

# tradealert



## Share Replica Income Strategy



### Santos Limited (STO)

Santos is Australia's third-largest oil and gas company with core assets in South Australia and Queensland. Santos also produces coal seam gas and has interest in Darwin LNG, gas transmission pipelines and liquids processing facilities.

Earlier in the month oil prices made 14 month highs. Since then oil prices have retreated but rebounded well last night. Santos has similarly pulled back from recent highs and looks attractive at these levels.

It has been widely reported in the press recently that Woodside Petroleum is on the acquisition trail and that Santos could be in its sights as the most likely target. For this reason we have chosen Santos over Woodside Petroleum.

This is a pure directional play with a view to gain from further appreciation in Santos' share price. Call writing can be implemented at a later stage if desired on a break above \$15.

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.

## Share Replica Income Strategy Details

### ➤ Buy STO 1200 Dec 2010 Calls @ \$2.75

Total approximate cost is \$2.75 (\$2750 per contract).

<b>Risk:</b>	Limited to premium paid.
<b>Profit Potential:</b>	Unlimited.
<b>Margin Requirement:</b>	Nil.
<b>Delta:</b>	81%

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