



(DJX) Dow Jones Industrials
 (QQQ) Nasdaq-100 Shares
 (OEF) iShares S&P 100
 (VIXN) CBOE Nasdaq Volatility Index
 (VIX) CBOE Volatility Index

(SPX) S&P 500
 (OEX) S&P 100
 (RUT) Russell 2000
 (NDX) Nasdaq-100
 (MNX) Mini-NDX

INDEX
 STRATEGY
 PAPER I.1

www.cboe.com
 page 01

QQQ Buy-Write for Added Income

Situation

The Nasdaq-100 Tracking Stock (QQQ) is at 41.50 and has been steady since a tech-related sell-off began a few weeks ago.

Outlook

In this example, you are neutral on the QQQs for the short term, and believe that, while the tech sell-off appears to be over and QQQ shouldn't decline further, it will not recover within the next month. You are interested in the possibility adding some extra income.

Possible Strategy

Enter into a "Buy-Write" position (also known as a Covered Write, Covered Call Sale, or Overwrite position) by buying 100 shares of QQQ at 41.50, and selling one Sept. 45 call at 2.00. There is a net cost of \$3,950 (\$4,150 -\$200) for the position.

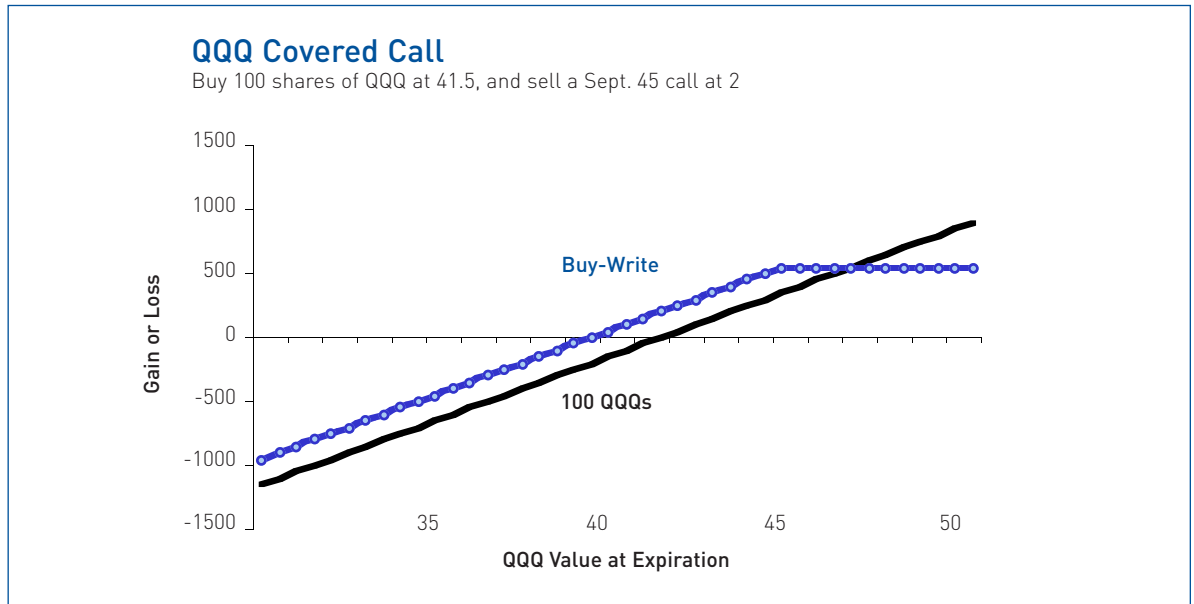
Possible Outcomes

Some of the many possible outcomes of this QQQ Buy-Write strategy are shown in the accompanying table and graph. The values shown in the table and graph are at the time of expiration. (Taxes, commission costs and other transactions costs, have been omitted for the sake of simplicity.)

Index % Change	QQQ @ Expiration	Short 45 Call Value	Long QQQ Profit/(Loss)	Short Call Premium Received	Buy-Write Net Profit/(Loss)
-27.7%	30.0	\$ 0.00	-\$ 1,150.00	\$ 200.00	-\$ 950.00
-15.7%	35.0	\$ 0.00	-\$ 650.00	\$ 200.00	-\$ 450.00
-3.6%	40.0	\$ 0.00	-\$ 150.00	\$ 200.00	\$ 50.00
0.0%	41.5	\$ 0.00	\$ 0.00	\$ 200.00	\$ 200.00
8.4%	45.0	\$ 0.00	\$ 350.00	\$ 200.00	\$ 550.00
20.5%	50.0	-\$ 500.00	\$ 850.00	\$ 200.00	\$ 550.00

**INDEX
STRATEGY
PAPER I.1**

www.cboe.com
page 02



At expiration in September, the break-even point for this Buy-Write on the QQQ is 39.50, or a -5% change in the underlying index value. If the QQQ remained unchanged, a gain of \$200 would be realized. The maximum gain is \$550 if the QQQ is greater than 45.

