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**Long Term Options
to maximize returns
- an update**

Prepared: C. V. Chung



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Disclaimer

- ▶ This presentation is not a recommendation to buy options (calls or puts) or stocks .
- ▶ The purpose of this presentation is for discussion and review of a strategy **under test**.
- ▶ Tell me if this strategy was previously tried but failed - - - how come?

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Previous presentation

- ▶ 1) Review First Cut of "ABT" by Carol Theine
- ▶ 2) Review SSG "ABT" by CV .
- ▶ 3) Manifest *Investing* → PE and PAR .
- ▶ 4) Yahoo & Value Line for EPS estimates.
- ▶ 5) Use Jim Thomas spreadsheet ...
 - (a) "sustainable growth rate" & (b) Sharpe ratio
- ▶ 6) Calculate stock \$value ~ approx 2 years.

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Previous presentation (continued)

- ▶ 7) LEAPS (Long-Term Equity Anticipation Securities) ~ up to 30 months
- ▶ 8) Calculate %-gain in 12 months (Annualized gain)
- ▶ 9) Options I acquired
- ▶ 10) Update the Options prices from Sep '10
- ▶ 11) What I learned

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(3) ManifestInvesting → PE and PAR

ManifestInvesting
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Fundamental Forecasts
Enter a ticker or a company name and click on Go.

Company Lookup:
Ticker:
Name:

Company	Ticker	Industry	Quality	PAR
Abbot Labs	ABT	Drug (Overvalued)	79.5	16.5%

Current Price (03/18): \$47.91
CAPS Rating (Rate the stock on CAPS):

Expected Income Statement

Current Sales	35,050.0
Sales Growth Forecast	8.6%
Net Profit Margin	18.0%
Projected Shares Outstanding	1,526.3
EPS - Five Year Forecast	\$6.25
Average P/E Ratio	(15.0)
Projected Average Price	\$93.76

PAR and P/E

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(4) Finance Yahoo - short term EPS est.

Industry Components	Earnings History	Mar 10	Jun 10	Sep 10	Dec 10
EPS Est.	EPS Actual	0.80	1.00	1.04	1.29
ANALYST COVERAGE	Analyst Opinion	0.81	1.01	1.05	1.30
Analyst Estimates	Difference	0.01	0.01	0.01	0.01
Surprise %	Surprise %	1.30%	1.00%	1.00%	0.80%

Star Analysts	Current Qtr. Mar 11	Next Qtr. Jun 11	Current Year Dec 11	Next Year Dec 12	
EPS Trends	Current Estimate	0.91	1.11	4.59	4.94
7 Days Ago	0.91	1.11	4.59	4.94	
30 Days Ago	0.91	1.11	4.59	4.94	
60 Days Ago	0.99	1.12	4.66	5.00	
90 Days Ago	1.02	1.12	4.66	5.01	

FINANCIALS	Current Qtr. Mar 11	Next Qtr. Jun 11	Current Year Dec 11	Next Year Dec 12
Income Statement				
Balance Sheet				
Cash Flow				
EPS Revisions	Current Qtr. Mar 11	Next Qtr. Jun 11	Current Year Dec 11	Next Year Dec 12
Up Last 7 Days	0	0	0	0

Finance.Yahoo.Com - short term EPS est.

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(4) Value Line shows predictable EPS

January 14, 2011

Company's Financial Strength	A++
Stock's Price Stability	100
Price Growth Persistence	40
Earnings Predictability	100

To subscribe call 1-800-833-0046.

Value Line's "Earnings Predictability" is high

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(6) Calculate stock value ~ 2 years

ABBOTT LABORATORIES (From the StockLibrary)

Year	High	Low	Open	Close	Adj. High	Adj. Low	Adj. Open	Adj. Close
2007	59.5	48.7	2.31	25.8	21.1	1.270	55.0	2.6
2008	61.1	45.8	3.83	20.2	15.1	1.405	46.4	3.1
2009	57.4	41.4	3.72	15.4	11.1	1.560	41.9	3.0
2010	56.8	44.6	4.10	13.6	10.7	1.720	41.1	3.9
AVERAGE (10 Years)				38.5			14.5	52.0

