

How to Transmogrify a Position

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.

Occasionally, there are events that can make it difficult or impossible to continue using the Snider Investment Method® with a particular 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 are buying a new stock and selling 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. We will now go over the steps to transmogrify a position.

STEP #1 – SELL THE POSITION

1. The first step in Transmogrification is to sell all of 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

Before you can go to Lattco® to get a replacement stock, you need determine some key pieces of information.

1. The first thing you need to know is 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 of JAM 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:

MONTHLY PURCHASE LEVEL - OLD STOCK	MONTHLY PURCHASE LEVEL - NEW STOCK

STEP #3 – DETERMINE UPPER AND LOWER PRICE LIMITS

- Next, you will calculate 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 OF OLD STOCK		MONTHLY 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.

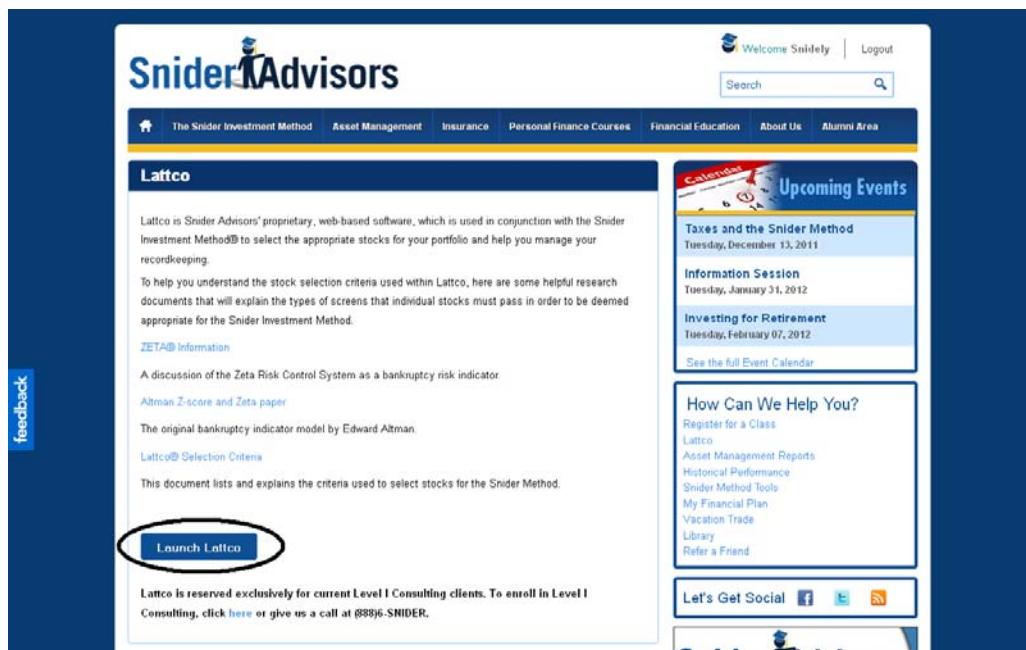
MONTHLY EXTENDED AMOUNT		MONTHLY PURCHASE LEVEL - NEW STOCK		SPREAD		LOWER LIMIT
	Divided by		Minus	\$3.00	Equals	

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

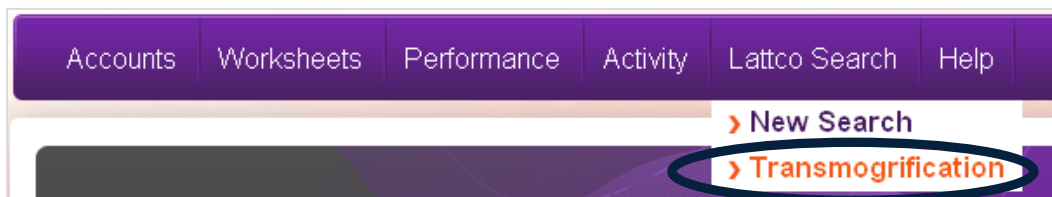
STEP #4 – FIND NEW STOCK

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

1. Login to SniderAdvisors.com and select Lattco followed by Launch Lattco



2. Your page will reload with Lattco's home page. Next, go to Lattco Search and select Transmogrification.



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

Select **continue** to submit these settings and get your stock selection. If you don't get any search results, go back to Step #3,2 and increase the spread to \$4, then \$5, etc. until you get a stock.

