

YHOO Chart – Collar Example #3



Notes on Yahoo (YHOO) Collar

- 1) Yahoo, a historically volatile stock, bottoms out and then trades through resistance of a downtrend in mid-August 2003.
- 2) Yahoo then trades in an uptrend from a price around \$33.00 in late August out through January 2004 with a price high of \$46.00. This represents a 40% increase in 4 months.
- 3) During this uptrend, Yahoo had several gap openings which are considered very volatile events. There are 3 of these gaps in October 2003 and 2 in November 2003.

- 4) Further, Yahoo has many large intraday range days. This also points to a higher level of volatility for this stock.
- 5) This uptrend that Yahoo trades in has a wide range. The stock fluctuates widely from the mid-line of the range. Again, indicative of higher volatility.

Conclusion: Yahoo offers the investor a good upside opportunity. However, in a stock as volatile as Yahoo, there is also large potential for loss also.

Here, a maximum protection strategy is advised. Under these higher volatility situations, the collar would be better than the protective put because of overall cost.

When trading a stock with such high volatility, the investor must be aware that option premiums will be expensive if not prohibitive. The collar gives the investor the needed downside protection at a much lower cost (due to premiums received from the sale of the call) while still allowing room for capital appreciation.

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