AVERAGE P/E RATIO: 27.4 16.6 PROJECTED P/E RATIO: 15.3 TTM EPS: 2.96
CURRENT P/E RATIO: 16.2 PEG RATIO: 3.3 FTM EPS: 3.09
RELATIVE VALUE: 69.2% 97.6% PROJ. RELATIVE VALUE: 60.2% 93.3% AVG TTM + FTM EPS: 3.03

4 EVALUATING REWARD AND RISK over the next 5 years

A FUTURE HIGH PRICE ANALYSIS - NEXT 5 YEARS
Selected High Price: 10.8 Estimated High Earnings/Share: 4.18 2.96 = 1 32.6

B FUTURE LOW PRICE ANALYSIS - NEXT 5 YEARS
Selected Low Price: 11.0 Estimated Low Earnings/Share: 38.5 11.0 = 1 38.3

C PRICE RANGES
Forecast High Price: 99.0 Estimated Low Price: 38.3 Range: 60.7 25% of Range: 15.2
BUY (Lower 25% of Range): 38.3 to 53.5
HARVE (Middle 50% of Range): 53.5 to 83.8
SELL (Upper 25% of Range): 83.8 to 99.0

D REWARD/RISK ANALYSIS (Potential Gain vs. Risk of Loss)
(Forecast High Price) 99.0 - Current Price 47.910 = 1 - Current Price 47.910 - Estimated Low Price 38.3 = 5.3 To 1

5 TOTAL RETURN ANALYSIS - A CURRENT YIELD
Dec 2012 = 1.045 X 3.09

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LEAPS (Long-Term Equity Anticipation Securities)

- ▶ Long Term CALLS (up to 30 months) – be “**extra**” conservative in calculations
- ▶ Less capital at risk
- ▶ More hands free than Covered CALLS
- ▶ Stock price rise above “strike” price
 - Buyer may exercise option buy shares below market price
 - Buyer may sell LEAPS for profit
- ▶ **Risks:**
 - Stock may not make forecasted EPS
 - P/E remains low
 - Time decay (Theta) depletes value of CALL option

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Call Options Jan 20, 2012

Abbott Laboratories (ABT)

Options

View By Expiration: Aug 10 | Sep 10 | Nov 10 | Jan 11 | Feb 11 | Jan 12

Expire at close Friday, January 20, 2012

Strike	Symbol	Last	Chg	Bid	Ask	Vol	Open Int
30.00	ABT120121C00030000	20.10	0.00	21.40	21.75	5	114
35.00	ABT120121C00035000	16.75	↑ 0.71	16.75	16.90	4	69
40.00	ABT120121C00040000	12.50	↑ 0.70	12.50	12.65	53	2,656
45.00	ABT120121C00045000	8.75	↑ 0.50	8.75	8.90	1	3,320
47.50	ABT120121C00047500	6.46	0.00	7.15	7.30	1	2,500
50.00	ABT120121C00050000	5.85	↑ 0.55	5.75	5.90	14	7,105
52.50	ABT120121C00052500	4.60	↑ 0.34	4.50	4.65	89	431
55.00	ABT120121C00055000	3.20	0.00	3.00	3.60	13	43
57.50	ABT120121C00057500	2.53	↑ 0.17	2.59	2.69	114	257
60.00	ABT120121C00060000	1.87	↑ 0.06	1.88	1.90	37	2,802
65.00	ABT120121C00065000	0.91	↑ 0.03	0.91	0.98	7	385
70.00	ABT120121C00070000	0.34	0.00	0.36	0.44	1	1,860

PUT OPTIONS Expire at close Friday, January 20, 2012

Strike price

ASK

Open Int

10

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(9) %-gain in 18 months (Annualized gain)

▶ % gain = $(\$63.59 - \$50.00) / \$5.90 = 230.3\%$ in 18 months
(or 74.4% annually)



