

THE WALL STREET JOURNAL.

Going Ga-Ga for Google

David Gaffen
April 18, 2008

It's been a while since Google Inc. had a day like this.

After reporting a 30% increase in revenue and proving (for now) that the hand-wringing over slowing in paid clicks was overblown, the options market has gone bananas, and the momentum players have returned to the stock as well, if only for a day.

For the options market, the frenzy is definitely just for Friday – because April options expire at the end of the session, so investors are trying to make hay with risky trades of out of the money puts and calls. Those that made these risky bets on a big move in Google earlier in the week are sitting pretty right now, while some who jumped in Friday — unless they have the nimbleness of a mountain goat – are regretting their impulses.

Earlier in the week, prices on deep out-of-the-money calls (an option to buy a stock at a later date at a given price) rose steadily. For instance, \$500 April calls were traded at 55 cents Thursday, up from 10 cents earlier in the week. But shares were lately quoted at \$538.93, and that \$500 call — which is now safely in the money — traded lately at a ridiculous \$39.02. The \$530 call was traded Thursday at 10 cents, and is now at \$9.60.

“They probably had the biggest payout ever in an expiring option,” says Michael Schwartz, chief options strategist at Oppenheimer & Co. “They’re making money more from being lucky than being smart.”

But people have used this opportunity to get even bolder. Calls at the \$540 and \$550 strikes show a massive increase in volume. Headed into Friday, open interest for these contracts was 4,926 and 5,344 contracts, respectively, but this session has seen an explosion of volume, with nearly 28,000 and more than 14,000 contracts traded. Those bets were made Friday — which shows investors are hoping that Google will close above this price, or more likely, they’re trying to take advantage of the frenzy to buy these calls and sell them at a higher price later on.

“It’s a lot of two-way traffic, people hoping to capture small price moves,” says Rebecca Engmann Darst, strategist at InterActive Brokers. However, Mr. Schwartz points out that for those stuck holding these call options now, “as the contract approaches expiration they’re going to tend toward their intrinsic value and trade at a discount from that value,” which is a nice way of saying the last one at the party gets nothing but backwash in the liquor bottles.

Oddly, for value-oriented types (*if there is such a thing when it comes to Google*), all the fretting over paid clicks that contributed to the share decline has presented a good opportunity to buy the shares. “There was certainly a tremendous amount of speculation around this quarter, as in, were they going to miss? Occasionally Google misses,” says Dan

Davidowitz, portfolio manager and research analyst at Polen Capital Management, who bought the stock in the last month.