4. The search result will return one stock. If you already own the stock in this or any other Snider Method account, select the checkbox next to the stock symbol and click **Remove** and a new stock pick will be generated. You can click the **Restore** button to return to the original stock pick.

If you are buying more than 100 shares per month, make sure the **Open Interest** is at least 500.

Take note of the **Stock Price**; you will use this number to calculate your Price History Adjustment in Step #5.

Transmogrification Position							
Total Stocks: 1		Data Received 12:50:00 PM on Thursday February 24, 2011					
X	Stock	Company Name	Stock Price	Change	Open Int	Opt Volume	Implied Volatility
<input type="checkbox"/>	REK	PEACHY KEEN INC.	46.04	-0.76	2071	7	50.29%

Remove Restore

STEP #5 – CALCULATE PRICE HISTORY ADJUSTEMENT

1. Record the price you were paid for your old shares as the **Price of Old Stock**. This number should be the same as the price you used in Step #3, 1.

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

2. Record the price of the stock Lattco chose for you as **Price of New Stock**. In this case, the stock would be REK and the Price of New Stock would be \$46.04.

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

3. 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	

4. 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 #6 – 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 will buy next to the last purchase 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/DAY/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 WORKSEET

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

4					
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STEP #7 – BUY THE NEW STOCK

1. You will now buy your new stock to replace your old stock. First, refer to the **Total Shares** column of the new Individual Stock Purchase Record to determine how many replacement shares to buy.
2. Next, determine whether or not you should make an additional purchase of shares this month. (To save a commission, you will want to buy your replacement shares and this month’s shares (if any) at the same time.) You will not buy an additional lot of shares if:
 - You already own 10 times your New Monthly Purchase Level.
 - Buying shares would violate the Band Rule (according to your new band Rule Worksheet).
3. After you determine how many shares to buy go to your broker and buy your shares.
4. If you buy additional shares this month, record this information on your Individual Stock Purchase Record and calculate your new Average Cost.

TOTAL EXTENDED AMOUNT		TOTAL SHARES OWNED		AVERAGE COST
	Divided by		Equals	

STEP #8 – SELL OPTIONS

1. Now apply the rules of the Snider Method to determine which options to sell.

STEP #9 – UPDATE YOUR WORKSHEETS

2. Make sure to record any **Income from Options** and **Commissions** on your Individual Stock Purchase Record.
3. If you bought shares for this month’s purchase, add the new purchase to the Band Rule Worksheet.

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

Example - How to Transmogrify

Let's look at an example. Suppose you've purchased CRAW five times. Here are your Individual Stock Purchase Record and Band Rule Worksheet:

INDIVIDUAL STOCK PURCHASE RECORD

Stock Symbol – CRAWLevel – 200Date Started – 06/17/2010

MO.	PRICE PAID	EXTENDED AMOUNT	TOTAL EXTENDED AMOUNT	TOTAL SHARES	AVERAGE COST	INCOME FROM OPTIONS	PROFIT FROM SALE OF STOCK	COMM.
1	\$27.40	\$5,480	\$5,480	200	\$27.40	\$380		\$45
2	\$20.57	\$4,114	\$9,594	400	\$23.99	\$160		\$30
3	\$18.41	\$3,682	\$13,276	600	\$22.13	\$240		\$30
4	\$22.80	\$4,560	\$17,836	800	\$22.30	\$460		\$30
5	\$27.10	\$5,420	\$23,256	1000	\$23.26	\$250		\$30
6								
7								
8								
9								
10								
				Totals				

BAND RULE WORKSEET

Stock Symbol – CRAWDate Started – 06/17/2010

BAND	LOWER LIMIT	UPPER LIMIT	FIRST PURCHASE	SECOND PURCHASE	THIRD PURCHASE
1	\$25.01	\$27.51	X	X	
2	\$22.51	\$25.00	X		
3	\$20.01	\$22.51	X		
4	\$17.51	\$20.00	X		

In November, another company (VIC) acquires CRAW. You receive 115 shares of VIC for every 100 shares of CRAW. The current price of VIC is \$23.40. The options market for VIC is very small, and it is not practical to continue using the Snider Method on this stock. So you will transmogrify VIC.

