



“Dollars at Work”

Grant Koehler & Levin LTD.

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About this Booklet

- Grant Koehler & Levin LTD (GKL) is an SEC-Registered Investment Advisor. The attached booklet provides an overview of the investment program that GKL currently manages for many of its clients.
- This material is intended to serve as educational material for prospective clients who are unfamiliar with covered call writing strategies. In addition, this booklet may be used in conjunction with a sales presentation intended to convince prospects to hire GKL to manage some or all of their investment assets.



About this Booklet (cont.)

- Securities transactions placed with Polar Investment Counsel, Inc. NASD/SIPC/NFA
- The booklet “Characteristics & Risks of Standardized Options” may be obtained from Ted Levin, 1474 112th Ave. NE, Suite 200, Bellevue, WA 98004, phone 425-709-6900, email ted@dollarsatwork.com



Disclaimer

- Any strategies discussed, including examples using actual securities and price data are strictly for illustrative and educational purposes only and are not to be construed as an endorsement, recommendation, or solicitation to buy or sell securities.
- Past performance is not a guarantee of future performance.



Stock Options - Risks

- Options involve substantial risk and are not suitable for all investors.
 - Buying options can result in complete loss of the amount invested in a relatively short period of time.
 - Selling options, when one owns the underlying stock, is a hedging strategy that potentially limits your return.

Note – To be an effective hedge, the quantity of shares owned equal the quantity of shares in the options contract(s).



Table of Contents

- Part 1: About Us
- Part 2: A Relevant Strategy
- Part 3: Details of the Strategy



Key Personnel

- Chris Grant
 - 12 years professional money management experience
 - Married, 53 years old
 - Wharton, MBA
- Ted Levin
 - 17 years corporate financial experience
 - NYU, MBA



Company Information

- Grant Koehler & Levin LTD.
 - Established April, 2003
 - Registered Investment Advisor
 - Approximately \$85 million under management
 - Headquarters – (suburban) Milwaukee, WI
 - Additional offices – Seattle, WA & Vail, CO



Our Investment Strategy

- Conservative investments
- Emphasis on protection and cash flow



Our Business Model

- Advice - Objective
- Research - Lengthy Corp. Experience
- Relationship - Personal
- Interests - Aligned
- Cost - Low Cost



Key Services

- Investment management
 - Define financial objectives
 - Develop financial plan
 - Implement financial plan
- Financial management
 - No additional cost
- Team approach



Part 2: Investment Climate

- Increasing interest rates
- Concern over inflation
- Post bubble economy
- Conservative corporate accounting
- Modest corporate profit growth

Problem: Generating adequate returns to meet your financial objectives with acceptable investment risk.



A Relevant Strategy

Emphasis on:

