

OPTION EXAMPLE

Leverage (Cheap Options) for the Value Investor

The information provided herein is not intended to be an offer to sell or a solicitation of an offer to buy an interest in any securities. The material does not include certain information that should be considered relevant to an investment in securities including, but not limited to, significant risk factors and complex tax considerations. The performance information provided herein is historic and should not be taken as any indication of future performance. Future investments will be made under different economic conditions and may be made in different securities using different investment strategies.

Example :

Coca-Cola (KO)

- In the money call
- January 2009 Expiration
- Stock Price = \$49.64
- Strike Price = \$30
- Option Price = \$20
- Premium = (Strike Price + Option Price) / Stock Price
 - $(\$30 + \$20) / \$49.64 = 100.7\%$
- Intrinsic Value of Coke = \$58
- P/V for Stock = Stock Price / Intrinsic Value
 - $\$49.64 / 58 = 85.6\%$
- P/V for Option = Option Price / (Intrinsic Value – Strike Price)
 - $\$20 / (\$58 - \$30) = 71.4\%$

Example:

Coca-Cola

Return from Stock = 16.8%

Return from Option = 40%

Example:

Coca- Cola (KO) #2

- Stock Price = \$44.21 (Oct.29, 2008)
- Strike Price = \$30
- Option Price = \$16.40
- Premium = (Strike Price + Option Price) / Stock Price
 - $(\$30 + \$16.40) / \$44.21 = 104.9\%$
- Intrinsic Value of Coke = \$58
- P/V for Stock = Stock Price / Intrinsic Value
 - $\$44.21 / 58 = 76.2\%$
- P/V for Option = Option Price / (Intrinsic Value – Strike Price)
 - $\$16.40 / (\$58 - \$30) = 58.5\%$

Example:

Coca-Cola #2

Return from Stock = 31.1%

Return from Option = 70.7%

Example:

American Express (AXP)

- Stock Price = \$25.87 (October 30, 2008)
- Strike Price = \$20
- Option Price = \$12.30
- Premium = (Strike Price + Option Price) / Stock Price
 - $(\$20 + \$12.30) / \$25.87 = 124.8\%$
- Intrinsic Value of American Express = \$50
- P/V for Stock = Stock Price / Intrinsic Value
 - $\$25.87 / 50 = 51.7\%$
- P/V for Option = Option Price / (Intrinsic Value – Strike Price)
 - $\$12.30 / (\$50 - \$20) = 41\%$

Example:

American Express

Return from Stock = 93.2%

Return from Option = 143.9%

Example:

Pepsi Co. (PEP)

- Stock Price = \$56.93 (October 30, 2008)
- Strike Price = \$50
- Option Price = \$12.32
- Premium = (Strike Price + Option Price) / Stock Price
 - $(\$50 + \$12.32) / \$56.93 = 109.4\%$
- Intrinsic Value of Pepsi = \$68
- P/V for Stock = Stock Price / Intrinsic Value
 - $\$56.93 / 68 = 83.7\%$
- P/V for Option = Option Price / (Intrinsic Value – Strike Price)
 - $\$12.32 / (\$68 - \$50) = 68.4\%$

Example:

Pepsi Co.

Return from Stock = 19.4%

Return from Option = 46.1%

Example:

Intel (INTC)

- Stock Price = \$16.12 (October 30, 2008)
- Strike Price = \$10
- Option Price = \$7.20
- Premium = (Strike Price + Option Price) / Stock Price
 - $(\$10 + \$7.20) / \$16.12 = 106.6\%$
- Intrinsic Value of Intel = \$26.50
- P/V for Stock = Stock Price / Intrinsic Value
 - $\$16.12 / \$26.50 = 60.8\%$
- P/V for Option = Option Price / (Intrinsic Value – Strike Price)
 - $\$7.20 / (\$26.50 - \$10) = 43.6\%$

Example:

Intel

Return from Stock = 64.3%

Return from Option = 129.1%