You will wait until November Trade Day to transmogrify this position because the option contracts you sold in October will be automatically adjusted for the acquisition.

STEP #1 – SELL THE POSITION

1. You have no outstanding option contracts, so you sell all of your shares of VIC.

Stock Order Form

Stock	Extended Hours	Trailing Stop	Contingent
Stock Symbol	VIC Find Symbol		
Action	Sell ▼		
Quantity	1,150 <input checked="" type="radio"/> Shares <input type="radio"/> \$ Amount All or None <input type="checkbox"/>		
Price	<input checked="" type="radio"/> Market <input type="radio"/> Limit \$ <input style="width: 60px;" type="text"/> ▲▼ <input type="radio"/> Stop \$ <input style="width: 60px;" type="text"/> ▲▼ <input type="radio"/> Stop Limit <input type="radio"/> Market On Close		
Duration	Day Order ▼		
Routing	Default ▼		
Advanced Orders	None ▼		
<input type="button" value="Preview Order"/>		<input type="button" value="Save"/>	

STEP #2 – DETERMINE NEW MONTHLY PURCHASE LEVEL

1. Next, decide how many shares of the new stock you will buy each month. You could buy 200 shares, but because VIC is trading for less than \$30, you should take this opportunity to reduce your **Monthly Purchase Level** to 100 and move to a more expensive stock.

Fill out the table below assuming you will buy 100 shares of the new stock:

MONTHLY PURCHASE LEVEL - OLD STOCK	MONTHLY PURCHASE LEVEL - NEW STOCK
200	100

STEP #3 – DETERMINE UPPER AND LOWER PRICE LIMITS

1. You calculate your **Monthly Extended Amount** to determine the Upper and Lower Limits of the price of the new stock. Remember, you will use the price you were actually paid VIC. You received 115 shares of VIC for every 100 shares you had of CRAW, so your old Monthly Purchase Level was 230.

PRICE OF OLD STOCK		MONTHLY PURCHASE LEVEL - OLD STOCK		MONTHLY EXTENDED AMOUNT
\$23.43	Times	230	Equals	\$5,388

2. You now calculate a **Lower Limit** and **Upper Limit** of price for the new stock. Take the current price of VIC and then add/subtract a \$3.00 spread:

MONTHLY EXTENDED AMOUNT		MONTHLY PURCHASE LEVEL - NEW STOCK		SPREAD		LOWER LIMIT
\$5,388	Divided by	100	Minus	\$3.00	Equals	\$50.88

MONTHLY EXTENDED AMOUNT		MONTHLY PURCHASE LEVEL - NEW STOCK		SPREAD		UPPER LIMIT
\$5,388	Divided by	100	Plus	\$3.00	Equals	\$56.88

STEP #4 – FIND NEW STOCK

1. You will now go to Lattco to find your new stock. You go to your **Transmogrification Criteria** page and enter the **Lower Limit** (50.88) into the **Greater Than** field of the **Stock Price** row and the **Upper Limit** (56.88) into the **Less Than** field of the **Stock Price** row.

Transmogrification Criteria

Option Expiration Timeframe:

Number of Strikes Out-Of-The-Money:

Option Volume Today Greater Than:

Open Interest Greater Than:

Zeta Score Greater Than:

SIM Score:

Sort Results By:

Stock Price Greater Than: Less Than:

2. The stock you receive is ELLE. Since your LEVEL is 100, you don't need to check the **Open Interest**. Make sure to take note of ELLE's **Stock Price**. You will use this number to calculate your Price History Adjustment.

