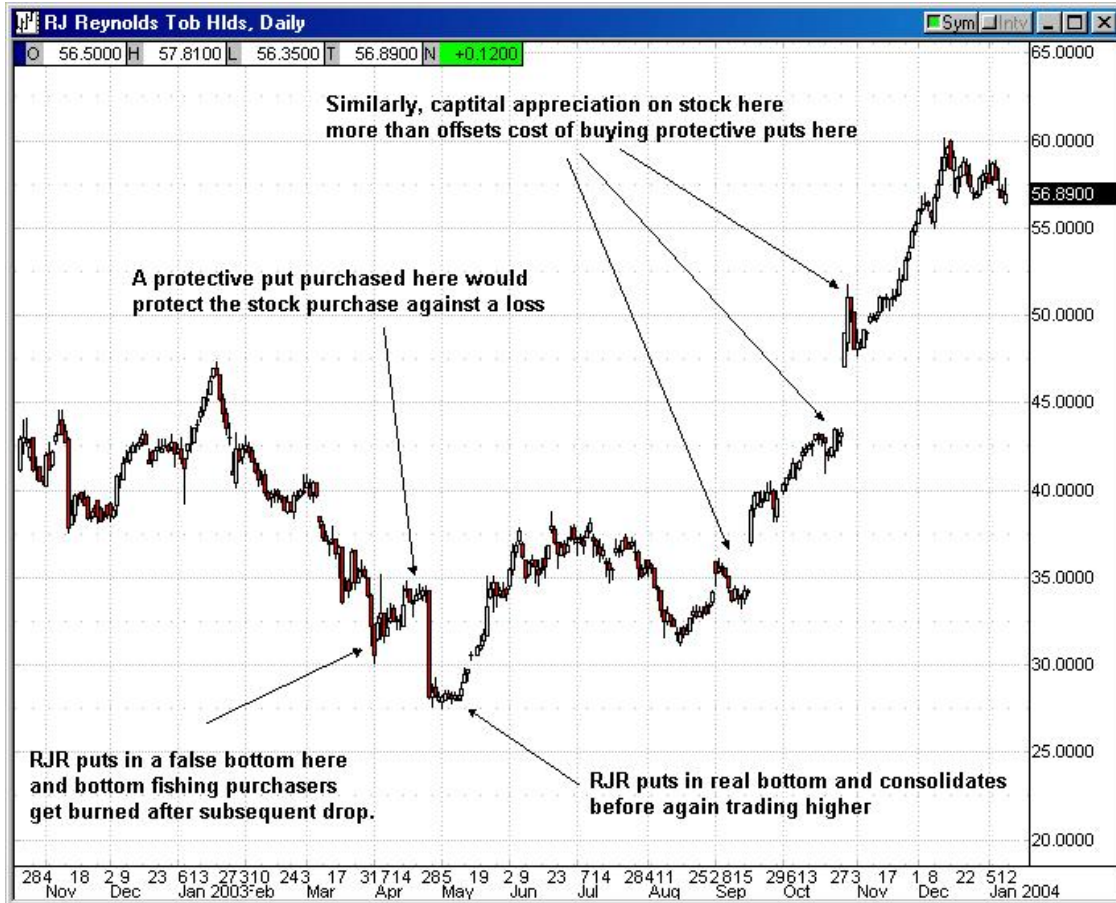


RJR Chart – Protective Put Example #1



NOTES ON RJ REYNOLDS (RJR) Protective Put

1. Up until early March 2003, RJR was in a trading range with a high of \$47.50 and a low around \$38.00.
2. In early March, RJR broke that low around \$38.00 and traded down to around \$28.00 before trading back up to the \$38.00 level. It failed to break that resistant level a couple times. Then, in mid-September 2003, RJR gaps up and breaks the resistance level.

3. Normally, when a stock breaks a resistance level, it normally trades up to find a new range most specifically a top of the range. Often, there is an opportunity to make a large gain in a very short amount of time when a stock breaks a support or a resistance.
4. After breaking out of the previous trading range, in mid-September 2003 at a price of about \$40.00, RJR trades up to \$60.00 by mid-December 2003. This represents a 50% gain in approximately 3 months.

Conclusion: RJR offers investors two opportunities to use the protective put strategy and in two different ways.

First, the protective put strategy can be used to provide protection when an investor tries to pick the bottom in a stock. The wrong bottom can cost the investor dearly if they buy the stock naked. The put will limit and control the loss, allowing the investor to be wrong, but still allow the opportunity to hold out or play again.

Second, RJR later shows what a stock can do when breaking out of a technical resistance. It can provide investors with large potential gains. However, the fact is that stocks that do break out can, and sometimes do, fail and trade down to the bottom of the stock's previous range. This can leave you with a large loss.

The protective put strategy provides maximum protection in case of a false break out, while allowing for full capital appreciation less the cost of the put if the break out is real.

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