

How to Transmogrify a Position - Lattco

Occasionally, there are events that make it difficult or impossible to continue using the Snider Investment Method® with a position. Stock splits, mergers and acquisitions, or drastic changes in the option volume are some of the things that may create this situation.

When these events happen, you may need to transmogrify your position. When you transmogrify, you buy a new stock and sell your old stock with a realized loss. You carry over and adjust the Average Cost of the old stock to create an equivalent position so you can continue to use the Snider Method.

In this document, we will go over the steps to transmogrify a position.

STEP #1 – SELL THE POSITION

1. The first step in Transmogrification is to sell all the shares you own of the stock that needs to be transmogrified. We will refer to this stock as the “old stock.” Before you sell your shares, you must make sure there are no outstanding option contracts.

STEP #2 - DETERMINE MONTHLY PURCHASE LEVEL FOR NEW STOCK

You must determine some key pieces of information before you can go to Lattco to get a replacement stock.

1. First, you will determine how many shares per month you will buy of the new stock. In some cases, you will buy the same number of shares of the new stock as you were buying of the old stock. There are other situations where you will want to buy more or fewer shares. Each situation is different, particularly when it comes to acquisitions. But here are a few general guidelines:
 - If there is a stock split, your new Monthly Purchase Level should be the same as your Level before the split. For example, if you were buying 200 shares a month before the split, you should buy 200 shares a month of your new stock.
 - If the stock has been acquired and you were given shares of a new company in exchange for shares of your original stock, you should get back to your original number of shares. For example, let’s say you were buying 100 shares of CRAW each month and then VIC acquires CRAW and gives you 115 shares of VIC for each of your 100 shares of CRAW - you should buy 100 shares a month of your new stock.
 - If your stock price is below \$30 and you are buying more than 100 shares a month, you should use this opportunity to move to a more expensive stock.

For example, if you are buying 200 shares a month of a \$22 stock, look at buying 100 shares a month of a stock priced near \$44.

Use the tables below to record the Monthly Purchase Level of your old stock and how many shares you will buy of a new, different stock:

PURCHASE LEVEL OLD STOCK	PURCHASE LEVEL NEW STOCK

STEP #3 – DETERMINE PRICE RANGE

- Next, you determine the price range by calculating a Lower Limit and Upper Limit for the price of your new stock. To do this, you need to know your Monthly Extended Amount. Use the *actual price* you were paid for your old shares as the Price of Old Stock.

PRICE OLD STOCK		PURCHASE LEVEL OLD STOCK		MONTHLY EXTENDED AMOUNT
	Times		Equals	

- You can now calculate a Lower Limit and Upper Limit for the new stock. Take the Monthly Extended Amount, divide by the Monthly Purchase Level of New Stock, and add/subtract a \$3.00 spread around this price. The Lower Limit and the Upper Limit do not have to be above \$25.00.

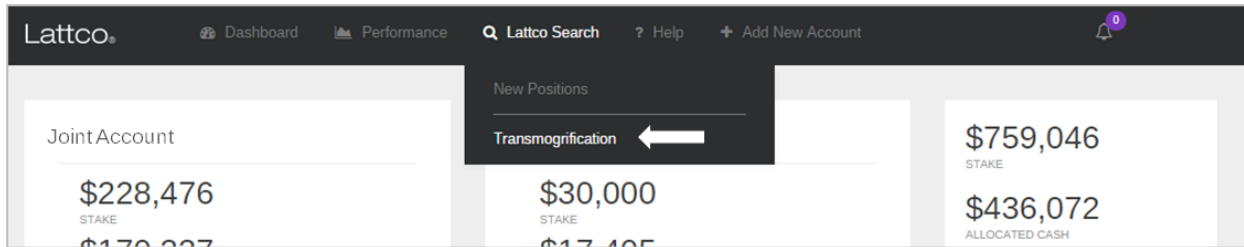
MONTHLY EXTENDED AMOUNT		PURCHASE LEVEL NEW STOCK		SPREAD		LOWER LIMIT
	Divided by		Minus	\$3.00	Equals	

MONTHLY EXTENDED AMOUNT		PURCHASE LEVEL NEW STOCK		SPREAD		UPPER LIMIT
	Divided by		Plus	\$3.00	Equals	

