

tradealert



Share Replica Income Strategy



The Share Replica Income Strategy buying a long term deep in the money call option and writing a short term out of the money call option. The strategy closely replicates a share covered call write and seeks to benefit from rapid time decay of out of the money short term call options.

QBE

**Call Option Yield:
12% for 7 weeks**

QBE is an Australian insurance and reinsurance group with a strong global presence. The company operates primarily in general insurance markets, with the majority of premium derived from outside of Australia, particularly in the US and Europe. The company has established a strong history of growth by acquisition and has strong management.

After its full year report in late February, QBE experienced a 19% fall in its share price in as less than two weeks. The sell off appears overdone as the recent rally attests to. This opens an opportunity for a call writing strategy as the share price recovers in the months ahead.

The income received by writing the short term to expiry option equates to an approximate yield of 12% for a seven week period. At expiry, we will look to write premiums once again for the next available month.

Share Replica Income Strategy Details

- Write QBE 2200 Apr 2010 Calls @ 40c
- Buy QBE 1900 Dec 2010 Calls @ 330c

Total approximate cost is \$2.90 (\$2900 per contract).

Risk:	Limited to net premium paid.
Profit Potential:	Unlimited following expiry of written call options.
Margin Requirement:	Nil.
Net Delta:	37%

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