Background on Covered Calls

Who Should Consider Covered Calls?

- . An investor who is neutral to moderately bullish on some equities in his/her portfolio.
- . An investor who is willing to limit his/her upside potential in exchange for some downside protection.
- . An investor who would like to be paid for assuming the obligation of selling a particular stock at a specified price.

The strategy could work equally well for cash, margin, Keogh account or IRA accounts. Although this strategy may not be suitable for everyone, any of the investors above may benefit from using the covered call.

Definition. Call writing is either the simultaneous purchase of stock and the sale of a call option or the sale of a call option against a stock currently held by an investor. Generally, one call option is sold for every 100 shares of stock. The writer receives cash for selling the call but will be obligated to sell the stock at the strike price of the call if the call is assigned to his/her account.

In other words, an investor is “paid” to agree to sell his/her holdings at a certain level (the strike price). In exchange for being paid, the investor gives up any increase in the stock above the strike price.

How to Use Covered Calls. If an investor is neutral to moderately bullish on a stock currently owned, the covered call might be a strategy he/she would consider. Let’s say that 100 shares are currently held in his account. If the investor was to sell one slightly out-of-the-money call, he/she would be paid a premium to be obligated to sell the stock at a predetermined price, the strike price. In addition to receiving the premium, the investor would also continue to receive the dividends (if any) as long as he/she still owns the stock.

The covered call can also be used if the investor is considering buying a stock on which he/she is moderately bullish for the near term. A call could be sold at the same time the stock is purchased. The premium collected reduces the effective cost of the stock and he/she will continue to collect dividends (if any) or as long as the stock is held.

In either case, the investor is at risk of losing the stock if it rises above the strike price. Remember, in exchange for receiving the premium for having sold the calls, the investor is obligated to sell the stock.



(DJX)	Dow Jones Industrials	(SPX)	S&P 500
(QQQ)	Nasdaq-100 Shares	(OEX)	S&P 100
(OEF)	iShares S&P 100	(RUT)	Russell 2000
(VIX)	CBOE Nasdaq Volatility Index	(NDX)	Nasdaq-100
(UIX)	CBOE Volatility Index	(MNK)	Mini-NDX

INDEX STRATEGY PAPER I.1

09.14.2001

www.cboe.com
page 03

For more information on QQQ options, please visit <http://www.cboe.com/qqq>

For more examples of options strategies, please visit <http://www.cboe.com/strategies>

Options involve risk and are not suitable for all investors. Prior to buying or selling options, a person must receive a copy of Characteristics and Risks of Standardized Options, located at www.cboe.com which is available from The Options Clearing Corporation, 440 S. LaSalle Street, 24th Floor, Chicago, IL 60605, or by calling 1.800.OPTIONS.

This discussion is designed to assist individuals in learning how options work and in understanding various options strategies. This discussion is for educational purposes only and is not intended to provide investment advice. Commissions, taxes, dividends, margin and transaction costs generally are not included in this discussion, but can affect final outcome and should be considered. Please contact a tax advisor for the tax implications involved in these strategies.

Many of the matters discussed are subject to detailed rules, regulations, and statutory provisions which should be referred to for additional detail and are subject to changes that may not be reflected in these materials. This discussion has been prepared solely for informational purposes, based upon information generally available to the public from sources believed to be reliable, but no representation or warranty is given with respect to its accuracy or completeness. No statement herein should be construed as a recommendation to buy or sell a security or to provide investment advice. Any profit/loss diagrams refer only to approximate results at expiration. Past performance is no guarantee of future results. S&P 100® and S&P 500® are registered trademarks of the McGraw-Hill Companies, Inc., and are licensed for use by the Chicago Board Options Exchange®, Inc. ("CBOE®"). The Russell 2000® Index is a registered trademark of Frank Russell Company. The Nasdaq 100® is a registered mark of The Nasdaq Stock Market, Inc. "Dow JonesSM", "Dow Jones Industrial AverageSM", "Dow Jones Transportation AverageSM", and "Dow Jones Utility AverageSM" are service marks of Dow Jones & Company, Inc. and have been licensed for certain purposes by the CBOE. iSharesSM is a service mark of Barclays Global Investors. Dow Jones & Co., The Nasdaq Stock Market, Goldman Sachs, and McGraw-Hill make no warranties and bear no liability in regard to the trading of index options. LEAPS®, FLEX®, FLEXible EXchange®, CBOE®, Chicago Board Options Exchange® and OEX® are registered trademarks and Long-term Equity Anticipation SecuritiesTM and SPXTM are trademarks of the Chicago Board Options Exchange, Inc. Copyright © Chicago Board Options Exchange, Inc. 2001.

All rights reserved.