

## How Fast Do DLOMs Change?

Our studies of LEAPS and the costs of price protection show clearly that discounts for lack of marketability (DLOMs) change over time. But, how much do DLOMs change? The answers are: quickly, often and a lot. The factors causing change appear to be conditions in the company, and/or in the industry, and/or in the general economy.

For this study, we chose ten U.S. stocks and recorded the costs of their LEAPS put options on approximately the same dates each month for the first nine months of 2010, beginning on January 19. The ten stocks and their industries were:

<u>Stock Symbol</u>	<u>Company/Business</u>
BP	British Petroleum, PLC Petroleum production and marketing
SLB	Schlumberger Ltd. Petroleum equipment and services
BBY	Best Buy Co. Electronics retailer
CAL	Continental Airlines International airline
GPS	GAP, Inc. Apparel retailer
KBR	KBR, Inc. Engineering and construction services
MYGN	Myriad Genetics Manufacturers of healthcare diagnostics
RDN	Radian Group Surety and title insurer
TCK	Teck Resources Ltd. Minerals mining and processing
ZION	Zions Bancorp Regional bank holding company

We chose BP to see the effects of the Gulf oil spill on the costs of its LEAPS. We chose SLB (Schlumberger) to see what if any effects the oil spill had on companies related to petroleum producers. For the remaining eight companies, we selected each multiple of 91 companies, alphabetically, from all remaining LEAPS.

We studied only LEAPS expiring on January 21, 2012. In January 2010 those LEAPS had 24 months before expiration. Over the 9-month period from January through September, one would expect some decrease in the cost of price protection (i.e., decrease in the discount percentages) as the holding period (the time to expiration) grew shorter; however, the amount of that decrease can not be identified.

Discount percentages were calculated in the same manner as in all previous studies;<sup>1</sup> that is, by dividing the cost of the put option by the price of the underlying common share on the same day.

The chart on the following page shows the results. As would be expected, the change in cost of price protection on BP stock was dramatic, with a difference between the highest and lowest option costs during the nine month period of 75%. Discounts for Schlumberger (SLB) showed little impact from the BP accident.

Within the nine-month period, it was common for the change in the costs of price protection/discounts to vary from 20% to 30%. In distressed industries or companies (RDN or ZION, for example) the variations could be much greater.

So, what does this mean for appraisers? It simply means that the dates of the data on which you base your DLOM conclusion are important because conditions change fast and often. Your data should be contemporary with your valuation date. In addition, from this and other studies, it is clear that industry and company comparability is important.

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<sup>1</sup> For earlier studies, see [www.dlom-info.com](http://www.dlom-info.com).

LEAPS Costs As % of Stock Prices of  
Selected Companies During 9-Month Period of 2010

	<u>BP</u>	<u>SLB</u>	<u>BBY</u>	<u>CAL</u>	<u>GPS</u>	<u>KBR</u>	<u>MYGN</u>	<u>RDN</u>	<u>TCK</u>	<u>ZION</u>	<u>Months to Expiration of Option</u>
Jan. 19	17.6%	19.2%	18.9%	29.4%	19.5%	23.3%	25.5%	49.1%	23.0%	28.2%	24
Feb. 17	18.6%	19.2%	18.5%	31.1%	18.8%	23.3%	27.8%	46.7%	24.9%	30.6%	23
Mar. 17	16.9%	17.7%	16.8%	29.0%	17.2%	20.6%	23.8%	40.4%	20.0%	24.5%	22
Apr. 16	16.3%	17.7%	16.8%	27.1%	15.6%	20.3%	23.1%	37.6%	20.8%	25.1%	21
May 17	19.7%	21.5%	21.8%	31.1%	19.8%	21.6%	24.8%	41.8%	26.5%	31.9%	20
June 17	28.5%	20.3%	21.1%	29.0%	18.8%	21.2%	23.6%	41.9%	26.6%	25.9%	19
July 16	24.1%	20.9%	20.9%	29.3%	19.6%	20.8%	22.5%	39.9%	26.0%	25.0%	18
Aug. 17	19.5%	19.1%	19.6%	27.5%	18.6%	20.2%	23.4%	39.8%	24.3%	23.2%	17
Sept. 17	22.4%	17.7%	17.4%	25.3%	17.3%	19.0%	24.9%	34.8%	22.5%	21.3%	16
Difference: Highest Option Cost ÷ Lowest Option Cost											
	75.3%	21.6%	29.9%	22.8%	26.8%	22.7%	23.4%	41.2%	32.9%	49.7%	
Standard Deviation											
	3.97	1.42	1.90	1.86	1.39	1.42	1.59	4.37	2.43	3.44	
Coefficient of Variation											
	18.5%	7.4%	10.0%	6.5%	7.6%	6.7%	6.5%	10.6%	10.2%	13.1%	