



# THE VALUE LINE

## Daily Options Survey

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

Pages 1-2

### *The Weekly Option Strategist*

January 26, 2004

## Update on Our Model Portfolios

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To help subscribers use our Service, we post two *Model Portfolios* at our website. We update these portfolios with new prices every day and with new trades as they occur. Here is a brief description of what goes into these two portfolios.

#### **Port.Html: Covered Calls and Long Options.**

We designed *Port.Html* as a moderate risk investment portfolio for the person who would like to take advantage of our covered call and call and put buying recommendations. We started this portfolio on October 31, 2001, with an initial value of \$52,912. As of January 20, 2004, its value stood at \$57,424, up 8.5% from its starting value. Over the same 27-month period, the S&P 500 was up 7.5%. The current weights of the portfolio are as follows: 40.0% covered calls, 3.3% put purchases, 1.5% call purchases, and 55.5% in interest-bearing cash. We plan to bring this hedge to the approximately following weights in the near future: 60% covered calls, 4% put purchases, 4% call purchases and 32% in interest-bearing cash.

Looking at Figure 1 on page 2, notice that Open Trades show a mark-to-market loss of \$2,119, while Closed Trades show a gain of \$6,631. Total profits (closed and open) are \$4,512, with covered calls showing a gain of \$13,838, call buying a loss of \$8,594 and put buying a loss of \$732.

#### **Porthedge.Html: Naked Long and Short Options**

Porthedge.Html consists of naked call and put buying and writing positions. We set this portfolio up to be basically market neutral with the bearish put buys and call writes offsetting the bullish call buys and put writes. We commenced this portfolio on March 19, 2002. Since then, it has shown a gain of 13.3% versus a gain of only 3.0% in the S&P 500. At present, the portfolio is 41.0% invested in options and 59.0% in interest-bearing cash.

A breakdown of the profits on Porthedge.Html is shown in Figure 2 (also on page 2). Over the 22-month period, call buying has shown a gain of \$2,245, call writing a gain of \$2,351, put buying a loss of \$6,368 and naked put writing a gain of \$15,035.

We post these portfolios in standard Internet-ready format (HTML) so that they you can read them on the screen (and print them) or download and read them into your spreadsheet program. A Sample of Porthedge.Html is shown in Figure 3 on page 3. The codes for transactions (2<sup>nd</sup> column) are as follows: cc for covered calls, cb for call buying, pb for put buying, cs for (naked) call writing and ps for (naked) put writing. The Position (15<sup>th</sup> column) is the underlying stock price minus the premium for covered calls (times the number of options) and the premium as a positive number for long calls and puts, and as a negative number for short call and put writing. The P/L (16<sup>th</sup> column) is the gain or loss on this position. The \$Delta column (17<sup>th</sup>) shows each trade's stock equivalent position. The Capital Requirement (column on the right) is as follows: for covered calls, it is the total amount for the stock minus the total premium; for call and put buying, it is the total premium; and, for naked call and put writing, it is the total funds (in addition to the premium) required to post margin.

#### **Opening and Closing Trades**

We make changes to this portfolio as needed. Usually, if it is a call or put purchase or a covered call (initiated as a 1), we wait for the rank to drop to a 3. Similarly, if it is a naked write (initiated as a 5), we wait for the rank to rise to a 3. We also close out positions and establish new ones (sometimes in the same stock), if it gets to be three times its original size.

Every week, we mark every the new trade in red. You will find the new open positions under current positions and the new closed positions at the very bottom of the page.

You might find the following Weekly Option Strategist reports helpful.

Ot031013.Pdf – Update on Our Model Portfolios

Ot020603.pdf - Update on our Sample Portfolio of Long and Short Options

Ot020325.pdf - Our New Sample Portfolio of Long and Short Options

Ot011105.pdf - A Model Portfolio (Covered Calls and Long Options)

If you have any questions on these portfolios, please email us at [vloptions@valueline.com](mailto:vloptions@valueline.com).

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#### Figure 1 - Profit and Loss on Port.Html 1/20/04

	<i>Open Trades</i>	<i>Closed Trades</i>	<i>Total Trades</i>
<i>Call Buying</i>	\$ (1,105)	\$ (7,489)	\$ (8,594)
<i>Covered Calls</i>	\$ 71	\$ 13,767	\$ 13,838
<i>Put Buying</i>	\$ (1,085)	\$ 353	\$ (732)
<b>Total</b>	<b>\$ (2,119)</b>	<b>\$ 6,631</b>	<b>\$ 4,512</b>

#### Figure 2- Profit and Loss on Porthedge.Html 1/20/04

	<i>Open Trades</i>	<i>Closed Trades</i>	<i>Total Trades</i>
<i>Call Buying</i>	\$ 1,820	\$ 425	\$ 2,245
<i>Call Writing</i>	\$ (745)	\$ 3,096	\$ 2,351
<i>Put Buying</i>	\$ (2,735)	\$ (3,633)	\$ (6,368)
<i>Put Writing</i>	\$ 1,523	\$ 13,512	\$ 15,035
<b>Total</b>	<b>\$ (137)</b>	<b>\$ 13,400</b>	<b>\$ 13,263</b>



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**Figure 3 - Covered Call Writing Ranks vs. S&P 500**

