

Tax Deferral Strategies

Several Different Scenarios:

If the stock were to trade down in an area between \$80.00 and \$82.00 by January 2004 expiration, you would be able to sell the stock for its exact price at that time. You would lose a little money from the amount you paid for the collar and you would also lose a little money from \$82.00 down to wherever the stock closed on expiration day in January 2004.

If the stock were to trade down below \$80.00, you would be guaranteed a sales price of \$80.00 because you own the 80 strike put. No matter how much lower the stock went, you would be guaranteed \$80.00. Of course, you would have to deduct the cost of the collar from the sales price, but that should be minimal.

If the stock were to remain stagnant, you would be able to sell the stock at the closing price, on expiration day of January 2004. Your only cost would only be the amount of money you paid for the collar.

If the stock were to trade up to a price between \$82.00 and \$85.00, you would be able to sell your stock at whatever price the stock closes at the January expiration date.

Again, you will have to deduct the amount of money you spent for your collar but the increase in price would offset this expense.

Finally, if the stock trades up and closes above \$85.00 on expiration day of January 2004, your stock will be called away from you at \$85.00 due to you being short the \$85.00 strike call. So in this scenario your upside is limited, but at least you have locked in some additional gains, and avoided the higher short term capital gains taxes.

As you can see, the collar will give you a range of protection that assures a sales price that is very acceptable, with minimal risk and room for some further upside appreciation. This also buys you the necessary time you need to get past that one year mark and enable you to avoid the higher, long-term capital gains tax. You would now only have to pay the lower, long term capital gains tax, which would save you money.

In conclusion, the two tax deferral strategies outlined above are both excellent ways to save you up to 67% on your annual tax liability from your medium to long term stocks. Again, you would use these strategies on



stocks that you have owned close to one year, and for which you would like to 'lock in' the current sale price without actually selling the stock.

In this scenario, a properly initiated options strategy can save you a considerable amount of money on your taxes.

Again however, please consult your broker, tax attorney, or accountant to make sure that these strategies are still acceptable to the IRS. Tax laws do change, and it is your responsibility to be aware of new laws.

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