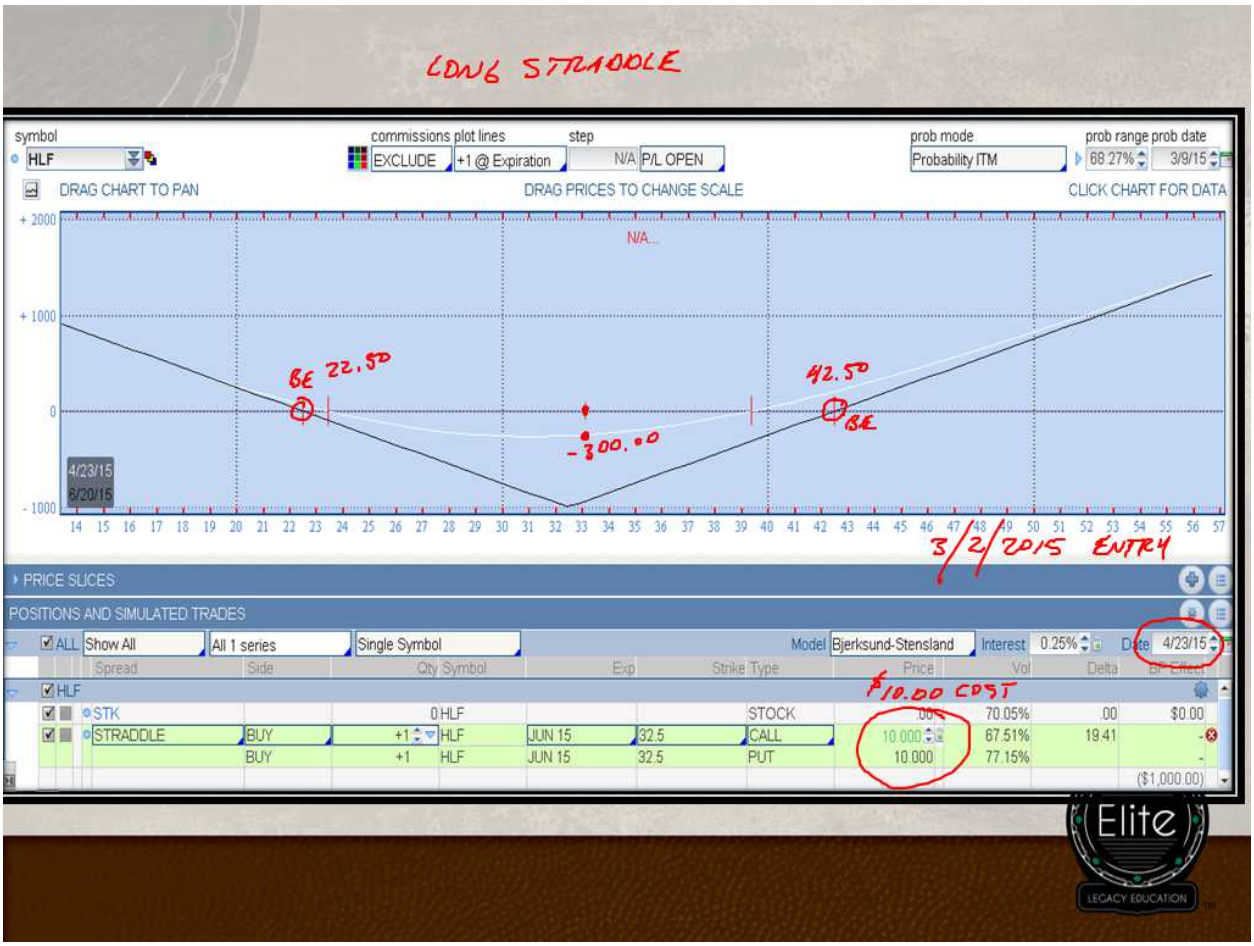
Options II

8/2/15



LONG STRANGLE

Ticker HLF Current price 31.45 Date 3/2/15

BTO JUN 40 CALL (-) _____

BTO JUN 27.5 PUT (-) _____

$5.04 OR $504.00

Max gain ∞ Unlimited

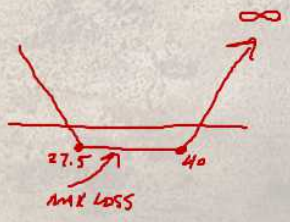
Max loss $5.04 Total net debit

High breakeven @ expiry 45.04 High strike + debit

Low breakeven @ expiry 22.46 Low strike - debit

40 + 5.04

27.5 - 5.04



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LONG STRANGLE

1. When expected move, or profit target, is achieved
2. Expected move not achieved
   - If the stock has a history of moving, then exit post earnings
   - Volatility crush
3. Close the trade before the news is released BE A CHICKEN
   - IV is still high
   - Miss out on potential gap
4. Legging out

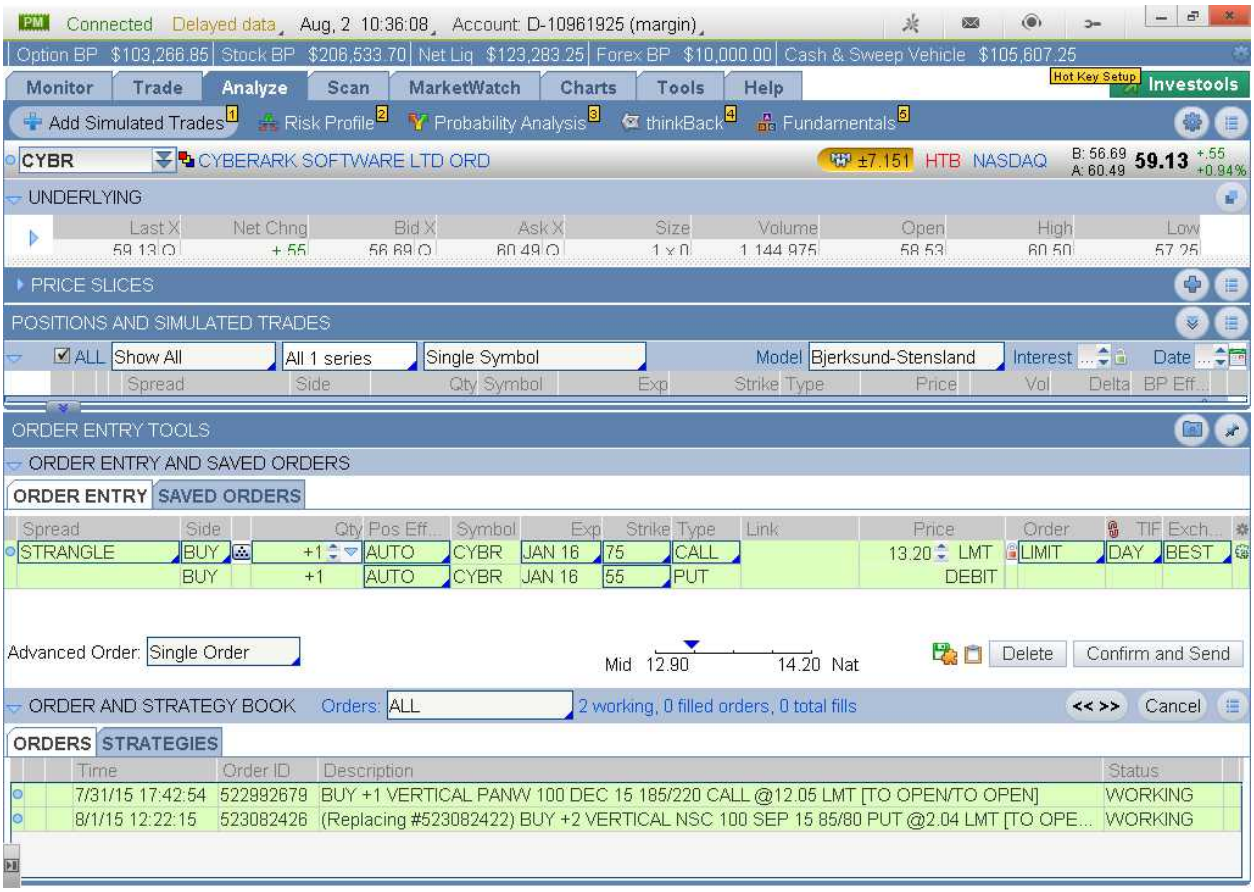
HLF RISES DRAMATICALLY
1. CALL WORTH A LOT → SELL TO CLOSE
2. PUT WORTHLESS → KEEP PUT

CYBR @ 59.13

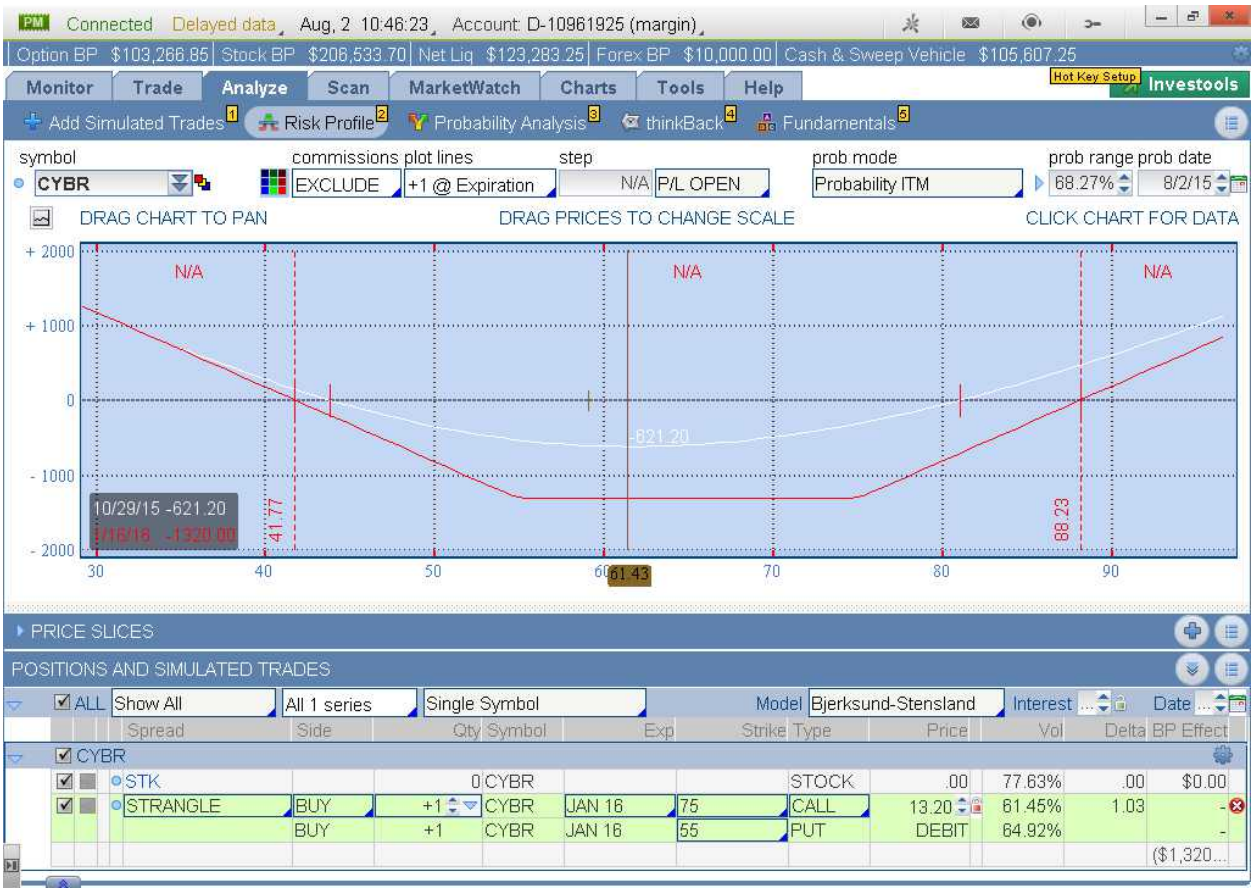
8/2/15

Earnings are scheduled for 8/11/15

Stock definitely moving 15% over a 1.5 month period

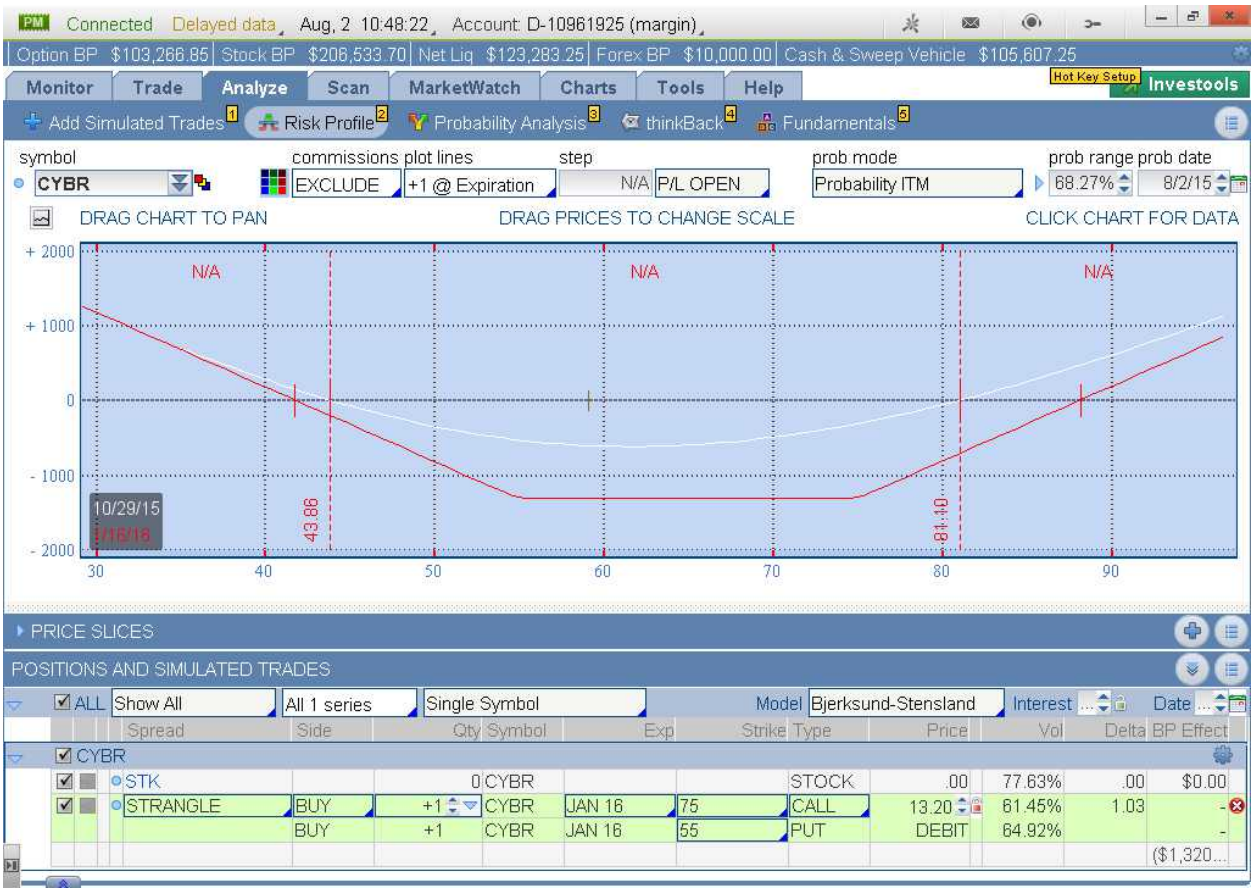


Duplicate order Mid 12.90 and 14.20 Nat, so we are modeling 13.20 net debit



Model loss ½ way to expiration = -621.00 per contract, if CYBR @ 61.43 (worst case) on 10/29/2015

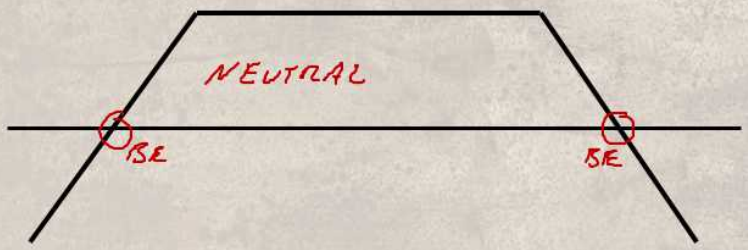
Breakevens @ expiration = 41.80 and 88.20 (see above)



Breakvens ½ way to expiration (see above) = 43.86 and 81.10. We can set the slices on the chart.

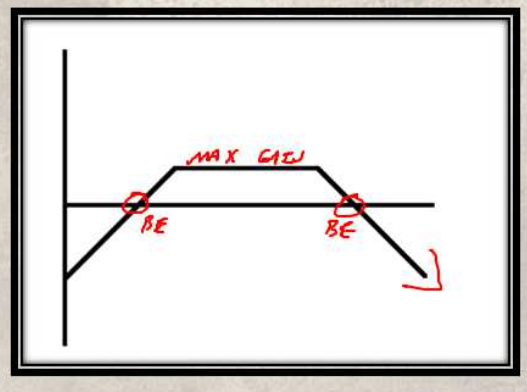
1. Max gain = unlimited
2. Max loss = net debit of 13.20 per share, or 1320.00 per contract; if CYBR between 55 and 75 @ expiration
3. Breakevens @ expiration = 41.80 and 88.20
4. Exit plans
    a. We need to stay in through Aug and Nov earnings – maximizes our chances of stock making an abnormal
    b. Post Nov earnings, then we must decide to either stay in, or close
5. Model loss ½ way to expiration if CYBR has not moved = -621.00
6. Position size = willing loss -500 / 621.00 model loss = 1 contract

SHORT STRANGLE



SHORT STRANGLE

- Outlook -3 -2 -1 0 1 2 3
  - Neutral
- Max Reward
  - Net credit > IRON CONDOR
- Risk
  - Unlimited ∞
- Probability of Profit (POP)
  - 1.00 – (Delta of short put + Delta of short call) ≈ 80%
- Break-evens
  - Call strike + total net credit
  - Put strike – total net credit



