

OPTION NOTES

MAKING MONEY WITH LIMITED RISK

Volume 4, Issue 4

August 27, 2004

\$139 / year

Categories:

Action Now!

Option trades that are likely to produce results in the immediate future.

Strategic Wealth Builder

Longer-term opportunities that have macro-economic justification that may not be fully recognized in the market.

Value

Trades with a medium length time frame from the perspective of fundamental value using options strategies with edge.

Special Situations

Opportunities that are the result of specific market conditions.

Inside this issue

Crude Oil Hedge 2

Results from Last Issue 3

Current Portfolio 3

Action Now!

PeopleSoft (PSFT: Nasdaq) \$17.46

The saga of the hostile takeover attempt of PeopleSoft by Oracle has been going on since June of last year. In today's news, Oracle announced that it had extended its tender offer again, this time to September 10, 2004. While this is not the first extension, it looks as if a Justice Department ruling is close at hand. PeopleSoft is doing everything it can to avoid Oracle's advances, and the Department of Justice sued to stop the deal last February. Both companies are spending enormous sums of money and effort on this battle for control.

PeopleSoft provides enterprise application software for customer relationship management, human relations, financial and supply chain applications. Business appears to be good. In August alone, they have announced new business with British Telecom, Mexico's Tax Administration Service

and the US Department of Treasury. Some analysts think the takeover outcome is 50-50, but the options market implied volatility is rising to new high levels that indicate that a decision is near.

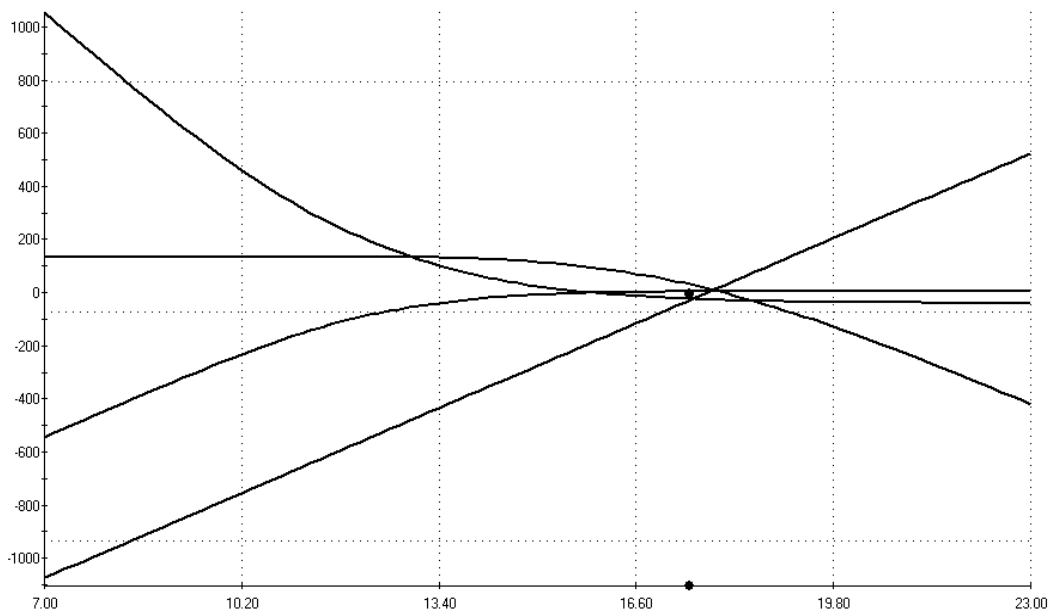
While we will not attempt to provide an analysis of the likely outcome, there is plenty of commentary and opinions available. Type the symbol PSFT into Yahoo Finance and you will see a list of current news articles from CBS Marketwatch, TheStreet.com, Motley Fool and others.

We, on the other hand, will offer an options strategy to capture the implied volatility of the overpriced options regardless of who benefits from the expected near term announcement.

The basic structure is to sell a straddle, but this would then expose you to large moves in the underlying. We hedge this risk by buying stock and out-of-the-money puts.

(Continued on page 2)

(PSFT) PeopleSoft Inc
Theoretical Gross Out P&L



(Continued from page 1)

Of course, the hedge costs money, but the point is to limit the big move risk.

The stock and option closing prices are below. If prices are close to those shown when trading begins on Monday August 30, 2004, then make the following trade:

Buy 100 shares of PSFT at 17.46
Sell one Sept 17.5 Call PQOIW 1.35-1.40
Sell one Sept 17.5 Put PQOUW 1.30-1.40
Buy two Oct 12.5 Puts PQOVV .15-.20

With long stock, this position has upside bias. If you think the take over will fail, then increase the number of Oct 12.5 Puts to four from the two we recommend.



Crude Oil Hedge

We continue to think that a crude oil hedge is warranted in the current market environment and would continue to hold the UCL spread that we purchased last month.



Results from Last Issue

Lennar

Lennar did not break the neckline of the H&S top and rallied along with others in the group on favorable building permits numbers. We sold our PUT when the stock rallied to 45. For the time being, we are taking a wait and see attitude and we will establish a similar position when the fundamentals for the sector begin to weaken. We booked a \$70 loss on the position.



Frontline

Our Frontline position was called away as the stock closed above 40. We will look to reestablish a similar position after the stock goes ex-dividend. We booked a profit of \$574.75 (including the \$299 received last month for the premium we sold), for a return on investment of 15%, which is 92% annualized.



Current Portfolio

| | Cost | Current Market | Mark to Market |
|-----------------------------------|------|----------------|----------------|
| Long one UCL Sept 37.5 Call UCLIU | 126 | 65 | -60 |
| Short one UCL Sept 40 Call UCLIH | -29 | 15 | 15 |

Option Notes is published monthly by:

Jade Capital
7290 Navajo Road
Suite 202
San Diego, CA 92119

Jack Walker – Editor
Carl Snyder – Publisher

Phone: 619 469 6824
Fax: 619 464 9453
Email: info@jadecapital.com
www.jadecapital.com

All prices are based upon the close as of August 27, 2004. Nothing contained in this letter constitutes a recommendation to buy or sell any security. Before entering a position check to see how the prices compare to those used in the recommendation as the prices are likely to change on the next trading day. Make sure to do your fundamental and technical analysis before making a commitment.

Copyright 2004 Jade Capital

Subscription Rates:

Regular Price: \$139/year

Special Promotion: \$89/year

Charter Rate: \$79 (through September 30th)

Trial Subscription: 3 Months at \$29

Jade Capital
7290 Navajo Road, Suite 202
San Diego, CA 92119