



OPTIONSMART
3-D OPTION TRADING STRATEGIES

Released on 6/16/2009

3-D Research Note on BBY



Chart courtesy of StockCharts.com

#	Date	Most Recent News	Stock's Reaction
1	26-May	BBY names new CIO, among executive changes	positive
2	5-Jun	BBY to open 13 new stores in second quarter	positive
3	9-Jun	BBY earnings estimates raised by Keybanc	positive
4	12-Jun	BBY: William Blair & Co. raised its Q1 profit estimate to \$0.30 a share from \$0.25 based on "more optimistic margin and expense assumptions"	positive
5	12-Jun	Analysts believe that recession to eat into BBY's profit	positive
6	16-Jun	BBY reported Q1 EPS of \$0.36, vs the consensus of \$0.34, Q1 comp sales down 6.2%, reaffirmed its forecast (EPS of \$2.50-\$2.90, versus the consensus of \$2.79)	-

OUR RECOMMENDATION: STRONG BUY

RECOMMENDED TRADING VEHICLE:

Bullish Debit Call Spread

Buy to Open BYYG BBY Jul 35 Call IV 55.7 Delta .76

Sell to Open BYYGT BBY Jul 38 Call IV 53.4 Delta .58

Debit 2.20

Position Net Delta .18

Max Gain .80

Max Risk 2.20

Target Credit 2.53

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WEEKLY CHART



Chart courtesy of StockCharts.com

Key sector components	Fundamentals
McDonald's Corp. (MCD)	Trailing P/E (15.10); Forward P/E (13.56); PEG Ratio (1.65); bullish EPS Trends
The Home Depot, Inc. (HD)	Trailing P/E (16.64); Forward P/E (15.29); PEG Ratio (1.77); bullish EPS Trends
Comcast Corporation (CMCSA)	Trailing P/E (15.60); Forward P/E (11.91); PEG Ratio (1.22); bullish EPS Trends
Walt Disney Co. (DIS)	Trailing P/E (13.12); Forward P/E (12.76); PEG Ratio (1.87); bearish EPS Trends
Lowe's Companies Inc. (LOW)	Trailing P/E (13.99); Forward P/E (14.25); 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	✓
	Chain store sales fell 4.3% in the first week of June vs. last month. Economists expected a 4.1% fall	✓

3D CHECK LIST

BULLISH	FACTORS	BEARISH
	Technicals	
✓	Bullish weekly and daily MACD	
✓	Bullish weekly Stochastic Oscillator, bearish daily Stochastic Oscillator	
	ETF trend weekly (XLY) - looking for support at 50MA	
✓	Support at 50MA, 36.75, 34.0	
	Resistance at 40.0, 41.71	✓
	Fundamentals	
✓	Forward P/E (12.7) < Trailing P/E (16.2)	
✓	XLH average P/E (14.37); XLF average P/S (0.59)	
✓	P/S (0.36), PEG (1.1), bullish EPS trend, ROE (21.98%)	
	Operating Margin (4.47%)	✓
	Market Play	
✓	Program trading buy orders at 34 after May 29	
✓	Implied volatility (53.67%) > Historical volatility (52.66%)	
✓	Unusually high option trading volumes for Jul, Sep 30-45 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
BBY	38.66	38.10	38.10	38.10	37.90	0.20	Unlimited	39.20	1.10	2.9%

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
BBY	38.66	Jul-09	38.00	.BYYGT	38.10	2.45	40.45	Unlimited	2.45	2.70	0.25	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
BBY	38.66	Jul-09	35.00	35.00	38.00	.BYYST	38.10	1.20	36.80	1.20	1.80	0.84	0.36	20.0%

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
BBY	38.66	Jul-09	35.00	.BYYGG	38.00	.BYYGT	38.10	2.20	37.20	0.80	2.20	2.53	0.33	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.

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