



# THE VALUE LINE

## Daily Options Survey

*On Line at the Opening Bell, Every Trading Day*

Pages 1-2

### *The Weekly Option Strategist*

March 1, 2004

#### Mail Call

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This week, we review some typical email questions that we get from subscribers. We always welcome your questions and comments at [voptions@valueline.com](mailto:voptions@valueline.com).

#### **Q: Can I change the output displays in *Interactive Options*?**

At our *Interactive Options* page, the only way you can change your display is by re-sorting the data. You do this by double clicking on the column headings.

If you want greater flexibility in formatting your output, we suggest you use our *Options Screener* instead of *Interactive Options*. In the screener, you can create your own output formats for individual stocks, for lists of stocks and for *Selected Options* for the major strategies (call buying, covered call writing etc.).

Here is an example. Suppose you want to display our 200 best scoring *Selected Options for Covered Call Writing*, showing the highest yielding ones first and also displaying *protection* and *maximum profit*. Go to *Preset Screens* in the *Screener* and highlight *Selected Options for Covered Call Writing*. Then click on *Edit Display Options*. You can set up the display options to produce the output shown in Figure 1 on page 3. You can then save this screen to use every day.

#### **Q: Suppose I want to change the format on options on an individual stock?**

Here is an example where you want to look for yield on an individual stock, such as Elan Corp. In the *Screener*, enter the stock's ticker code, ELN, in the box marked *Stock Ticker(s)*. Then click on *Edit Display Options* for the output that you want. In Figure 2 on page 3, we show the sample output for Elan from our screener.

The above two examples are only limited applications of our *Screener*. With our screener, you

can save screening Criteria (as many sets as you want), enter (and save) as many stock ticker codes as you want, and edit your display options any way you want. See last week's report, "A Refresher Course on our Options Screener" (Ot040223.Pdf) for more comprehensive instructions.

#### **Q: Do you rank spreads in the Value Line Daily Options Survey?**

We currently do not rank spreads in our Service. However, you can use our option ranks and evaluations to find attractive spreads. For instance, if you are looking for attractive credit put spreads, start by looking of our rank 5 puts that are fairly close-to-the-money. Then look for a lower strike put on the same stock with the same expiration. It often helps to use our option position evaluator, *Whatifi2.Xls*, to see if the net credit (or debit) of the spread is better or worse than our estimated net premium. (See "Using Our Whatifi2.Xls Template - New Version," Ot030602.Pdf.) You can also use our template, *Spreadsearch.Xls*, to find attractively priced bull and bear spreads from our options database. (See "A Template to Search for Bull and Bear Spreads," Ot030721.Pdf.)

#### **Q: Can you explain your option ranks?**

We rank naked options from 1 to 5, with 1 being the best for the buyer and 5 being the best for the writer. However, since you cannot buy an option at the bid price, we only rank bid prices as follows: 5 (best for writing), 4 (hold the naked write), and 3 (neutral or close out the naked write). Similarly, since you cannot write an option at the ask price, we only rank the ask prices as 1 (best for buying), 2 (hold the naked write) and 3 (neutral, or close out the purchase). On a typical day, about 5% to 8% of naked options (ask side) are ranked 1 for buying and a similar percentage of our

naked options (bid side) are ranked 5 for buying.

We rank covered call ranks based on the call bid prices, with 1 being the best, 2 being the hold position, and 3 neutral or close the position. Married put ranks are based on the put ask prices, with 1 being to establish the married put (i.e. buy the stock and protect it with the put), 2 being the hold position, and 3 close out the married put.

### Q: What is meant in your Service by undervalued and overvalued?

By undervalued or overvalued, we compare the option's implied volatility to our adjusted volatility forecast. Implied volatility is the volatility needed to produce a particular premium with a Black Scholes model, given all the known variables (stock price, strike price, expiration, interest, and dividends). The specific formula is: (implied volatility – adjusted volatility forecast)/(adjusted volatility forecast). If the implied vola-

tility is below the adjusted volatility forecast, then the option is undervalued. If it is above the adjusted volatility forecast, then the option is overvalued.