STEP #4 – FIND NEW STOCK

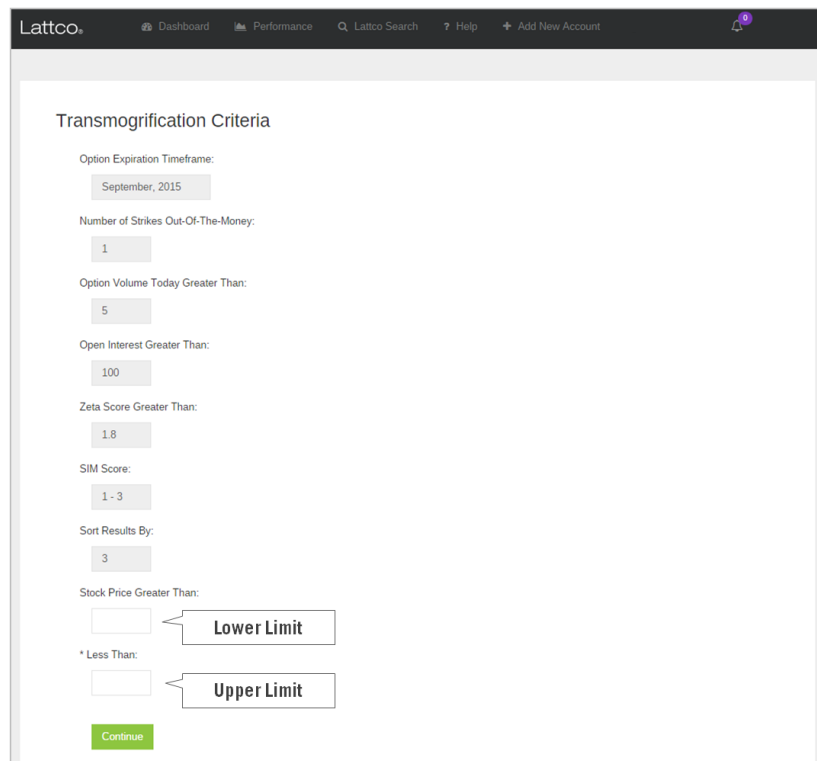
You can now go to Lattco to find your new stock.

1. After you login to Lattco, hover your mouse over the Lattco Search link at the top of the screen and then click Transmogrification from the dropdown menu.



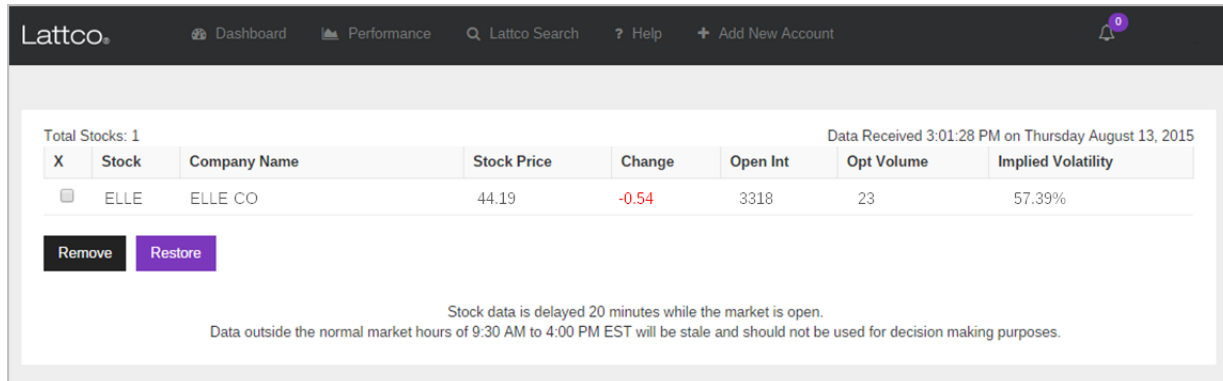
2. Your page will reload and you should see the Transmogrification Criteria page.
 - Enter the Lower Limit into the Stock Price **Greater Than** field.
 - Enter the Upper Limit into the Less Than field.

