

## Protection for Stock Positions

### Requirements

- Access to brokerage account for stock and option purchasing/selling
- Knowledge on Option contracts

### Benefits

- Protects against downward shifts in the markets
- Guarantees a Sell price for stock for the life of the option contract
- Can be used for new stock positions, or can be used to lock in profits for existing positions
- If you believe stock price is reaching a long-term top, and could retrace significantly, Buying the Put options allows you to lock in profit level.

### Risks

- Purchasing of Put option is an additional cost to your position, where cost will not be recovered.
- For existing positions, is an additional cost if stock price continues to rise

### How to ...

- With existing stock position, or in evaluation for purchasing stock, choose a Put option contract to serve as protection against falling stock price.
- Evaluate where you would like protection to be set. For example, purchase stock at \$61.50, the nearest strike is the \$60 put options.
- Also evaluate for what length of time you require the protection, considering a put option that spans this time frame.
- Purchase Put option.

### Tips & Hints

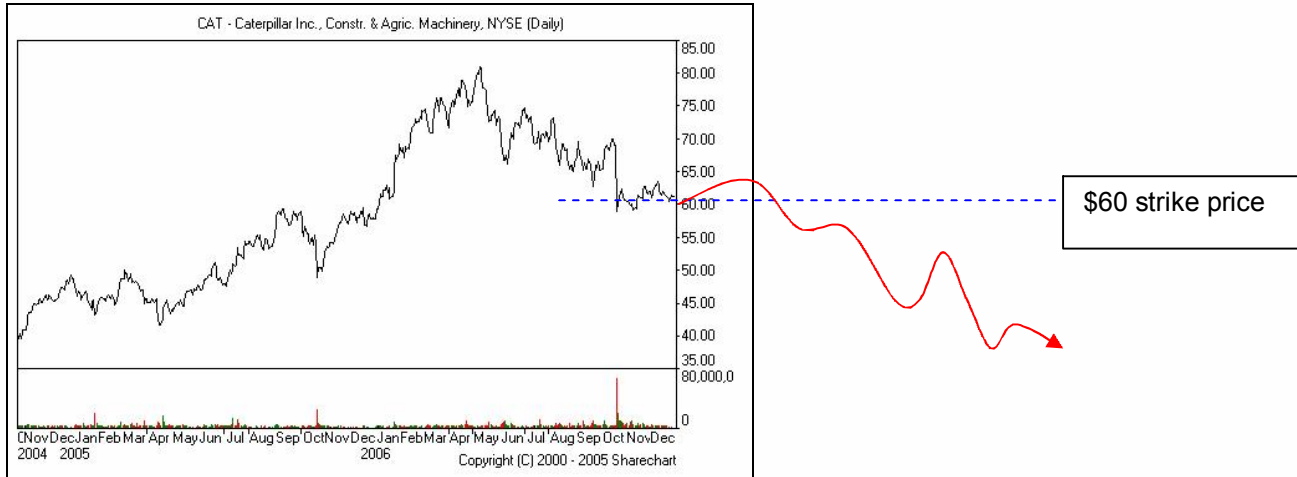
- A Put option contract gives you the right, but not the obligation, to Sell your stock at a set price, on or before a set time in the future. Therefore, at any time during the life of the Put options, you can Exercise the option contracts and sell your shares at the designated price.
- Choose a Put option with a strike price that is nearest your original purchase price (as long as the share price has not significantly moved since you entered the position). This will protect your original investment.
- Remember to adjust your “average purchase price” with the cost of the put options.
- If you suspect that an existing stock position may be at the end of its upwards trend, but do not wish to sell your stock, purchase a put option with a strike price at the expected high levels. This will give you the right to sell your stock at that price (if you want), especially if the stock price does fall significantly.
- 1 option contract = 100 shares (US stock/option market)

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INDEPENDENT STRATEGY ANALYSIS

**Example**

- Current stock price = \$61.30
- Nearest Put option strike = \$60
- Time frame = 1 year



- The Jan2008 60.00 Puts would cost us \$5.00 per share (see below option quote)
- Therefore, to protect our position between now and Jan 2008, we have a cost of \$5 per share, or 8.15% (\$5 divided by \$61.30 purchase price)
- Because there is \$1.30 difference between the strike price and the purchase price, our maximum loss is \$1.30 + \$5 = \$6.30, or 9.5%
- Our Breakeven level with the cost of the Put option is \$61.30 + \$5 = \$66.30

