



OPTIONSMART
3-D OPTION TRADING STRATEGIES

3-D Research Note on GE



Chart courtesy of StockCharts.com

#	Date	Most Recent News	Stock's Reaction
1	30-Jun	GE took decisive step into Stem Cells (GE, GERN, STEM, ASTM)	negative
2	13-Jul	Goldman Sachs made positive comments on GE ahead of earnings	positive
3	17-Jul	GE said it will fight Obama banking plan	negative
4	17-Jul	GE: Q2 EPS of \$0.26 beat by \$0.03; GE will have surplus cash by the end of '09 -CEO	negative
5	20-Jul	Analysts at Goldman Sachs lowered their price target on GE from \$16 to \$13 following Q2 EPS on Friday.	-

OUR RECOMMENDATION: STRONG BUY

RECOMMENDED TRADING VEHICLE:

Bullish Debit Call Spread

Buy to Open GEWID GE Sep 9 Call IV 60.0 Delta .88

Sell to Open GEWII GE Sep 11 Call IV 46.7 Delta .65

Debit 1.60

Position Net Delta 0.23

Max Gain 1.40

Max Risk 1.60

Target Credit 2.00

WEEKLY CHART



Chart courtesy of StockCharts.com

Key sector components	Fundamentals
GEN ELECTRIC CO (GE)	Trailing P/E (7.56); Forward P/E (12.53); PEG Ratio (1.36); EPS Trends-mixed
UNITED PARCEL SVC (UPS)	Trailing P/E (21.13); Forward P/E (18.70); PEG Ratio (2.62); EPS Trends-bearish
UNITED TECH (UTX)	Trailing P/E (11.52); Forward P/E (12.12); PEG Ratio (1.47); EPS Trends-bearish
3M COMPANY (MMM)	Trailing P/E (14.77); Forward P/E (14.56); PEG Ratio (1.52); EPS Trends-mixed
BOEING CO (BA)	Trailing P/E (14.36); Forward P/E (9.34); PEG Ratio (1.12); EPS Trends-bearish

BULLISH	FACTORS	BEARISH
✓	U.S. June leading economic indicators up 0.7%	
✓	China's total non-performing-loan portfolio shrinks during the first six months of this year, but doubts remain about the true state of affairs	
✓	Leading Indicators Index May Signal U.S. Economy Nearing End of Recession	
✓	Better-than-expected earnings from industry majors and economic bellwethers like IBM, GOOG, BAC, C, GE	
✓	Bernanke May Hold Rates Down by Showing He Can 'Forcefully' Reverse Course	
✓	Jobless claims fall. Initial jobless claims came in at 522K, down 47K from a week ago (revised), better than the 535K consensus and the lowest since January.	

3D CHECK LIST

BULLISH	FACTORS	BEARISH
	Technicals	
✓	Daily MACD - bullish	
	Daily Stochastic Oscillator - overbought	✓
✓	ETF trend weekly - bottoming out; found support at 20.0	
✓	Support at 11.47; 10.5	
	Resistance at 50MA	✓
✓	Key sector components (Industrial Materials, Business Services) - bullish	
	Fundamentals	
	Forward P/E (12.53) > Trailing P/E (7.56)	✓
✓	P/S (0.69); P/B (1.22)	
✓	Operating Margin (10%), ROE (15.3%); PEG (1.36)	
✓	XLI average: P/E (13.91), P/S (0.68), P/B (1.95)	
	Market Play	
✓	Implied volatility (41.88%) < Historical volatility (42.15%)	
✓	Unusually high option trading volumes for Sep 10-15 Calls/Puts	
✓	Program trading buy orders at 10.5 after Jul 8	
	Indequate 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
GE	11.65	11.45	11.45	11.45	10.50	0.95	Unlimited	12.80	1.35	11.8%

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
GE	11.65	Sep-09	9.00	.GEWID	11.45	2.67	11.67	Unlimited	2.67	2.94	0.27	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
GE	11.65	Sep-09	9.00	.GEWUD	11.00	.GEWUI	11.45	0.45	10.55	0.45	1.55	0.37	0.08	5.2%

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
GE	11.65	Sep-09	9.00	.GEWID	11.00	.GEWII	11.45	1.60	10.60	0.40	1.60	2.00	0.40	25.0%

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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