11

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(9) Options I acquired

At the close of Tuesday August 10, 2010

No.	Symbol	Company	Call date	Strike \$/shr	Option \$/share	Date bought	Open Intr'st	Aug-10-10 \$ASK	% gain (loss)	Time (days)
1	ABT	Abbott Labs	2012-01-20	50.00	4.60	2010-07-30	7100	5.85	27.2%	7
2	AFAM	Almost Family	2011-02-18	25.00	3.90	2010-07-28	14	3.20	-17.9%	9
3	CYH	Community Health Systems	2011-01-21	35.00	2.65	2010-07-20	552	3.15	18.9%	15
4	GILD	Gilead Sciences	2012-01-20	30.00	7.50	2010-07-23	1309	8.85	18.0%	13
5	RIG	Transocean	2012-01-20	45.00	11.80	2010-07-23	1269	18.07	53.1%	13
6	WMT	Wal-Mart Stores	2012-01-20	50.00	5.10	2010-07-30	18217	5.80	13.7%	7

12

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(9) Options I acquired (continued)

At the close of Tuesday September 9, 2010

No.	Symbol	Company	Call date	Strike \$/shr	Option \$/share	Date bought	Open Intr'st	Sep-7-10 \$ASK	% gain (loss)	Time (days)
1	ABT	Abbott Labs	2012-01-20	50.00	4.60	2010-07-30	8230	5.35	16.3%	29
2	AFAM	Almost Family	2011-02-18	25.00	3.90	2010-07-28	14	3.40	-12.8%	31
3	CYH	Community Health Systems	2011-01-21	35.00	2.65	2010-07-20	498	0.90	-66.0%	37
4	GILD	Gilead Sciences	2012-01-20	30.00	7.50	2010-07-23	1375	7.15	-4.7%	35
5	RIG	Transocean	2012-01-20	45.00	11.80	2010-07-23	1269	15.50	31.4%	35
6	WMT	Wal-Mart Stores	2012-01-20	50.00	5.10	2010-07-30	20402	6.05	18.6%	29

13 Puget Sound Chapter



(9) Options I acquired (continued)

On Tuesday October 12, 2010

No.	Symbol	Company	Call date	Strike \$/shr	Option \$/share	Date bought	Open Intr'st	Oct-12-10 \$BID	% gain (loss)	Time (days)
1	ABT	Abbott Labs	2012-01-20	50.00	4.60	2010-07-30	8230	6.00	30.4%	46
2	AFAM	Almost Family	2011-02-18	25.00	3.90	2010-07-28	14	6.60	69.2%	48
3	CYH	Community Health Systems	2011-01-21	35.00	2.65	2010-07-20	498	1.40	-47.2%	54
4	GILD	Gilead Sciences	2012-01-20	30.00	7.50	2010-07-23	1375	8.55	14.0%	51
5	RIG	Transocean	2012-01-20	45.00	11.80	2010-07-23	1269	22.70	92.4%	51
6	WMT	Wal-Mart Stores	2012-01-20	50.00	5.10	2010-07-30	20402	6.75	32.4%	46

14 Puget Sound Chapter



(10) Update the Options prices

On Thursday February 25, 2011

No.	Symbol	Company	Call date	Strike \$/shr	Option \$/share cost	Date bought	Open Intr'st	Feb-25-11 \$BID	% gain (loss)	Closed positions
1	ABT	Abbott Labs	2012-01-20	50.00	4.60	2010-07-30	14142	1.75	-62.0%	
2	AFAM	Almost Family	2011-02-18	25.00	3.90	2010-07-28	?	11.80	202.6%	Jan-18-11
3	CYH	Community Health Systems	2011-01-21	35.00	2.65	2010-07-20	?	0.75	-71.7%	Oct-22-10
4	GILD	Gilead Sciences	2012-01-20	30.00	7.50	2010-07-23	1378	9.70	29.3%	
5	RIG	Transocean	2012-01-20	45.00	11.80	2010-07-23	1039	36.90	212.7%	
6	WMT	Wal-Mart Stores	2012-01-20	50.00	5.10	2010-07-30	20402	3.95	-22.5%	

15 Puget Sound Chapter



(10) Update the Options prices (continued)