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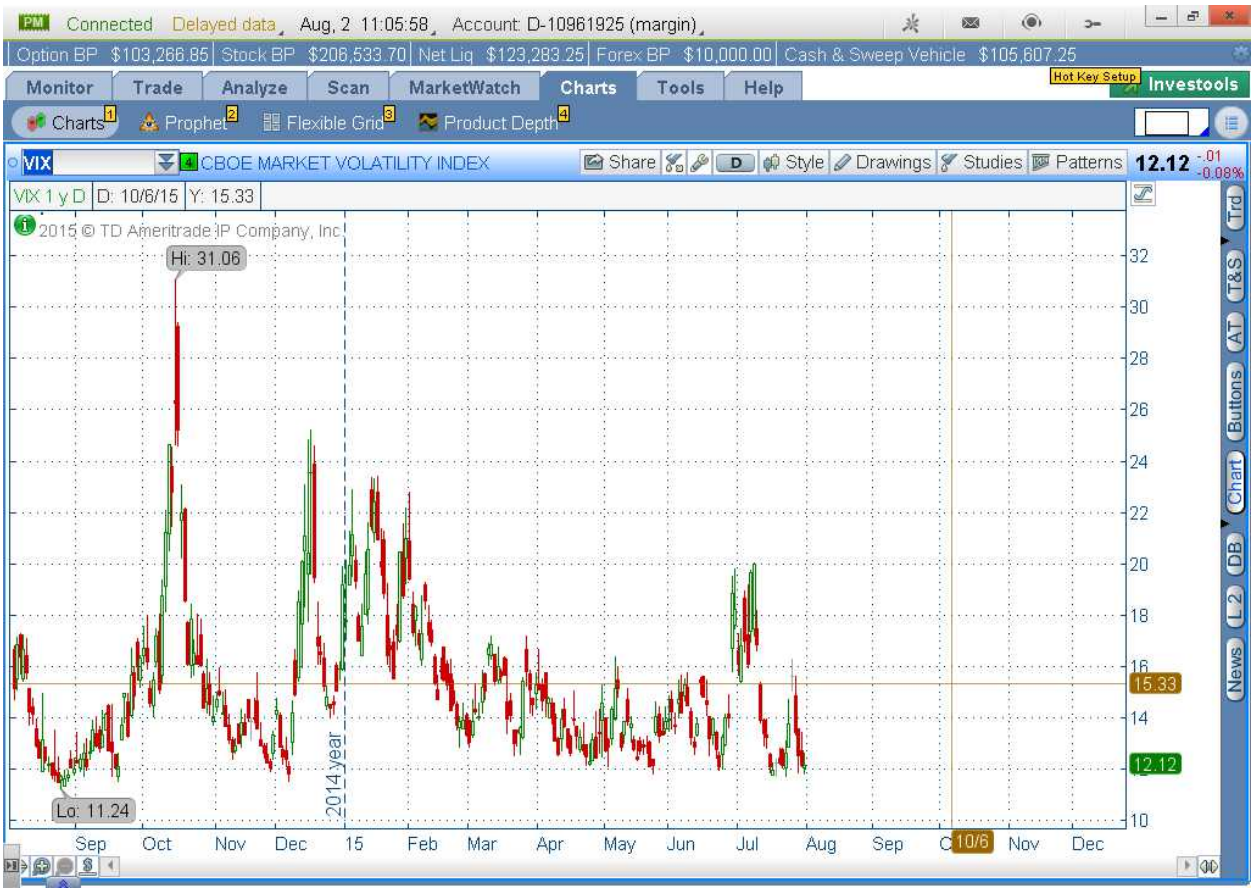
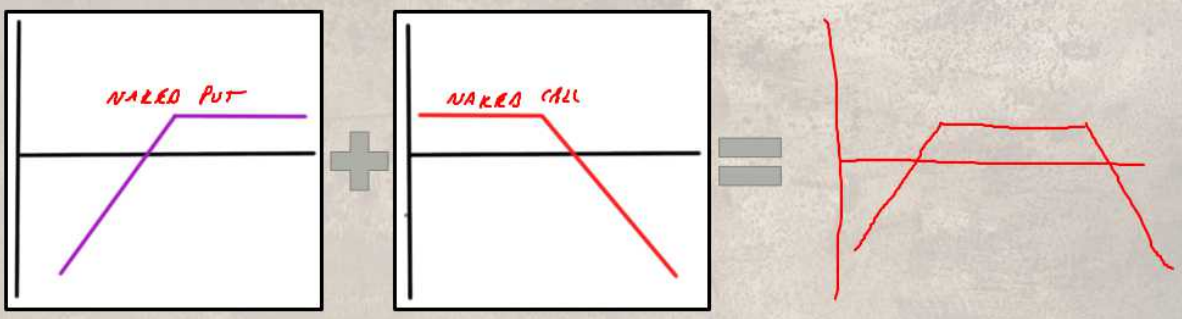


Right now, VIX is extremely low = premiums are cheap, not a good time to sell options

SHORT STRANGLE



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SHORT STRANGLE CASE STUDY

XYZ is trading for $50

- Sell April 60 call for $1, Delta 0.15
  - Obligation to sell @ $60
- Sell April 40 put for $1, Delta 0.15
  - Obligation to buy @ $40
- Risk-Reward
  1. Net credit $2
  2. Unlimited risk
  3. Two break-evens
  4. Probability of max gain through expiration = 70%

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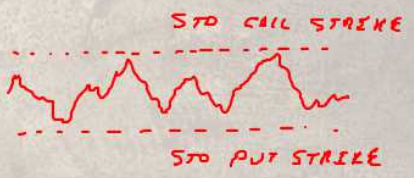
SHORT STRANGLE RULES

USE IRON CONDOR ON HIGH PRICED STOCKS!

- Stock price ≤ $50
- Close to expiration
  - 2 – 60 days out
  - Time decay accelerating (+) THETA
- Contract Delta ≤ 0.20 (high probability) Δ 0.10 TO 0.15
- IV higher than normal CHECK VIX
- Short put strike below support
- Short call strike above resistance
- Be aware of earnings
  - IV high – more credit
  - Stock could gap beyond strikes



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SHORT STRANGLE MARGIN

- The writing of uncovered options requires an initial deposit and maintenance of the greatest of the following three formulas:
  - 20% of the underlying stock less the out-of-the-money amount, if any, plus 100% of the current market value of the option(s).
  - 10% of the exercise value of the underlying stock PLUS the premium value.
  - $50 per contract plus 100% of the premium
- Margin held on one side only – the side that is closest to the current stock price

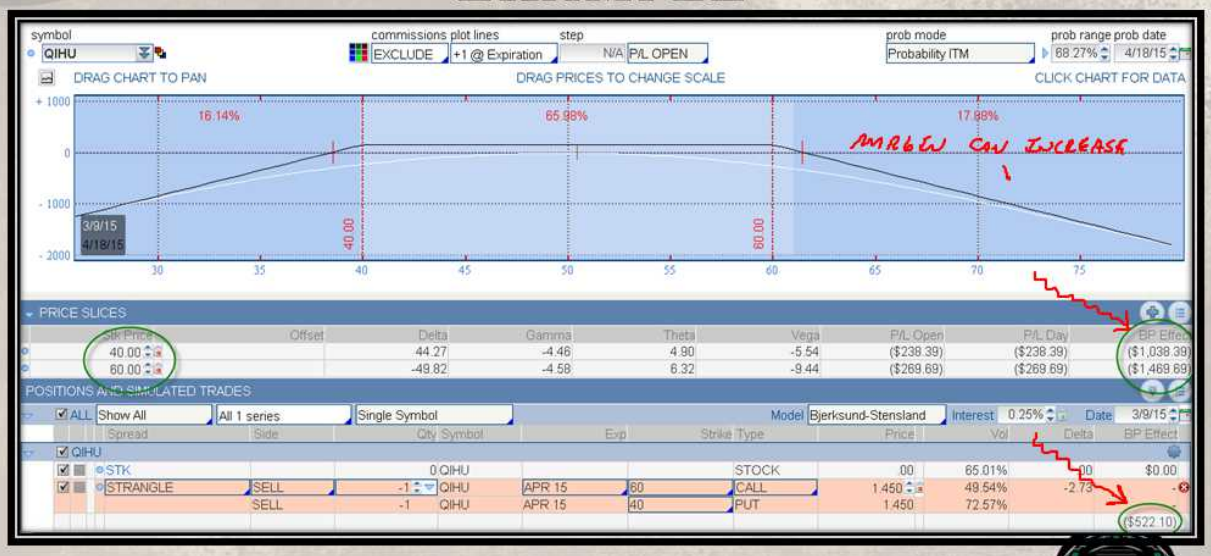
SHORT STRANGLE EXAMPLE

SHORT STRANGLE EXAMPLE

- Example with QIHU
  - QIHU is announcing earnings — DANGEROUS → BREAKEVEN RULE
  - QIHU @ 47.62
  - Date: 3/9/2015
  - IV is higher than normal — TEMPTING

STO (1) April 60 OTM call @ $0.75 credit Delta = 0.17
STO (1) April 40 OTM put @ $0.65 credit Delta = 0.15
Net credit = $1.40
Net Delta = 0.02 (close to 0.00)
Margin required to place trade = ($522.60) — THIS CAN CHANGE
ROI = $140.00 CREDIT / $522.60 COST = 27%

SHORT STRANGLE EXAMPLE



SHORT STRANGLE EXAMPLE

- Max gain = total net credit 1.45 or $145
  - What has to happen:
  - QIHU above 40.00 (PUT STRIKE)
  - QIHU below 60.00 (CALL STRIKE)
  - When EXP.
- Max loss = unlimited
- Breakevens @ expiration
  - Higher = 60 CALL STRIKE + 1.45 CREDIT = 61.45
  - Lower = 40 PUT − 1.45 " = 38.55
- Closing prior to expiration
  - IV drops POST EARNINGS
  - Time passes → 1/2 TO EXP, OR 50% MAX GAIN

SHORT STRANGLE EXAMPLE

- Position sizing $500 ÷ $269 = 2 CONTRACTS
- Willing loss per trade ÷ loss at the short strike

TABLE OF SPREADS

April	May	Aug	Oct	Jan
100	100	100	100	100
105	105	105	105	105
110	110	110	110	110

HORIZONTAL

DIAGONAL

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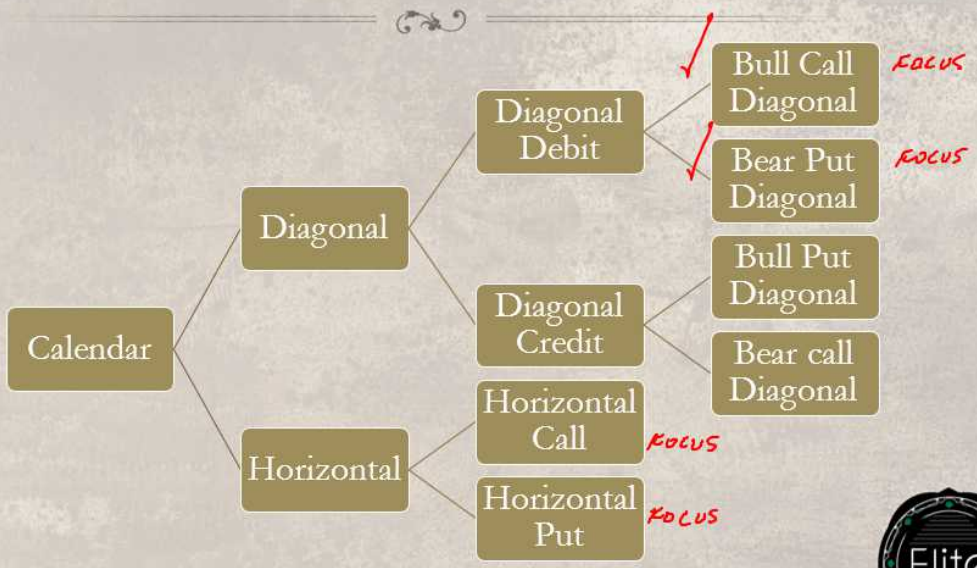
CALENDAR SPREADS



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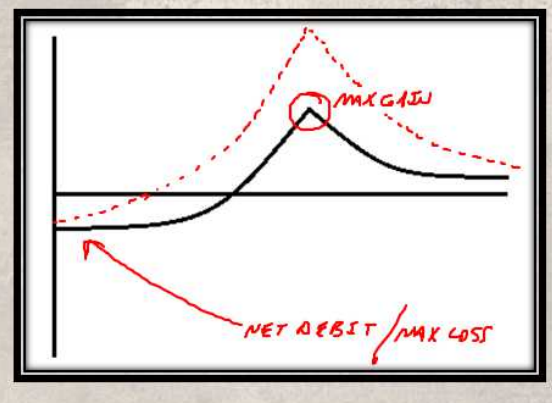
DIAGONAL CALL

COVERED CALL SUBSTITUTE

BULL CALL DIAGONAL

- Outlook -3 -2 -1 0 1 2 3
  - Neutral to bullish
- Max Reward
  - Limited
- Risk
  - Limited to the net debit
- Break-evens
  - 1-2 break-evens
  - Use risk graph
- Probability of profit ≈ 45-60%.



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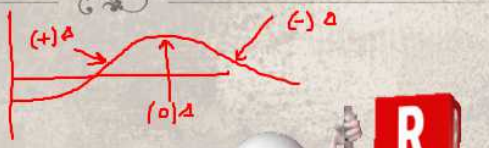
BULL CALL DIAGONAL

1. ❖ Positive Delta
   - Slightly bullish
2. ❖ Positive Theta
   - Time decay helps
3. ❖ Neutral Gamma
   - As stock rises Delta changes slowly from (+) to (-)
4. ❖ Positive Vega
   - Profit as implied volatility rises
   - Function of long call



ENTER WHEN VIX IS LOW

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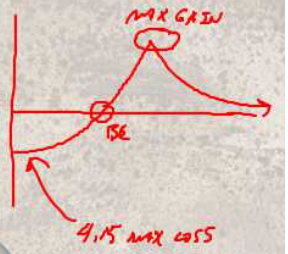
BULL CALL DIAGONAL CASE STUDY



XYZ is trading for $100

- Date: March 9th, 2015
- Sell April 105 call for $1.85, Delta 0.15
  - Obligation to sell @ $60
- Buy July 95 call for $6, Delta 0.85
  - Right to buy @ $95
- Risk-Reward
  - Net debit = $4.15
  - Limited reward
  - 1-2 break-evens
  - Probability of max gain through expiration = see risk graph (too complex)

BULL CALL DIAGONAL RULES

FOCUS ON ETFS

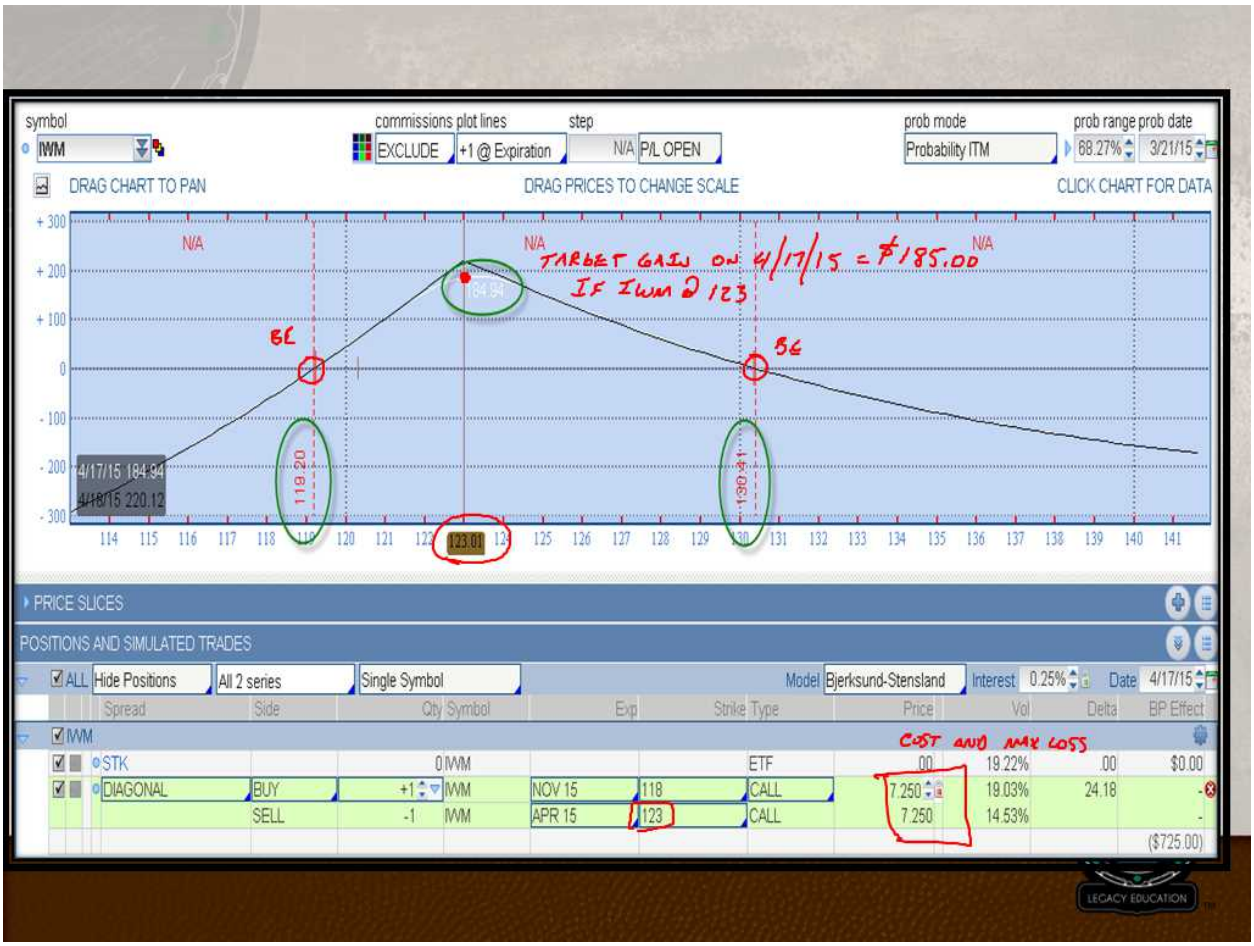
1) MORE STRIKES
2) MORE LIQUIDITY
3) MORE EXP.