**Q: Once I have bought the option, how am I supposed to make a decision to sell it, since the buy ranks are based on the ask prices? Obviously, I cannot sell the option to close my position at the ask price. I have to do it at the bid price. However, the bid prices only have ranks of 5, 4 or 3. How do I interpret these ranks and evaluations?**

If an option ask price is undervalued and recommended for buying, it is unlikely that the bid price is overpriced according to our evaluations. You have several choices. You can wait for the pricing of the option to better reflect its underlying volatility, in which case the rank of the ask side would likely go to a 3. Alternatively, you can close out the option even if the bid price is underpriced.

**Q: What if the stock and option prices are different from what you are showing on your pages?**

Since stock and option prices change constantly, it is likely that the premiums you see quoted when you go to execute a trade will be higher or lower than what we show. One way to check to see if an option is still favorably priced for the strategy chosen (underpriced for a purchase and overpriced for a naked or covered write) is to calculate what our estimated normal price would be using a Black-Scholes model and our *Adjusted Volatility Forecast*. You can find the spreadsheet version of the Black Scholes model in our *Templates Archive* under

the name, *Black.Xls*. We show a sample of this in Figure 3 on page 4.

Here is how you can make these calculations. Enter today's date in cell B2, the current stock price in B3, the strike price in B4, and the expiration date in B5. Also, make sure to enter the current interest rate in B6 and the annualized dividend rate in B7. In cell B8, enter our *Adjusted Volatility Forecast* for that particular option. You can find this number either in the *Options Profiles* online or in column AM of our Daily Download Files (Allnew.Csv, Calls.Csv or Puts.Csv). If the premium number produced is higher than the one you are currently seeing in the market at the stock price entered, then the option is still underpriced and suitable for buying.

**Q: Going to your Selected Options, I find 200 options for each of the major strategies. How do I narrow this list down further?**

Usually investors have certain preferences for the types of options that they may want to buy (or write). For instance, if they are buyers, they may want to look for options that do not expire too soon and which are neither too far out-of-the-money or too deep in-the-money. Again, you can access the *Selected Options* under *Preset Screens* in our *Screener* and then filter out the options that meet your desired criteria.

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#### THE VALUE LINE Daily Options Survey

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Figure 1 - Display Options of Selected Covered Calls

**Value Line Option Screener - Displayed Fields Option - Microsoft Internet Explorer**

**VALUE LINE**

**Available Columns:**

- % In- or Out-of-the-Money
- % Margin
- Adjusted Volatility Forecast
- Buyer's Option Implied Vol
- Buyer's Option Rank
- Buyer's Rank Order
- Buyer's Under/Over Priced
- Call/Put
- Change Per Point
- Common Ticker

**Displayed Columns: (Up to 50)**

- Company/Index
- Common Price
- Common Rank
- Expiration Date
- Strike Price
- Recent Price Bid
- Writer's Option Implied Vol
- Writer's Under/Over Priced
- Cov'd Call/Put Write Protection
- Cov'd Call/Put Write Return

**Sort By:** Cov'd Call/Put Write Return ☒ Descending Order?

☒ Always use saved displayed columns in result window?