Transmogrification Position

Total Stocks: 1 Data Received 12:50:00 PM on Thursday February 24, 2011

X	Stock	Company Name	Stock Price	Change	Open Int	Opt Volume	Implied Volatility
<input type="checkbox"/>	ELLE	ELLEN'S MARKETING INC.	54.97	+0.23	181	20	48.48%

STEP #5 – CALCULATE PRICE HISTORY ADJUSTEMENT

1. You are paid \$23.43 for each share of VIC, which you record as the **Price of Old Stock**.

MONTHLY PURCHASE LEVEL - OLD STOCK		PRICE OF OLD STOCK		OLD MONTHLY EXTENDED AMOUNT
230	Times	\$23.43	Equals	\$5,388

2. You use the Stock Price Lattco listed for ELLE as the **Price of New Stock**.

MONTHLY PURCHASE LEVEL - NEW STOCK		PRICE OF NEW STOCK		NEW MONTHLY EXTENDED AMOUNT
100	Times	\$54.97	Equals	\$5,497

3. Now you calculate your **Price History Adjustment**.

NEW MONTHLY EXTENDED AMOUNT		OLD MONTHLY EXTENDED AMOUNT		PRICE HISTORY ADJUSTMENT
\$5,497	Minus	\$5,388	Equals	\$109

4. You enter \$109 in the **Price History Adjustment** column and add this to **Old Extended Amounts** from your CRAW Individual Stock Purchase Record to calculate your **New Extended Amount**.

PRICE HISTORY ADJUSTMENT		OLD EXTENDED AMOUNT		NEW EXTENDED AMOUNT
\$109	Plus	\$5,480	Equals	\$5,589
\$109	Plus	\$4,114	Equals	\$4,223
\$109	Plus	\$3,682	Equals	\$3,791
\$109	Plus	\$4,560	Equals	\$4,669
\$109	Plus	\$5,420	Equals	\$5,529

STEP #6 – CREATE NEW WORKSHEETS

1. Next, you create an **Individual Stock Purchase Record** for ELLE.
 - Copy the **Date Started**, and totals for the **Income from Options**, **Profit from Sale of Stock**, and **Commissions** from your Individual Stock Purchase Record from CRAW.
 - Your **Monthly Purchase Level** for ELLE will be 100. So your **Total Shares** should be 500.
 - You record the New Extended Amounts you just calculated into the **Extended Amount** column and then calculate the **Total Extended Amount** column.
 - You calculate the **Price Paid** by dividing the Extended Amount by your Level.

INDIVIDUAL STOCK PURCHASE RECORD

Stock Symbol – ELLE

Level – 100

Date Started – 06/17/2010

MO.	PRICE PAID	EXTENDED AMOUNT	TOTAL EXTENDED AMOUNT	TOTAL SHARES	AVERAGE COST	INCOME FROM OPTIONS	PROFIT FROM SALE OF STOCK	COMM.
1	\$55.89	\$5,589	\$5,589					
2	\$42.23	\$4,223	\$9,812					
3	\$37.91	\$3,791	\$13,603					
4	\$46.69	\$4,669	\$18,272					
5	\$55.29	\$5,529	\$23,801	500		\$1,490		\$165
6								
7								
8								
9								
10								
Totals								

2. You create a new **Band Rule Worksheet** using the Price Paid information on your new Individual Stock Purchase Record.

BAND RULE WORKSEET

Stock Symbol – ELLE

Date Started – 06/17/2010

BAND	LOWER LIMIT	UPPER LIMIT	FIRST PURCHASE	SECOND PURCHASE	THIRD PURCHASE
1	\$55.01	\$60.00	X	X	
2	\$50.01	\$55.00			
3	\$45.01	\$50.00	X		
4	\$40.01	\$45.00	X		
5	\$35.01	\$40.00	X		

STEP #7 – BUY THE NEW STOCK

1. Next, you buy shares of ELLE. You buy 500 shares to replace the old shares of VIC. You also buy an additional 100 shares for this month’s Snider Method purchase because you do not own 10 times your Level and you would not violate the Band Rule.

Stock Order Form

Stock	Extended Hours	Trailing Stop	Contingent
Stock Symbol	<input type="text" value="ELLE"/> Find Symbol		
Action	<input type="text" value="Buy"/>		
Quantity	<input type="text" value="600"/> <input checked="" type="radio"/> Shares <input type="radio"/> \$ Amount <input type="checkbox"/> All or None		
Price	<input checked="" type="radio"/> Market <input type="radio"/> Limit \$ <input type="text"/> <input type="button" value="↑"/> <input type="button" value="↓"/> <input type="radio"/> Stop \$ <input type="text"/> <input type="button" value="↑"/> <input type="button" value="↓"/> <input type="radio"/> Stop Limit <input type="radio"/> Market On Close		
Duration	<input type="text" value="Day Order"/>		
Routing	<input type="text" value="Default"/>		
Advanced Orders	<input type="text" value="None"/>		
<input type="button" value="Preview Order"/>		<input type="button" value="Save"/>	

- Your 600 shares of ELLE fill at \$54.69 a share. You use this price to update your **Individual Stock Purchase Record** and calculate your new **Average Cost**.