IWM, SPY, QQQ, TLT, TBT

- Stock over $50
- STO near term + BTO long term
- BTO 2-12 months out and 1-2 strikes ITM
- STO 2-60 days out
  - STO ATM – neutral
  - STO OTM – bullish
- Try to enter when IV is low (VIX)
- Short contract premium ≥ 10% of long contract premium
- Equal number of contracts on each leg

BULL CALL DIAGONAL EXAMPLE

- Example with IWM ETF
  - IWM no earnings
  - IWM @ $120.30
  - Date: 3/10/2015
  - IV is relatively low GOOD DEAL ON LONG CALL
- BTO (1) Nov 118 call @ $8.42 debit
- STO (1) Apr 123 call @ $1.17 credit
- Net debit = $7.25
- Cost of trade = ($725.00) per contract


symbol
IWM
commissions plot lines
EXCLUDE
+1 @ Expiration
step
N/A
P/L OPEN
prob mode
Probability ITM
prob range
68.27%
prob date
3/21/15
DRAG CHART TO PAN
DRAG PRICES TO CHANGE SCALE
CLICK CHART FOR DATA
TARGET GAIN ON 4/17/15 = $185.00
IF IWM @ 123
BE
BE
4/17/15 184.94
4/18/15 220.12
119.20
130.41
123.01
PRICE SLICES
POSITIONS AND SIMULATED TRADES
ALL
Hide Positions
All 2 series
Single Symbol
Model
Bjerksund-Stensland
Interest
0.25%
Date
4/17/15
Spread
Side
Qty
Symbol
Exp
Strike
Type
Price
Vol
Delta
BP Effect
IWM
COST AND MAX LOSS
STK
0
IWM
ETF
.00
19.22%
.00
$0.00
DIAGONAL
BUY
+1
IWM
NOV 15
118
CALL
7.250
19.03%
24.18
SELL
-1
IWM
APR 15
123
CALL
7.250
14.53%
($725.00)
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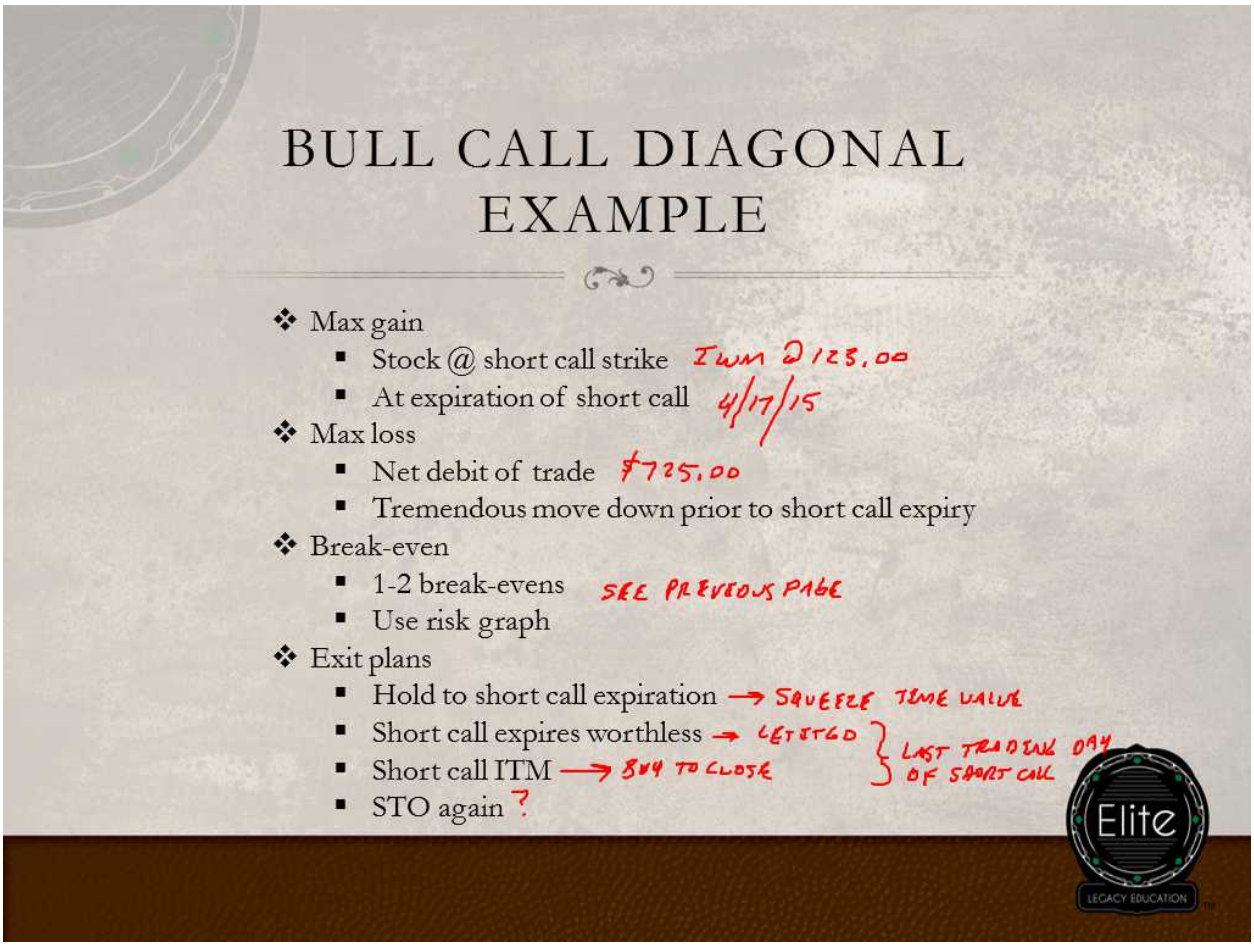
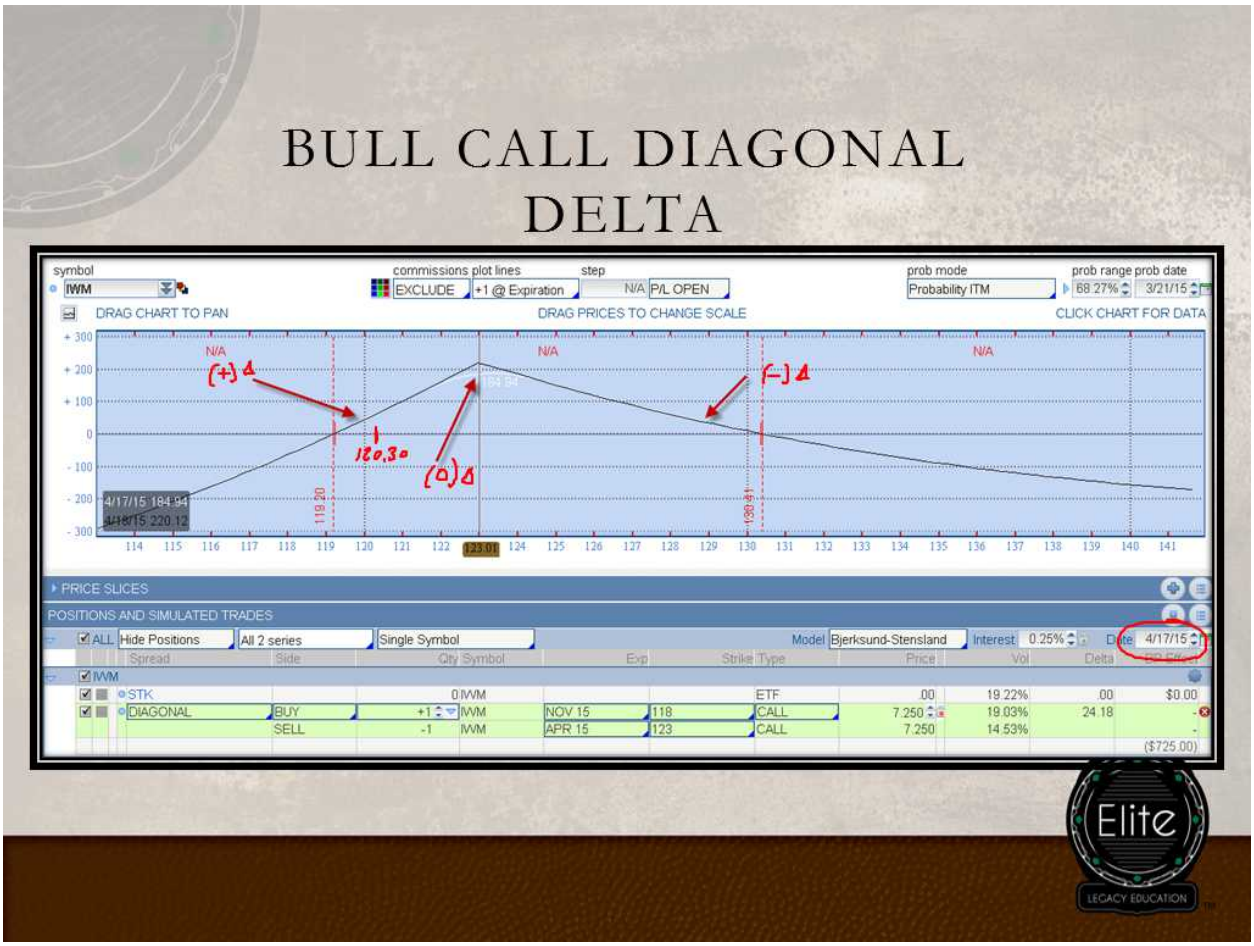
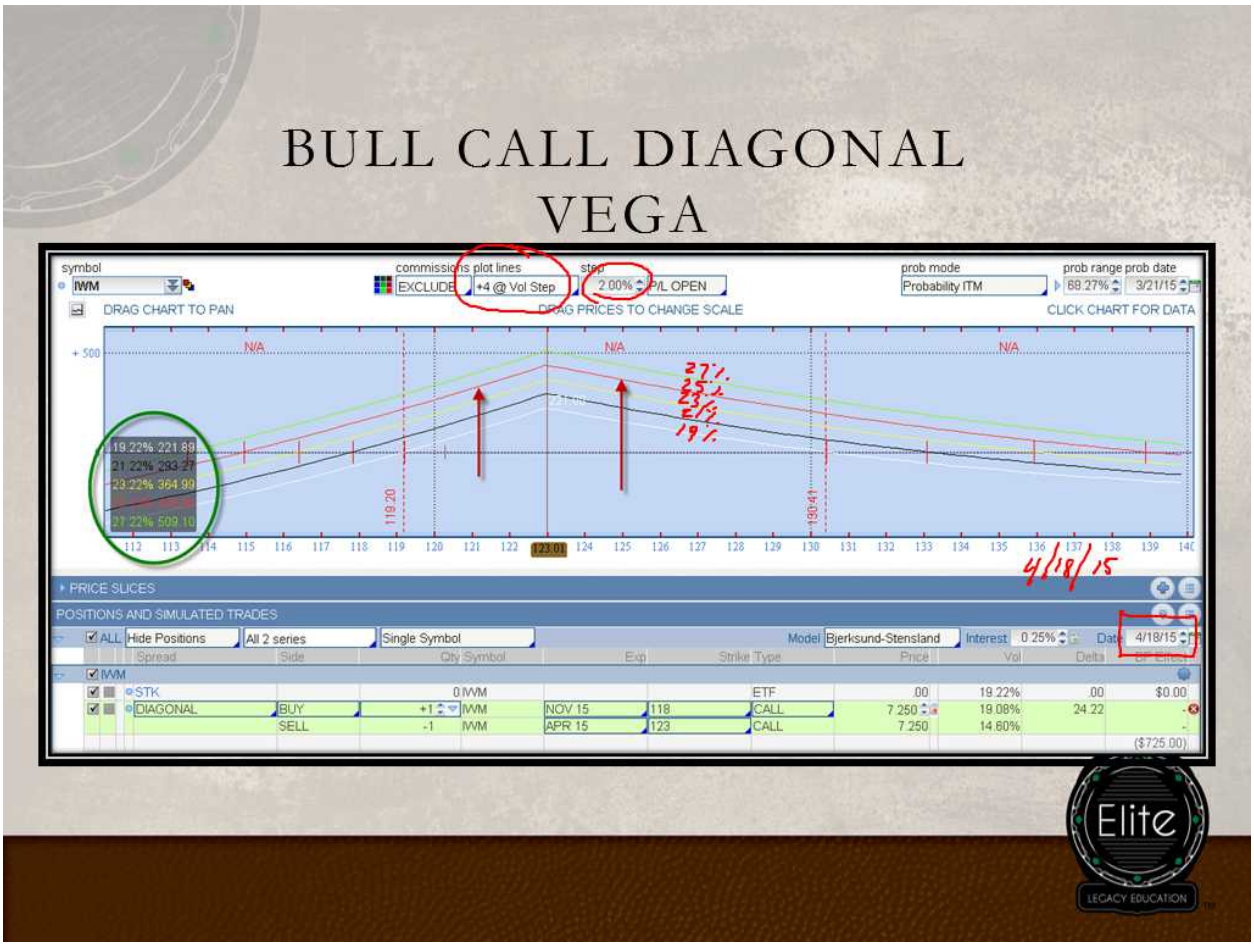


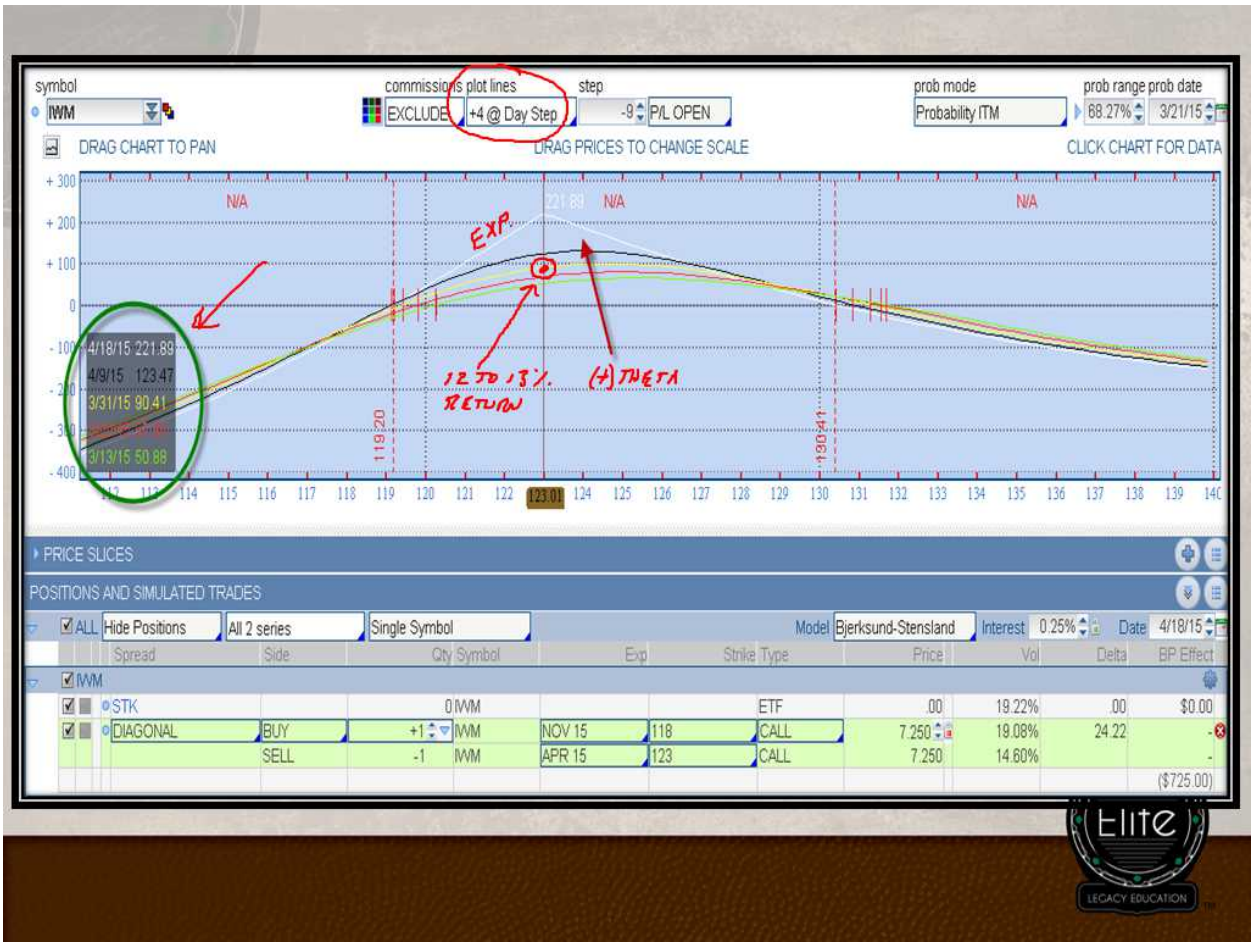
We can sell against the long call until it is within 2 months of expiration (avoid massive time decay).



Reevaluate the trade once the stock (IWM) has hit the short call strike (123), we might have a decent gain and could close the trade.



If IV spikes prior to long call expiration (VIX spikes), then we might exit for increased profit.


symbol
IWM
commissions plot lines
EXCLUDE
+4 @ Day Step
step
-9
P/L OPEN
prob mode
Probability ITM
prob range prob date
68.27%
3/21/15
DRAG CHART TO PAN
DRAG PRICES TO CHANGE SCALE
CLICK CHART FOR DATA
N/A
N/A
N/A
EXP
12 TO 13%
RETURN
(+) THETA
4/18/15 221.89
4/9/15 123.47
3/31/15 90.41
3/13/15 50.88
119.20
130.41
123.01
PRICE SLICES
POSITIONS AND SIMULATED TRADES
ALL
Hide Positions
All 2 series
Single Symbol
Model
Bjerksund-Stensland
Interest
0.25%
Date
4/18/15
Spread
Side
Qty
Symbol
Exp
Strike
Type
Price
Vol
Delta
BP Effect
IWM
STK
0
IWM
ETF
.00
19.22%
.00
$0.00
DIAGONAL
BUY
+1
IWM
NOV 15
118
CALL
7.250
19.08%
24.22
SELL
-1
IWM
APR 15
123
CALL
7.250
14.60%
($725.00)
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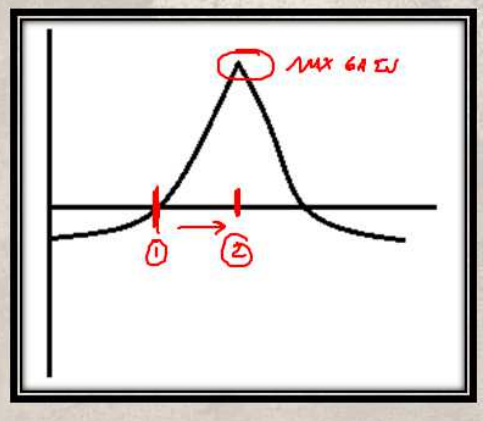
P. 188

WRONG GRAPH

SAME STRIKES

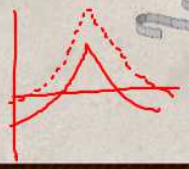
HORIZONTAL CALL

- Outlook -3 -2 -1 0 1 (2) 3
  - Bullish
- Max Reward
  - Limited ~ 100-200%
- Risk — COST IS LOW
  - Limited to the net debit
- Break-evens
  - 2 break-evens ALWAYS
  - Use risk graph
- Probability of profit
  ~ 30% - 50%



HORIZONTAL CALL

- Positive Delta
  - Bullish, but can switch to bearish CUSTOMIZE
- ~~Positive~~ NEUTRAL Theta
  - Time decay helps
- Positive Gamma
  - Delta accelerates
  - Pronounced closer to expiration
- Positive Vega
  - Profit as implied volatility rises
  - Function of long call



VIX LOW

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HORIZONTAL CALL CASE STUDY

XYZ is trading for $100

- Date: March 10th, 2015
- Target $110
- Sell April 110 call for $1
  - Obligation to sell @ $110
- Buy May 110 call for $2
  - Right to buy @ $110
- Risk-Reward
  - Net debit = $1.00
  - Limited reward
  - 2 break-evens
  - Probability of max gain through expiration = see risk graph (too complex)

HORIZONTAL CALL RULES

- Stock over $50
- STO near term + BTO long term
- Same strikes
- BTO 2-3 months out
  - ATM neutral
  - OTM bullish
- STO 2-60 days out
  - ATM – neutral
  - OTM – bullish
- Try to enter when IV is low VIX IS LOW
- Short contract premium ≥ 10% of long contract premium EASY
- Equal number of contracts on each leg

HORIZONTAL CALL EXAMPLE

- Example with AAPL
  - AAPL no earnings through April 2015 expiration
  - AAPL @ $124.51
  - Date: 3/10/2015
  - IV is relatively low
- BTO (1) May 135 call @ $2.50 debit
- STO (1) Apr 135 call @ $0.96 credit
- Net debit = $1.54
- Cost of trade = ($154) per contract

HORIZONTAL CALL EXAMPLE

- Max gain
  - Stock @ short/long strike AAPL @135 ON 4/17/15
  - At expiration of short call
- Max loss
  - Net debit of trade -1.54, OR 154.00
  - Tremendous move down/up prior to short call expiry
- Break-even
  - 2 break-evens 127.39 AND 144.31
  - Use risk graph
- Exit plans
  1. Close if AAPL touches the strike of spread $135.00
  2. Close last trading day of short call 4/17/15 TAKE $90.00 LOSS
  3. Control risk through position size
     ~~WILL LOSE~~ WILLING LOSS - $500/$154.00 ≈ 3 CONTRACTS

