THE VALUE LINE
Daily Options Survey
On Line at the Opening Bell, Every Trading Day

The Weekly Option Strategist

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Review of Spreadsearch.Xls

In This Issue:

This week, we review Spreadsearch.Xls, the template we designed to find favorably priced bull and bear spreads from among the 80,000 options that trade every day. Spreadsearch.Xls uses our daily *File Downloads* - Allnew.Csv, Calls.Csv, or Puts.Csv. You can also use the option data on individual stocks that you save from the option chains in *Interactive Options* or from the *Option Screener*.

Favorably Priced Spreads

We last reviewed basic bull and bear spreads in our July 7, 2003 report, "Bull and Bear Spread Examples" (Ot030701.Pdf). There are four types of basic spreads.

(1) Bull call spreads are when you buy the lower strike, higher premium, call and write the higher strike, lower premium, call. Your account is debited the net premium that you pay to establish these spreads; therefore they are celled *debit spreads.*

(2) Bear put spreads are when you buy the higher strike, higher premium put, and write the lower strike, lower premium, put. With the bear put spread, your account is also debited. Hence it is also a *debit spread.*

(3) Bull put spreads are when you write the higher strike, higher premium, put and buy the lower strike, lower premium, put. With the bull put spread, you actually take in premium, which is credited to your account; therefore, the bull put spread is called a *credit spread.*

(4) Bear call spreads are when you write the lower strike, higher premium, call and buy the higher strike, lower premium, call. It is also a *credit spread.*

In all our templates, including *Spreadsearch.Xls*, we show option purchases (long positions) to be positive numbers, and option writes (short positions) to be negative numbers. Using this logic, debit spreads net out as positive numbers and credit spreads net out as negative numbers.
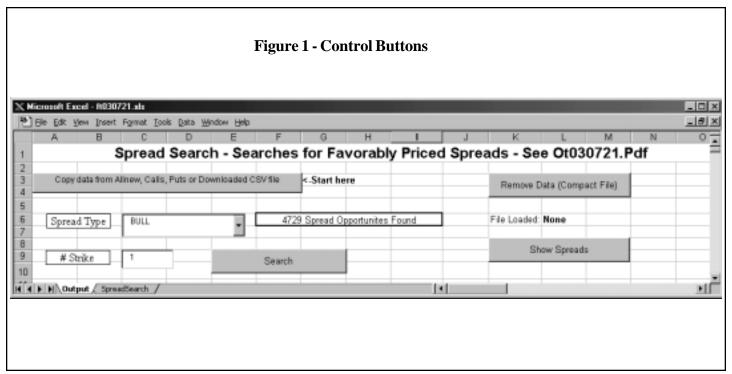
What then do we mean by a spread being favorably priced? We mean that the net premium of the debit spread is narrower than the net debit of our *Estimated Normal Prices.* (Our *Estimated Normal Prices* are the prices of the options calculated from our *Adjusted Volatility Forecasts*.)

Similarly, a credit spread is favorably priced if the net credit of writing one option at the bid price and buying another at the ask price is wider (i.e. a larger negative number) than the difference between the estimated normal prices for these two options. (See Figure 2 for examples of favorably priced debit and credit spreads.)

Using Spreadsearch.xls

As is the case with most of our templates, you will have to download the template file along with one of our data files (Allnew.Csv, Calls.Csv or Puts.Csv) from our website. The template can be found under *Option Templates*, while the data files can be found under *File Downloads (Daily).* Once you save the files to your computer, open the spreadsearch.xls and the data file you downloaded. If the data file is compressed (has an .exe extension), it will be necessary to double click on the file to extract the .Csv file.

At this point, if you look under the Window menu in Excel (on the top of the screen next to help), you should see both the Spreadsearch.xls and the data file. Now bring up Spreadsearch.xls and click on the button marked *Copy data from Allnew, Calls or Puts, or Download CSV file (See Figure 1 on page 2).* A dialogue box will appear prompting you to select the file you want. If you chose *Download CSV fil*e, you will be prompted with the usual Excel file open dialogue box. The *Download CSV file* should only be selected if you are using a file you downloaded either from our option screener, interactive option section or your online portfolio.

Figure 1 - Control Buttons

Now that you have loaded data into the template, we can begin using it. First, select your *Spread Type - Bull* or *Bear* by using the dropdown box. Next, enter the number of strikes in the spread in the box marked *# of strikes*. Now click on search. A box will display the num-

ber of spread opportunities found for the particular type of spread you selected. To view the options for each spread opportunity, click on the *Show Spreads* button. This will take you to the part of the sheet that shows which option is to be purchased and which option is to be written.

