



3-D Research Note on IBM

Poised to bottom out



Chart courtesy of StockCharts.com

Adequate reaction on the latest positive news (see the chart above)

#	Date	Most Recent News	Stock's Reaction
1	15-Jan	IBM: UBS reited Neutral	negative
2	19-Jan	IBM earnings report: beat by \$0.12; guided above consensus	positive
3	20-Jan	IBM: Canaccord Adams upped to Buy	negative
4	11-Feb	IBM set world record by creating high-efficiency solar cell made from earth-abundant materials	negative
5	12-Feb	IBM won services deal for the insurance telemarketing business from Korean insurance company	positive
6	15-Feb	IBM brings business-grade social Software to iPhone, Macs	-

Industry trend is supportive



Chart courtesy of StockCharts.com

Sector ratio	XLK
Average Price/Earningsings	17.56
Average Price/Book	3.50
Average Price/Sales	1.92

Key sector components	Fundamentals
Microsoft Corporation (MSFT)	Trailing P/E (18.31); Forward P/E (13.05); PEG Ratio (1.34); EPS Trends-bullish
Apple Inc. (AAPL)	Trailing P/E (25.65) ; Forward P/E (17.12); PEG Ratio (N/A); EPS Trends-bullish
INTL BUSINESS MACH (IBM)	Trailing P/E (12.39); Forward P/E (10.22); PEG Ratio (1.12); EPS Trends-bullish
Google (GOOG)	Trailing P/E (26.12); Forward P/E (16.97); PEG Ratio (0.91); EPS Trends-bullish
Cisco Systems, Inc. (CSCO)	Trailing P/E (22.91); Forward P/E (13.79); PEG Ratio (1.37); EPS Trends-bullish

BULLISH	MACROECONOMIC FACTORS	BEARISH
✓	Initial jobless claims fell 43K to 440K vs. 468K consensus. Continuing claims fell 79K to 4,538,000.	
	Eurozone growth stumbled. The eurozone reported an anemic 0.1% growth rate in Q4, falling short of a 0.3% growth forecast.	✓
	China hiked reserve ratio. China unexpectedly raised its reserve requirement by 0.5% to 16.5%, effective Feb. 25.	✓
✓	Banks borrow less from Fed. Banks continued to cut their borrowing from the Federal Reserve's emergency loan program	
	Trade balance. December's trade balance was -\$40.2B vs. -\$36.8B expected and -\$36.4B prior. Exports rose 3.3% to \$142.7B. Imports rose 4.8% to \$182.9B.	✓
✓	Global chip sales rise on yearly basis. Global semiconductor sales were down 1.2% in December from the previous month, but rose 29% from the previous year.	

3D Check List

BULLISH	FACTORS	BEARISH
	Technicals	
✓	Daily MACD - switches to bullish	
✓	Bullish daily Stochastic Oscillator	
✓	ETF weekly trend - bullish, found support at 200MA	
✓	Support at 121.83	
	Resistance at 50MA; 127.5	✓
✓	Key sector components (Hardware; Telecommunication; Software) - finished with a gain	

BULLISH	Fundamentals	BEARISH
✓	Forward P/E (10.22) < Trailing P/E (12.39);	
	P/B (7.16);	✓
✓	Profit Margin (14%), Operating Margin (19%),	
✓	PEG (1.12); P/S (1.7); ROE (74%),	
✓	Bullish EPS revisions trend,	
✓	Company P/E (12.4) < Average industry P/E (20)	
✓	Company PEG (1.12) < Average industry PEG (1.44)	

BULLISH	Market Play	BEARISH
✓	Implied volatility (21.15%) > Historical volatility (20.35%)	
✓	Unusually high option trading volumes for Feb 120-130 Calls/Puts	
✓	Trading volumes go up after Jan 19	
✓	Program trading buy orders at 121.7 after Jan 29	
✓	Adequate reaction on the latest positive news (see the chart above)	

Trading Vehicles

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
IBM	124.00	123.80	123.80	123.80	118.00	5.80	Unlimited	127.50	3.70	3.0%

BUY CALL

Stock Symbol	Last Stock Price	Expiration Month	Strike Price	Option Type	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
IBM	124.00	Apr-10	115.00	Call	123.80	10.49	125.49	Unlimited	10.49	11.54	1.05	10.0%

BULLISH PUT SPREAD

Stock Symbol	Last Stock Price	Expiration Month	Lower Strike	Option Type	Higher Strike	Option Type	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
IBM	124.00	Apr-10	115.00	Put	120.00	Put	123.80	1.24	118.76	1.24	3.76	1.00	0.24	6.4%

BULLISH CALL SPREAD

Stock Symbol	Last Stock Price	Expiration Month	Lower Strike	Option Type	Higher Strike	Option Type	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
IBM	124.00	Apr-10	115.00	Call	120.00	Call	123.80	3.85	118.85	1.15	3.85	4.30	0.45	11.7%

OUR PRELIMINARY RECOMMENDATION:

Buy IBM Apr bullish spreads below 120 Stop-loss at 1118

More details in our email trading alerts.

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 month).

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 until expiration.

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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