



OPTIONSMART
3-D OPTION TRADING STRATEGIES

3-D Research Note on ADBE



Chart courtesy of StockCharts.com

#	Date	Most Recent News	Stock's Reaction
1	2-Jun	ADBE and NVDA announced GPU acceleration for Flash Player	positive
2	9-Jun	oADBE to pen regional office in Dubai	positive
3	10-Jun	ADBE plugged 13 security holes in critical update	positive
4	11-Jun	ADBE eyes rebound on stronger demand	positive
5	16-Jun	ADBE announced MAX 2009	positive
6	16-Jun	(AFTER CLOSE) ADBE: Q2 net income fell to \$126 million, \$0.35 EPS, in line with estimates, issued better than expected guidance for Q3 2009	positive

OUR RECOMMENDATION: STRONG BUY

RECOMMENDED TRADING VEHICLE:

Bullish Debit Call Spread
 Buy to Open ABJGE ADBE Jul 25 Call IV 45.0 Delta .87
 Sell to Open ABJGY ADBE Jul 27.5 Call IV 42.5 Delta .66
 Debit 2.00
 Position Net Delta .21
 Max Gain .50
 Max Risk 2.00
 Target Credit 2.30

WEEKLY CHART



Key sector components	Fundamentals
Microsoft Corporation (MSFT)	Trailing P/E (13.63); Forward P/E (13.08); PEG Ratio (1.24); bearish EPS Trends
AT&T, Inc. (T)	Trailing P/E (11.41); Forward P/E (10.83); PEG Ratio (3.14); bullish EPS Trends
International Business Machines Corp. (IBM)	Trailing P/E (11.88); Forward P/E (10.70); PEG Ratio (1.01); bullish EPS Trends
Cisco Systems, Inc. (CSCO)	Trailing P/E (16.07); Forward P/E (15.36); PEG Ratio (1.53); bullish EPS Trends
Apple Inc. (AAPL)	Trailing P/E (24.41); Forward P/E (21.38); PEG Ratio (1.34); bullish EPS Trends

BULLISH	FACTORS	BEARISH
	NAHB/Wells Fargo's Housing Market Index dropped 1 point to 15, the first decline since January, vs. consensus of 17. The index indicates about one in six homebuilders think the market is "good"	✓
✓	The IMF issued a new outlook for U.S. economic growth, forecasting a 2.5% contraction this year and a 0.75% expansion in 2010	
	Bank of Japan kept its overnight lending rate at 0.1%, and indicated it's unlikely to wind down extraordinary policy steps anytime soon because there's no guarantee the economy's revival will be sustained	✓
✓	May Retail Sales rose 0.5% from April to \$340B, but were down 9.6% vs. a year ago, in line with consensus estimates. April's sales were revised to -0.4% from -0.2%	
	Eurozone employment fell 0.8% in Q1, the third quarter in a row of falling employment and the largest decline since records began in 1991	✓
	S&P said a change to the U.S.'s AAA sovereign credit rating is unlikely in the near-term	✓

3D CHECK LIST

BULLISH	FACTORS	BEARISH
	Technicals	
✓	Bullish weekly MACD, bearish daily MACD	
	Overbought weekly Stochastic Oscillator, bearish daily Stochastic Oscillator	✓
	ETF trend weekly (XLK) - forming top at 18.7	✓
✓	Support at 25, 50MA, 200MA, 28	
	Resistance at 31	✓
	Fundamentals	
✓	Forward P/E (17.28) < Trailing P/E (19.07)	
✓	XLK average P/E (14.87); XLK average P/S (1.41)	
✓	PEG (1.35), Operating Margin (28.88%), ROE (19.20%)	
	mixed EPS trend, P/S (4.32)	✓
	Market Play	
✓	Program trading buy orders at 24.1 after May 13	
✓	Implied volatility (40.82%) > Historical volatility (36.75%)	
✓	Unusually high option trading volumes for Jul 25-39 Calls/Puts	
✓	Adequate reaction on the latest positive news (see the chart above)	

BULLISH PLAY

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
ADBE	28.68	28.40	28.40	28.40	27.50	0.90	Unlimited	30.00	1.60	5.6%

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	28.68	Jul-09	27.50	.ABJGY	28.40	1.87	29.37	Unlimited	1.87	2.05	0.19	10.0%

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
ADBE	28.68	Jul-09	25.00	25.00	27.50	.ABJSY	28.40	0.61	26.89	0.61	1.89	0.43	0.18	9.6%

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	28.68	Jul-09	25.00	.ABJGE	27.50	.ABJGY	28.40	2.00	27.00	0.50	2.00	2.30	0.30	15.0%

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 until expiration.

Auto-trade in 5 easy steps

optionsXpress	thinkorswim
1. Log into your brokerage account.	1. Log into your brokerage account.
2. Select Xecute, select OptionSmart as an Investor Publisher	2. Select Autotrade, click Sign Up/Newsletter Providers and choose OptionSmart as newsletter provider
3. Select a service	3. Select Autotrade Management, click Allocations (per trade)
4. Determine Amount Type (Specific Dollar Amount, # of Contracts/Shares, % of Cash Available, % of Buying Power, % of Total Account Value)	4. Determine Amount Type (Specified Dollar Amount, Srecified Quantity, % of Available Buying Power, % of Net Liquidating Value)
5. Select a Trade Amount	5. Select a Trade Amount

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 © 1998-2008 OptionSmart.com (Stock Markets Institute). All rights reserved.

Released on 06/18/09