



OPTIONSMART
3-D OPTION TRADING STRATEGIES

Released on 7/7/2009

3-D Research Note on SMH



Chart courtesy of StockCharts.com

#	Date	Most Recent News	Stock's Reaction
1	5-Jun	AMAT: Citigroup cut to Hold	negative
2	8-Jun	TXN: guided above consensus; raised Q2 Outlook	positive
3	25-Jun	ADI: upgraded at Merrill from Underperform to Buy	positive
4	1-Jul	INTC: AmTech Research reited Buy	positive
5	14-Jul	INTC: Next earnings release; after market	-

OUR RECOMMENDATION: STRONG BUY

RECOMMENDED TRADING VEHICLE:

Bullish Debit Call Spread

Buy to Open SZSHR SMH Aug 18 Call IV 38.2 Delta .91

Sell to Open SMHHU SMH Aug 21 Call IV 34.9 Delta .59

Debit 2.10

Position Net Delta 0.32

Max Gain 0.90

Max Risk 2.10

Target Credit 2.35

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WEEKLY CHART

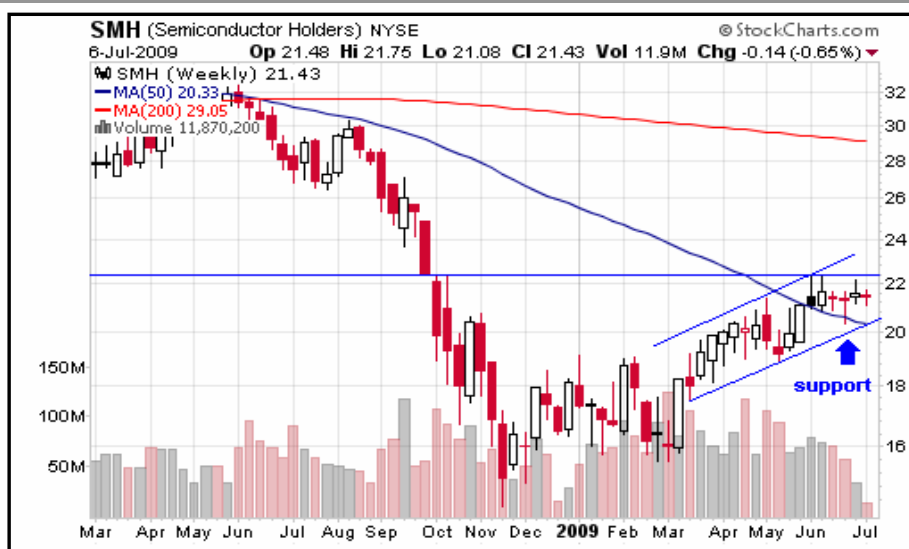


Chart courtesy of StockCharts.com

Key sector components	Fundamentals
Intel Corporation (INTC)	Trailing P/E (21.02); Forward P/E (18.8); PEG Ratio (3.01); EPS Trends-bullish
TEXAS INSTRUMENTS (TXN)	Trailing P/E (21.88); Forward P/E (18.45); PEG Ratio (2.10); EPS Trends-bullish
Applied Materials, Inc. (AMAT)	Trailing P/E (NA); Forward P/E (66.18); PEG Ratio (NA); EPS Trends-mixed
ANALOG DEVICES (ADI)	Trailing P/E (19.66); Forward P/E (22.93); PEG Ratio (2.21); EPS Trends-neutral
Linear Technology Corporation (LLTC)	Trailing P/E (14.56); Forward P/E (22.30); PEG Ratio (1.20); EPS Trends-bullish

BULLISH	FACTORS	BEARISH
	Consumer loan delinquencies climbed to 3.23% in Q1, the highest since the ABA began watching them in 1974.	✓
	Chain store sales fell 4.3% in the five weeks of June, Redbook says, worse than the -4.1% expected.	✓
	China urges dollar stability. China may push for the IMF's Special Drawing Right to be used as a dollar alternative.	✓
✓	Firing announcements fell 33% in June to 74,393, the fifth month in a row of job cuts declines and the lowest level since March 2008. Job cuts in Q2 were down 45% from Q1.	
	Construction spending was down 0.9% in May M/M vs. -0.5% consensus and -11.6% from the year prior period.	✓
✓	May's Pending Home Sales were +0.1% from April to 90.7.	

3D CHECK LIST

BULLISH	FACTORS	BEARISH
	Technicals	
	Daily MACD - neutral	✓
✓	Daily Stochastic Oscillator - bullish	
✓	ETF trend weekly - bullish; found support at 50MA	
✓	Support at 20.37; 50MA	
	Resistance at 22.31	✓
	Key sector components (Hardware) - neutral	✓
	Fundamentals	
	Average Price/Earnings (30.44)	✓
✓	Average Price/Book (2.33)	
✓	Average Price/Sales (1.88)	
	Market Play	
✓	Unusually high option trading volumes for Aug 18-23 Calls/Puts	
✓	Adequate reaction on the latest positive news (see the chart above)	
✓	Program trading buy orders at 20.65 after Jun 24	
✓	Implied volatility (36.72%) > Historical volatility (30.08%)	

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
SMH	21.43	21.30	21.30	21.30	20.00	1.30	Unlimited	22.45	1.15	5.4%

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
SMH	21.43	Aug-09	18.00	.SZSHR	21.30	3.46	21.46	Unlimited	3.46	3.80	0.35	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
SMH	21.43	Aug-09	18.00	.SZSTR	21.00	.SMHTU	21.30	0.80	20.20	0.80	2.20	0.60	0.20	9.1%

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
SMH	21.43	Aug-09	18.00	.SZSHR	21.00	.SMHUU	21.30	2.10	20.10	0.90	2.10	2.35	0.25	11.9%

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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