



Registered Investment Advisor

## STEIN WHITTINGTON DENIEL INVESTMENT ADVISORS

# Wealth Manager

**October 09**

### COVERED CALLS VS. BUY AND HOLD - A SUCCESS STORY

This is not our usual newsletter. We chose to show an actual example of how Covered Call Writing compares to the traditional "Buy and Hold" strategy. This is a story that happened when a real client said he was 'sad' at having to sell his Coca Cola at \$45 when the stock was at \$50.32. So we embarked on a comparison. *[This is when, per the SEC, we must remind you that: "Past performance is no indication of future returns".]* Following is the actual sequence of transactions.

Description	Shares/ Calls	Date	Price per share	Amount	
Buy Coca Cola	600	16-Oct-08	43.94	\$ (26,364)	<i>Initial Stock Purchase</i>
Coke Nov @47.50	6	16-Oct-08	1.38	\$ 827	<i>Covered Call Sold</i>
Coke Nov @47.50	6	22-Nov-08		\$ -	<i>Call Expired</i>
Coke Dec @47.50	6	24-Nov-08	1.08	\$ 647	<i>Covered Call Sold</i>
Dividends received		15-Dec-08	0.38	\$ 228	
Coke Dec @47.50	6	20-Dec-08		\$ -	<i>Call Expired</i>
Coke Jan @45	6	22-Dec-08	1.53	\$ 917	<i>Covered Call Sold</i>
Coke Jan @45	6	17-Jan-09		\$ -	<i>Call Expired</i>
Coke Mar @45	6	27-Jan-09	1.23	\$ 737	<i>Covered Call Sold</i>
Coke Mar @45	6	21-Mar-09		\$ -	<i>Call Expired</i>
Coke May @45	6	23-Mar-09	1.23	\$ 737	<i>Covered Call Sold</i>
Dividends received		01-Apr-09	0.41	\$ 246	
Coke May @45	6	16-May-09		\$ -	<i>Call Expired</i>
Coke Jul @45	6	18-May-09	1.68	\$ 1,007	<i>Covered Call Sold</i>
Dividends received		01-Jul-09	0.41	\$ 246	
<b>Average Cost after options &amp; dividends.</b>	600		34.63	\$ (20,775)	
Stock Sold	-600	17-Jul-09	44.98	\$ 26,990	<i>Stock called away</i>
Profit or (Loss) / % return				\$ 6,215	<b>29.92%</b>

Here is an actual example of how the Covered Call Strategy works.

This investment took place during the October 08 to July 09 period, during one of the worst markets we have seen in recent history.

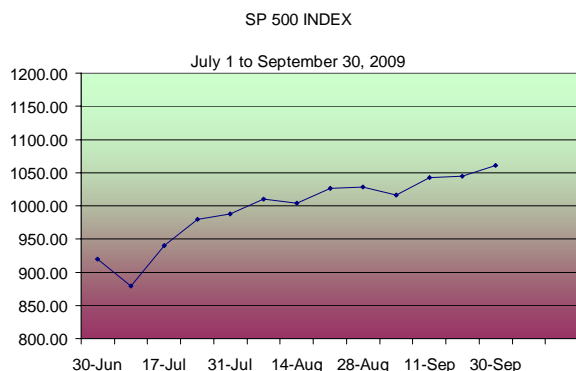
The return with Covered Calls was almost 30% vs. 17.7% return with Buy and Hold (lower box)

Now, let's analyze what the same investment would have yielded had we not sold the Covered Calls and had we been able to sell the stock at the higher price of \$50.32, instead of \$45.00 [the strike price of the call sold].

Buy Coca Cola	600	16-Oct-08	43.94	\$ (26,364)	<i>Initial Stock Purchase</i>
Dividends received		15-Dec-08	0.38	\$ 228	
Dividends received		01-Jul-09	0.41	\$ 246	
Dividends received		01-Jul-09	0.41	\$ 246	
<b>Average Cost after dividends.</b>	600		42.74	\$ (25,644)	
Stock Sold	-600	17-Jul-09	50.32	\$ 30,182	<i>Stock sold</i>
Profit or (Loss) / % return				\$ 4,538	<b>17.70%</b>

Had markets not recovered, our client would have continued to receive premiums, which bring more \$\$\$ than just dividends.

## THE QUARTER IN REVIEW



### The Third Quarter of 2009.

The second quarter of 2009 was strong; the third quarter was even stronger as the DOW jumped 15% during the quarter for its best performance since the fourth quarter of 1998 and its third best quarter since 1939. Similarly, the S&P500 and the Nasdaq each gained 15% during the quarter, also their best quarter since 1998. Thus, at the end of the third quarter, the DOW stood at 9712.28, the S&P500, at 1057.08 and the Nasdaq at 2122.42. All three averages, however, remain well below their October 2007 highs; for example, the S&P500 remains 32% below its October 2007 high.

During the quarter some of the foreign markets also performed strongly. The Exchange Traded Fund for Brazil (EWZ) was up 26% during the quarter; the ETF for India (EPI) was also up strongly. The Chinese markets have been a bit more skittish during the quarter. As the United States still possesses the world's largest economy, United States markets led most of the world markets during the past quarter.

The VIX index measures volatility. Volatility is considered by experts as a measure of risk; the higher the volatility, the higher the risk environment. During October 2008 the VIX index reached levels as high as 80 (during last years steep market decline); by the end of 2008, the VIX stood at 40. This past quarter the VIX has remained within fairly narrow ranges of 26.22 at the beginning of the quarter and ending at 35.61 on the last day of the quarter. The VIX index is a fairly reliable, broad index of market risk and given these readings, we have to believe that a lot of risk has been reduced from the equity

markets.

Going into the Fourth Quarter, traditionally a good one, we are fairly optimistic, even if we have continued to hold some liquidity in our clients' portfolios. We are cautious about the month of October, particularly after the spectacular moves so far this year. Our basic optimism stems from the fact we do not see a "bubble" environment in the equity markets at this time, P/E's are reasonable and inflation, which will certainly come, has so far not been widely experienced. Remember, inflation is not a good environment for healthy equity markets, even if stocks are considered one of the best hedges against inflation, at least in the early stages.

John Mackovic. We are pleased to announce that former NFL and college football coach, John Mackovic, of La Quinta, has joined our firm. John will be involved in meeting with clients, working with us at Seminars, and generally promoting our firm and its investment management strategies with Covered Call Writing. We welcome John, and his lovely wife, Phyllis, to our family.

Seminar at Mira Monte. Our next seminar will take place at the Mira Monte Hotel and Resort in Indian Wells on Tuesday, October 27, 2009, beginning at 8:30 a.m. As usually, a full breakfast will be served. The Seminar will run until about 10:30 that morning. Our clients are always welcome. Please call to RSVP if you wish to attend.

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