MER Chart – Collar Example #4

Notes on Merrill Lynch (MER)
Collar

1) During this viewing period, Merrill trades in an uptrend from late June 2003 at a price of about $45.00 through January 2004 with a high around $60.00.

2) This is a wide trend with some intra-month ranges as much as $5.00 and $6.00 wide, indicating a volatile trend.

3) There were a few gap openings early on in the uptrend during July, but we also want to look at the large intra-day ranges, displayed by the length of the daily candles.

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4) The stock also deviates frequently from the mid-line of the trend and although it stays within the trading channel nicely, this still is a volatile trading pattern.

Conclusion: With volatility high, option premiums will probably be expensive. In Merrill's case, the investors should look to obtain maximum protection, but the protective put would not be the best choice.

Although the stock is very volatile, the uptrend is not a steep one. During the observed period of 6 months, the trends mid-line capital appreciation is only a little more than $6.00, not much compared to many other stocks during this period. With the high volatility, the price of a protective put for any length of time would quickly eat away any profits from the stocks' rise.

A collar would allow the investor the protection needed, at a reasonable and warranted cost, to justify the potential reward of the capital appreciation.

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