INDIVIDUAL STOCK PURCHASE RECORD

Stock Symbol – ELLE

Level – 100

Date Started – 06/17/2010

MO.	PRICE PAID	EXTENDED AMOUNT	TOTAL EXTENDED AMOUNT	TOTAL SHARES	AVERAGE COST	INCOME FROM OPTIONS	PROFIT FROM SALE OF STOCK	COMM.
1	\$55.89	\$5,589	\$5,589					
2	\$42.23	\$4,223	\$9,812					
3	\$37.91	\$3,791	\$13,603					
4	\$46.69	\$4,669	\$18,272					
5	\$55.29	\$5,529	\$23,801	500		\$1,490		\$165
6	\$54.69	\$5,469	\$29,270	600	\$48.78			
7								
8								
9								
10								
Totals								

TOTAL EXTENDED AMOUNT		TOTAL SHARES OWNED		AVERAGE COST
\$29,270	Divided by	600	Equals	\$48.78

STEP #8 – SELL OPTIONS

- Next, you sell 6 \$50 calls because this is the first strike price greater than your Average Cost.

CALLS		
Bid	Ask	Strike
Dec 10 Calls		ELLE @ \$54.69
<u>4.20</u>	<u>4.35</u>	<u>45.00</u>
<u>2.15</u>	<u>2.30</u>	<u>47.50</u>
<u>1.85</u>	<u>2.05</u>	<u>50.00</u>
<u>1.40</u>	<u>1.55</u>	<u>52.50</u>
<u>1.05</u>	<u>1.15</u>	<u>55.00</u>

STEP #9 – UPDATE YOUR WORKSHEETS

- Now you update your **Income from Options** and **Commissions** on your Individual Stock Purchase Record. Your calls filled at \$1.85 and you incurred three commissions this month (you sold the entire position, bought new shares, and sold calls.)

INDIVIDUAL STOCK PURCHASE RECORD

Stock Symbol – ELLE

Level – 100

Date Started – 06/17/2010

MO.	PRICE PAID	EXTENDED AMOUNT	TOTAL EXTENDED AMOUNT	TOTAL SHARES	AVERAGE COST	INCOME FROM OPTIONS	PROFIT FROM SALE OF STOCK	COMM.
1	\$55.89	\$5,589	\$5,589					
2	\$42.23	\$4,223	\$9,812					
3	\$37.91	\$3,791	\$13,603					
4	\$46.69	\$4,669	\$18,272					
5	\$55.29	\$5,529	\$23,801	500		\$1,490		\$165
6	\$54.69	\$5,469	\$29,270	600	\$48.78	\$1,110		\$45
7								
8								
9								
10								
Totals								

- The last thing you do is update your Band Rule Worksheet. You enter an X on the Band from \$50.01 - \$55.00 because you paid \$54.68 for your shares.

BAND RULE WORKSEET

Stock Symbol – ELLE

Date Started – 06/17/2010



BAND	LOWER LIMIT	UPPER LIMIT	FIRST PURCHASE	SECOND PURCHASE	THIRD PURCHASE
1	\$55.01	\$60.00	X	X	
2	\$50.01	\$55.00	X		
3	\$45.01	\$50.00	X		
4	\$40.01	\$45.00	X		
5	\$35.01	\$40.00	X		

You have now transmogrified your position.

ONE FINAL WORD OF CAUTION...

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.

If you have any questions or need help with the process, please contact Snider Advisors at 888-6SNIDER or support@snideradvisors.com.

THE FINE PRINT

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Transmogrification Worksheet

DETERMINE NEW MONTHLY PURCHASE LEVEL

MONTHLY PURCHASE LEVEL - OLD STOCK	MONTHLY PURCHASE LEVEL - NEW STOCK

DETERMINE UPPER AND LOWER PRICE LIMITS

PRICE OF OLD STOCK		MONTHLY 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	

Transmogrification Worksheet

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	