

# Analysts Sour on Texas Instruments (TXN) After Earnings Report

by [Steve Claussen](#) on July 21st, 2010



**Texas Instruments (NYSE:TXN)** dipped into the red yesterday after its second-quarter earnings report failed to impress. The technology company reported per-share earnings of 62 cents per share, more than triple year-ago results and in line with analysts' expectations (but reportedly below the "whisper number"). Revenue, meanwhile, hit \$3.5 billion, narrowly missing the consensus view of \$3.52 billion.

The stock was summarily downgraded to market perform from buy at Charter Equity Research, who cited "heavily bearish sentiment." An analyst with Standard & Poor's also lowered his rating to hold from buy, setting a new target of \$30 (down from \$33). Stifle maintained a buy rating on TXN but cut the price target by \$2 to \$34. And an analyst with Citigroup said the macroeconomic implications of this earnings report may not read well on Wall Street.

Whether you think TXN is bound to continue lower or think it may settle into a range at this point, there is likely to be an option strategy to consider employing. The strategies below are hypothetical in nature and do not constitute buy/sell/hold recommendations. Always consider your own risk/reward parameters before entering any trades. *Prices are given as of Tuesday midday, when TXN was trading at \$24.48, down \$1.07.*

For more information on option strategies, sign up for the [Two Traders, One Strategy](#) webinar series I host every Tuesday with Senior Derivatives Specialist Jared Levy. Next Tuesday's topic is the collar strategy, which can be very popular among traders during earnings season. Check out our entire library of free webinars at our [events](#) page.

## ***Neutral Option Strategy: Iron Condor***

Investors who think TXN could now settle into a trading range for the next couple of months could consider an iron condor strategy, typically used by traders who expect

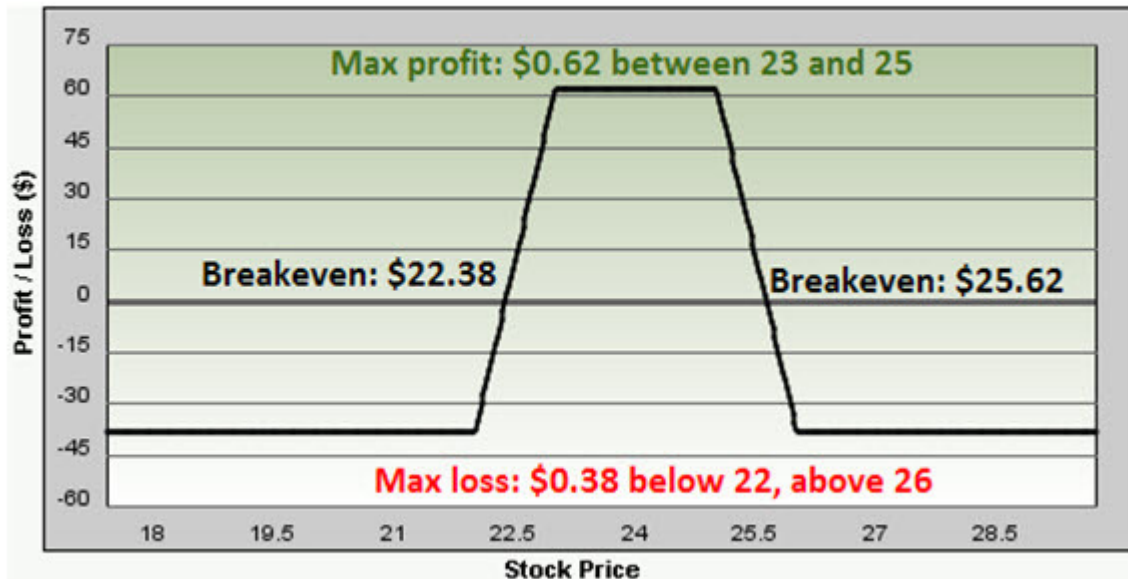
limited volatility. To trade the September 22/23/25/26 iron condor, an investor would place the following orders:

- Buy the September 22 put
- Sell the September 23 put
- Sell the September 25 call
- Buy the September 26 call

The condor essentially combines a bear call spread and a bull put spread (both of which are credit spreads). Currently, the net credit for this strategy is 62 cents. If TXN is trading between the short strikes (23 and 25) at September options expiration on September 17, the investor keeps this credit as the maximum potential profit.

The maximum loss, meanwhile, is limited to 38 cents, or the difference in put/call strikes minus the credit. The maximum loss occurs at expiration if TXN is either below \$22 or above \$26. Note that an iron condor can only lose on one half of the trade. Breakevens for this strategy are \$22.38 to the downside and \$25.62 to the upside, so as long as TXN is between these prices when the options expire, the condor will be profitable.

**Profit/Loss of TXN iron condor at expiration**



*Chart Courtesy of OptionsHouse*

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