International Business Machines Corp

Note: The S&P Options Report is not a substitute for the underlying stock’s S&P Stock Report which contains information about the underlying stock and basis for the STARS Ranking.

Stock Symbol: IBM
Stock Price (as of Jun. 03, 09): $106.83
12-Mo. Target Price (set May. 05, 09): $139.00
Annual Dividend Yield: 2.07%
50 Day Moving Average: 101.79
100 Day Moving Average: 95.79
200 Day Moving Average: 96.07

Option Strategy Summary: The IBM October '09 COVERED CALL with a 105 strike price could yield a 6.67% return if IBM stock stays above $105 a share through expiration 136 days from now. A CALENDAR SPREAD that involves selling the October '09 105 call and buying the January '10 90.00 call should cost $86.38 less per share than the covered call and potentially yield a 24.48% return if the stock stays above $105 through expiration. The lower return covered call has a 4 Key (Low Relative Risk) ranking while the calendar spread also has a 4 Key (Low Relative Risk) ranking. On May 05, 2009 S&P set a $139.00 12-Month price target for IBM which is currently trading at $32.17 below that target. By using this covered call strategy potential returns may be higher than simply holding the stock if IBM stays below 105.55 through October 17, 2009. With the calendar spread strategy, the trade cost could be reduced and returns potentially improved if the stock stays above 102.55 but lower than 132.98.

The covered call trade offers limited protection if the stock drops in price but if the stock goes below 98.43 expect some losses.

Option Strategies Risk Assessment

Covered Call Risk Assessment
Our 4 Key (Low Relative Risk) covered call trade risk assessment reflects the volatility of IBM and S&P’s view of the company’s prospects compared to its peers. A 4 Key ranked trade carries low relative risk, which means there is a solid possibility that the stock will be assigned on or before 10/17/2009 - expiration day - and that the trade will be closed at the profit level shown in the covered call table. As with any stock or option trade there is always risk of losing money. If IBM heads downward for any reason, only $8.40 of that drop will be protected using this strategy. If IBM stock is selling for over $113.96 at expiration, holding the stock without selling the call would have yielded a higher return. See elsewhere in this report for a further discussion of potential risks related to the Covered Call Strategy.

Calendar Spread Risk Assessment
The Calendar Spread strategy normally carries more risk and a higher rate of return (due to a lower capital outlay) than a covered call but in this case the Calendar Spread for IBM has the same 4 Key relative risk as the Covered Call. If the stock price at expiration is below $105 the trade will not generate the expected returns shown. Another risk for this strategy is related to the bought Call Option price. If the stock drops in price between now and expiration date, there is a possibility that the Jan '10 90.00 call could drop quickly. See elsewhere in this report for a further discussion of potential risks related to this strategy.

Option Strategies Discussion

International Business Machines (NYSE: IBM) closed yesterday at $106.83. So far the stock has hit a 52-week low of $69.50 and 52-week high of $130.83. IBM has had an S&P 5 STAR (out of 5) rating since 6/1/2007. On 5/5/2009 S&P analysts set a 12-Month price target of $139.00 for the stock. International Business Machines stock has been showing support around 105.29 and resistance in the 109.57 range. IBM is part of the S&P 500 stock list. For a hedged play on this stock, consider an Oct '09 covered call with a 105 stock (IBM) and a net debit in the $89.43 area. The trade has a 136 day duration, provides 7.86% downside protection and a 6.67% assigned return rate for a 17.91% annualized return rate (for comparison purposes only). This trade has a 4 Key (out of 5) Low Relative Risk ranking. Another way to play this stock would be with a calendar spread that substitutes a longer term call option in place of the covered call stock purchase. To use this strategy consider going long the IBM Jan '10 90 Call (IBM SA) and selling the Oct '09 105 call (IBM JA) for a $12.05 debit. The trade has a 136 day life and would provide a 4.47% downside protection and a 24.46% assigned return rate for a 65.70% annualized return rate (for comparison purposes only). This trade has a 4 Key (out of 5) Low Relative Risk ranking. International Business Machines has a current annual dividend yield of 2.07%.

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Calendar Spread Max Return
This is the potential percent return for the position if the short term option is ITM at expiration and the longer term option retains its time value. One may buy to close the call before expiration, buy back the option and sell one in a farther out month (called rolling the option), or buy stock to cover and then sell another call against the farther out option.

Calendar Spread Risk Assessment
The calendar spread risk assessment and Key ranking is a proprietary indicator to help assess the risk of a potential trade. All option trades generate a Key ranking from 1 Key (Highest relative risk) to 5 Keys (Lowest relative risk). The risk ranking uses a number of indicators such as volatility, moving averages and underlying stock rankings.

Calendar Spread Risk Ranking
This proprietary risk ranking is similar to the covered call risk ranking and rates Calendar spread trades from 1 (Lowest relative risk) to 5 Keys (Highest relative risk). This ranking system uses indicators including volatility, percent out of the money, and S&P stock ranking to assess the risk for a trade. Calendar spread trades will typically show a lower Key risk ranking (they are riskier) and higher potential return than covered call trades on the same stock.

Calendar Spread
An option strategy involving the purchase of a longer-term call or put option and selling an equal number of shorter-term options of the same type and strike price. A calendar spread may also be called vertical, horizontal, or diagonal spread when the strike prices vary.

Call Ask Price
The price a seller offers to sell a call option. This is the most an investor should pay for the bought option.