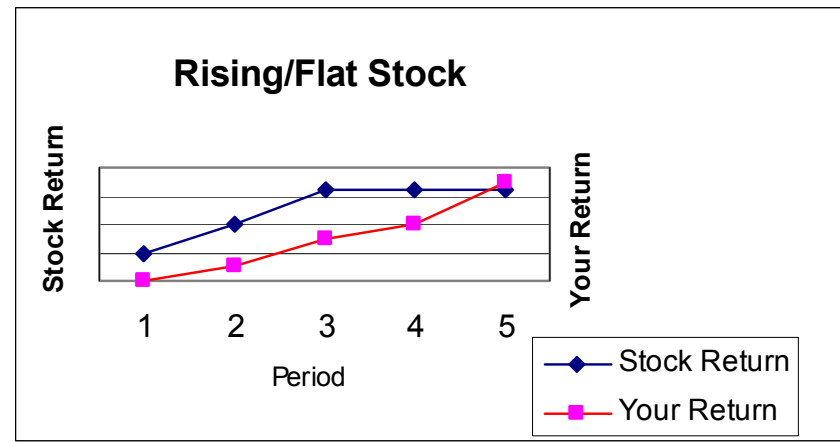
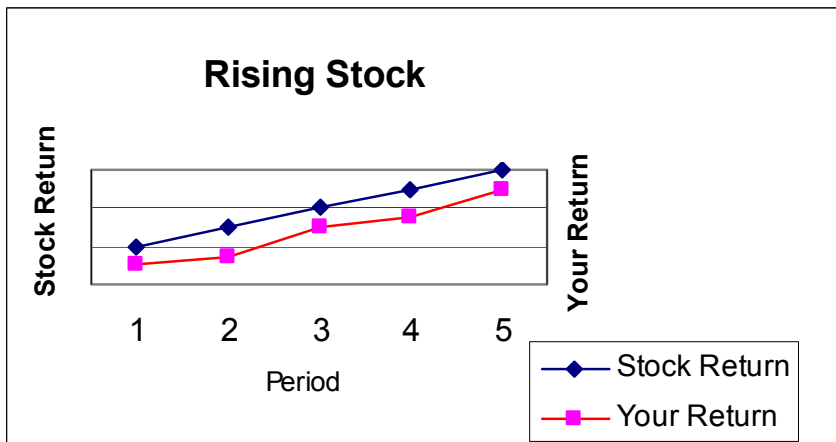
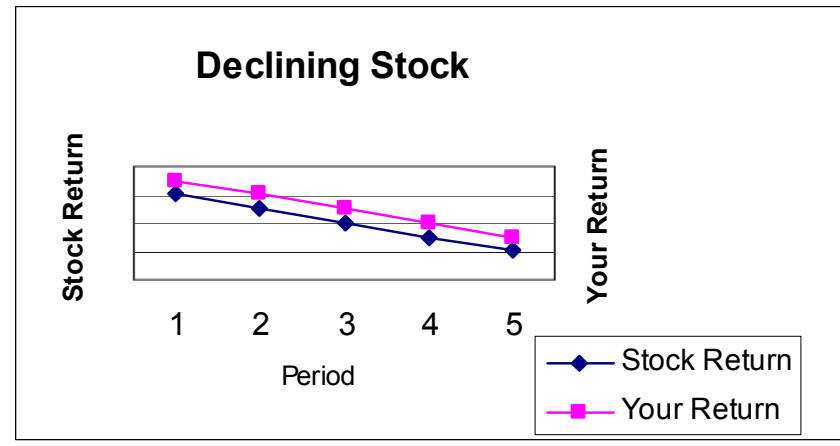
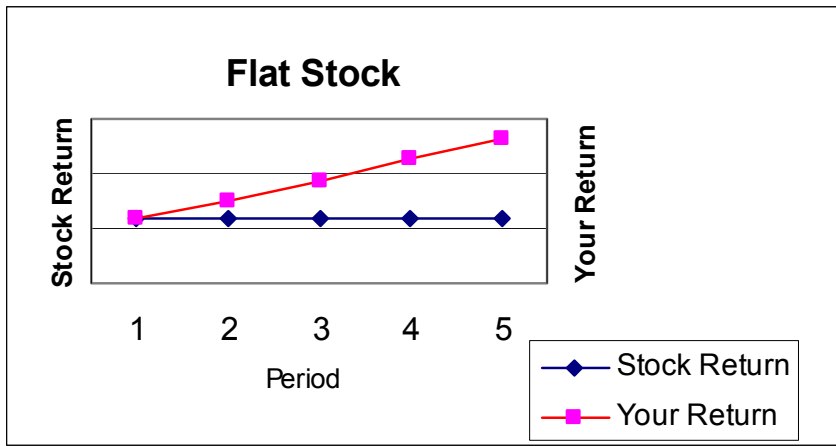
- Conservatism
- Defense
- Hedging
- Downside Protection
- Cash Flow
- Modestly Bullish



A Relevant Strategy (cont.)

- Compared to just owning the stock, strategy seeks to provide these features
 - Stock declines: Mitigates loss, but doesn't prevent it
 - Stock advances: Positive returns, but limits upside potential
 - Stock remains flat: Positive returns/cash flow

Your Return vs. the Stock's Return





Frequently Asked Questions

- Have I heard or read about what you do?
 - Difficult concept. Tough to easily describe.
- My biggest problem with investing is not knowing when to sell a stock. Does this strategy address this?
 - Yes. Our disciplined approach is to let a stock be sold if we believe that we can repurchase it at a lower price.



FAQ (cont.)

- Should I be concerned if I get a lot of trade confirmations?
 - Strategy might require active trading
- How do your fees compare?
 - The 1% annual management fee, which is based on the value of the account, is at the low end for this type of service
 - By paying the 1% management fee, commissions on trades are similar to discount brokers- roughly \$25 for 1,000 shares or less
 - At this time there are no other admin. or misc. fees



FAQ (cont.)

