Sell Strike	Debit	Max Profit	Break- Even	Max Loss	Profit/ Loss	Stock Trends		Sector Trends		Buy Side Symbol	Sell Side Symbol
									Daily	Weekly	Daily	Weekly		

"Sell Covered Call" Option Strategy

Symbol	Last Stock Price	Expiration Month	Call Option Strike	Call Option Price	Break-even	Max Profit	Time Value	1)	2)	Stock Price Target	Put Option Symbol
SBUX	49.93	Jan-06	50.00	5.70	44.23	5.77	5.90	65%	0.06%	51.25	WSPAJ
PHM	69.53	Jul-05	70.00	6.50	6.50	6.97	6.20	64%	0.07%	71.10	PHMGN
CTX	61.76	Jan-06	65.00	7.10	7.10	10.34	7.50	62%	0.20%	64.00	YYVAM

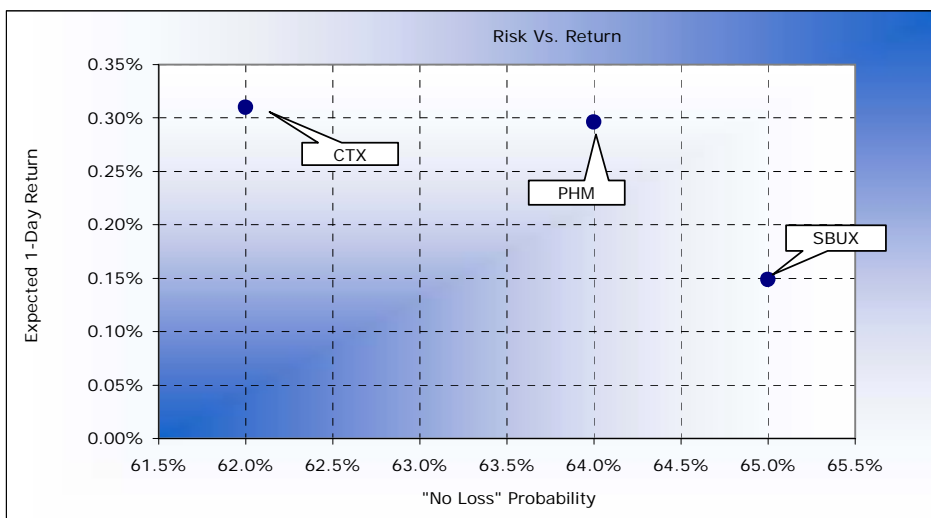
1) "No Loss" Probability. 2) Expected 1-Day Return.



"Sell Naked Put" Option Strategy

Symbol	Last Stock Price	Expiration Month	Put Option Price	Break-even	Max Profit	Time Value	1)	2)	Stock Price Target	Put Option Symbol
SBUX	49.93	Jan-06	2.60	47.33	2.6	2.6	65%	0.15%	51.25	WSPMI
PHM	69.53	Jul-05	7.20	62.33	7.7	6.7	64%	0.30%	71.10	PHMSN
CTX	61.76	Jan-06	6.70	55.06	6.7	6.7	62%	0.31%	64.00	YYVML

1) "No Loss" Probability. 2) Expected 1-Day Return.



Pros and Cons for Our Bullish Picks

Symbol	Bullish Factors	Bearish Factors
SBUX	strong support at 200 MA, bullish signals, EPS growth past 5 years=24%, EPS growth next 5 years= 21%, profit margin=7.6%, operating margin=12% ROA=13%, ROE=17%	high P/E and PEG=1.95 (industry PEG=1.96)
PHM	low P/E and PEG=0.51 (industry PEG=1.15), profit margin=8.5%, ROA=10%, ROE=24%, EPS revisions trend up	negative comments, overbought in short-term
CTX	low PEG=0.49 (industry PEG=1.15), profit margin=7.5%, operating margin=11.6%, ROA=5%, ROE=27%, EPS revisions trend up	overbought

Pros and Cons for Our Bearish Picks

Symbol	Bullish Factors	Bearish Factors
WLP	low P/E and PEG=1.03 (industry PEG=1.41)	bearish technical signals, revenue trend down, EPS revisions trend down