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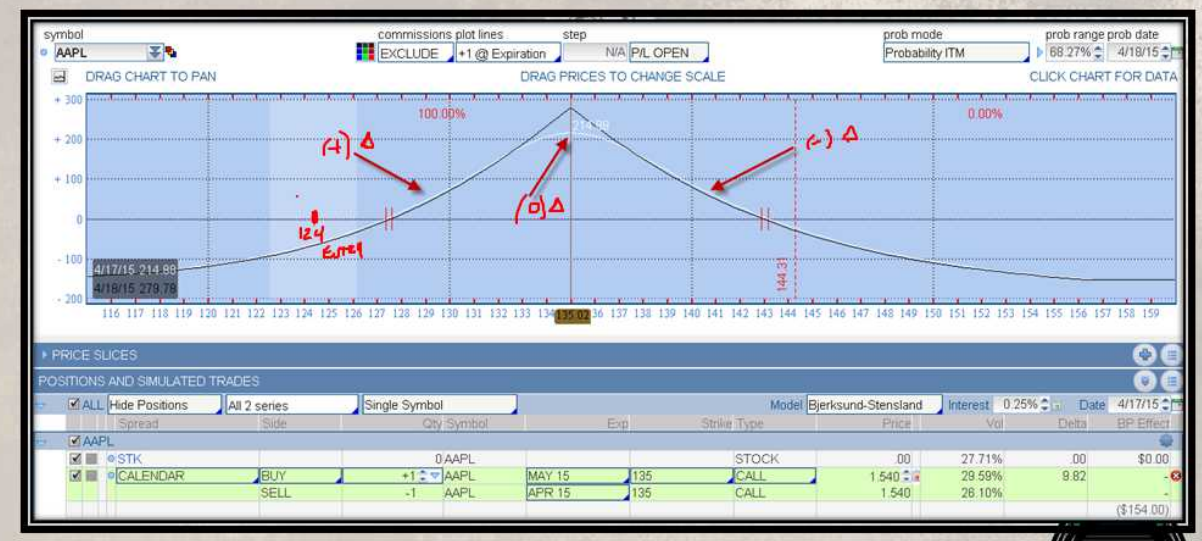
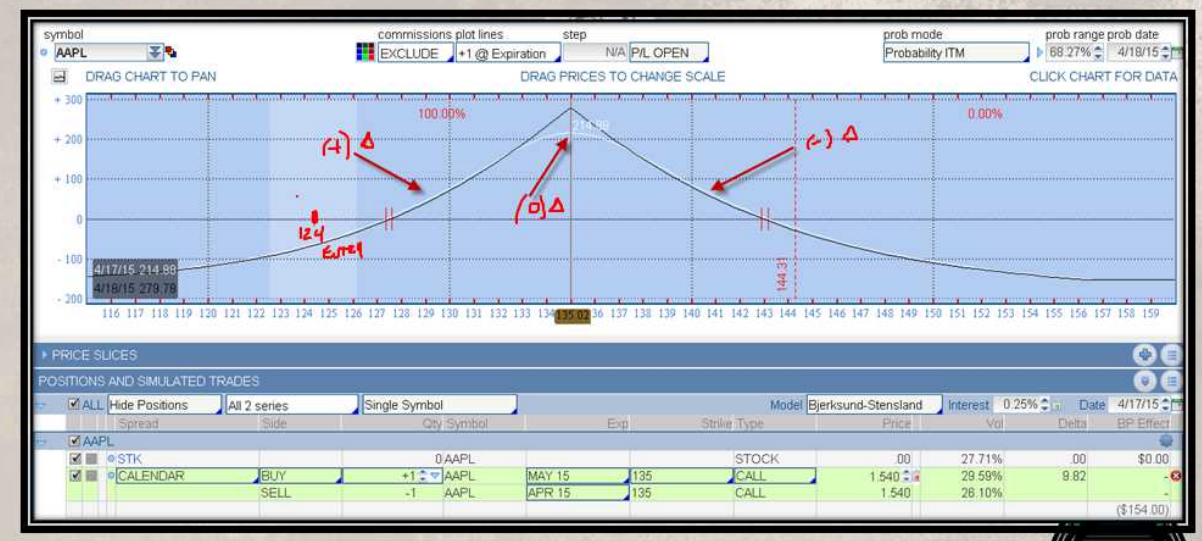
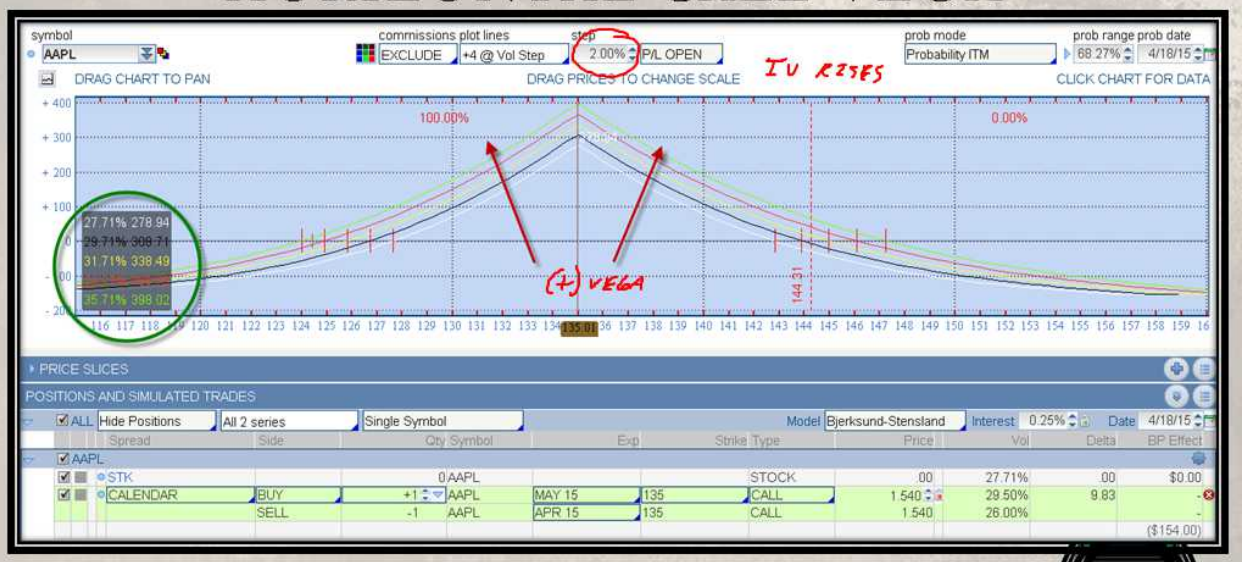
HORIZONTAL CALL DELTA



HORIZONTAL CALL DELTA



HORIZONTAL CALL VEGA



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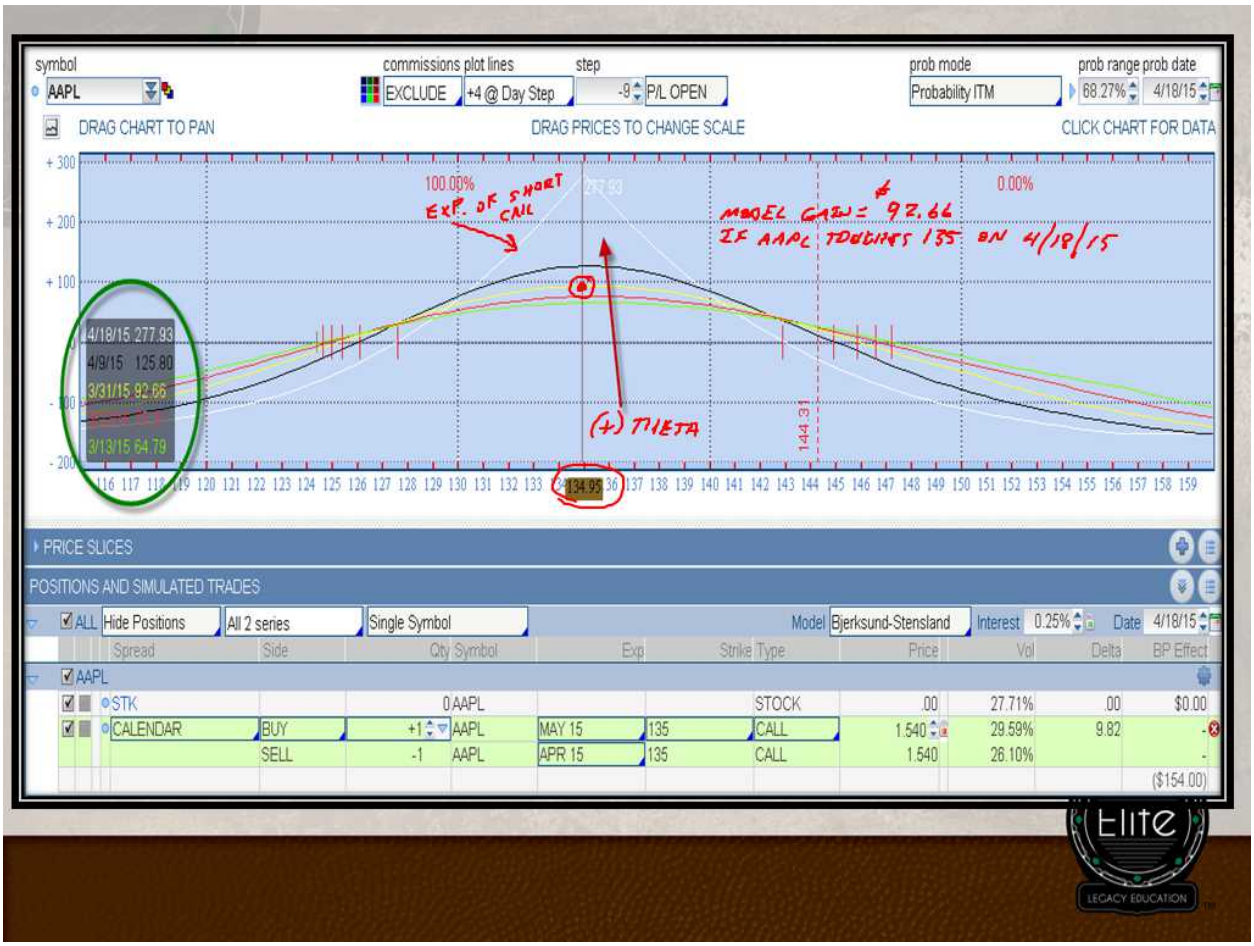
symbol
AAPL
commissions plot lines
EXCLUDE
+4 @ Day Step
step
-9
P/L OPEN
prob mode
Probability ITM
prob range prob date
68.27%
4/18/15
DRAG CHART TO PAN
DRAG PRICES TO CHANGE SCALE
CLICK CHART FOR DATA
100.00%
EXP. OF SHORT CALL
MODEL GAIN = $92.66
IF AAPL TOUCHES 135 BY 4/18/15
0.00%
(+) THETA
4/18/15 277.93
4/9/15 125.80
3/31/15 92.66
3/13/15 64.79
PRICE SLICES
POSITIONS AND SIMULATED TRADES
ALL
Hide Positions
All 2 series
Single Symbol
Model
Bjerksund-Stensland
Interest
0.25%
Date
4/18/15
Spread
Side
Qty
Symbol
Exp
Strike
Type
Price
Vol
Delta
BP Effect
AAPL
STK
0
AAPL
STOCK
.00
27.71%
.00
$0.00
CALENDAR
BUY
+1
AAPL
MAY 15
135
CALL
1.540
29.59%
9.82
SELL
-1
AAPL
APR 15
135
CALL
1.540
26.10%
($154.00)
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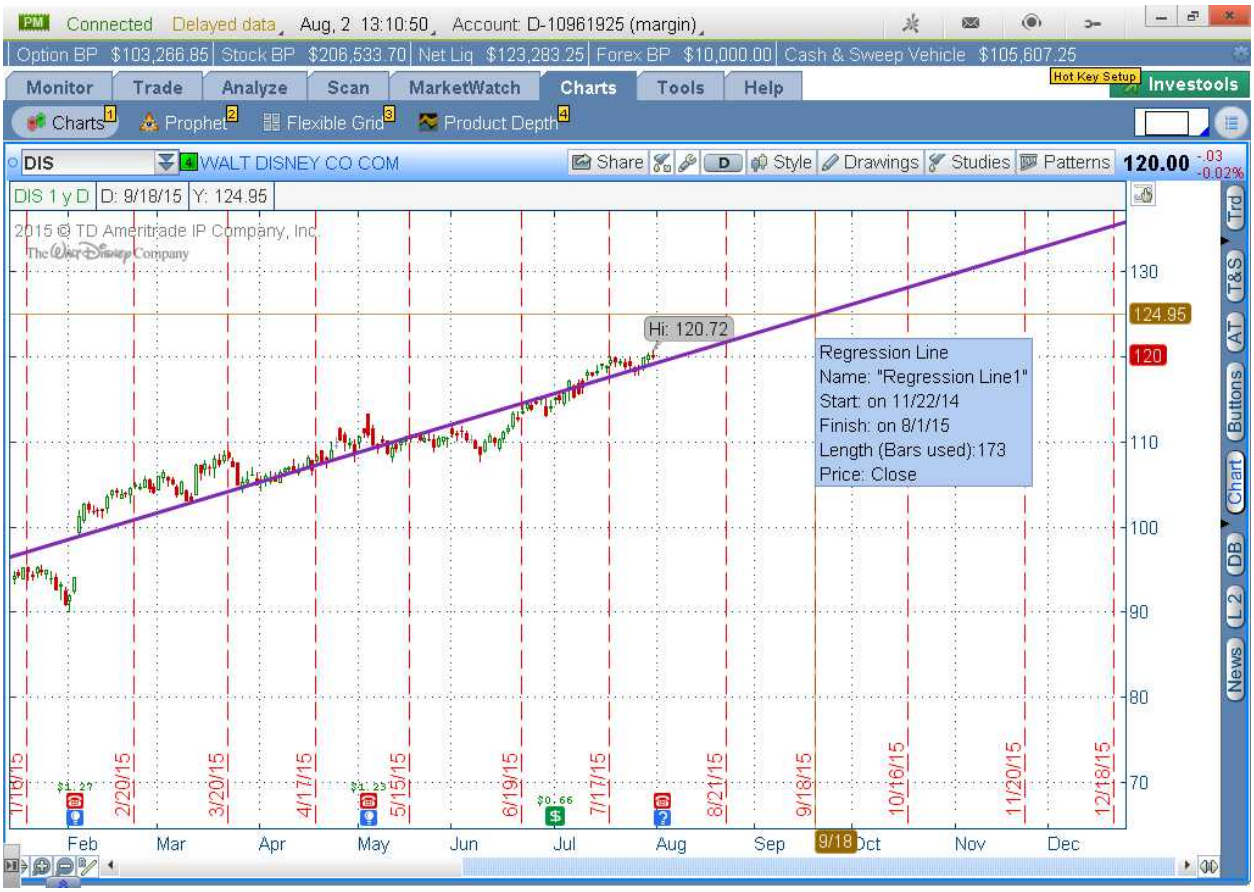
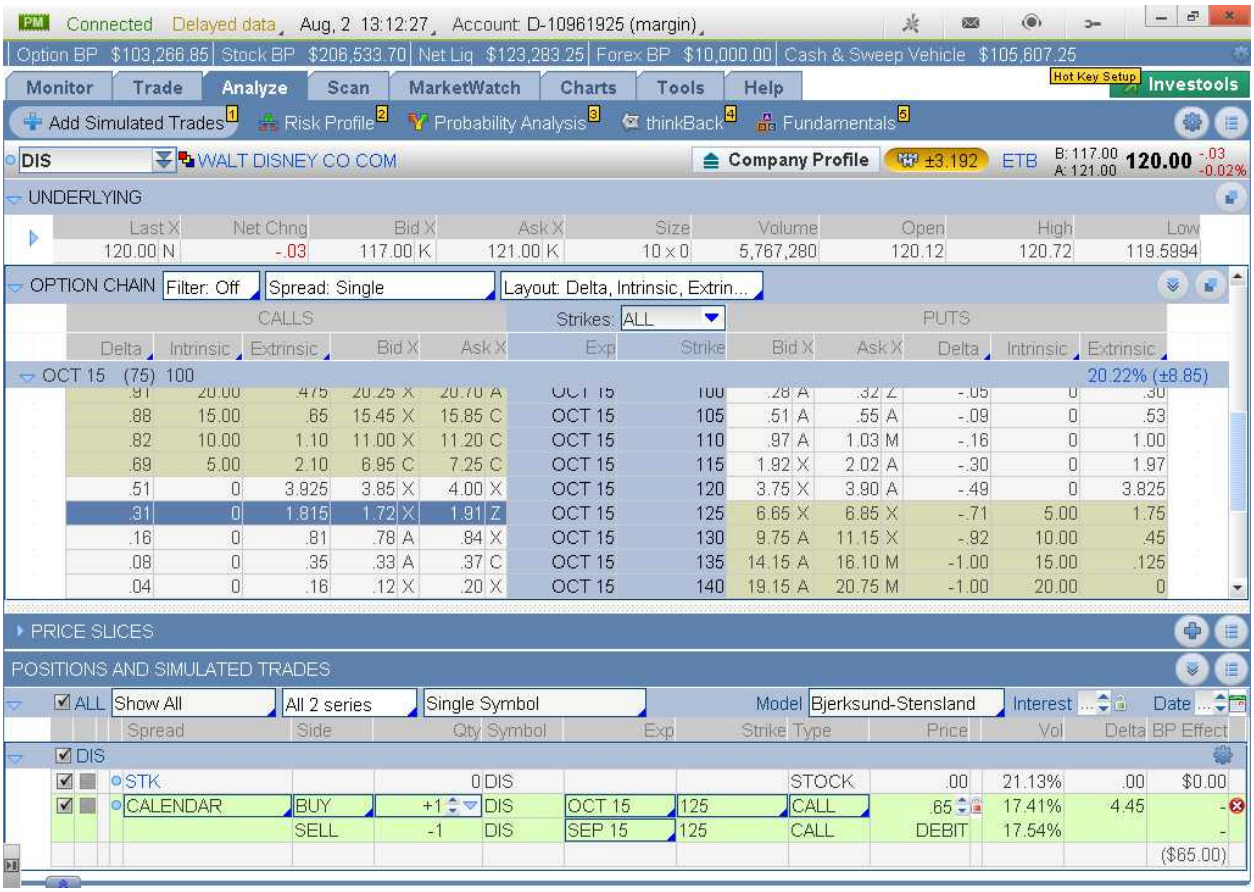


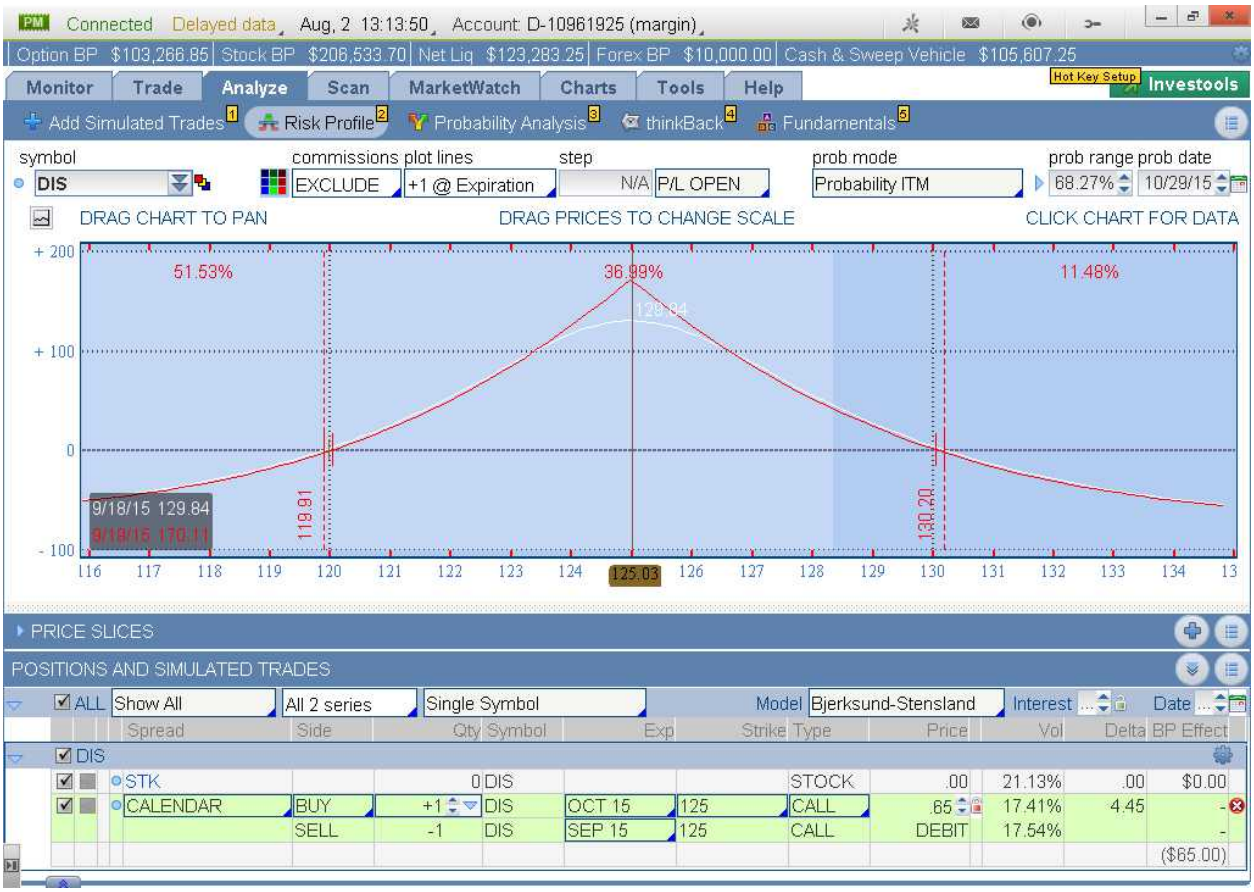
DIS Horizontal Call spread – target 125 by September expiration

