

DELL Daily Chart – Covered Call Example #3



NOTES ON DELL COMPUTER (DELL) Covered Call

1. After dropping out of a higher trading range, Dell trades down throughout the months of December 2002, January 2003 and into mid-February 2003 before bottoming out. During this period of time, the drop was a low volatility, gradual one in which the stock loss could have been well offset by premium collection.
2. After rebounding off a low around \$22.50 in mid February, Dell rebounded quickly to the \$26.00 - \$27.00 level where it consolidated until mid-March. The stock traded in a tight band until starting to trade up.

3. After the consolidating period, Dell began a slow, deliberate rise over the course of the next 9 months or so, with most months showing an overall trading range of \$2.00 or less. The long, slow, step like growth pattern can be seen both in the daily trading ranges, as well as in the monthly trading ranges. This is very favorable to writing covered calls.

Conclusion: Dell spent the better portion of nine months trading up in a manner that is suggestive of decreasing volatility. Because the stock was in an up trend, and a gradual one at that, a buy-writer would have been able to profit from capital appreciation as well as a having a good chance at seeing a positive return in terms of the collection of premiums.

Furthermore, during Dell's down cycle, the stock traded down slowly enough to be able to receive several months of premium. This should have, at least partially, offset enough of the loss to allow the trader time to profit from the subsequent recovery.

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