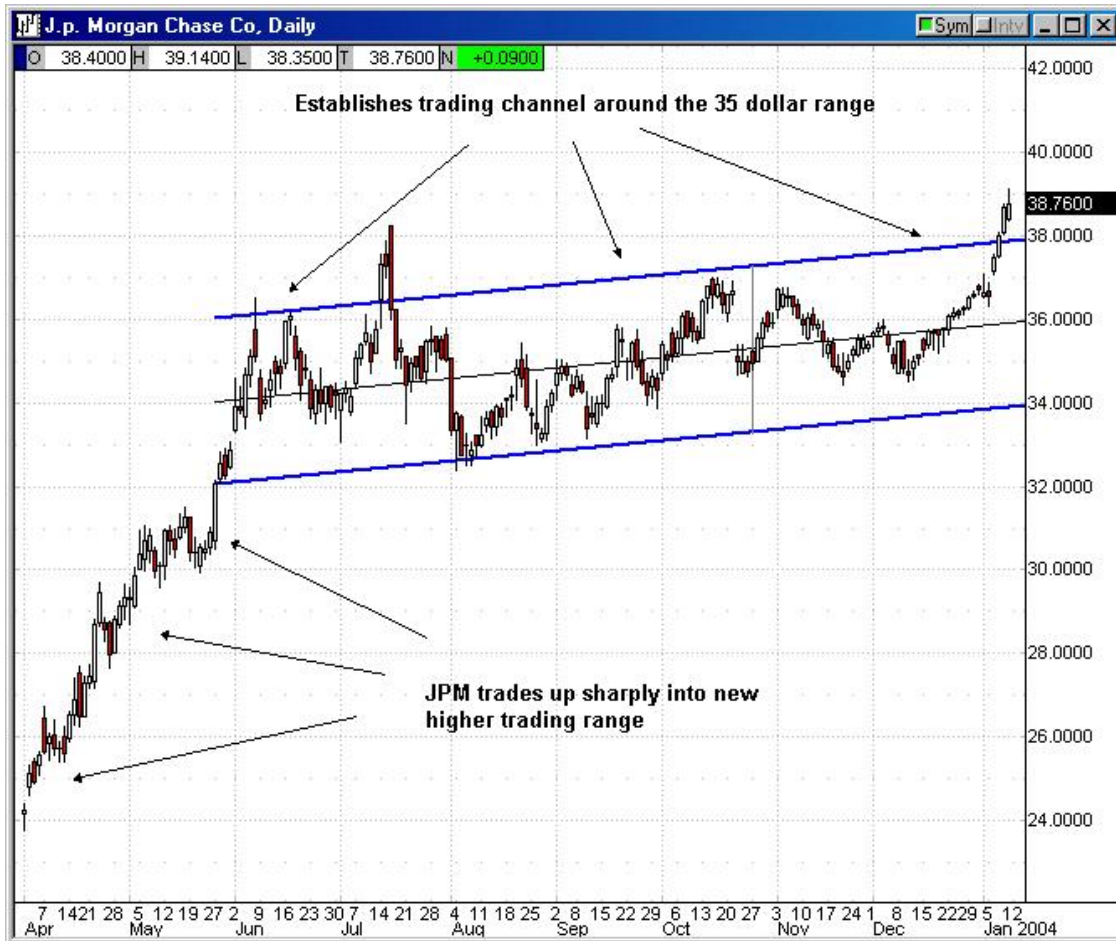


## JPM Daily Chart – Covered Call Example #2



### NOTES OF J.P.MORGAN (JPM) Covered Call

1. By June of 2003, JPM had traded up from a lower trading range in the \$25.00 area to a new range around \$35.00.
2. Since entering the new trading range in June, the stock has consolidated into a relatively flat, horizontal trading channel. For the most part, this channel is only around \$3.00 to \$4.00 wide.
3. This trading channel is not only tight, but it seems to be equally dispersed around the \$35.00 mark. The stock does not seem to venture very far on either side of \$35.00.



4. From the time that the stock enters the trading channel, the range of the channel has been decreasing or tightening, which indicates decreasing volatility.

**Conclusion:** JPM sets up a classic text book buy-write opportunity above. After finding a new trading range, the stock consolidates into a tight, trading channel that is almost horizontal. Further, this channel tightens and does not deviate from \$35.00 to the point where it even comes close to a channel line violation.

Here, an investor would most likely be interested in writing the 35 strike price calls to collect premium as the stock trades sideways. Obviously, there is no way to predict how long a stock will consolidate like this, but the risks are low, and in this case – the covered call strategy would have returned some very nice, low risk returns over this period.

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