DIS @ 120.00

8/2/15



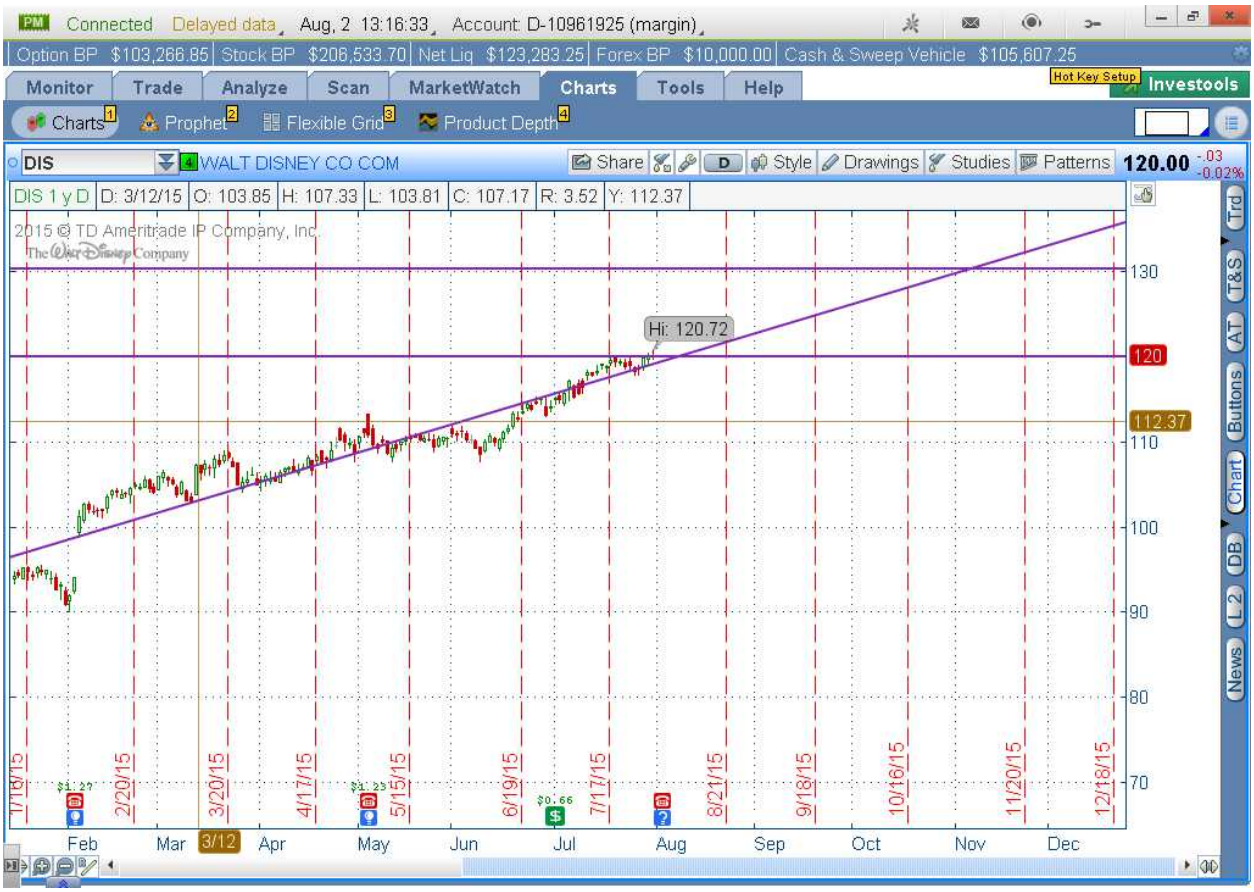
DIS Horizontal Call spread @ 0.65 (bumped the net debit by 0.02)



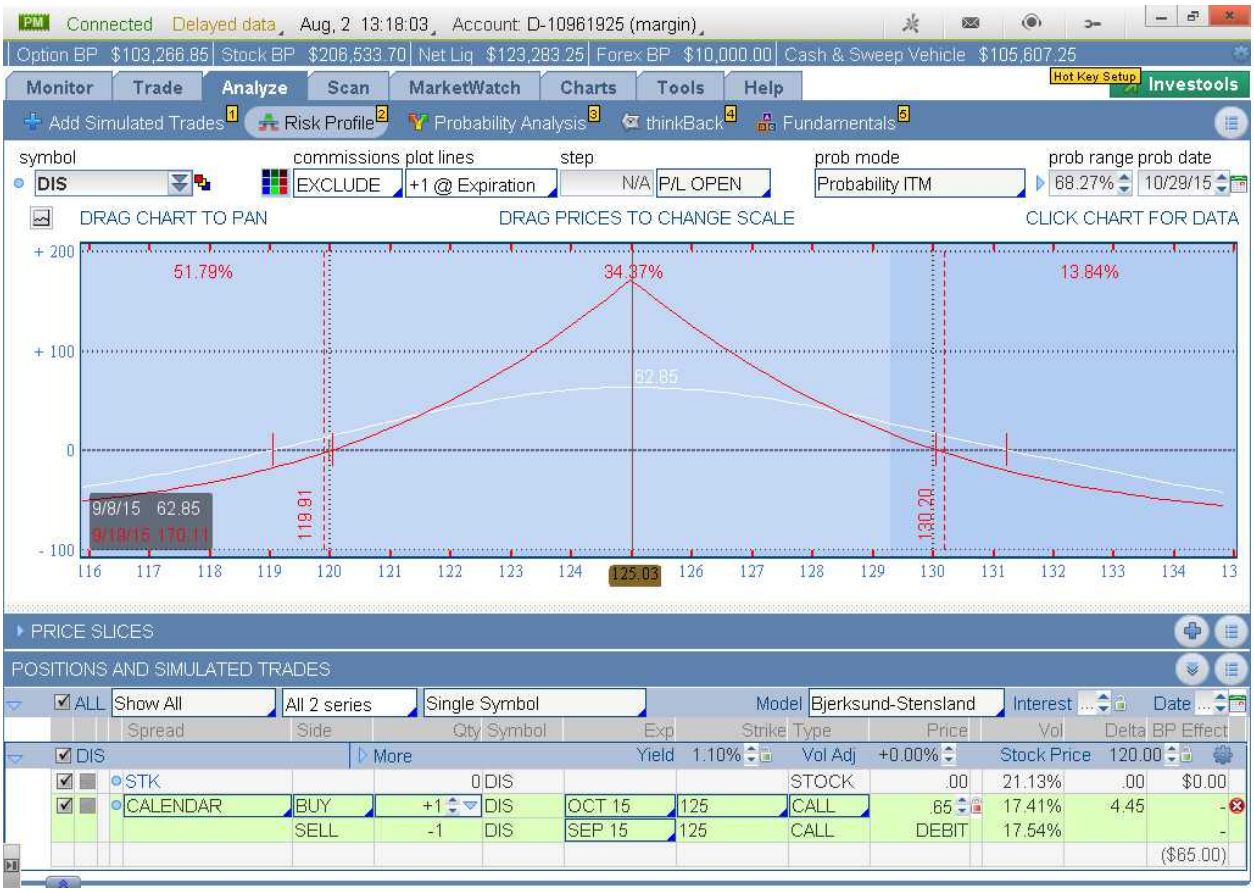
Target gain = 129.00 per contract if DIS @ 125 on 9/18 (last trading day for the short call)

ROI = 200%

Breakevens on 9/18 = 119.91 and 130.20 (see above)



We placed the price slices on the chart above – likely that DIS will move into the profit area (breakevens)

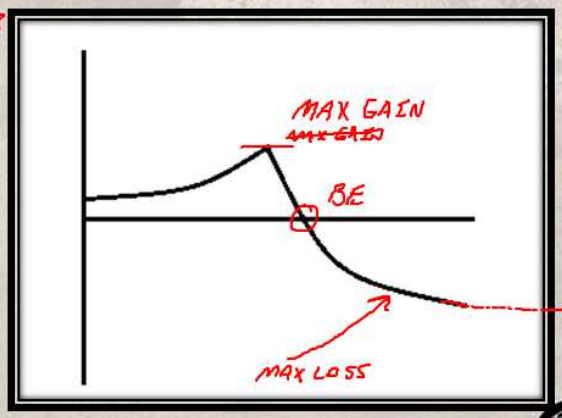


Model gain = 62.00 if DIS hits 125 on 9/8/2015

Position size = willing loss -500 / max loss of 65.00 per contract = 8 contracts in trade

BEAR PUT DIAGONAL

- Outlook -3 -2 -1 0 1 2 3
  - Neutral to bearish
- Max Reward
  - Limited
- Risk
  - Limited to the net debit
- Break-evens
  - 1-2 break-evens
  - Use risk graph
- Probability of profit



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BEAR PUT DIAGONAL

- Outlook -3 -2 -1 0 1 2 3
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- Risk
  - Limited to the net debit
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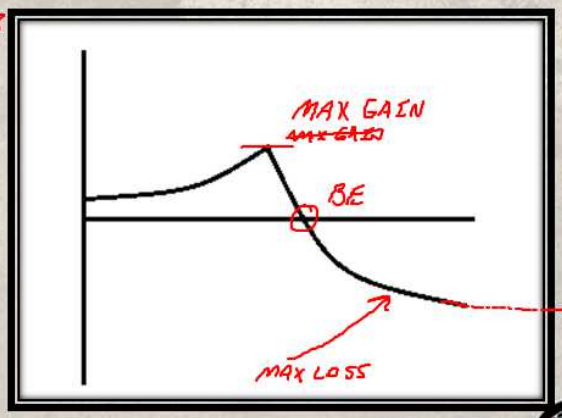
- Probability of profit



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BEAR PUT DIAGONAL

- ~~Positive~~ NEGATIVE Delta
  - Slightly bearish
- Positive Theta
  - Time decay helps
- Neutral Gamma
  - Low net Gamma
  - As stock falls Delta changes slowly from (-) to (+)
- Positive Vega
  - Profit as implied volatility rises
  - Function of long put

ENTER WHEN VIX IS LOW

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BEAR PUT DIAGONAL CASE STUDY

XYZ is trading for $100

- Date: March 10th, 2015
- Sell April 95 put for $1.85, Delta 0.15 (1 MO. OUT (OTM))
  - Obligation to buy @ $95
- Buy July 105 put for $6, Delta 0.85 (4 MOS. OUT (ITM))
  - Right to sell @ $105
- Risk-Reward
  - Net debit = $4.15 (MAX LOSS)
  - Limited reward
  - 1-2 break-evens
  - Probability of max gain through expiration = see risk graph (too complex)

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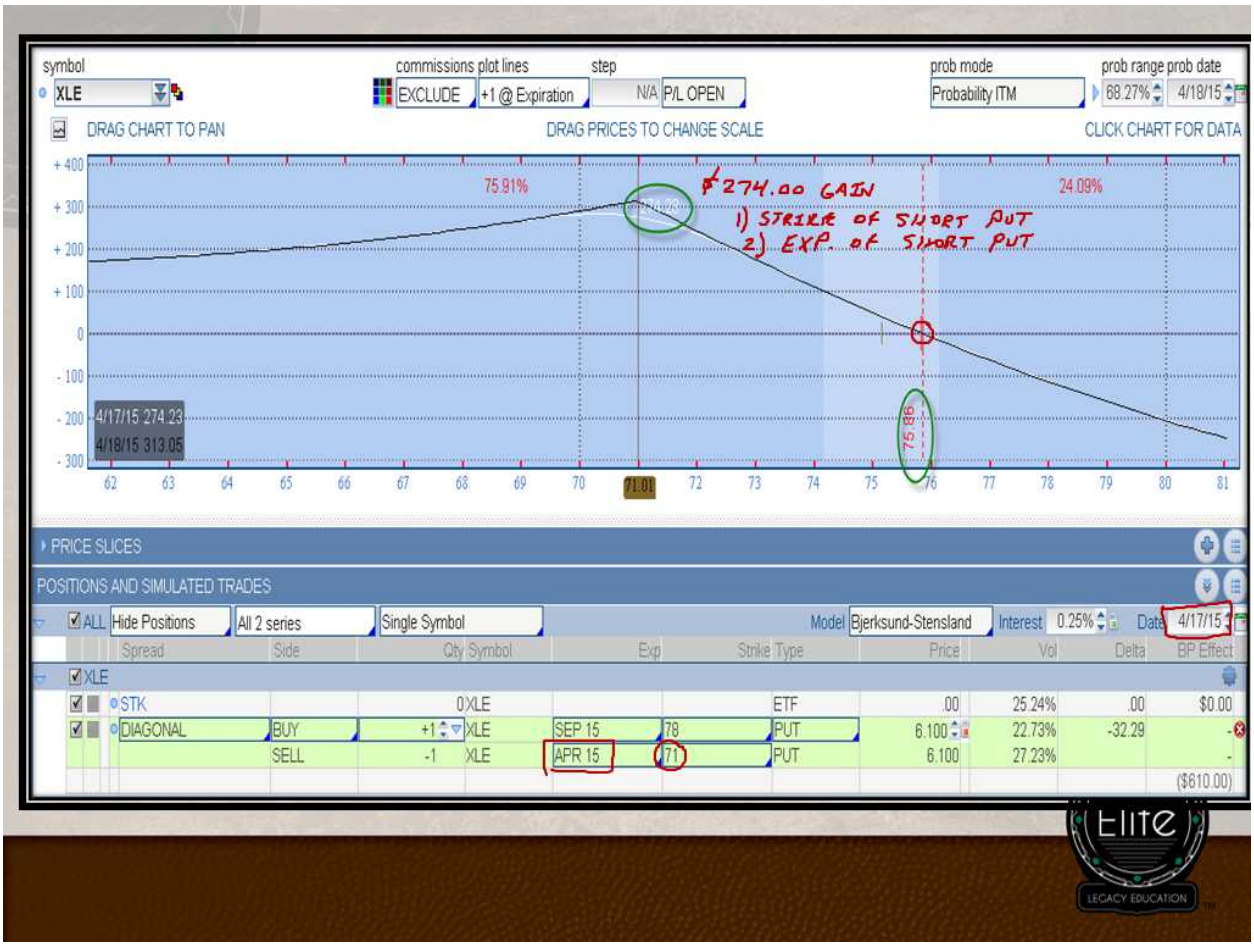
BEAR PUT DIAGONAL RULES

REMEMBER ETFs

- Stock over $50 NEUTRAL TO BEAR
- STO near term + BTO long term
- BTO 2-12 months out and 1-2 strikes ITM
- STO 2-60 days out
  - STO ATM – neutral
  - STO OTM – ~~bullish~~ BEARISH, STRIKE BELOW STOCK PRICE
- Try to enter when IV is low VIX
- Short contract premium ≥ 10% of long contract premium
- Equal number of contracts on each leg

BEAR PUT DIAGONAL EXAMPLE

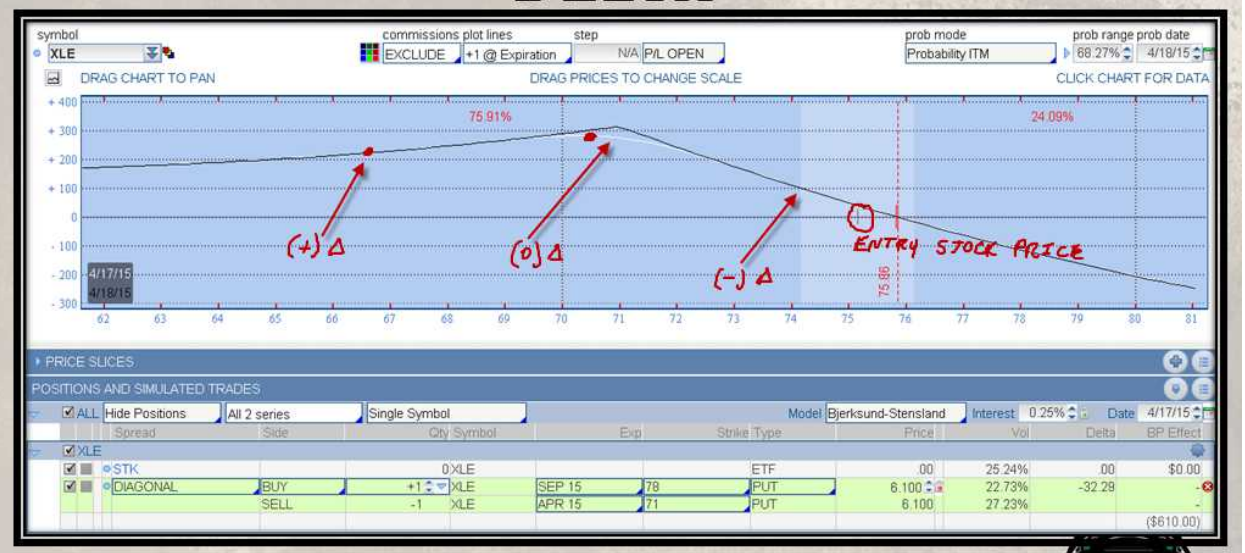
- Example with XLE
  - XLE no earnings ETF
  - XLE @ $75.17
  - Date: 3/10/2015
  - IV is medium – stock has been falling CHECK VIX
- BTO (1) Sep 78 put @ $7.15 debit (ITM)
- STO (1) Apr 71 put @ $1.05 credit (OTM)
- Net debit = $6.10
- Cost of trade = ($610.00) per contract (MAX LOSS)


symbol
XLE
commissions plot lines
EXCLUDE
+1 @ Expiration
step
N/A
P/L OPEN
prob mode
Probability ITM
prob range
68.27%
prob date
4/18/15
DRAG CHART TO PAN
DRAG PRICES TO CHANGE SCALE
CLICK CHART FOR DATA
75.91%
24.09%
$274.00 GAIN
1) STRIKE OF SHORT PUT
2) EXP of SHORT PUT
4/17/15 274.23
4/18/15 313.05
75.86
71.01
PRICE SLICES
POSITIONS AND SIMULATED TRADES
ALL
Hide Positions
All 2 series
Single Symbol
Model
Bjerksund-Stensland
Interest
0.25%
Date
4/17/15
Spread
Side
Qty
Symbol
Exp
Strike
Type
Price
Vol
Delta
BP Effect
XLE
STK
0
XLE
ETF
.00
25.24%
.00
$0.00
DIAGONAL
BUY
+1
XLE
SEP 15
78
PUT
6.100
22.73%
-32.29
SELL
-1
XLE
APR 15
71
PUT
6.100
27.23%
($610.00)