## Covered Call Writers Ranks

	Rank 1	Rank 2	Rank 3	Rank 4	Rank 5	S&P 500
<b>Yearly</b>						
12/31/2002	-5.7%	-20.2%	-24.2%	-31.0%	-22.8%	-23.5%
12/30/2003	51.6%	25.2%	23.8%	18.8%	-15.0%	25.6%
Since Q3 01	104.4%	35.9%	25.6%	7.7%	-18.3%	7.6%
<b>Quarterly</b>						
12/26/01	39.7%	33.3%	33.4%	31.9%	23.8%	13.5%
03/28/02	1.8%	-1.6%	-2.2%	-2.3%	4.3%	-0.2%
06/25/02	-11.5%	-12.6%	-15.7%	-20.4%	-19.8%	-14.9%
09/24/02	-12.4%	-15.8%	-17.4%	-23.5%	-24.0%	-16.1%
12/31/02	19.4%	10.1%	11.4%	15.9%	21.5%	7.4%
03/25/03	7.5%	8.9%	2.2%	-1.9%	-8.5%	-0.6%
06/24/03	15.5%	-1.7%	7.5%	8.1%	-13.5%	12.4%
09/30/03	9.1%	13.4%	2.3%	4.4%	1.9%	-1.6%
12/30/03	11.2%	2.7%	10.1%	8.1%	5.4%	11.0%
<b>Monthly</b>						
1/28/2003	4.9%	3.1%	1.8%	0.4%	-0.5%	-2.4%
2/25/2003	4.7%	2.1%	-1.7%	-3.0%	-4.4%	-2.3%
3/25/2003	-2.2%	3.5%	2.1%	0.8%	-3.8%	4.3%
4/29/2003	11.0%	1.0%	3.9%	2.7%	-8.1%	4.9%
5/27/2003	3.8%	-3.5%	2.6%	2.0%	-9.0%	3.7%
6/24/2003	0.2%	0.8%	0.8%	3.2%	3.4%	3.4%
7/29/2003	9.3%	2.5%	1.7%	1.9%	0.4%	0.6%
8/26/2003	4.6%	6.8%	0.6%	0.3%	1.6%	0.8%
9/30/2003	-3.9%	4.1%	0.0%	1.3%	-0.1%	-0.1%
10/27/2003	3.7%	0.5%	8.0%	3.2%	1.1%	4.0%
11/25/2003	8.0%	-0.1%	0.6%	0.9%	1.7%	1.3%
12/30/2003	-0.7%	2.3%	1.4%	3.9%	2.5%	5.3%
<b>Weekly</b>						
10/7/2003	0.8%	3.1%	3.5%	3.3%	2.3%	3.6%
10/14/2003	2.4%	1.4%	1.8%	0.9%	-0.1%	1.4%
10/21/2003	0.2%	6.2%	7.2%	8.4%	8.6%	-0.3%
10/27/2003	5.2%	2.1%	2.3%	2.9%	3.3%	-0.6%
11/4/2003	3.2%	1.5%	1.5%	1.4%	0.7%	0.6%
11/11/2003	1.7%	0.8%	0.0%	-0.6%	-1.8%	0.5%
11/18/2003	8.7%	6.9%	7.3%	7.1%	6.5%	-1.2%
11/25/2003	5.4%	4.2%	4.0%	3.7%	2.1%	1.4%
12/2/2003	2.4%	1.3%	0.0%	-1.4%	-1.5%	1.2%
12/9/2003	-1.5%	-1.9%	-2.0%	-1.3%	-0.8%	-0.6%
12/16/2003	1.5%	0.7%	0.8%	0.7%	1.3%	1.4%
12/23/2003	1.8%	1.4%	1.6%	1.9%	1.8%	1.8%
12/30/2003	-2.5%	-2.2%	-2.3%	-2.5%	-2.5%	1.4%
1/6/2004	-1.4%	-2.1%	-3.3%	-4.4%	-2.7%	1.1%
1/13/2004	0.8%	0.7%	1.2%	0.4%	-0.2%	-0.6%

**Market Review - Week Ending 01/20/04**

<b>Market Indexes</b>	<b>Close</b>	<b>% Change</b>	<b>Volatility Indexes*</b>	<b>% Change</b>
Dow Jones Industrial	10,528.66	0.97%		
Nasdaq 100	1,552.87	1.84%	20.49	-11.11%
S&P 500	1138.77	1.56%	15.21	-15.69%

**Performance Tables**

<b>Common Ranks</b>	<b>% Change</b>	<b>Count</b>	<b>Percent</b>
Rank 1	2.52%	6581	8.20%
Rank 2	3.07%	16521	20.59%
Rank 3	2.22%	42545	53.03%
Rank 4	2.45%	11227	13.99%
Rank 5	2.12%	3348	4.17%

**Call Buyer's Ranks**

Rank 1	14.30%	3708	9.26%
Rank 2	16.80%	8375	20.92%
Rank 3	12.47%	27942	69.81%

**Call Writer's Ranks**

Rank 5	-7.28%	1606	5.59%
Rank 4	-11.09%	4254	14.80%
Rank 3	-12.28%	22882	79.61%

**Covered Call Ranks**

Rank 1	1.04%	1888	6.57%
Rank 2	0.99%	4455	15.50%
Rank 3	0.13%	13671	47.56%
Rank 4	0.36%	5871	20.43%
Rank 5	0.34%	2857	9.94%

**Put Buying Ranks**

Rank 1	-8.97%	5034	12.48%
Rank 2	-10.00%	8527	21.14%
Rank 3	-10.50%	26780	66.38%

**Put Writer's Ranks**

Rank 5	6.61%	1683	5.45%
Rank 4	7.90%	4400	14.24%
Rank 3	8.90%	24822	80.32%

**Married Put Ranks**

Rank 1	1.05%	3875	9.61%
Rank 2	0.91%	8822	21.87%
Rank 3	1.04%	19702	48.84%
Rank 4	1.15%	5499	13.63%
Rank 5	1.39%	2443	6.06%

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