



OPTIONSMART
3-D OPTION TRADING STRATEGIES

Released on 8/18/2009

3-D Research Note on KO



Chart courtesy of StockCharts.com

#	Date	Most Recent News	Stock's Reaction
1	30-Jun	KO to accelerates expansion in China, announcing \$2bln 3 year investment plan aimed at bolstering further growth in one of the world's largest and fastest growing beverage markets.	negative
2	2-Jul	KO's price target raised by Credit Suisse	negative
3	21-Jul	KO reported Q2 EPS of \$0.92, down 9% year-over-year, but \$0.03 ahead of consensus, posted a 43% increase in profit	negative
4	23-Jul	KO announced that it has declared a regular quarterly dividend of \$0.41 per common share.	positive
5	2-Aug	KO to venture into a \$1-billion expansion in the Philippines in the next five years.	negative
6	12-Aug	KO won Colombia court battle, KO's bioplastic PlantBottle to come later this year	negative

OUR RECOMMENDATION: STRONG BUY

RECOMMENDED TRADING VEHICLE:

Bullish Debit Call Spread

Buy to Open KOKV KO Nov 42.5 Call IV 20.5 Delta .92

Sell to Open KOKW KO Nov 47.5 Call IV 20.4 Delta .63

Debit 3.10

Position Net Delta .29

Max Gain 1.90

Max Risk 3.10

Target Credit 3.65

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WEEKLY CHART

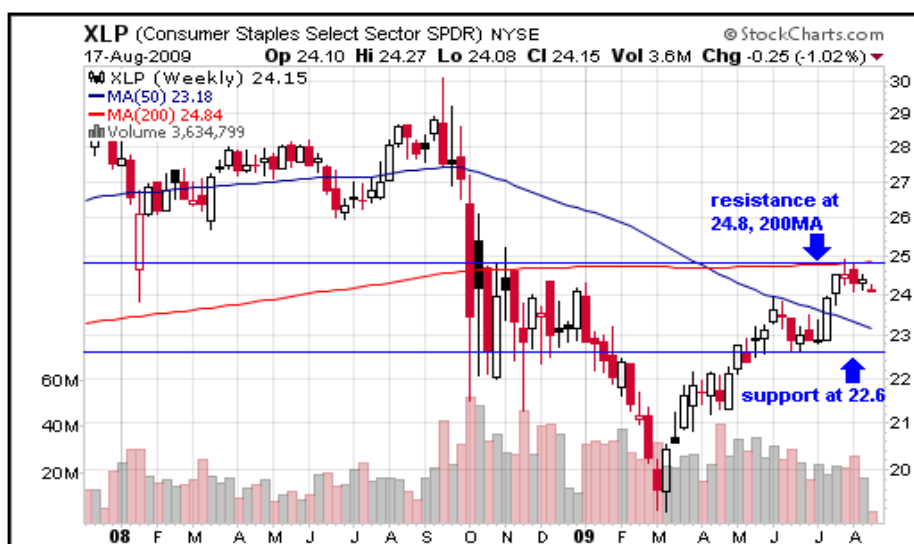


Chart courtesy of StockCharts.com

Key sector components	Fundamentals
Procter & Gamble Co. (PG)	Trailing P/E (12.28); Forward P/E (12.57); PEG Ratio (1.47); EPS Trends-bearish
Wal-Mart Stores Inc. (WMT)	Trailing P/E (15.26); Forward P/E (13.37); PEG Ratio (1.23); EPS Trends-neutral
Philip Morris International, Inc. (PM)	Trailing P/E (14.30); Forward P/E (12.76); PEG Ratio (1.39); EPS Trends-bullish
The Coca-Cola Company (KO)	Trailing P/E (17.82); Forward P/E (14.58); PEG Ratio (2.36); EPS Trends-bearish
CVS Caremark Corporation (CVS)	Trailing P/E (15.55); Forward P/E (11.65); PEG Ratio (1.05); EPS Trends-mixed

BULLISH	FACTORS	BEARISH
	July's retail sales came in at -0.1% vs. consensus of +0.8%.	✓
✓	Japan left behind its deepest recession since WWII, buoyed by a rebound in exports and consumer spending. GDP grew at an annualized 3.7% in Q2, the first growth in five quarters but slightly shy of +3.9% consensus.	
	FOMC maintained the federal funds rate at 0-0.25% and expects it to remain there "for an extended period."	✓
✓	The NAHB Housing Market Index rose 1 point to 18, the highest level in homebuilder sentiment since June 2008, and up from a record low of 8 in January.	
	Initial jobless claims were 558K, up 4K from a week ago, and worse than the 545K consensus. Continuing claims fell 141K to 6.202M.	✓
✓	Chain store sales fell 0.5% in the first week of August, Redbook said, slightly better than the -0.6% expected.	

3D CHECK LIST

BULLISH	FACTORS	BEARISH
	Technicals	
✓	Bullish weekly MACD, bearish daily MACD	
✓	Overbought weekly Stochastic Oscillator, bullish daily Stochastic Oscillator	
	ETF trend weekly (XLP) - forming top at 24.8, resistance at 200MA	✓
✓	Support at 47.0, 48.0	
	Resistance at 51.0, 50.0	✓
	Fundamentals	
✓	Forward P/E (14.76) < Trailing P/E (18.03)	
✓	XLP average P/E (13.26); XLP average P/S (0.61)	
✓	PEG (2.39), Operating Margin (27.32%), ROE (27.11%)	
	mixed EPS trend, P/S (3.65)	✓
	Market Play	
✓	Program trading buy orders at 47.43 after Aug 13	
✓	Implied volatility (20.78%) > Historical volatility (15.17%)	
✓	Unusually high option trading volumes for Nov, Jan 42.5-55 Calls/Puts	
	Inadequate 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
KO	48.70	48.00	48.00	48.00	46.70	1.30	Unlimited	49.50	1.50	3.1%

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
KO	48.70	Nov-09	47.50	.KOKW	48.00	2.31	49.81	Unlimited	2.31	2.55	0.23	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
KO	48.70	Nov-09	42.50		47.50	.KOWW	48.00	1.49	46.01	1.49	3.51	1.05	0.45	12.8%

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
KO	48.70	Nov-09	42.50	.KOKV	47.50	.KOKW	48.00	3.10	45.60	1.90	3.10	3.65	0.55	17.7%

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.

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