Here are a few examples. If you selected *Bull* and entered 1 for # of strikes, you will be searching for favorably priced bull spreads, where you are buying an option at one strike and writing another option at the next (i.e. 1) higher strike. On the other hand, if you selected *Bear* and enter 2 for # of strikes, then you are buying options at a particular strike and writing others two strikes lower.

Looking at Figure 2 on page 3, we show a sample of the output for a bull call spread. In row 14, we are buying the 3Com January 2005 $5.00 strike call at $0.55 and writing the January 2005 $7.50 strike call at $0.10. The net premium shown in column BP is $0.45. Since this is less than the net to the estimated normal prices shown in column BQ, which is $0.59, the spread is favorably priced.

Looking at row 16, we see an example of a favorably priced bull put spread. Here we have bought the 3Com January 2005 $5.00 put at 0.65 and written the January 2005 $7.50 for $2.60 for a net premium of negative $1.95.
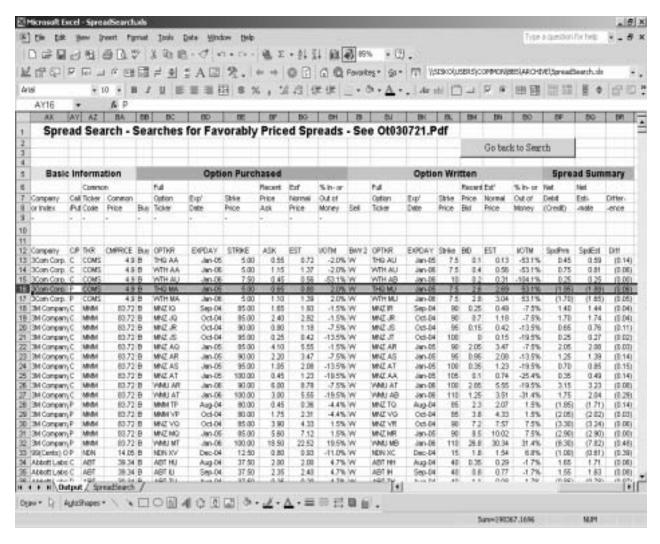
Since this negative number is less than our net of the estimated premiums (-$1.89) the spread is again favorably priced.

Narrowing Down Your Selection

You can use Excel's built-in autofilter to further narrow down the results you received from Spreadsearch.xls. To do this, place your cursor in cell A12. Then click Tools->Filter->Autofilter. Arrows should appear next to the column headings. Use the arrows to select a particular value for a field, or you can also click on custom to enter your own. An example would be if you were only looking for spreads that are at least three months away from expiration. In that case, you would click on the arrow in column BK12 and click on custom. Using the pulldown box, select "is greater than" and then in the box next to it put in "11/20/04". Click "Ok" and your results will automatically filter out earlier expirations.

Report Prepared by
Lawrence D. Cavanagh
Editor, Value Line Options
vloptions@valueline.com

Figure 2 - Spreadsearch.xls

Market Review - Week Ending 08/03/04

Market Indexes	Close	% Change	Volatility Indexes*	% Change
Dow Jones Industrial	10,120.24	0.35%		
Nasdaq 100	1,379.14	-0.89%	25.08	3.17%
S&P 500	1,099.69	0.44%	16.03	-3.14%

Performance Tables

Common Ranks	% Change	Count	Percent
Rank 1	-0.16%	10416	8.92%
Rank 2	-0.03%	22073	18.91%
Rank 3	0.02%	59860	51.27%
Rank 4	-0.27%	18394	15.76%
Rank 5	-0.19%	6007	5.15%

Call Buyer's Ranks			
Rank 1	-2.99%	3407	5.82%
Rank 2	0.45%	8045	13.75%
Rank 3	4.80%	47064	80.43%

Call Writer's Ranks			
Rank 5	-1.02%	4148	10.72%
Rank 4	-0.56%	7509	19.41%
Rank 3	0.17%	27032	69.87%

Covered Call Ranks			
Rank 1	0.29%	4374	11.31%
Rank 2	0.02%	7377	19.07%
Rank 3	0.04%	18734	48.42%
Rank 4	-0.26%	5777	14.93%
Rank 5	-0.45%	2427	6.27%

Put Buying Ranks			
Rank 1	4.65%	3161	5.44%
Rank 2	2.83%	7739	13.31%
Rank 3	-0.11%	47250	81.26%

Put Writer's Ranks			
Rank 5	1.59%	5330	13.30%
Rank 4	-0.32%	7586	18.93%
Rank 3	-0.56%	27153	67.77%

Married Put Ranks			
Rank 1	-0.33%	3310	5.69%
Rank 2	0.05%	7783	13.38%
Rank 3	0.12%	25977	44.67%
Rank 4	0.06%	11961	20.57%
Rank 5	0.03%	9119	15.68%

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