

FON Daily Chart – Covered Call Example #4



NOTES ON SPRINT (FON) Covered Call

1. After a large drop at the end of Jan 2003, Sprint consolidates around \$12.00 and trades in a relatively tight range, around \$12.00, for approximately 5 months or until mid-May 2003. This period is the first opportunity for premium collection.
2. At the end of May 2003, Sprint trades up to the top of its trading range in a slow, methodical way, indicating a period of decreasing volatility

3. Sprint breaks out of old trading range by trading through resistance set by the 2 highs in February, around \$13.25. It develops a new trading range at the \$15.00 level by trading up in a slow, step like pattern which also indicates a period of decreasing volatility.
4. Sprint trades around the \$15.50 range and really tightens up around October 2003 thru January 2004. This again, is a long period of decreasing volatility.

Conclusion: Sprint shows two favorable patterns here that are friendly to covered call writing. The first is that Sprint shows the tendency to trade in a tight range for extended periods of time, as seen in Feb. – May 2003 and Jul. – Dec. 2003. This is advantageous for premium collection.

The second is that when Sprint does move, it mostly trades up in a slow, directional type of move, as opposed to gapping (with the exception of Jan. 2003). These slow upward directional moves work well for covered call writers in two ways; capital appreciation and premium capturing.

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