



OPTIONSMART
3-D OPTION TRADING STRATEGIES

3-D Research Note on BAC



Chart courtesy of StockCharts.com

#	Date	Most Recent News	Stock's Reaction
1	30-Jun	BAC accused of anti-consumer practices	positive
2	17-Jul	BAC beat by \$0.05, missed on revs. Reported Q2 (Jun) earnings of \$0.33 per share, \$0.05 better than the consensus, Q2 revenue rose 60%	negative
3	20-Jul	BAC downgraded at Fox-Pitt from Outperform to In-Line. \$13 price target.	negative
4	23-Jul	BAC to sell \$2.5 bln 7-yr sr notes	positive
5	23-Jul	(AFTER CLOSE) Moody's put certain BAC ratings on review Thursday evening, related to the bank's off-balance sheet credit-	-

OUR RECOMMENDATION: STRONG BUY

RECOMMENDED TRADING VEHICLE:

Bullish Debit Call Spread

Buy to Open BYOIJ BAC Sep 10 Call IV 58.9 Delta .87

Sell to Open BYOJL BAC Sep 12 Call IV 52.7 Delta .65

Debit 1.50

Position Net Delta 0.22

Max Gain .50

Max Risk 1.50

Target Credit 1.75

WEEKLY CHART



Chart courtesy of StockCharts.com

Key sector components	Fundamentals
JPMorgan Chase & Co. (JPM)	Trailing P/E (42.58); Forward P/E (12.98); PEG Ratio (1.91); EPS Trends-bullish
Wells Fargo & Company (WFC)	Trailing P/E (31.92); Forward P/E (13.40); PEG Ratio (1.57); EPS Trends-bearish
Bank of America Corporation (BAC)	Trailing P/E (14.89); Forward P/E (13.79); PEG Ratio (2.38); EPS Trends-bearish
Goldman Sachs Group Inc. (GS)	Trailing P/E (36.98); Forward P/E (10.24); PEG Ratio (0.84); EPS Trends-bullish
Morgan Stanley (MS)	Trailing P/E (19.70); Forward P/E (9.21); PEG Ratio (5.60); EPS Trends-bearish

BULLISH	FACTORS	BEARISH
✓	Conference Board's Leading Indicators index rose +0.7% in June, vs. +0.5% consensus, the third increase in as many months with most components contributing positively.	
✓	The FHFA House Price Index was up 0.9% in May vs. -0.2% consensus, after falling 0.3% in April (revised). Nationwide prices are down 5.6% from a year earlier, and 10.7% from the April 2007 peak.	
	ABC's Consumer Confidence Poll came in at -50, up from last week's -51 but on its fifth week at -50 or below. Just 22% of Americans say it's a good time to buy things.	✓
✓	Initial jobless claims came in at 522K, down 47K from a week ago (revised), better than the 535K consensus and the lowest since January. Continuing claims fell 642K to 6.27M.	
	June's Consumer Price Index rose 0.7% M/M and fell 1.4% Y/Y, vs. consensus of +0.6% and -1.5%. Core CPI was +0.2% M/M and +1.7% Y/Y.	✓
✓	Retail sales increased 0.6% in June to \$342.1B, slightly better than +0.5% consensus, but down 9% vs. a year ago. May's sales were unrevised at +0.5%.	

3D CHECK LIST

BULLISH	FACTORS	BEARISH
	Technicals	
	Daily MACD - bearish, weekly MACD turns bullish	✓
✓	Daily and weekly Stochastic Oscillator - bearish	
✓	ETF trend weekly (XLF) trying to break through resistance at 13.0	
✓	Support at 11.8, 50MA, 200MA	
	Resistance at 13.7	✓
✓	Key sector components (Financial Services, Business Services, Industrial Materials) - bullish	
	Fundamentals	
✓	Forward P/E (13.79) < Trailing P/E (14.89)	
✓	XLF average P/E (15.74); XLF average P/S (1.23)	
✓	Operating Margin (20%), ROE (4%), P/S(1.42)	
	Mixed EPS revisions trend, PEG (2.38)	✓
	Market Play	
✓	Unusually high option trading volumes for Sep 10-16 Calls/Puts	
	Mixed reaction on the latest positive news (see the chart above)	✓
✓	Program trading buy orders at 11.9 after Jul 21	
✓	Implied volatility (47.95%) < Historical volatility (64.26%)	

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
BAC	12.69	12.20	12.20	12.20	11.50	0.70	Unlimited	13.60	1.40	11.5%

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
BAC	12.69	Sep-09	12.00	.BYOIL	12.20	1.10	13.10	Unlimited	1.10	1.21	0.11	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
BAC	12.69	Sep-09	10.00	.BYOUJ	12.00	.BYOUL	12.20	0.70	11.30	0.70	1.30	0.55	0.15	11.5%

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
BAC	12.69	Sep-09	10.00	.BYOLJ	12.00	.BYOIL	12.20	1.50	11.50	0.50	1.50	1.75	0.25	16.7%

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 07/24/09