Click the **Continue** button to get your stock selection. If you don't get a search result, go back to Step #3.2 and increase the Lower and Upper Limit spread to \$4, then \$5, etc. until you get a stock.



- The search result will return one stock. If you *already own the stock* in this or any other Snider Method account, click the Remove button to get a new stock. You can click the Restore button to return to the original stock pick.

If your new Monthly Purchase Level will be more than 100 shares, make sure the Open Interest is at least 500.



STEP #5 – BUY THE NEW STOCK

- You will now buy new shares to replace your old shares. In most situations, you will buy the exact same number of shares you sold. For example, if you sold 1,000 shares of the old stock, you will most likely buy 1,000 shares of the new stock.

However, if you have received a different number of shares as a result of a stock split, merger, or acquisition or if you are reducing your Monthly Purchase Level, the number of shares you will buy is your new Monthly Purchase Level times the number of purchases you had of the old stock. For example, if you had previously been buying 200 shares a month of the old stock and had a total of 1,600 shares (i.e. 8 purchases), but you want to make the Monthly Purchase Level of the new stock 100, you will buy 800 shares (100 times 8 purchases).

STEP #6 – CALCULATE PRICE HISTORY ADJUSTEMENT

- Calculate the Old Monthly Extended Amount. The Price of Old Stock is the price you were paid for your old shares. This number should be the same as the price you used in Step #3.1.

PURCHASE LEVEL OLD STOCK		PRICE OLD STOCK		OLD MONTHLY EXTENDED AMOUNT
	Times		Equals	

Calculate the New Monthly Extended Amount. The price you paid for your new shares is the Price of New Stock. You can find this information in the Activity screen at your online brokerage account.

PURCHASE LEVEL NEW STOCK		PRICE NEW STOCK		NEW MONTHLY EXTENDED AMOUNT
	Times		Equals	

- Use the Old Monthly Extended Amount and the New Monthly Extended Amount to calculate the Price History Adjustment.

NEW MONTHLY EXTENDED AMOUNT		OLD MONTHLY EXTENDED AMOUNT		PRICE HISTORY ADJUSTMENT
	Minus		Equals	

- You will now calculate your New Extended Amount. Enter the Price History Adjustment in the first column in the worksheet below. Use the Extended Amounts from your *original* Individual Stock Purchase Record to complete the Old Extended Amount column.

PRICE HISTORY ADJUSTMENT		OLD EXTENDED AMOUNT		NEW EXTENDED AMOUNT
	Plus		Equals	
	Plus		Equals	
	Plus		Equals	
	Plus		Equals	
	Plus		Equals	
	Plus		Equals	
	Plus		Equals	
	Plus		Equals	
	Plus		Equals	
	Plus		Equals	

STEP #7 – CREATE NEW WORKSHEETS

1. You will now create an Individual Stock Purchase Record for your new stock.
 - The Date Started should be the same as your original Individual Stock Purchase Record.
 - Copy the Extended Amount for each line from the Price History Adjustment Worksheet above.
 - Divide the Extended Amount by your new Monthly Purchase Level to get the Price Paid.
 - Record the number of shares you own in the Total Shares column.
 - Calculate and transfer the total Income from Options, Profit from Sale of Stock, and Commissions from the original Individual Stock Purchase Record.

INDIVIDUAL STOCK PURCHASE RECORD

Stock Symbol: NEW STOCK

Level: NEW LEVEL

Date Started: MONTH/YEAR

MO.	PRICE PAID	EXTENDED AMOUNT	TOTAL EXTENDED AMOUNT	TOTAL SHARES	AVERAGE COST	INCOME FROM OPTIONS	PROFIT FROM SALE OF STOCK	COMM.
1								
2								
3								
4								
5								
6								
7								
8								
9								
10								
Totals								

2. Use the Price Paid column on your new Individual Stock Purchase Record to create a new **Band Rule Worksheet**.

BAND RULE WORKSHEET

BAND	LOWER LIMIT	UPPER LIMIT	FIRST PURCHASE	SECOND PURCHASE	THIRD PURCHASE
1					
2					
3					
4					

STEP #8 – SELL OPTIONS

1. If you do not already own 10 times your new Monthly Purchase Level, you will look to see if you can sell a put to acquire the shares you could buy this month.
 - The strike price of the put will be the Upper Limit of the Lower Band. The Lower Band is immediately below the Current Band. (The Current Band is determined by the price the stock is currently trading). For example, if the stock is currently trading in the \$30.01-\$35.00 Band, then you will sell the put at a strike price of \$30.

