Project

Finance

Strategies Using Options al Affiliation GE Company covered call trade

Covered call refers to an instrument in the financial market whereby the seller of call options has corresponding ownership on the amounts of the underlying instruments. Strategies do take place when it comes to covered call especially where the trader buys the underlying instruments and at the same time makes a sell on the issue in open market. The underlying instrument is only used to provide the cover as the shares are at certain times delivered to the buyer of call. Writing a call will always generate premium that is paid by option buyer. The writer will have the advantage of keeping his profit once the stock prices rise or remain the same and the writer loses profit if the stock value reduces. The payoffs on the covered call position are related to the short put standing, the premium is the same as of the naked put (Kendrick, 2012).

General electric trade shows the highest potential yields since it has bid premium of $1. 14 that yields 12. 23% and GE decreased its dividend to $10 from a high of $31 per quarter. Let’s look at the scenarios of pay offs at GE in a minimum span of six months,

One has an alternative of 100 shares at the price of $18. 79 and sells the shares in January at $19. 00 call at $1. 14 per share and after minimum number of days receive $114. 00, later on prior to expiration collect $30. 00 with almost three times the original expected yield.

Protective Put

Is a risk management strategy for investors that involve use of shares and stocks to guard against the unrealized gains loss. It reduces the investor’s possible gain from the security he owns but is also a form of insurance. In the market the GE has provided certain basis from which investors can make

proper analysis, example of which we use here.

An investor purchased a stock of $12 that now is rated at a worth of $24 but has not put it on sell, the unrealized gains can be rated at $12. The investor can as well purchase a put option for the underlying stock if he still believes that he is not ready to sell but is also keen not to lose the gain of twelve. The investor can be able to increase the put option gain if the prices continue to rise and losses when they fall as illustrated in the graph.

Vertical Spread

An option can be said to be a strategy that is used by investors in trading. It involves a simultaneous purchase and sale of two options that are categorized under the same type but have different expiration dates. The two are sold at different strike prices. The payoffs are shown by the narrowing and albeit, widening of the differences that exists between the options premium position (Kendrick, 2012).

General electric's has given its stock holders such an option in the past and present trading which has become more important in determination of the trends in the stock market. The most common vertical spread has been the bull vertical spread. The bull vertical spread used below shows the company's profits in relation to payoffs. This has been illustrated in the graph below.

References

Kendrick, L.(2012). Stock Markets and Options, New York NY: McGraw-Hill