- What are the tax ramifications of this strategy?
 - In a retirement account (IRA, Keogh, etc.), all gains and losses on options are deferred until the money is withdrawn from the account.
 - In a regular account, option trades are treated as capital gains or losses and are usually classified as short term.

Note- While we believe the above statements to be true, we are not tax professionals. We suggest you review all transactions with your tax advisor.



FAQ (cont)

- Are you putting your own money on the line?
 - Yes. Our interests are aligned 2 ways
 - By charging a management fee based on the value of your account, our incentive is to increase your account value – not trade the account
 - In almost all cases, the stocks we buy for you, we personally own



Part 3: Covered Call Writing

A Strategy For Investing



A Non-Stock Example

- Suppose you are interested in buying a house
- The seller and you agree on a price of \$500,000
- However, you anticipate that a more suitable house will come on the market
- As a result, you ask the seller to give you a 60 day option to buy the house for \$500,000
- In most cases, this option will not be free – by granting you this option the seller is locking in \$500,000



A Non-Stock Example (cont.)

- During the 60 day period the value of the house could go up (or down)
- However, the seller will not be able to realize the appreciation
- Therefore the seller will want compensation for giving you this option
- The longer the option period the greater the compensation

In this instance, the price of the option is called time premium



A Non-Stock Example (cont.)

Buyer

- Wants the house value to appreciate to over \$500,000
- Breakeven is \$500,000 + price of the option

Seller

- Wants the house value to stay at \$500,000



Facts About Options

- Buying options is risky
- Selling options, when you own the stock, is a hedging strategy*.
- Investors can either buy or sell options
- Options have specified terms. An option is created when a buyer and seller agree on a price.
- The more buyers and sellers, the more options

*To be an effective hedge, the quantity of shares owned equal the quantity of shares in the options contract(s).

Covered Call Writing includes both buying the stock and selling an option on the stock



Basic Definitions

- Covered call writing, also referred to as buy writing
- Buyer of call options
- Selling options when you own the underlying stock
- Has the right to purchase the stock, at a specified price, by a certain date



Basic Definitions (cont.)

- Options writer
 - The seller of options, who has the obligation to sell the stock at a specified price by a certain date
- Exercise or Strike price
 - The specified price which the option buyer can purchase the stock from the option seller



Basic Definitions (cont.)

- Expiration date
 - The certain date by which the option buyer can purchase the stock
- Rolling Forward
 - Repurchasing the option and simultaneously selling a future option. Technique to keep the stock as well as generate cash flow



Basic Definitions (cont.)

- BUYER:

XYZ Jan04 30s

- SELLER:

XYZ Jan04 30s

- The right to buy XYZ stock for \$30/share by the 3rd Friday in January, 2004

- The obligation to sell XYZ stock for \$30/share by the 3rd Friday in January, 2004



A Stock Example

- Buy 1,000 shares of XYZ stock for \$27/share
 - -\$27,000
- Sell XYZ \$27.50 call options which expire in 1 month for \$1.00/share
 - \$1,000

One way to think about it – you bought XYZ at \$26.00



A Stock Example (cont.)

Possible Outcomes

- XYZ stock at \$27.50
 - Profit \$1.00+\$0.50
- XYZ at \$25.00
 - Loss \$1.00-\$2.00
- XYZ at \$29.00
 - Profit \$1.00+\$0.50

Your 1 month return*

- $\$1,500/\$26,000 = 5.8\%$
 - w/o options:
 $\$500/\$27,000 = 1.9\%$
- $-\$1,000/\$26,000 = -3.8\%$
 - w/o options:
 $-\$2,000/\$27,000 = -7.4\%$
- $\$1,500/\$26,000 = 5.8\%$
 - w/o options:
 $\$2,000/\$27,000 = 7.4\%$



Value we Provide

- Stock Selection
 - Have to like the underlying stock
 - Strategy does not work for all stocks
- Timing the option sale
 - Monitor the situation on daily basis
- Picking the exercise/strike price
 - Defense – a low strike price
 - Offense – a high strike price



Value we Provide (cont.)

- Decide what to do on option expiration day – 3rd Friday of the month
 - Option expires worthless, no decision
 - Option has value
 - Buy option back, and sell a future month option
 - Picking the month and the strike price
 - Let the stock get called away. Buy it back when it goes down.



Conclusion

- Strategy offers benefits regardless of market conditions
- Potential to generate returns superior to just owning the stock
- Systematic, disciplined investment approach



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- Further information available upon request. Please call us or visit cboe.com.