Symbol <b>CAT</b>	Market USA	Range Near-The-Money	Type Puts	Expiration Jan 08	<a href="#">View Chain</a>																																																																																																											
<p><b>CATERPILLAR INC</b> <span style="float:right">Chart   Volatility View   News   Xspreads</span></p> <table border="1"> <thead> <tr> <th>Symbol</th> <th>Last</th> <th>Change</th> <th>Bid</th> <th>Ask</th> <th>High</th> <th>Low</th> <th>Volume</th> </tr> </thead> <tbody> <tr> <td><a href="#">CAT</a></td> <td>61.33</td> <td>0.00</td> <td><a href="#">60.39</a></td> <td><a href="#">61.67</a></td> <td>0.00</td> <td>0.00</td> <td></td> </tr> </tbody> </table> <p style="text-align:center">CAT Expiration Months: <a href="#">Jan 07</a>   <a href="#">Feb 07</a>   <a href="#">May 07</a>   <a href="#">Aug 07</a>   <b>Jan 08</b>   <a href="#">Jan 09</a></p> <table border="1"> <thead> <tr> <th colspan="13">Puts</th> </tr> <tr> <th>Strike</th> <th>Symbol</th> <th>Last</th> <th>Chg</th> <th>Bid</th> <th>Ask</th> <th>Day High</th> <th>Day Low</th> <th>Vol</th> <th>Open Int</th> <th>Return Static</th> <th>Return Unassigned</th> <th></th> </tr> </thead> <tbody> <tr> <td colspan="13"><b>January 2008</b> <span style="float:right">(360 days to expiration)</span></td> </tr> <tr> <td>55.00</td> <td><a href="#">WKTMK</a></td> <td>3.00</td> <td>0</td> <td><a href="#">2.95</a></td> <td><a href="#">3.10</a></td> <td>0</td> <td>0</td> <td>0</td> <td>5,884</td> <td>5.67%</td> <td>5.67%</td> <td><a href="#">Trade</a></td> </tr> <tr> <td><b>60.00</b></td> <td><a href="#">WKTML</a></td> <td>4.90</td> <td>0</td> <td><a href="#">4.80</a></td> <td><b>5.00</b></td> <td>0</td> <td>0</td> <td>0</td> <td>14,868</td> <td>8.70%</td> <td>8.70%</td> <td><a href="#">Trade</a></td> </tr> <tr> <td>65.00</td> <td><a href="#">WKTMH</a></td> <td>7.50</td> <td>0</td> <td><a href="#">7.40</a></td> <td><a href="#">7.60</a></td> <td>0</td> <td>0</td> <td>0</td> <td>2,561</td> <td>6.48%</td> <td>12.85%</td> <td><a href="#">Trade</a></td> </tr> <tr> <td>70.00</td> <td><a href="#">WKTMN</a></td> <td>10.70</td> <td>0</td> <td><a href="#">10.60</a></td> <td><a href="#">10.80</a></td> <td>0</td> <td>0</td> <td>0</td> <td>7,181</td> <td>3.25%</td> <td>17.85%</td> <td><a href="#">Trade</a></td> </tr> </tbody> </table> <p style="text-align:center">Yellow options are in-the-money</p>						Symbol	Last	Change	Bid	Ask	High	Low	Volume	<a href="#">CAT</a>	61.33	0.00	<a href="#">60.39</a>	<a href="#">61.67</a>	0.00	0.00		Puts													Strike	Symbol	Last	Chg	Bid	Ask	Day High	Day Low	Vol	Open Int	Return Static	Return Unassigned		<b>January 2008</b> <span style="float:right">(360 days to expiration)</span>													55.00	<a href="#">WKTMK</a>	3.00	0	<a href="#">2.95</a>	<a href="#">3.10</a>	0	0	0	5,884	5.67%	5.67%	<a href="#">Trade</a>	<b>60.00</b>	<a href="#">WKTML</a>	4.90	0	<a href="#">4.80</a>	<b>5.00</b>	0	0	0	14,868	8.70%	8.70%	<a href="#">Trade</a>	65.00	<a href="#">WKTMH</a>	7.50	0	<a href="#">7.40</a>	<a href="#">7.60</a>	0	0	0	2,561	6.48%	12.85%	<a href="#">Trade</a>	70.00	<a href="#">WKTMN</a>	10.70	0	<a href="#">10.60</a>	<a href="#">10.80</a>	0	0	0	7,181	3.25%	17.85%	<a href="#">Trade</a>
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