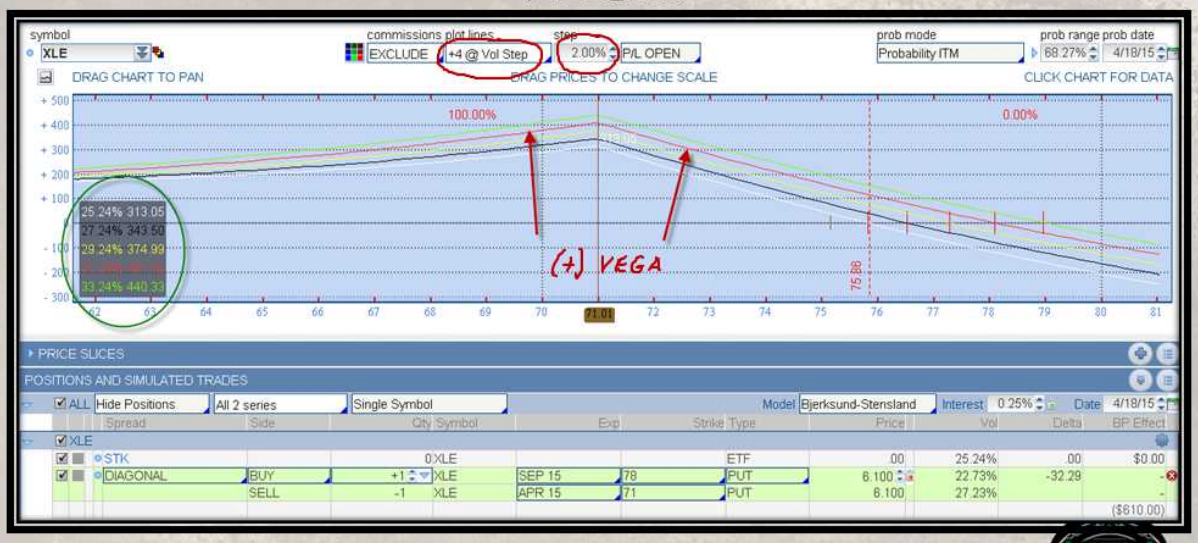
BEAR PUT DIAGONAL EXAMPLE

- Max gain
  - Stock @ short put strike — XLE @ 71.00
  - At expiration of short put — APRIL 2015
- Max loss
  - Net debit of trade — $6.10 OR $610.00
  - Tremendous move up prior to short put expiry
- Break-even
  - 1-2 break-evens — (1) BE @ 75.86
  - Use risk graph
- Exit plans
  1. Hold to short put expiration — (+) THETA
  2. Short put expires worthless — LAST TRADING DAY OF SHORT PUT 4/17/15
  3. Short put ITM — BUY TO CLOSE
  - FINAL — STO again

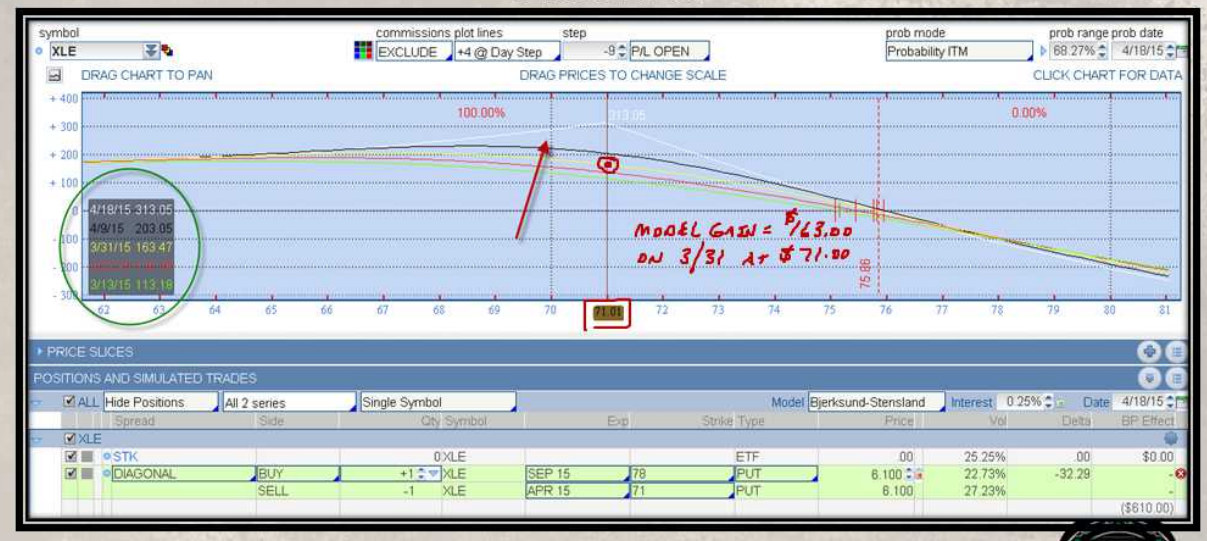
BEAR PUT DIAGONAL DELTA



BEAR PUT DIAGONAL VEGA



BEAR PUT DIAGONAL THETA



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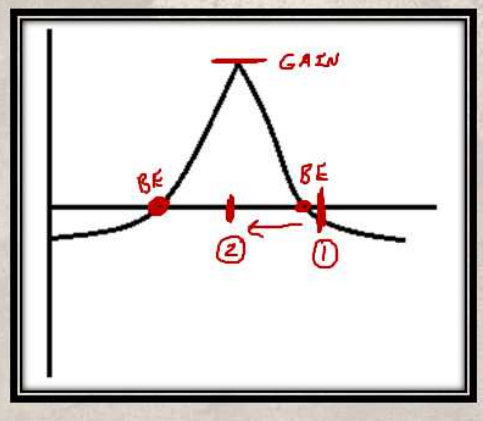
HORIZONTAL PUT

- Outlook -3 -2 -1 0 1 2 3
  - Bearish
- Max Reward
  - Limited
- Risk
  - Limited to the net debit
- Break-evens
  - 2 break-evens
  - Use risk graph
- Probability of profit



HORIZONTAL PUT

- ❖ Negative Delta
  - Initially bearish, but can switch to bullish
- ❖ ~~Positive Theta~~ NEUTRAL THETA
  - Time decay ~~helps~~ NEUTRALIZED
- ❖ Positive Gamma
  - Delta accelerates
  - Pronounced closer to expiration
- ❖ Positive Vega
  - Profit as implied volatility rises
  - Function of long put

VIX LOW @ ENTRY

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HORIZONTAL PUT CASE STUDY

XYZ is trading for $100

- Date: March 10th, 2015
- Target $90
- Sell April 90 put for $1 CREDIT
  - Obligation to buy @ $90
- Buy May 90 put for $2 DEBIT
  - Right to sell @ $90
- Risk-Reward
  - Net debit = $1.00
  - Limited reward
  - 2 break-evens
  - Probability of max gain through expiration = see risk graph (too complex)

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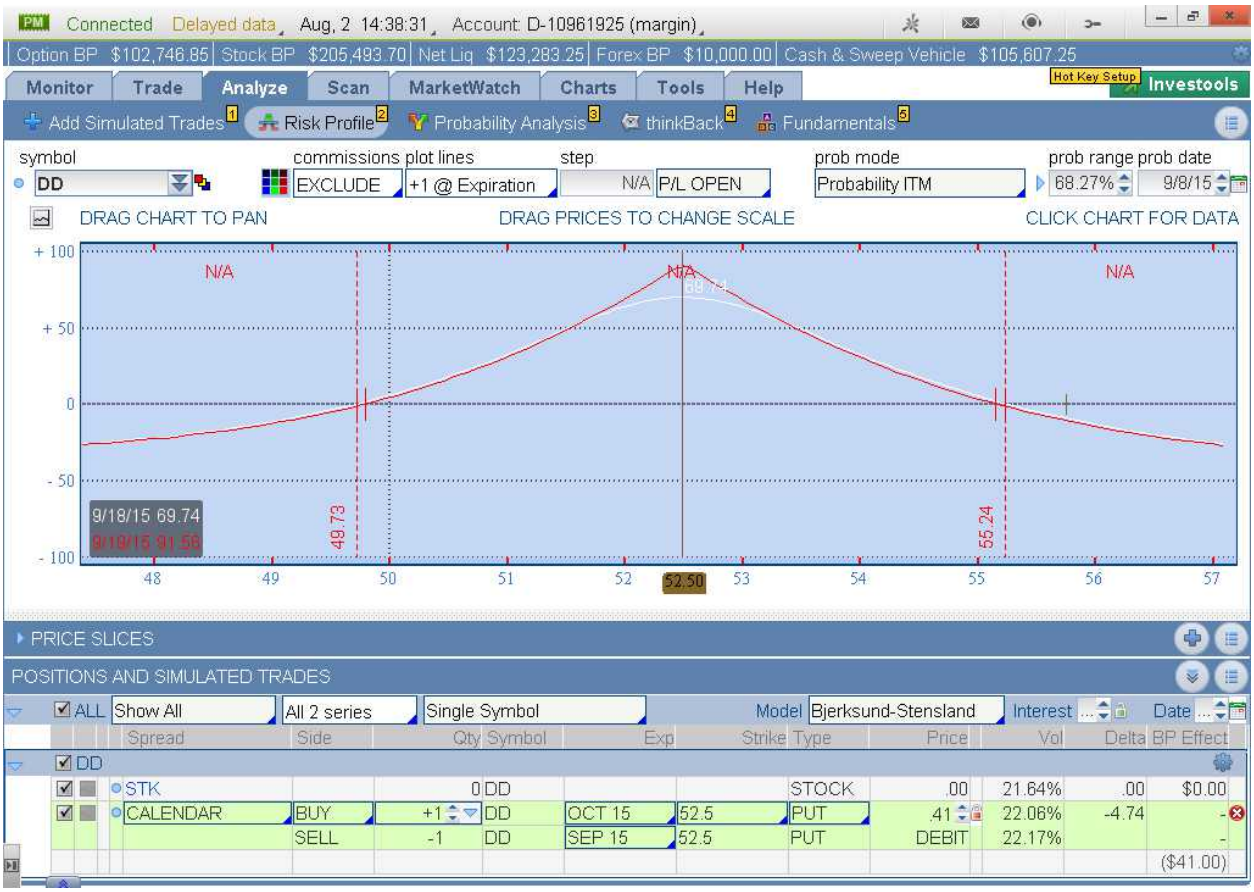
HORIZONTAL PUT RULES

- Stock over $50
- STO near term + BTO long term
- Same strikes
- BTO 2-3 months out
  - ATM neutral
  - OTM bearish OTM PUT
- STO 2-60 days out
  - ATM – neutral
  - OTM – bearish
- Try to enter when IV is low VIX IS LOW
- Short contract premium ≥ 10% of long contract premium
- Equal number of contracts on each leg

HORIZONTAL PUT EXAMPLE

- Example with BIDU
  - BIDU no earnings through April 2015 expiration
  - BIDU @ 210.34
  - Date: 3/10/2015
  - IV is relatively low
- BTO (1) May 190 put @ $4.02 debit
- STO (1) Apr 190 put @ $1.38 credit
- Net debit = $2.64
- Cost of trade = ($264) per contract



Model gain = 69.00 per contract if DD @ 52.5 on 9/18/15

ROI = 69.00 target gain / 41.00 net debit = 168%

Breakevens on 9/18 = 49.73 and 55.24

1. Max loss = net debit of 41.00 per contract, it would take a large move down/up
2. Cost of trade = net debit of 41.00 per contract
3. Exit plans
    a. Close the entire if DD touches 52.5 prior to Sep expiration – model gain 21.00 per contract if DD touches 52.5 on 9/1/2015
    b. Or, close the entire position on 9/18/2015 (last trading day for the near term put)
    c. No stop loss
4. Position size = willing loss 500.00 / 41.00 max loss per contract = 12 contracts

In order from least to most aggressive

Bullish

1. Bull Put
2. Horizontal Call
3. Bull Call

4. Long Call

Bearish

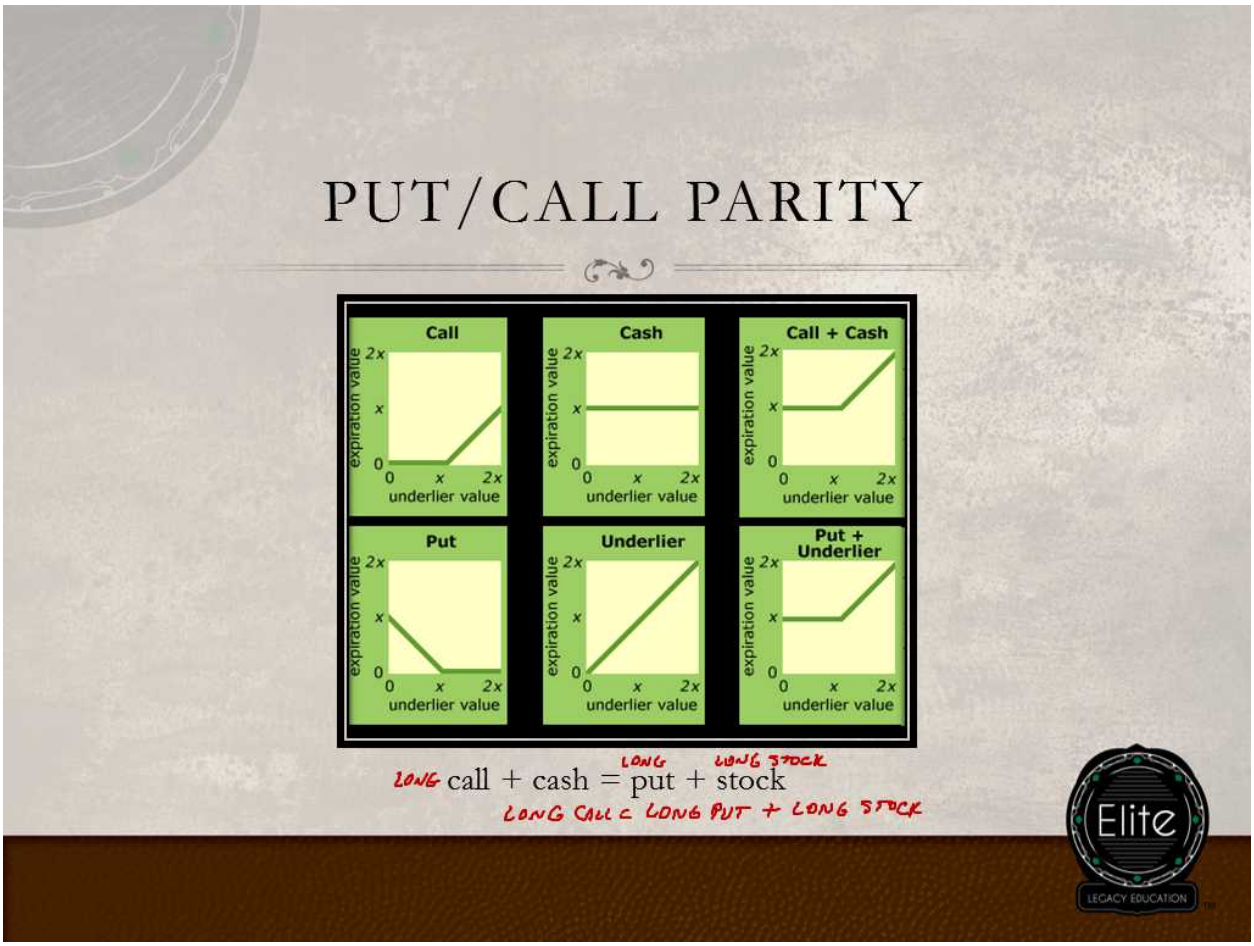
1. Bear Call
2. Horizontal Put
3. Bear Put
4. Long Put

Neutral

1. Iron Condor
2. Short Strangle
3. Iron Butterfly

Bi-directional

1. Inverted Butterfly
2. Long Strangle or Long Straddle



PUT/CALL PARITY

- **Long call example**
- Long call = long stock + ~~short~~ long put
- *call* + *cash* = *put* + *stock*

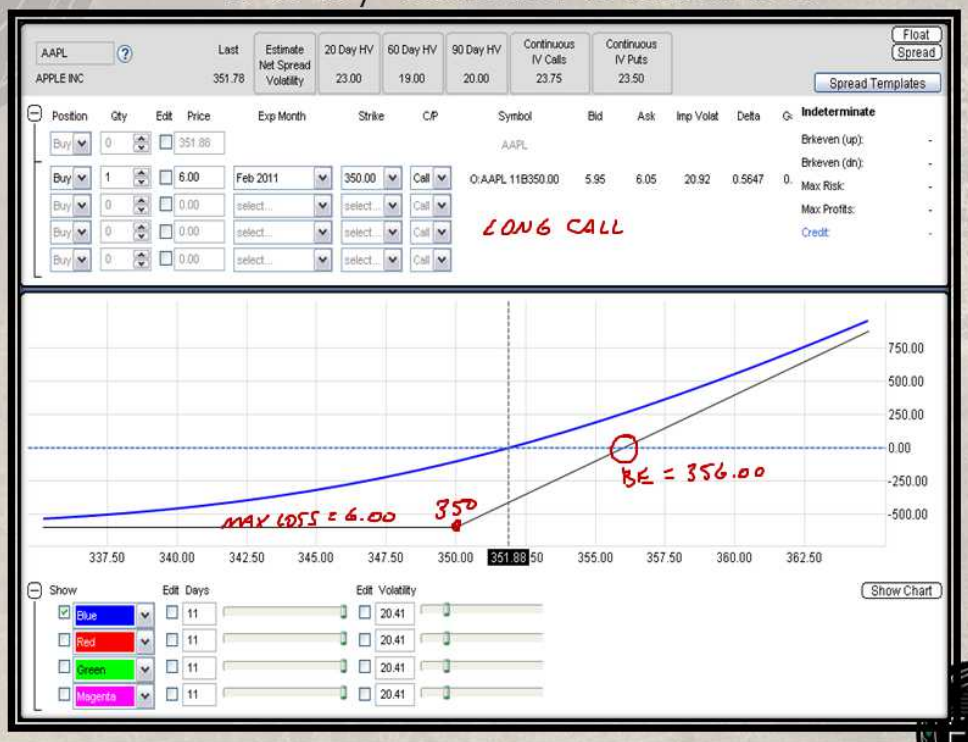
- AAPL @ $351.78
- BTO 1 Feb 2011 350 call @ $6.00

AAPL | Exp: Feb 2011 | Last | 5 Day HV | 20 Day HV | 60 Day HV | 90 Day HV | Continuous IV Calls | Continuous IV Puts