On Thursday February 25, 2011

No.	Symbol	Company	Call date	Strike \$/shr	Option \$/share cost	Date bought	Open Intr'st	Feb-25-11 \$BID	% gain (loss)	Closed positions
7	ABT	Abbott Labs	2013-01-19	50.00	4.60	2010-11-23	3333	3.20	-30.4%	
8	BAX	Baxter International	2012-01-20	45.00	4.50	2010-08-31	?	7.20	60.0%	Feb-11-11
9	CEPH	Cephalon Inc.	2013-01-19	65.00	11.40	2010-12-20	40	7.40	-35.1%	
10	CSCO	Cisco Systems Inc	2013-01-19	15.00	5.20	2011-02-15	12764	5.10	-1.9%	
11	ESI	ITT Educational Svcs	2012-01-20	80.00	24.20	2010-07-23	1321	10.25	-57.6%	
12	HPQ	Hewlett Packard	2013-01-19	35.00	10.90	2010-12-22	5620	11.03	1.2%	
13	MRK	Merck & Co.	2013-01-19	30.00	4.75	2011-02-14	1238	4.15	-12.6%	
14	RIMM	Research in Motion Ltd	2012-01-20	45.00	15.00	2010-10-14	171	28.45	89.7%	
15	ZMH	Zimmer Holdings Inc	2013-01-19	55.00	7.70	2010-12-15	1386	8.00	3.9%	

16 Puget Sound Chapter



(10) Update the Options prices (continued)

On Friday March 18, 2011

No	Symbol	Company	Call date	Strike \$/shr	Option \$/share cost	Date bought	Open Interest	March 18 \$/BID	% gain (loss)
7	ABT	Abbott Labs	2012-01-20	50.00	\$4.60	2010-11-23	14,453	1.98	(57.94)
9	CEPH	Cephalon Inc.	2013-01-19	65.00	\$11.40	2010-12-20	65	7.40	(35.41)
10	CSCO	Cisco Systems	2013-01-19	15.00	\$5.20	2011-02-15	19,433	3.95	(24.87)
11	ESI	ITT Educational Svc, Inc.	2012-01-20	80.00	\$24.20	2010-07-23	340	6.75	(72.17)
12	HPQ	Hewlett Packard	2013-01-19	35.00	\$10.90	2010-12-22	5,998	10.20	(9.65)
13	MRK	Merck & Co.	2013-01-19	30.00	\$4.75	2011-02-14	7,072	4.20	(11.95)
5	RIG	Transocean Ltd.	2012-01-20	45.00	\$11.80	2010-07-23	1,035	32.00	185.05
14	RIMM	Research in Motion Ltd.	2012-01-20	40.00	\$15.00	2010-10-14	386	24.75	57.08
6	WMT	Wal-Mart Stores Inc	2012-01-20	50.00	\$5.10	2010-07-30	18,404	3.95	(23.41)
15	ZVH	Zimmer Holdings Inc.	2013-01-19	55.00	\$7.70	2010-12-15	12	8.00	25.44

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(11) What I learned

▾ **Long term Options, the Greeks (Delta, Gamma, Vega & Theta)**
(Theta = 0.0)

▾ **Evaluation of buying long term Options – use mainly Better Investing principals**

- (1) Good company (up straight and parallel)
- (2) estimate EPS approx 2 years
- (3) estimate P/E ratio approx 2 years

▾ **Not completely sure when to sell – investigating use of ...**

- (1) technical analysis
- (2) moving averages, candle sticks & volume
- (3) support and resistance levels, MACD & stochastic

▾ **Calculate percentage return. Sell decision based on calculations**

18

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(11) What I learned (continued)

▾ **Prefer long term options instead of short term options**

▾ **Use more conservative P/E – Median P/E (median price / ttm EPS)**

▾ **Find most conservative P/E from several sources:**

- Avg P/E calculated by SSG
- Manifest P/E
- Value Line forecasted P/E
- Median P/E
- First call – Avg P/E by author

▾ **Use conservative EPS estimates:**

- SSG – EPS start projection use judgment last annual or last quarterly data
- SSG – use conservative revenue growth

19

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(11) What I learned (continued)

▾ **Accelerated stock investment with less capital**

- Instead of 5 year horizon, we have 2.5 year period

▾ **Best time to buy long term Call options:**

- After depressed market similar to July, August 2010
- Buy Transocean (RIG) after the BP oil spill was plugged up
 - min risk and max return and stock still fundamentally strong
- Buy Research in Motion (RIMM) after good news on their tablet PC

▾ **Need better way to keep track of a list of Option opportunities & a list of existing holdings**

▾ **How to protect positions with substantial gains?**

- Needs study ~ “delta neutral hedging”?

20

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