



ASX

AUSTRALIAN SECURITIES EXCHANGE

Buy Write Strategy

Fact Sheet

What is a Buy Write Strategy?

The Buy Write is an options investment strategy in which an investor simultaneously buys shares and writes a call option contract over an equivalent number of shares. If the shares are already held from a previous purchase, it is commonly referred to as covered call writing. Buy Write is the most basic and widely used options investment strategy, combining the flexibility of listed options with share ownership.

Benefits for Investors:

- Generate extra returns: By writing options and collecting premium income.
- Suitable for SMSFs: The strategy of buying shares and writing options is eligible within Self Managed Superannuation Funds (SMSFs), provided it is allowed for in the Fund's investment strategy.
- Portfolio Strategy: An effective way to manage the sale of shares and re-weight a portfolio.

Strategy summary

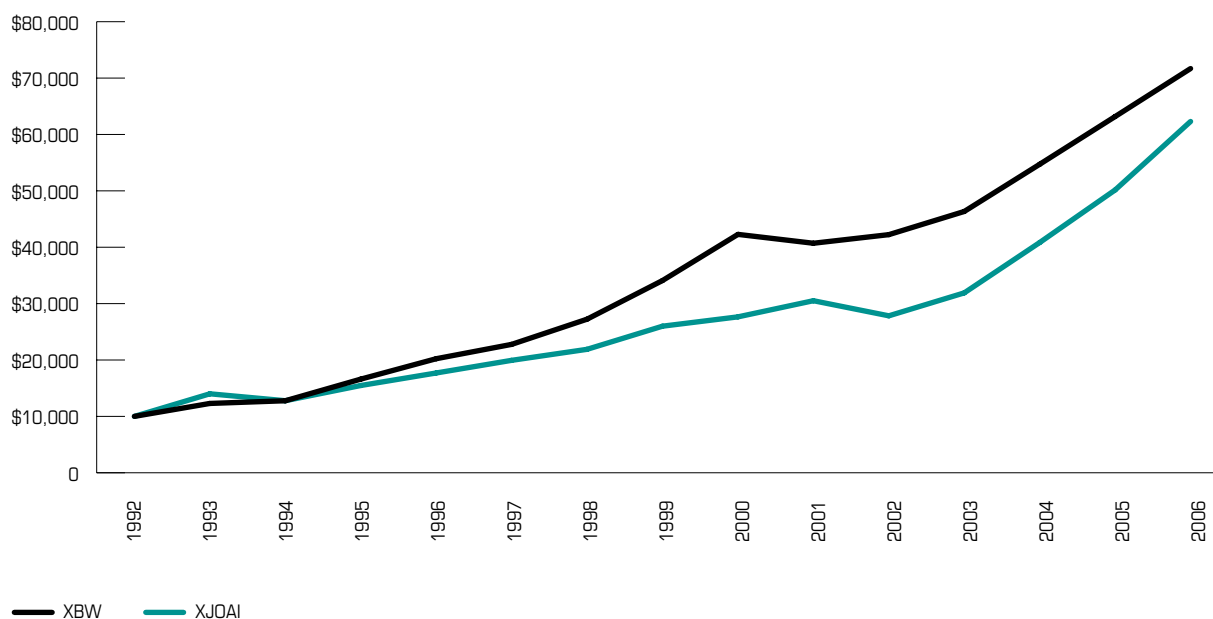
While this strategy can offer limited protection from a decline in price of the underlying share and limited profit participation with an increase in share price, it generates income because the investor keeps the premium received from writing the call.

At the same time, the investor enjoys the benefits of underlying share ownership, such as dividends and voting rights, unless they are assigned an exercise notice on the written call and are obligated to sell the shares. The Buy Write is widely regarded as a conservative strategy because it decreases the risk of share ownership.

Wealth effect of a Buy Write Strategy

The following chart provides a clear representation of the wealth effect of investing in the index (S&P/ASX200 Accumulation Index-XJOAI) relative to the S&P/ASX Buy Write Index™ (XBW). For the period January 1993 through to December 2006, \$10,000 invested in the S&P/ASX Buy Write Index™ increased to over \$71,000.

Buy Write Strategy – Growth of \$10,000 Initial Investment



For additional information about the S&P/ASX Buy Write Index visit www.asx.com.au/options

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Does the Market Environment influence how a Buy Write Strategy will perform?

Although the buy and write strategy can be used in any market condition, it is most often used when the investor, while bullish on the underlying share or index, feels that its market value will not move significantly over the life of the call option. The investor looks to generate additional income (in the form of dividends) from the underlying shares, and/or provide a limited amount of protection against a decline in underlying share value. Therefore, the strategy can be expected to underperform in a bull market and outperform in flat and bear markets.

Buy and Write case study

Example: Newcrest Mining Limited (NCM) is at \$20.00 and has been steady for the past few weeks.

Outlook: You are neutral to slightly bullish on NCM for the short term.

Buy and Write Strategy: Buy 1,000 NCM shares at \$20.00 and sell 1 June \$22.00 call at \$1.00; net cost of \$19,000 (\$19.00 x 1,000) for the position.

At Expiry:

* Break even: NCM at \$19.00 (-5%)

** Unchanged: Gain of \$1,000

*** Maximum loss: \$19,000 if NCM at \$0 (-100%)

**** Maximum profit: \$3,000 if NCM is greater than or equal to \$22.00 (+10%)

Summary: If NCM remains unchanged or below the \$22.00 strike, overall P&L is equal to share P&L plus premium from call sale. If, at expiry, NCM is at or above \$22.00, profit is limited to \$3,000. The maximum risk is equal to full value of the shares (share can go to zero) less the premium, or \$19,000.

All values shown are at the time of expiry.

| NCM AT EXPIRY | NCM SHARE CHANGE | BUY NCM PROFIT/(LOSS) | CALL PREMIUM INCOME | SHORT \$22.00 CALL VALUE | NET PROFIT/(LOSS) |
|---------------|------------------|-----------------------|---------------------|--------------------------|-------------------|
| \$25.00 | 25% | \$5,000 | \$1,000 | \$3,000 | \$3,000 |
| \$22.00**** | 10% | \$2,000 | \$1,000 | \$0 | \$3,000 |
| \$20.00** | +/-0% | \$0 | \$1,000 | \$0 | \$1,000 |
| \$19.00* | -5% | (\$1,000) | \$1,000 | \$0 | \$0 |
| \$15.00 | -25% | (\$5,000) | \$1,000 | \$0 | (\$4,000) |
| \$0*** | -100% | (\$20,000) | \$1,000 | \$0 | (\$19,000) |

Interested in Buying and Writing against an Index?

ASX also offers options over the streetTRACKS 200 Exchange Traded Fund (ASX Code: STW).

Additional information

- To learn more about the S&P/ASX Buy Write Index™ please consult your adviser or visit the options section of the ASX website asx.com.au/options
- ASX Customer Service Centre on 131 279

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