**Save** **Close**

Figure 2 - Sample Options Chain from Screener

Value Line Option Screener - Result Table										
Results: 1 - 108 out of 108 option(s) < Previous 1 - 108 Next >										
View Profile Add to Portfolio Export Results Save as port.csv Print-Friendly										
<input type="checkbox"/> Option Ticker	Company/Index	Common Price	Common Rank	Expiration Date	Strike Price	Recent Price Bid	Writer's Option Implied Vol	Writer's Under/Over Priced	Cov'd Call/Put Write Protection	Cov'd Call/Put Write Return
<input type="checkbox"/> (1) ELN CV (ELN)	Bian Corp. ADR	13.02	1	2004-03-20	12.50	1.10	0.61	0.24	0.08	1.09
<input type="checkbox"/> (2) ELN OV (ELN)	Bian Corp. ADR	13.02	1	2004-03-20	12.50	0.55	0.59	0.21	0.08	0.91
<input type="checkbox"/> (3) ELN DV (ELN)	Bian Corp. ADR	13.02	1	2004-04-17	12.50	1.45	0.60	0.05	0.11	0.72
<input type="checkbox"/> (4) ELN PV (ELN)	Bian Corp. ADR	13.02	1	2004-04-17	12.50	0.90	0.59	0.04	0.10	0.63
<input type="checkbox"/> (5) ELN OV (ELN)	Bian Corp. ADR	13.02	1	2004-07-17	12.50	2.10	0.56	-0.17	0.16	0.41
<input type="checkbox"/> (6) ELN DC (ELN)	Bian Corp. ADR	13.02	1	2004-04-17	15.00	0.55	0.61	0.06	0.04	0.35
<input type="checkbox"/> (7) ELN SV (ELN)	Bian Corp. ADR	13.02	1	2004-07-17	12.50	1.55	0.57	-0.16	0.15	0.35
<input type="checkbox"/> (8) ELN JV (ELN)	Bian Corp. ADR	13.02	1	2004-10-16	12.50	2.60	0.56	-0.22	0.19	0.32
<input type="checkbox"/> (9) ELN CC (ELN)	Bian Corp. ADR	13.02	1	2004-03-20	15.00	0.20	0.58	0.16	0.01	0.27
<input type="checkbox"/> (10) ELN VV (ELN)	Bian Corp. ADR	13.02	1	2004-10-16	12.50	2.00	0.56	-0.21	0.19	0.27
<input type="checkbox"/> (11) ELN GC (ELN)	Bian Corp. ADR	13.02	1	2004-07-17	15.00	1.15	0.56	-0.18	0.08	0.26
<input type="checkbox"/> (12) ELN PC (ELN)	Bian Corp. ADR	13.02	1	2004-04-17	15.00	2.45	0.58	0.01	0.03	0.25
<input type="checkbox"/> (13) ELN JC (ELN)	Bian Corp. ADR	13.02	1	2004-10-16	15.00	1.65	0.56	-0.23	0.12	0.23
<input type="checkbox"/> (14) ZEB AC (ELN)	Bian Corp. ADR	13.02	1	2005-01-22	15.00	2.10	0.55	-0.25	0.16	0.21
<input type="checkbox"/> (15) WTB AV (ELN)	Bian Corp. ADR	13.02	1	2006-01-21	12.50	4.20	0.56	-0.27	0.32	0.20

	A	B
1	<b>Figure 3 - Black Scholes Example</b>	
2	Today's Date	02/26/04
3	Common(Index)	17.00
4	Strike Price	15.00
5	Expiration Date	04/17/04
6	Interest % P.A.	2.00
7	Dividend % P.A.	0.00
8	Volatility	82.00
9		
10	Output	
11	Call	\$ 3.13
12	Put	\$ 1.09
13	Future	17.05
14	Call	3.13
15	Call Delta	71%
16	Call Theta	0.0171
17	Put	1.09
18	Put Delta	28%
19	Put Theta	0.0173
20	Gamma	\$0.00065
21	Vega	0.0190

## Spring 2004 Options Seminar Schedule

Register by phone 1-800-654-0508 or go to [www.valueline.com](http://www.valueline.com)

We are pleased to announce our Spring 2004 Options Training Seminars. We designed these sessions to teach you how to use options as an investment tool and how to get the most out of *The Value Line Daily Options Survey*.

### **Continental Breakfast (8:30 to 9:00)**

### **Morning Session (9:00 a.m. to 12:00 noon)**

We start with an introduction to options and an overview of the options market. We then discuss the basic option strategies (Call & Put Buying, Call & Put Writing, Covered Call Writing and Married Put Buying) and we will review the recent performance of our option ranks. We will then show you how to get started with our new, interactive, online service. We will cover such topics as what to look for in an option and how to find options that suit your objectives.