APPLE INC | 351.88 | 14.75 | 23.00 | 19.00 | 20.00 | 23.75 | 23.50

Vega	Gamma	Delta	IV	OI	Volume	Net	Bid	Ask	Last	Symbol	Exp
0.0179	0.0013	0.9891	36.24	900	0	0.00	46.75	47.05	45.95	O:AAPL 11B305.00	Feb11 305.00
0.0407	0.0028	0.9710	38.85	7369	656	5.05	41.80	42.10	41.70	O:AAPL 11B310.00	Feb11 310.00
0.0423	0.0033	0.9698	34.24	1461	378	5.05	36.85	37.10	36.85	O:AAPL 11B315.00	Feb11 315.00
0.0474	0.0042	0.9649	30.57	13112	2075	5.10	31.95	32.15	32.10	O:AAPL 11B320.00	Feb11 320.00
0.0797	0.0070	0.9326	30.51	4354	798	4.75	27.05	27.25	27.00	O:AAPL 11B325.00	Feb11 325.00
0.0869	0.0089	0.9249	26.01	20092	4037	4.60	22.25	22.50	22.20	O:AAPL 11B330.00	Feb11 330.00
0.1261	0.0135	0.8748	24.99	8619	3060	4.35	17.60	17.85	17.60	O:AAPL 11B335.00	Feb11 335.00
0.1711	0.0192	0.7998	23.90	24918	8790	3.90	13.30	13.40	13.35	O:AAPL 11B340.00	Feb11 340.00
0.2107	0.0268	0.7045	21.16	14790	11525	3.30	9.25	9.45	9.40	O:AAPL 11B345.00	Feb11 345.00
0.2404	0.0309	0.5647	20.92	27745	23507	2.40	5.95	6.05	6.00	O:AAPL 11B350.00	Feb11 350.00

PUT/CALL PARITY



PUT/CALL PARITY

- AAPL @ 351.88
- Buy 100 shares @ 351.88
- BTO 1 Feb 350 put @ 4.20
- Feb 18th, 2011 expiration

AAPL Exp: Feb 2011 Last 5 Day HV 20 Day HV 60 Day HV 90 D

APPLE INC 351.88 14.75 23.00 19.00 20

Symbol	Exp	Symbol	Last	Bid	Ask
O:AAPL 11B305.00	Feb11 305.00	O:AAPL 11N305.00	0.11	0.09	0.11
O:AAPL 11B310.00	Feb11 310.00	O:AAPL 11N310.00	0.14 ↓	0.13	0.15
O:AAPL 11B315.00	Feb11 315.00	O:AAPL 11N315.00	0.19 ↓	0.19	0.20
O:AAPL 11B320.00	Feb11 320.00	O:AAPL 11N320.00	0.24 ↓	0.24	0.26
O:AAPL 11B325.00	Feb11 325.00	O:AAPL 11N325.00	0.38 ↑	0.34	0.38
O:AAPL 11B330.00	Feb11 330.00	O:AAPL 11N330.00	0.59 ↑	0.55	0.59
O:AAPL 11B335.00	Feb11 335.00	O:AAPL 11N335.00	0.94 ↑	0.89	0.93
O:AAPL 11B340.00	Feb11 340.00	O:AAPL 11N340.00	1.51 ↓	1.49	1.54
O:AAPL 11B345.00	Feb11 345.00	O:AAPL 11N345.00	2.54 ↓	2.51	2.58
O:AAPL 11B350.00	Feb11 350.00	O:AAPL 11N350.00	4.25 ↓	4.15	4.25

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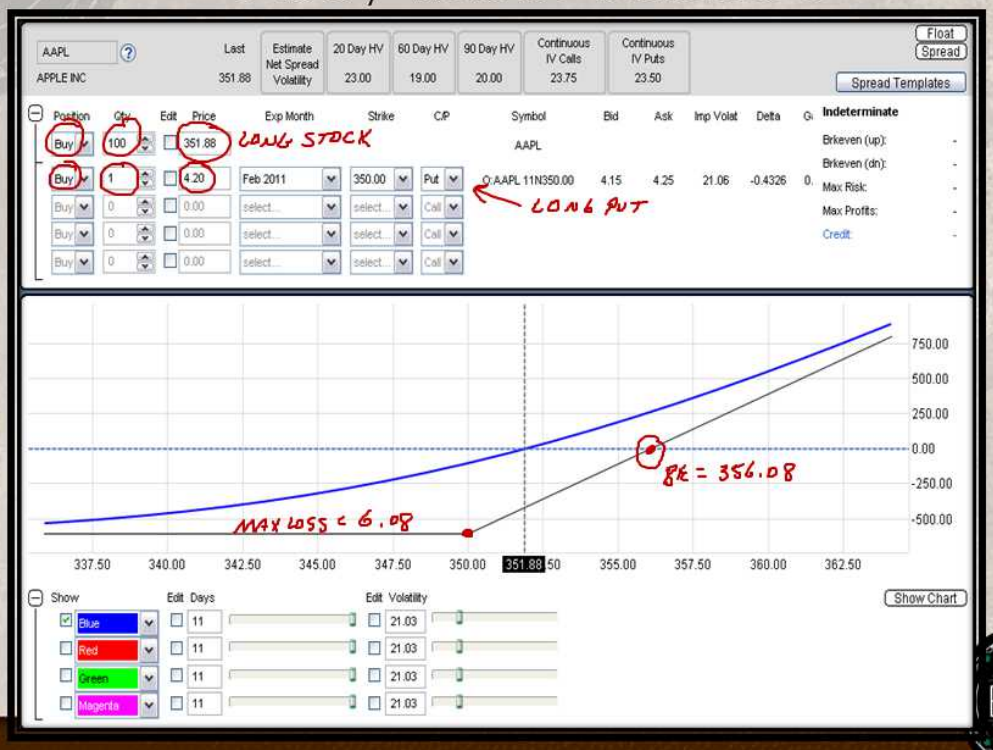
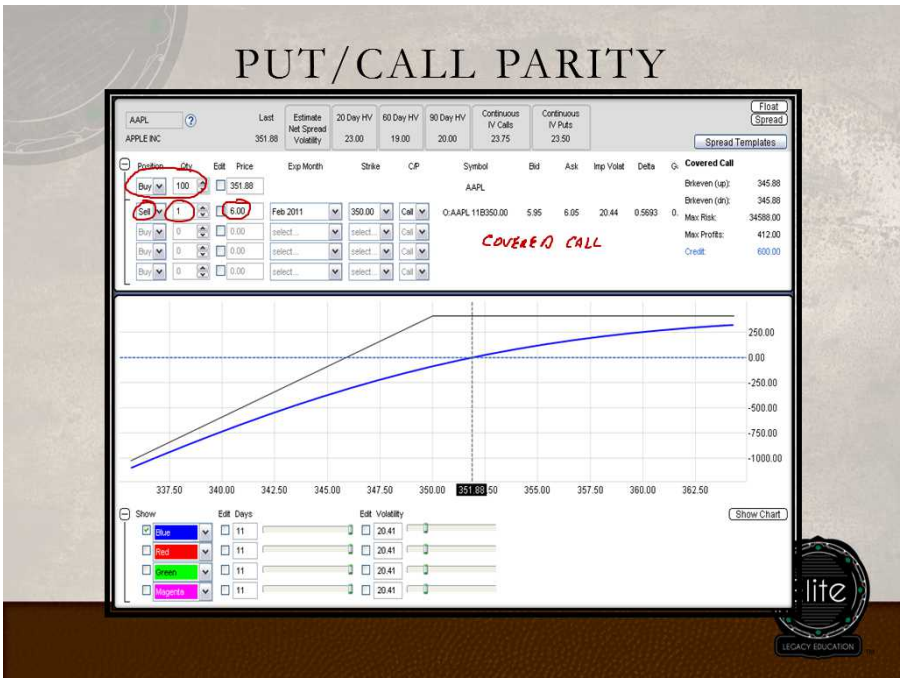
PUT/CALL PARITY



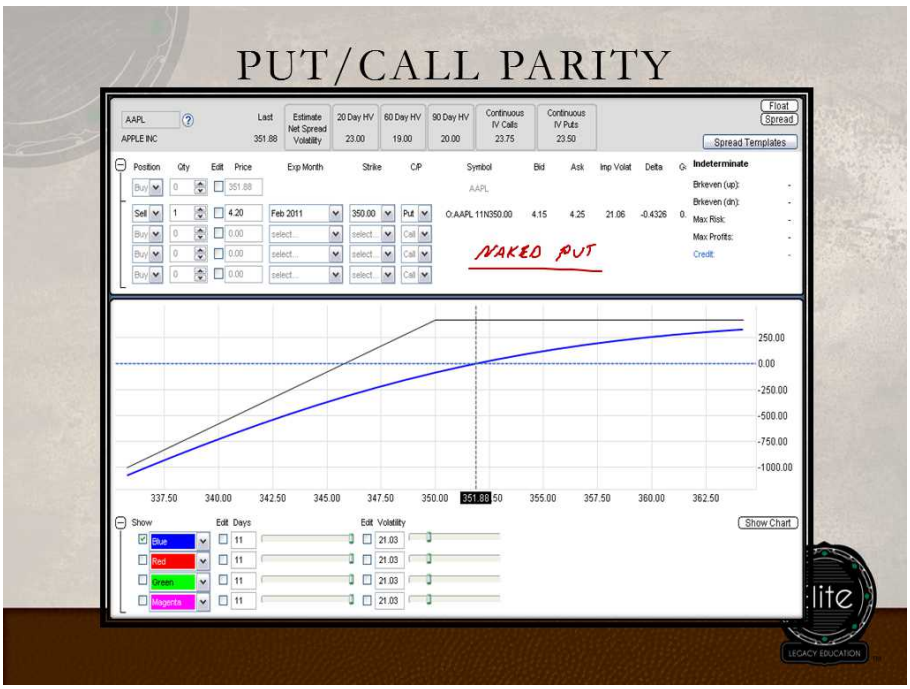
PUT/CALL PARITY

- Naked Put = Covered Call
- Put/Call parity:
  call + cash = put + stock
- Rearrange the equation:
  (-) put + cash = (-) call + stock
- AAPL @ $351.88
  Covered call on AAPL
  Buy 100 shares @ $351.88 + STO 1 Feb 350 call @ $6

PUT/CALL PARITY

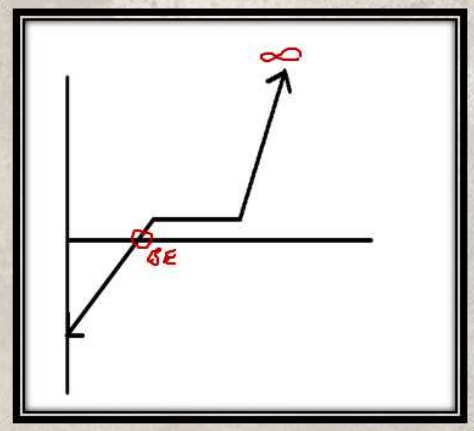


PUT/CALL PARITY



BULLISH RISK REVERSAL

- Outlook -3 -2 -1 0 1 2 3 (4)
  - Extremely bullish
- Max Reward
  - Unlimited
- Risk
  - Limited by stock dropping to 0.00
  - LESS RISK VS. LONG STOCK
- Break-evens
  - 1 break-even
  - Short put strike – net credit
- Probability of profit



BULLISH RISK REVERSAL

- Positive Delta
  - Want stock to rise dramatically
- Negative Theta
  - Time decay hurts
- Positive Gamma
  - As stock price rises Delta increases
- Positive Vega
  - Profit as implied volatility rises CHECK VIX
  - Function of long calls

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BULLISH RISK REVERSAL CASE STUDY

XYZ is trading for $100

- Date: March 11th, 2015
- Target $125, or higher
- (1ST) Sell (1) May 100 put (2 MOS. OUT) (ATM) for $3.50 CREDIT
  - Obligation to buy @ $100 (100 shares)
- (2nd) Buy (5) May 115 calls (2 MOS. OUT) (OTM) for $0.50 each X 5 CONTRACTS = $2.50
  - Right to buy @ $115 (500 shares)
- Risk-Reward
  - Net credit = $1.00
  - Unlimited reward
  - 1 break-even = short put strike – net credit
  - Probability of profit through expiration ≈ 1.00 – short put Delta

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BULLISH RISK REVERSAL RULES

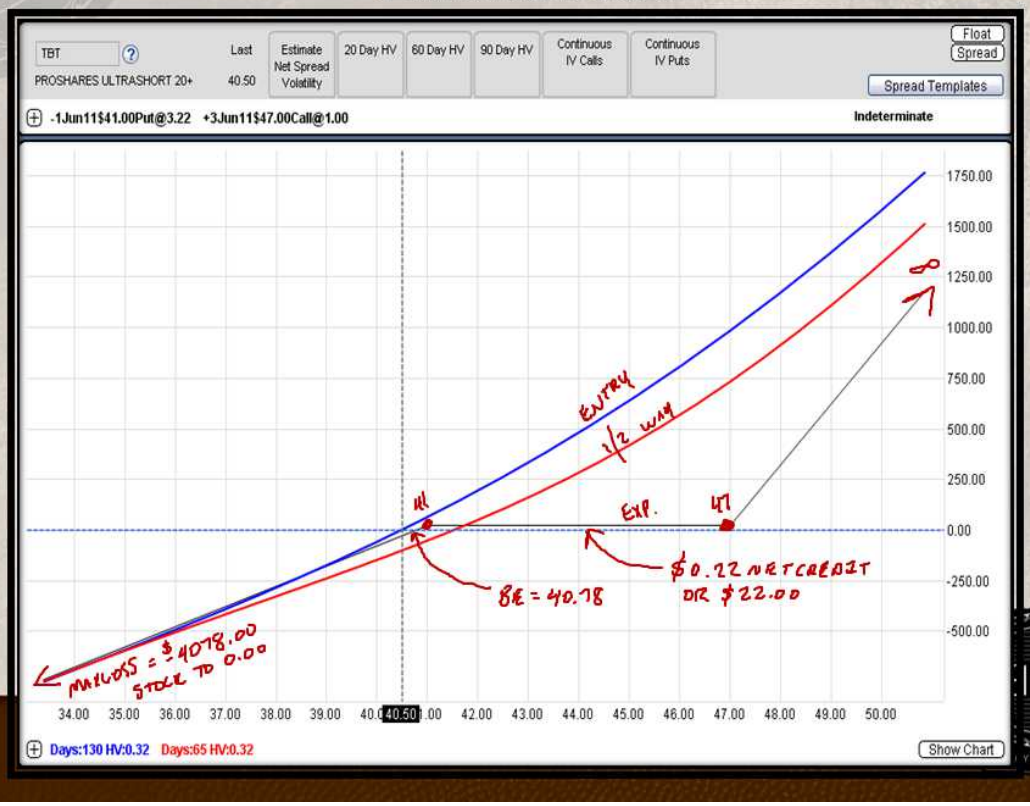
- Select an underlying that we believe will move up strongly
- STO an ATM or OTM put
  - STO ATM = more aggressive
  - STO OTM = less aggressive
- BTO 1, or more, OTM calls
  - Consider using a call strike around the projected target price
- The farther OTM put strike we STO, the less premium we have to buy calls THOUGHT / LOWER BREAKEVEN POINT
- If call(s) strike is closer to put strike, then the number of call(s) we can purchase will drop
- Net credit of at least $0.01 in trade
- We are naked on the short put
- If we BTO more than 1 call for every put we STO, then try to enter when IV is low

BULLISH RISK REVERSAL EXAMPLE

TBT @ $40.50
Target is old support level of $46.00
Date: 2/7/2011
STO 1 June 41 put @ $3.22 credit
BTO 3 June 47 calls @ $1.00 cost
Net credit on trade = $3.22 – ($1.00 X 3 calls) = $0.22

- Margin required to place the trade is same as selling to open a naked put:
  - 20% of the underlying stock price – distance OTM + premium
- We also spent $3.00 debit on the long calls
- Total buying power effect under Reg.T = $1035.71 (based on a popular broker)

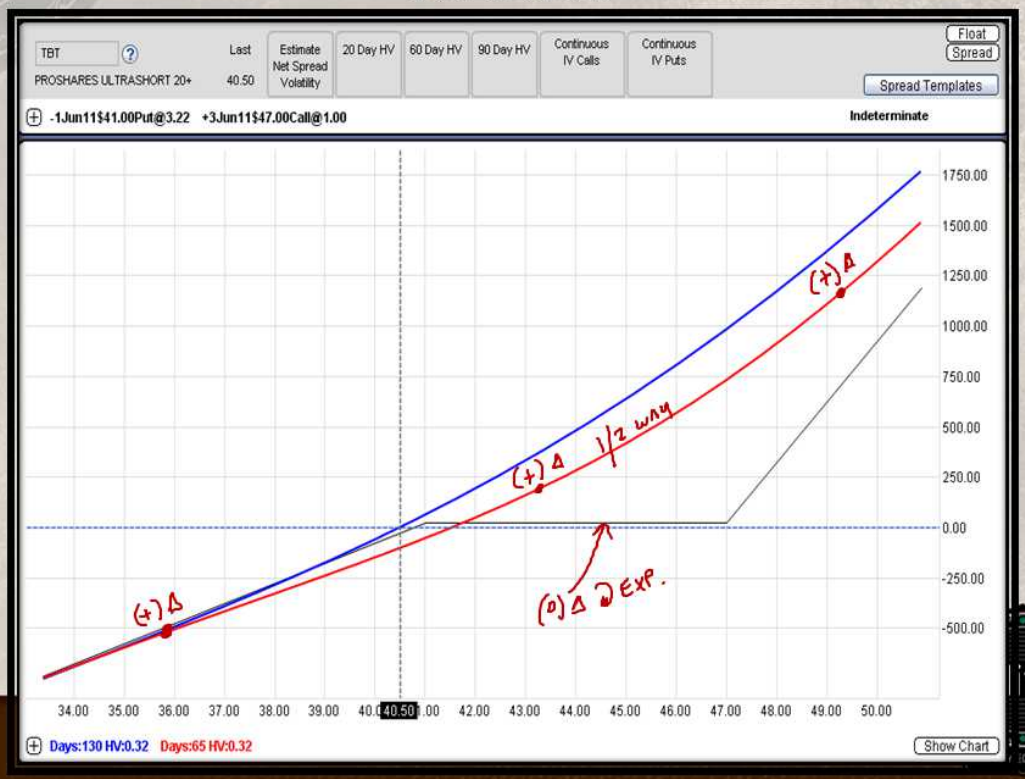
BULLISH RISK REVERSAL EXAMPLE



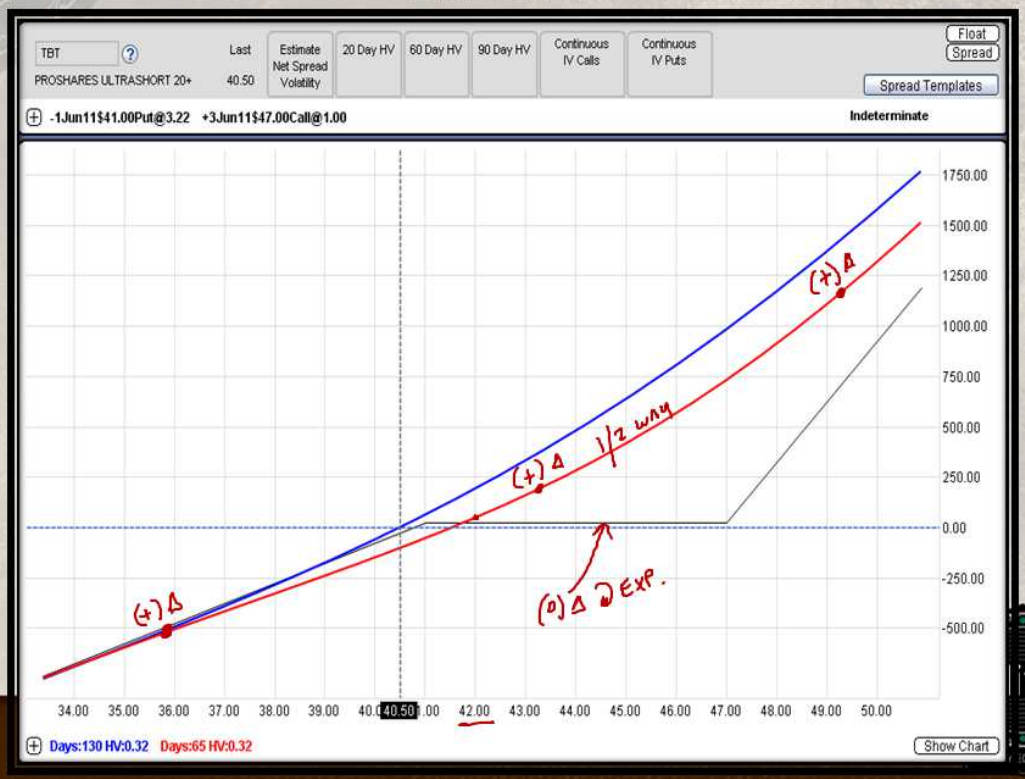
BULLISH RISK REVERSAL EXAMPLE

- Max gain
  - Unlimited
  - Long calls have unlimited upside
- Max loss 41.00 − 0.22 = 40.78, or $4078.00
  - Strike of put – net credit
  - Stock must drop to 0.00
- Break-even
  - 1 break-even
  - Strike of put – net credit = 40.78
- Margin required
  - Let broker calculate
  - Margin held on short put + net debit of long calls $1075.00 DYNAMIC

