

QQQ Collar — Low-cost Protection of Tech-oriented Portfolio

Situation

Assume it is September and the Nasdaq-100 Index Tracking Stock (ticker symbol QQQ) is at \$50. Investor owns 6,000 QQQ worth \$300,000.

Outlook

Investor is concerned about the outlook for tech-oriented stocks in the next three months, and would like to protect your QQQ investment with little or no out-of-pocket cost.

Scenario

The protective collar strategy provides downside protection through the use of index put options but finances the purchase of the puts through the sale of short index call options, in effect trading away some upside potential. By simultaneously purchasing put options and selling call options with differing strike prices and the same expiration (the strike of

the put is lower than that of the call), a collar often can be established for little or no out-of-pocket cost. The index puts place a “safety net” under a diversified portfolio by protecting value in a declining market, “insurance” against the risk of a decline. The index call sale generates income to offset the cost purchase of the protective puts. It is important to note that, depending on the call strike price and the level of the index at expiration, assignment of the short call position may have the effect of limiting portfolio gains.

Investor needs 60 contracts to hedge, because investor owns 6,000 QQQs, and each option (with a 100 multiplier) covers 100 shares. The Dec 55 call and Dec 46 put are priced at 2.5. The premium payments for both the calls sold and puts purchased would be (2.5 x 100 multiplier x 60 contracts) or \$15,000.

Gain or Loss at Expiration				
QQQ Price at Expiration	Unprotected QQQ shares (Gain or loss)	Long Puts (Gain less premium paid)	Short Calls (Premium received less any loss)	Collar (Total gain or loss)
40	- \$ 60,000	\$ 21,000	\$ 15,000	- \$ 24,000
45	- \$ 30,000	- \$ 9,000	\$ 15,000	- \$ 24,000
50	\$ 0	- \$ 15,000	\$ 15,000	\$ 0
55	\$ 30,000	- \$ 15,000	\$ 15,000	\$ 30,000
60	\$ 60,000	- \$ 15,000	- \$ 15,000	\$ 30,000

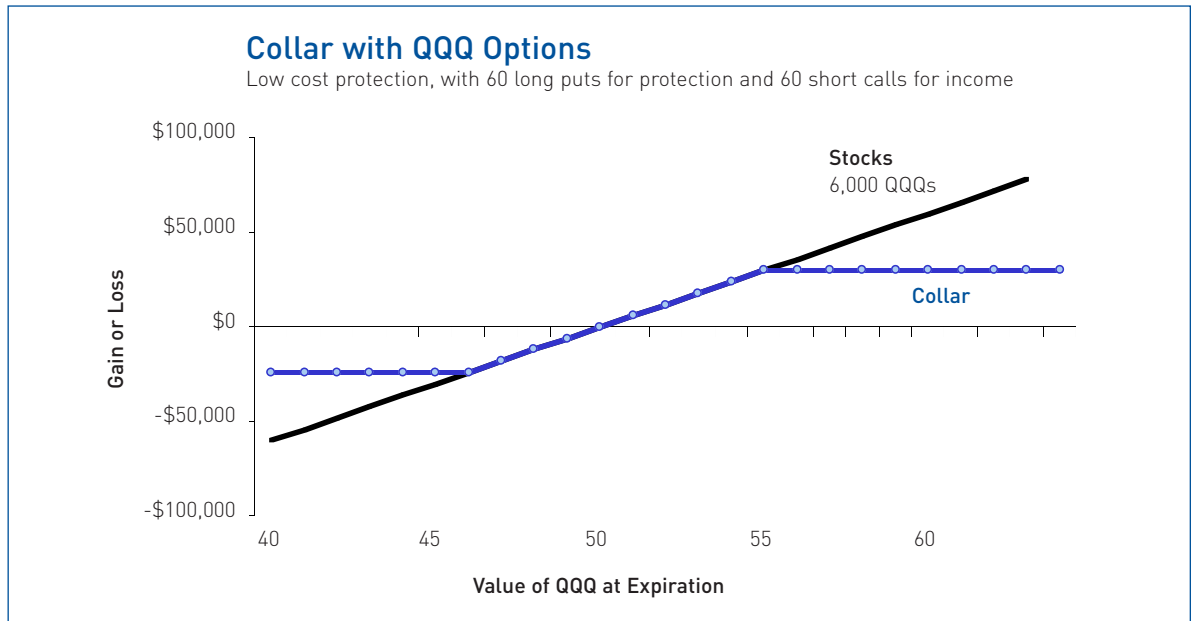


(DJX) Dow Jones Industrials
(QQQ) Nasdaq-100 Shares
(OEF) iShares S&P 100
(VIXN) CBOE Nasdaq Volatility Index
(VIX) CBOE Volatility Index

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

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09.14.2001

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