Before you sell the put, make sure that shares assigned at this strike price would not cause you to violate the Band Rule.

 - The number of puts you will sell is your new Monthly Purchase Level divided by 100.
2. Regardless of whether or not you sell a put, you will look to see if you can sell calls against your shares.* Remember, you will use your newly calculated Average Cost. If you are Bundling, you will use the purchase prices from your new Individual Stock Purchase Record.

*Ally clients can save a commission by using the Strangle Order Form to sell the call and put.

STEP #9 – UPDATE WORKSHEETS

1. Make sure to record any Income from Options and Commissions on your Individual Stock Purchase Record.

At this point, you have transmogrified your position and should continue to apply the rules of the Snider Investment Method.

ONE FINAL WORD OF CAUTION...

You may remember the comic strip Calvin & Hobbes. The title characters were a small boy with an overactive imagination and his stuffed tiger, which was a real tiger in Calvin's world. Calvin had a cardboard box with buttons and dials drawn on it called the Transmogrifier. This device could turn an object into something else.

Calvin often got into trouble using the Transmogrifier (actually, Calvin usually got into trouble whether he used the Transmogrifier or not.) This technique shouldn't be used to get rid of a stock you don't like or one you think is going to go down in price. Transmogrification should only be used to replace stocks whose options no longer work with the Snider Method because of stock splits, acquisitions, or drastic decreases in option volume.

THE FINE PRINT

The intent of this document is to help expand your financial education. Although the information included may be relevant to your particular situation, it is not meant to be personalized advice. When it comes to investing, insurance, and financial planning, it is important to speak to a professional and get advice that is tailored to your unique, individual situation. All investments involve risk including possible loss of principal. Investment objectives, risks, and other information are contained in the [Snider Investment Method Owner's Manual](#); read and consider them carefully before investing. More information can be found on our [website](#) or by calling 1-888-6SNIDER. Past performance is not indicative of future results.

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Transmogrification Worksheets

DETERMINE NEW MONTHLY PURCHASE LEVEL

PURCHASE LEVEL OLD STOCK	PURCHASE LEVEL NEW STOCK

DETERMINE UPPER AND LOWER PRICE LIMITS

PRICE OLD STOCK		PURCHASE LEVEL OLD STOCK		MONTHLY EXTENDED AMOUNT
	Times		Equals	

MONTHLY EXTENDED AMOUNT		MONTHLY PURCHASE LEVEL - NEW STOCK		SPREAD		LOWER LIMIT
	Divided by		Minus	\$3.00	Equals	

MONTHLY EXTENDED AMOUNT		MONTHLY PURCHASE LEVEL - NEW STOCK		SPREAD		UPPER LIMIT
	Divided by		Plus	\$3.00	Equals	

CALCULATE PRICE HISTORY ADJUSTEMENT

MONTHLY PURCHASE LEVEL - OLD STOCK		PRICE OF OLD STOCK		OLD MONTHLY EXTENDED AMOUNT
	Times		Equals	

MONTHLY PURCHASE LEVEL - NEW STOCK		PRICE OF NEW STOCK		NEW MONTHLY EXTENDED AMOUNT
	Times		Equals	

NEW MONTHLY EXTENDED AMOUNT		OLD MONTHLY EXTENDED AMOUNT		PRICE HISTORY ADJUSTMENT
	Minus		Equals	

CALCULATE PRICE HISTORY ADJUSTEMENT

PRICE HISTORY ADJUSTMENT		OLD EXTENDED AMOUNT		NEW EXTENDED AMOUNT
	Plus		Equals	
	Plus		Equals	
	Plus		Equals	
	Plus		Equals	
	Plus		Equals	
	Plus		Equals	
	Plus		Equals	
	Plus		Equals	
	Plus		Equals	
	Plus		Equals	