### **Coffee & Tea Break (10:00 a.m.)**

### **Lunch (12:00 Noon to 1:00 p.m.)**

### **Afternoon Session (1:00 p.m. to 4:00 p.m.)**

We will show you how to use our daily download files for advanced option queries. We will walk you through our templates for portfolio tracking, position evaluation and strategy allocations. We will show you how to build a market neutral portfolio, designed to make money in bearish as well as bullish markets. Finally, we will show you how to use option spreads to make optimum use of your capital with limited risk.

There is a registration fee of \$145 for the day, which includes a copy of the presentation. You must make hotel reservations directly with the hotel, phone numbers are provided below. In addition, lunch will be provided. As space is limited, pre-registration is required, and we cannot offer refunds. You may, however, designate someone to attend in your place. You must make hotel reservations directly with the hotel.

### **Locations:**

Las Vegas, NV  
\*Sunday, April 18, 2004  
MGM Grand Hotel & Casino  
3799 Las Vegas Blvd. South  
Las Vegas, NV 89109  
702-891-7777  
For hotel reservations, go to  
[www.mgmgrand.com](http://www.mgmgrand.com)

London, United Kingdom  
\*Sunday, May 2, 2004  
Kensington Marriott  
147 Cromwell Road  
London, SW5 0TH  
(020) 7973-1000  
For hotel reservations, go to  
[www.marriott.com](http://www.marriott.com)

White Plains, NY  
Saturday, May 15, 2004  
Crowne Plaza  
66 Hale Avenue  
White Plains, NY 10601  
914-682-0050  
For hotel reservations, go to  
[www.crowneplaza.com](http://www.crowneplaza.com)

\* The April 18 Seminar in Las Vegas and the May 2 Seminar in London will be given on a Sunday (the day after the Value Line Investment Survey seminars).

**Market Review - Week Ending 02/24/04**

<b>Market Indexes</b>	<b>Close</b>	<b>% Change</b>	<b>Volatility Indexes*</b>	<b>% Change</b>
Dow Jones Industrial	10,566.37	-1.39%		
Nasdaq 100	1,462.05	-2.96%	24.68	3.39%
S&P 500	1139.09	-1.55%	15.90	3.25%

**Performance Tables**

<b>Common Ranks</b>	<b>% Change</b>	<b>Count</b>	<b>Percent</b>
Rank 1	-4.58%	6695	7.95%
Rank 2	-4.16%	17252	20.48%
Rank 3	-3.42%	46544	55.25%
Rank 4	-2.63%	10571	12.55%
Rank 5	-2.93%	3184	3.78%

**Call Buyer's Ranks**

Rank 1	-20.59%	3314	7.86%
Rank 2	-19.47%	8475	20.11%
Rank 3	-14.26%	30359	72.03%

**Call Writer's Ranks**

Rank 5	18.00%	1736	5.91%
Rank 4	15.49%	4728	16.09%
Rank 3	17.62%	22918	78.00%

**Covered Call Ranks**

Rank 1	2.65%	1967	6.69%
Rank 2	-0.45%	4913	16.72%
Rank 3	0.07%	14554	49.53%
Rank 4	-2.24%	5529	18.82%
Rank 5	-0.51%	2419	8.23%

**Put Buying Ranks**

Rank 1	13.22%	4298	10.18%
Rank 2	15.99%	8302	19.66%
Rank 3	19.08%	29626	70.16%

**Put Writer's Ranks**

Rank 5	-9.38%	1967	6.23%
Rank 4	-11.82%	4929	15.62%
Rank 3	-13.05%	24653	78.14%

**Married Put Ranks**

Rank 1	-1.62%	3370	7.98%
Rank 2	-1.24%	8898	21.07%
Rank 3	-1.32%	20326	48.14%
Rank 4	-1.61%	6312	14.95%
Rank 5	-2.07%	3320	7.86%

\* - VIX for the S&P 100 and VXN for the Nasdaq 100