

Buying OEF Call Options—Bullish

Situation

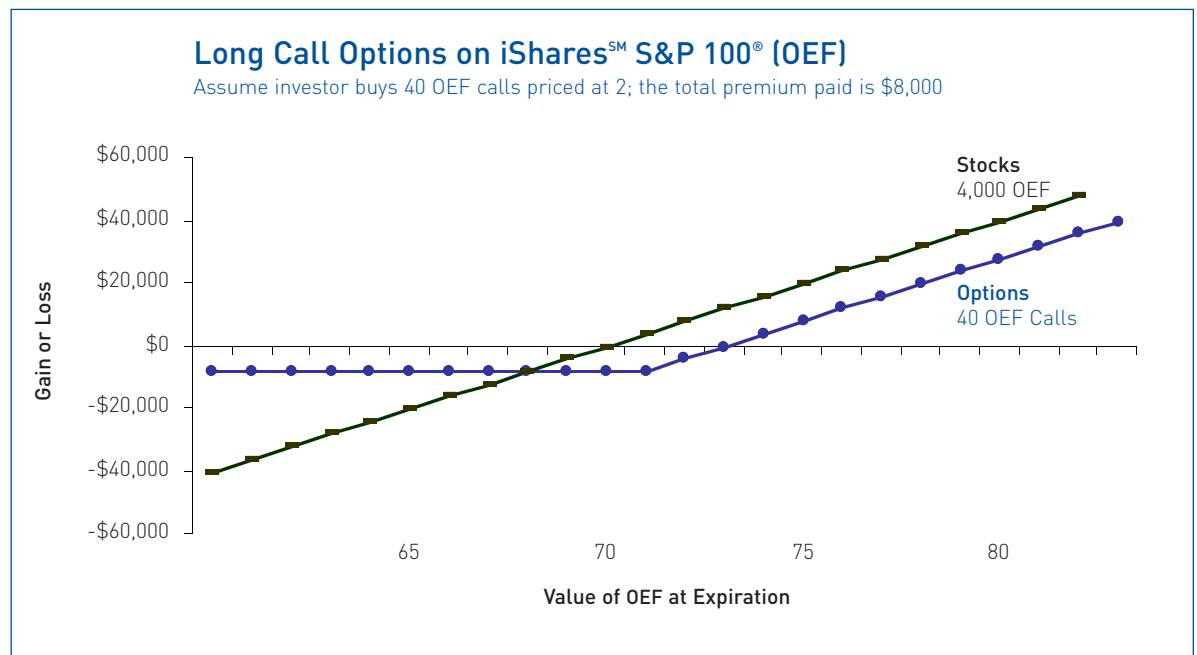
Assume that it is October and the iSharesSM S&P 100[®] (OEF) are priced at 70. The OEF is a type of exchange-traded fund (ETF), and the price of each OEF share usually is close to 1/10th the level of the S&P 100[®] (OEX) Index. The trading range for OEF has been 66.5 to 76.3 over the past three months.

Scenario

You buy 40 November OEF at-the money options priced at 2. Your premium payment would be (2 x 100 multiplier x 40 contracts) or \$8,000. Here are a graph and table showing the profit-and-loss at expiration for an option position of 40 OEF calls, and a stock position of 4,000 OEF.

Outlook

You are moderately bullish on the outlook for OEF prices in the short term.



OEF Price at Expiration	Profit/loss on Long 40 OEF Calls	Profit/loss on Stocks (4,000 OEF)
60	-\$8,000	-\$40,000
65	-\$8,000	-\$20,000
70	-\$8,000	\$0
75	\$12,000	\$20,000
80	\$32,000	\$40,000

In a long call strategy, your maximum loss is limited to the premium paid for the options (in this case, \$8000). Theoretically, there is no limit to how high the underlying stock will rise, therefore making the profit potentially unlimited, minus the premium paid.

All values shown are at the time of expiration.



(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

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07.02.2001

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