Call Month
The month during which the call option expires.

Call Strike Price
The price at which the owner of an option can purchase (call) or sell (put) the underlying stock. Used interchangeably with striking price, strike, or exercise price.

Calendar
A proprietary risk ranking for covered call strategies that ranks covered call trades from 1 Key (Highest Relative Risk) to 5 Keys (Lowest Relative Risk). This ranking system uses a number of technical and fundamental indicators including stock beta, implied volatility, assigned return percent, percent out-of-the-money, S&P STARS rankings, and moving averages to assess the relative risk on each trade.

Calendar Spread
A call option is out-of-the-money if the stock price is below its strike price.

Calendar Spread Assigned Risk
A proprietary risk ranking for covered call strategies that ranks covered call trades from 1 Key (Highest Relative Risk) to 5 Keys (Lowest Relative Risk). This ranking system uses a number of technical and fundamental indicators including stock beta, implied volatility, assigned return percent, percent out-of-the-money, S&P STARS rankings, and moving averages to assess the relative risk on each trade.

Calendar Spread Assigned Return
This is the potential percent return for the position if the short term option is ITM at expiration and the longer term option is exercised to cover the trade.

Calendar Spread Debit
The amount paid when doing a spread transaction. It is a negative difference between the option(s) sold price(s) and option(s) bought price(s).

Calendar Spread Minimum Return
If the stock expires above the short call; this is the potential percent return for the position assuming both options are exercised at expiration.
Sell-Side
Many option related strategies have multiple transactions. In a covered call, shares of stock are purchased and call options are sold simultaneously. The Sell-Side section indicates the call option and symbol that is sold for this strategy.

Sold Call Month
This is the expiration month of the sold call option.

Sold Call Strike Price
This is the strike price of the sold call. When an option is sold the purchaser has the right (or option) to buy the stock at the strike price any time between the initial purchase and the date the option expires.

Sold Call Symbol
This is the option symbol of the call that is being sold.

Stock Resistance
A term used in technical analysis to describe a price at which rising stock prices are expected to stop or meet increased selling activity. This analysis is based on historic price behavior of the stock.

Stock Support
A term used in technical analysis to describe a price at which falling stock prices are expected to stop or meet increased buying activity. This analysis is based on previous price behavior of the stock.

Strategy
The strategy refers to the choice of options methods deployed to seek to profit on a stock and may be selling a covered call; selling a calendar spread or holding the stock.

Time Value
Option premium is made up of either time value, intrinsic value or both. From its creation date to its expiration date an option's time value decays away and any value left is intrinsic value which rises or falls with the price of the stock. If XYZ stock is at $51.00 and the April 50 call is trading at 2.50. The option has 1.00 (51.00-50.00) of intrinsic value and 1.50 (2.50-1.00) of time value.

Trade Duration (Days)
This is the number of days a trade is active. It is the total number of days from the initial opening transaction until expiration day.

Volatility
This is a rating of the stock's price volatility over the past year. Volatility is the propensity of a security to swing up and down in price.

Information Pertaining to the Options Report
Use of this report assumes that you have an understanding of exchange-traded options and standard options strategies. The data and information shown in this report is intended for use by financial professionals and sophisticated investors who should verify that all data, assumptions, and results are accurate before making any investment decision or recommendation. If you are an investor, before acting on any information in this document, you should consider whether it is suitable for your particular circumstances and, if necessary, seek professional advice.

OPTIONS STRATEGIES: KEY RANKINGS: All options strategies are based upon underlying stocks that have been assigned a 3, 4, or 5-STARS ranking by S&P’s equity analysts. Each hedged strategy shown is given a ‘Key’ ranking as an indicator of relative risk for the strategy. 1 Key is very risky, while 5 Keys denotes less (relative) risk. The Key rankings are determined based on numerous factors ranging from the S&P STARS ranking for the underlying stock, to the volatility of the associated equity options. The Key Ranking for each strategy is determined at the time the strategy is initially identified based on market prices, STARS rankings and statistics before the market opening of the date on this report. Trades are ranked in a easy to use 1 to 5 ranking system as follows:

1 Key - Highest Relative Risk
2 Key - Considerable Relative Risk
3 Key - Moderate Relative Risk
4 Key - Low Relative Risk
5 Key - Lowest Relative Risk

COMPARISON LADDER: The Comparison Ladder is designed as a tool to help evaluate which, if either, of the strategies (Covered Call or Calendar Spread) is more attractive based on an assumed range of stock prices at expiration.

S&P STARS RANKINGS (ON UNDERLYING STOCK):
STARS rankings are subject to change at any time. The STARS Ranking system is defined as follows:

5-STARS (Strong Buy): Total return is expected to outperform the total return of a relevant benchmark, by a wide margin over the coming 12 months, with shares rising in price on an absolute basis.
4-STARS (Buy): Total return is expected to outperform the total return of a relevant benchmark over the coming 12 months, with shares rising in price on an absolute basis.
3-STARS (Hold): Total return is expected to closely approximate the total return of a relevant benchmark over the coming 12 months, with shares generally rising in price on an absolute basis.
2-STARS (Sell): Total return is expected to underperform the total return of a relevant benchmark over the coming 12 months, and the share price not anticipated to show again.
1-STAR (Strong Sell): Total return is expected to underperform the total return of a relevant benchmark by a wide margin over the coming 12 months, with shares falling in price on an absolute basis.

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