

Protect yourself against decline in stock market

The stock market continues to follow a roller-coaster path. Because of huge unrealized gains, infusion of foreign money, domination by the professionals and the increasing use of futures options, huge market swings are expected to be experienced by millions of investors.

What is especially disturbing is that unless you take special steps now, you could suddenly lose most of your unrealized gains and even incur huge losses.

Here are several strategies you might use to protect yourself against potential losses.

Buy Put Option

A put option gives you the privilege to sell 100 shares of a stock at a predetermined (strike) price within a specified time, which can be as long as nine months. This option elimi-

nates the effect of a price drop — no matter how severe — on your stock holdings.

You do have to pay a premium for the put option and a commission for trading in your stock. However, the total cost of such a transaction could be far less than the loss you might suffer because of a significant drop in stock prices.

Here is an illustration. Say you bought 100 shares of Chrysler at 28 some time ago and the stock is trading at 56. Chrysler has been very strong, and you wish to hold onto it.

However, you are afraid of losing a large chunk of the unrealized gain if the market experiences a major downturn. You can avoid taking undue risk by buying, say, a six-month option on Chrysler with a strike price of \$6.

Assuming that the price of the put option is \$200 and the commission to

trade 100 shares of Chrysler is \$50, you would limit your loss in the 100 shares of Chrysler to \$250, no matter how far the price of the stock declines.

Here is how it works:

100 shares at \$56/share	\$5,600
Value at \$28/share	2,800
Your loss	-2,800
100-share put at \$56	5,600
Commission to trade 100 shares	-50
Cost of buying put option	-200
Your cost	-250

finances and you



Sld Mittra

But what if your fears proved baseless and Chrysler actually went up? In that case, you'll never exercise your put option and would lose just the \$200 purchase price. However, you will make up a part or all of that loss because of the price appreciation of your stock.

Sell the Stock and Buy Call Options

If your personal tax situation warrants the realization of a big capital gain and you are bullish on the market, you may adopt an alternative strategy. You could sell Chrysler at

56 and buy a call option for, say, \$350.

This option will authorize you to call on the seller before the expiration date (say, six months) to deliver to you 100 shares of Chrysler for the specified price of, say, \$56.

If you prediction is correct and Chrysler does go up to, say, \$76, you reap a hefty profit of \$2,000 — (\$76-\$56) x 100 — less the cost of options plus commissions.

Here is how it works:

Assume price rises \$76 before call option expires. Exercise call option by calling on the seller to deliver

100 shares at \$56/share	-\$5,600
Price of option	-350
Commission	-50
Sale at \$76 per share	7,600
Your gain	\$1,600

Here again, if you are wrong in your prediction and the stock goes down, you just let your option expire and lose just the \$350 you paid for that option.

Next week: More on stock market,

Educational Seminar: Main Topic "Your Investments, your Taxes and Tax Reform." The seminar, sponsored by the Observer & Eccentric Newspapers and Coordinated Financial Planning Inc., will be held 7-9:30 p.m. Tuesday, May 19, at the Kingsley Inn, 1475 N. Woodward, Bloomfield Hills.

For more information or reservations, call 643-8888.

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WORD PROCESSING

Thursdays, April 30-May 21 — "Word Processing Using IBM PC" offered 7-9 p.m. in Bloomfield Hills. Fee: \$75. Information: 645-3535. Sponsor: Cranbrook Schools.

TRADE FAIR

Friday, May 1 — Trade and procurement fair open from 8 a.m. to 4 p.m. in Detroit. Information: Yvette Anderson, 964-4000 Ext. 284. Sponsor: Greater Detroit Chamber of Commerce.

SMALL BUSINESSES

Fridays, May 1-June 12 — "Small Business Success Seminars" offered from 9 a.m. to 3 p.m. in Auburn Hills and Bloomfield Hills. Fee: \$85 per session, \$500 for all seven. Information: 255-1488. Sponsor: Oakland Community College.

WORKING WOMEN

Saturday, May 2 — "The Uses of Power: Women in the Work Place, New Options and Old Values" offered from 8 a.m. to 5 p.m. in Detroit. Information: Sarah M. Newton, 374-5542. Sponsors: Federally Employed Women Inc., Federal Employees Program at Blue Cross/Blue Shield.

SMALL BUSINESS MANAGEMENT

Saturday, May 2 — Free introductory course for business owners and

company planners offered 7-10 p.m. in Troy. Information: 542-4220. Sponsor: Small Business Management Schools.

BECOMING A CONSULTANT

Saturday, May 2 — "How to Become a Paid Consultant" offered from 8 a.m. to noon at the Holiday Inn in Southfield. Fee: \$95. Information: 1 (419) 537-2031. Sponsor: University of Toledo.

KEEPING CLIENTS

Saturday, May 2 — "Attracting and Keeping Clients" offered 1-5 p.m. at the Holiday Inn in Southfield. Fee: \$95. Information: 1 (419) 537-2031. Sponsor: University of Toledo.

GRE PREPARATION

Saturdays, May 2-30 — Graduate Record Examination refreshers held from 9 a.m. to 12:30 p.m. in Rochester. Fee: \$95. Information: 370-3120. Sponsor: Oakland University.

HOSPITAL OPEN HOUSE

Sunday, May 3 — Open house at Providence Hospital's New Life Center from noon to 5 p.m. in Southfield. Information: Pat Evans, 552-9900.

REAL ESTATE OPEN HOUSE

Sunday, May 3 — Real Estate Open house 2-5 p.m. in Detroit area. Information: 551-2800.

ENTREPRENEURIAL IQ

Monday, May 4 — "Testing Your Entrepreneurial IQ" begins at 7 p.m. in Troy. Fee: \$15. Information: Ruth Probst, 649-8846. Sponsor: Start A Business store.



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