

The Detroit Grand Prix makes a smart move

Writing a column has something in common with a dog chasing cars, in that sometimes you have to deal with what happens when you catch one.

As the most vocal critic in the local media of the proposed move of the Detroit Grand Prix to Belle Isle, I was more than a little dumbfounded when Detroit Renaissance president Robert McCabe et al took my advice and returned the race to the streets of downtown Detroit.

Much as I'd like to think someone was listening, I suspect the collective displeasure of major race supporters — not inconspicuously the major auto suppliers in the habit of renting hotel suites along the track, contemplating their major customers broiling in the grandstands or

trapped in the island traffic — might have had something to do with it.

But McCabe threw in a curve by announcing that along with the return of the race downtown, the competition would shift to Champion Auto Racing Team (CART) cars instead of the European Formula One racers of past events.

CART cars (also known as Indy cars after the race held a month earlier than Detroit in some Indiana cornfield south of here) are technically similar to Formula One — both are open-wheeled race cars capable of speeds in excess of 200 mph. The main difference is that CART drivers aren't as crabby as Formula One drivers, and CART drivers' hangers-on aren't as well dressed.



auto talk
Dan McCosh

CART SPONSORSHIP also is considerably cheaper than Formula One — in fact, \$12 million cheaper, according to McCabe. The race guarantees alone are less for CART than for Formula One, even before trying to pay for a brand-new race track, grandstands and garages on Belle Isle.

Of course, a few cynics might note that going before the Detroit City

Council for another couple of million bucks in questionable public appropriations for a race track on the heels of a series of exposes of big-ticket land scandals might also have swayed the decision.

It's also obvious that ultimately the casinos were supposed to have supported the race — another pipe dream because even Las Vegas dropped Formula One after reappraising the costs.

Chevrolet, Buick, Ford and Porsche should like the switch, considering their recent efforts at building new engines and some chassis for CART events. The national television coverage also may improve, since CBS had a lock on the Formula One event, while the two other networks cover CART racing.

Actually, Detroit was the last holdout among American cities sponsoring a Formula One event. Long Beach, Las Vegas and Dallas all switched to CART after a brief fling with Formula One, and the result seems to have made everybody happy.

Well, maybe not everybody. The demise of the Detroit Formula One event means the U.S. isn't represented on that international

racing circuit — at least until the Formula One sponsors find another civic sucker. It's also a setback for the foreign car companies that recently have poured millions into new Formula One engines to meet a new engine rule for 1989 — including Honda, Subaru and Lamborghini — and now will get no exposure in the biggest retail car market in the world.

At least the deer will be safe. And I plan to buy my hot dog next June and wander the infield at Hart Plaza as usual, savoring the sights and sounds of the race, not to mention my new role as watchdog of what is right and proper.

Art.
Dan McCosh is the automotive editor of Popular Science.

Converged options can increase your return

By Sid Mittra
special writer

Every investor knows the risks associated with stock market investments, thanks to the October 1987 market crash and the subsequent lackluster performance of the DJIA. However, option writing on stocks already owned by you may reduce your market risks. Here is how.

Earning income with options

You generate an income by selling a "call" option, the right to buy 100 shares of your stock. The option will specify two things: the price for which you are willing to sell your stock, and the amount of time (usually between one to nine months) during which it can be purchased by the option holder at that fixed price.

For this right, a person will pay you the option "premium." It will be yours to keep, no matter what happens to your stock price. You will be required to deposit your 100 shares of stock with your broker, who in turn may deliver your stock if the option holder decides to exercise the option. However, you will earn and retain all dividends paid on your stock unless or until your option is exercised.

Sale of stock

If the option is exercised, you will have to sell your stock for the price you originally specified. Although

you still get to keep the premium you received, you will not benefit from any price appreciation of the stock above the exercise price. For example, suppose someone buys a call option on 100 shares of your stock and pays you a \$500 option premium. If your option specifies a price of \$50 per share for your stock, and it is exercised, you will receive \$5,000 for this stock. Since you have already received a \$500 premium for the option, your total proceeds will be \$5,500.

The nature of downside risk

When you sell a call on your stock, the only downside risk that you have involves your stock, and you would have that risk whether or not you sold a call option. The call option itself, however, presents you with no downside risk. Also, the money you receive from your option will at least partially offset unrealized stock losses.

For example, suppose you sell a call option on your stock currently selling for \$50 per share. By expiration of the option period, the price of your stock declines to \$48. The option is not exercised, but your 100 shares of stock are now worth only \$4,800. Compared to the stock's price when you sold your option, this represents a paper loss of \$200 (\$5,000-\$4,800). However, if you received \$500 for the option, it more than offsets the \$200 loss, and you are

still ahead of your original position by \$300.

Option buy back

Before the option is exercised, you can cancel your obligation by executing a "closing purchase transaction." It is nothing more than the purchase of a call identical to the one that you have sold. That is, you may purchase an option that has the same exercise price, the same expiration date, and, of course, covers the same security. The price that you will have to pay to buy back this option may be equal to, below or above the original premium you received, depending upon fluctuations in the market, and may therefore, result in a profit or a loss.

An important caveat

In this column I have ignored transaction costs, tax ramifications, and your risk tolerance level. These are sensitive issues.

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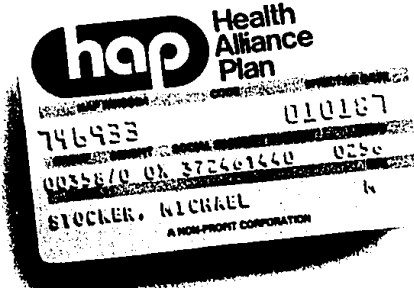
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