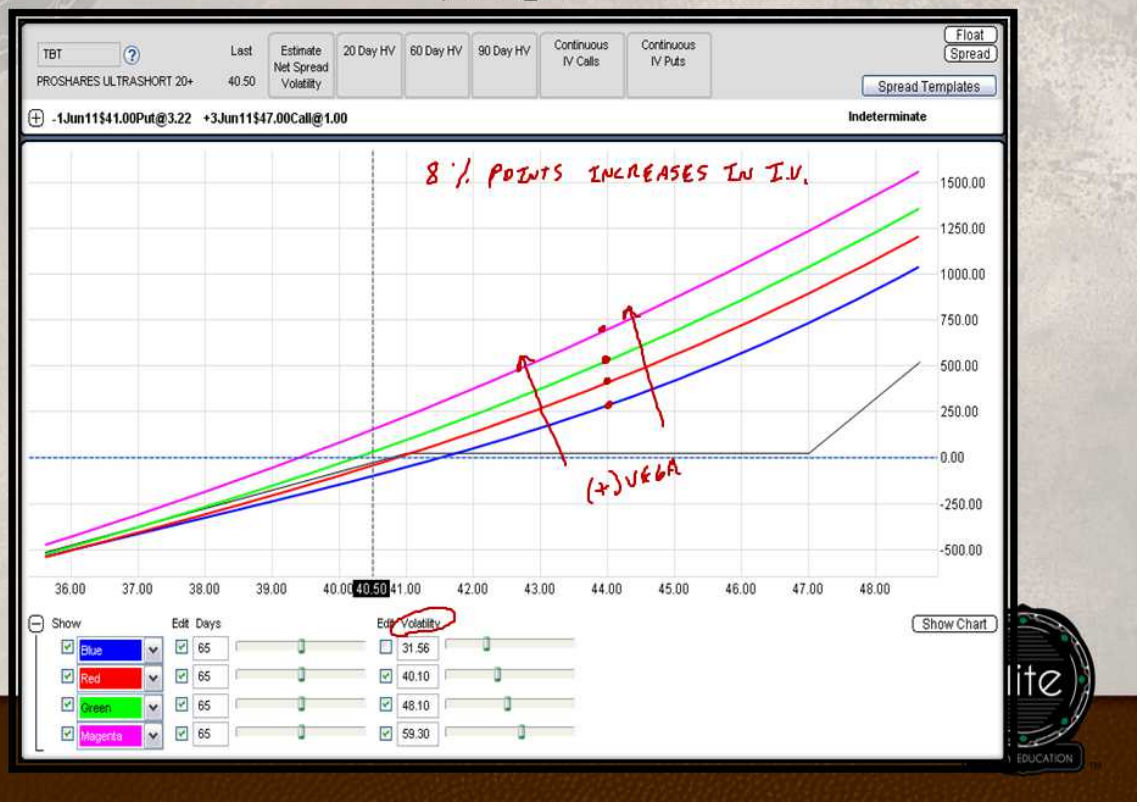
BULLISH RISK REVERSAL DELTA

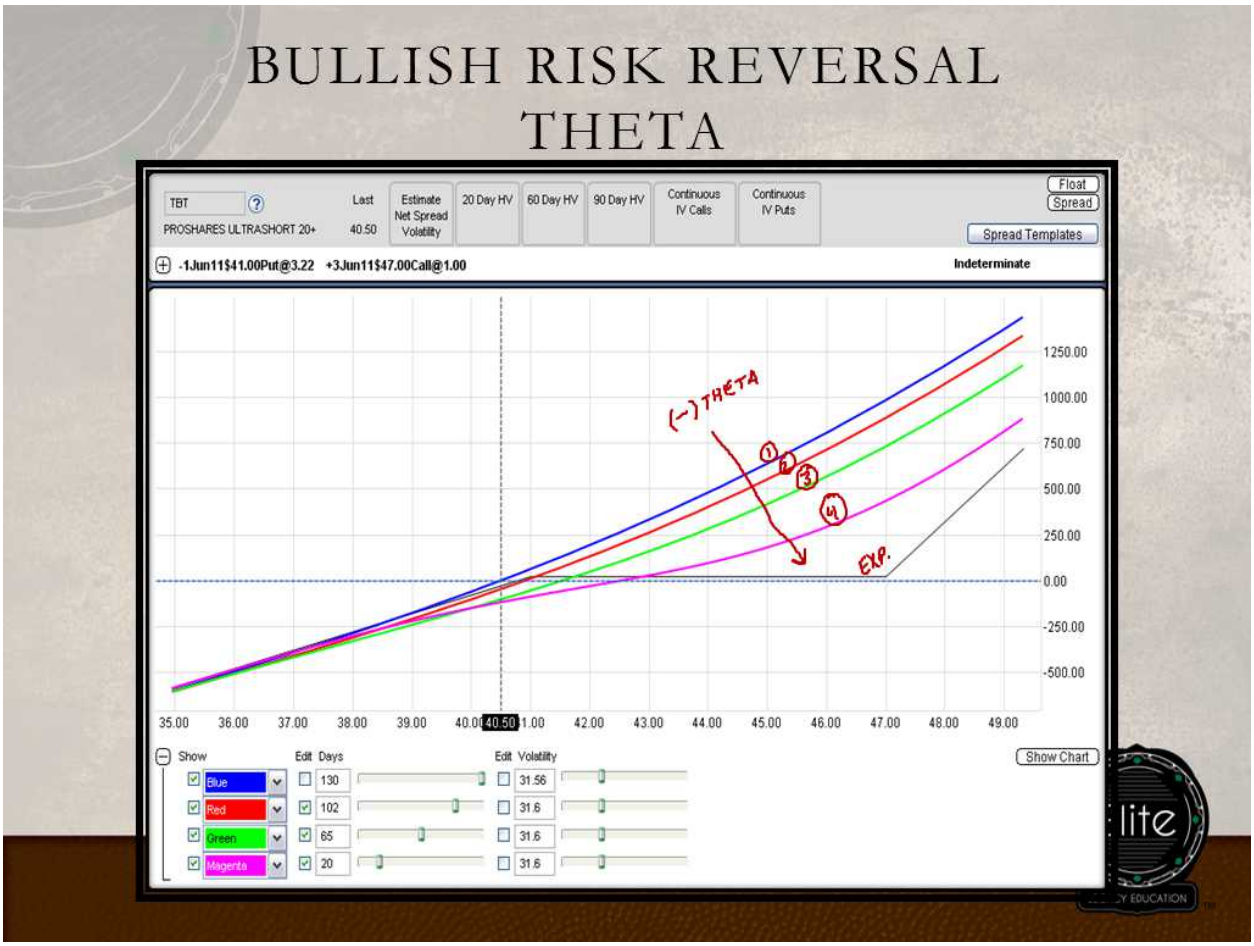


BULLISH RISK REVERSAL DELTA



BULLISH RISK REVERSAL VEGA





We want the stock to up quickly – time decay is hurting

BULLISH RISK REVERSALS

- Exit strategies
  1. Ostrich approach, set it and forget it DANGEROUS
  2. Close trade at a predetermined time (1/2 way to expiration)
  3. Close trade if we hit the predetermined target (old support becomes new resistance) TBT HITS $16.00
  4. Close trade if we lose a predetermined amount (willing loss per trade)
     - There are adjustments…next page

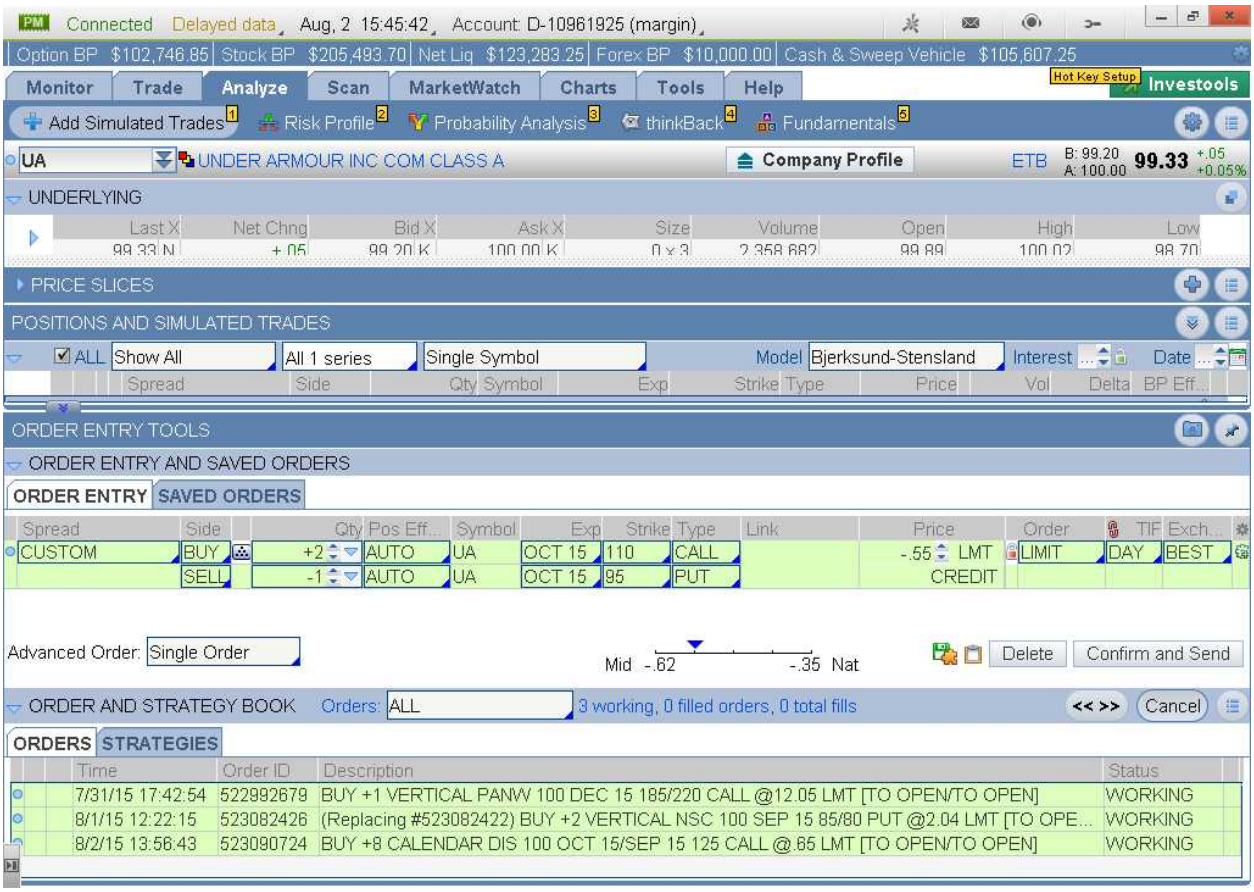
BULLISH RISK REVERSALS

- Adjustments
  - If the stock rises to where the short put is near worthless, then BTC the short put
  - Keep the long calls and let them run (free)
  - The risk of trade is more a function of the short put
  - At a later date, we could STO another put ATM or OTM at a higher strike to further offset cost/time decay on long calls

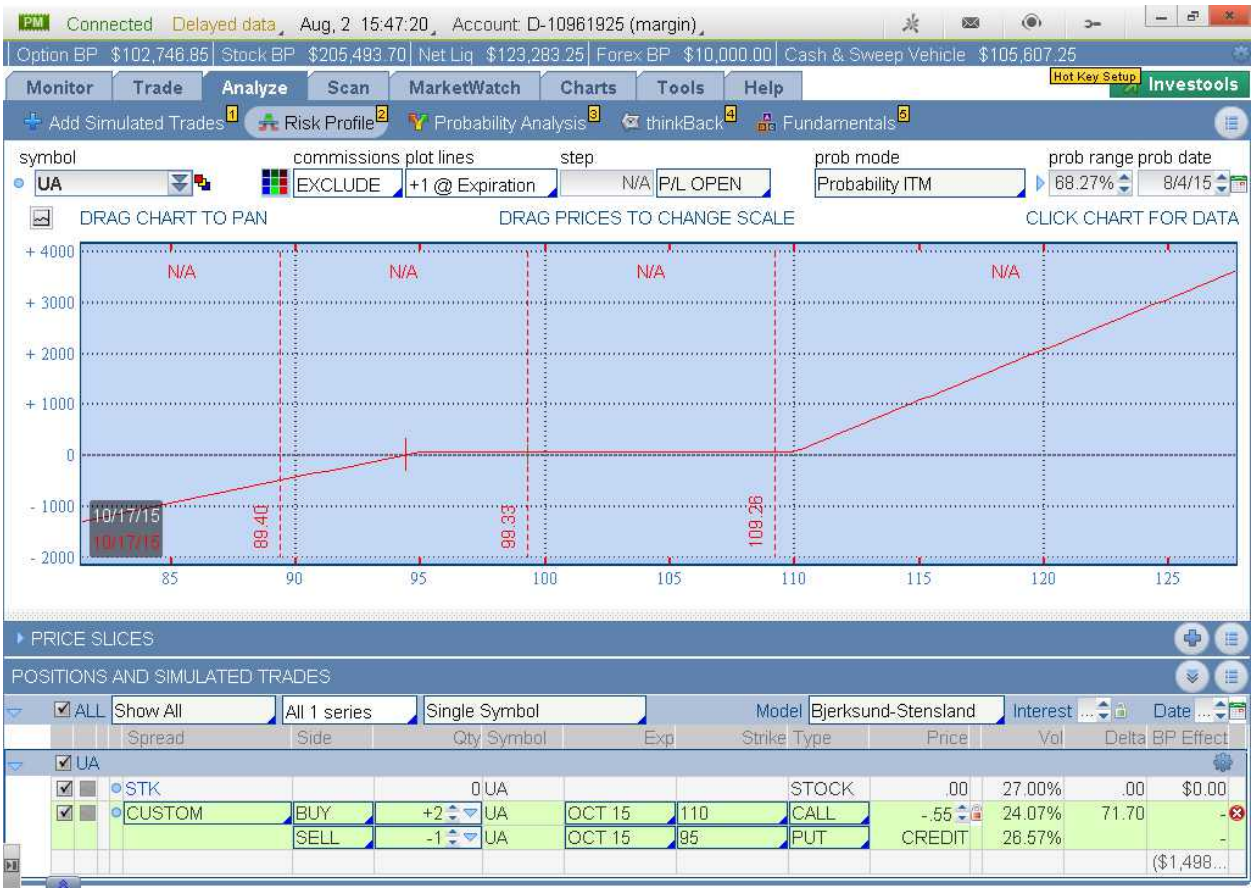
UA Bullish Risk Reversal

UA @ 99.33

8/2/15

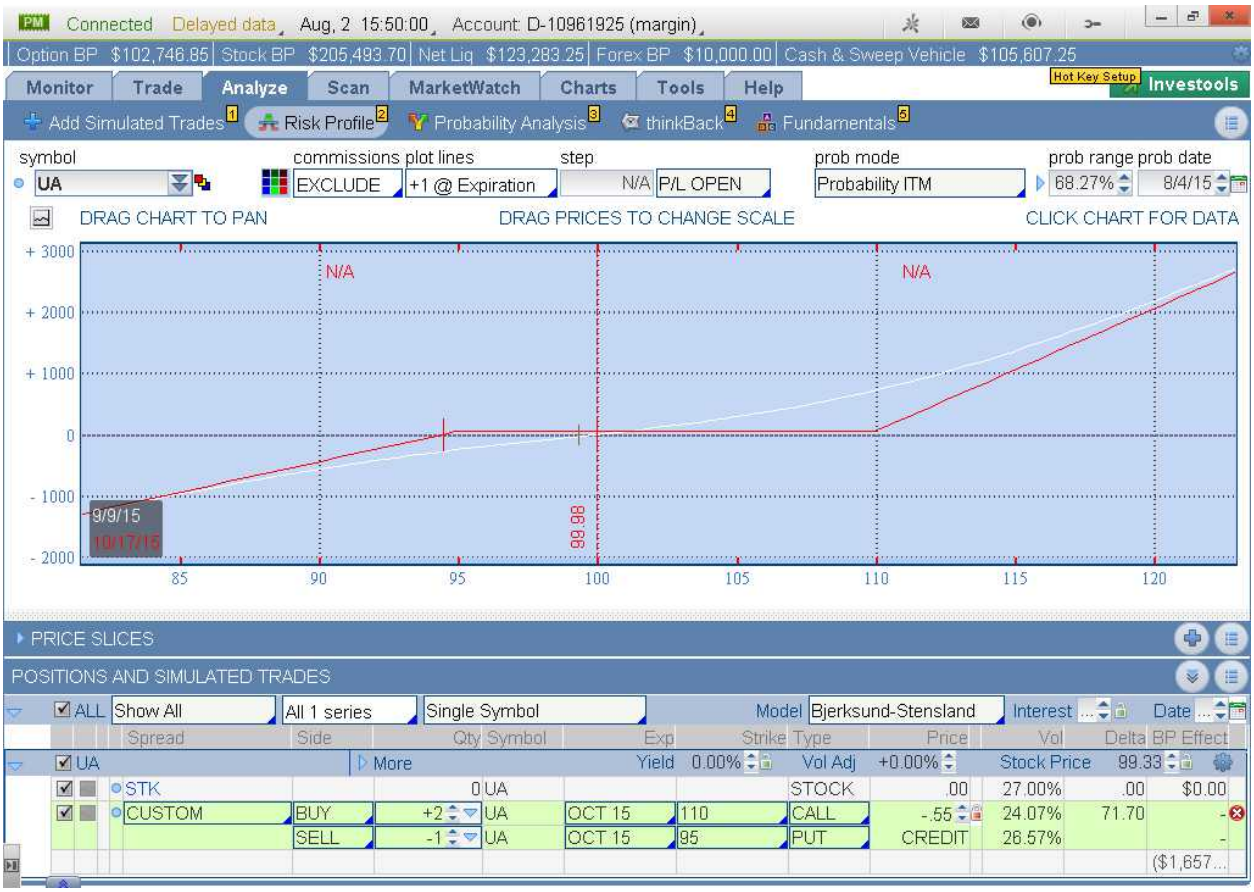


Net credit = 0.55 (we dialed this back from 0.62 mid)



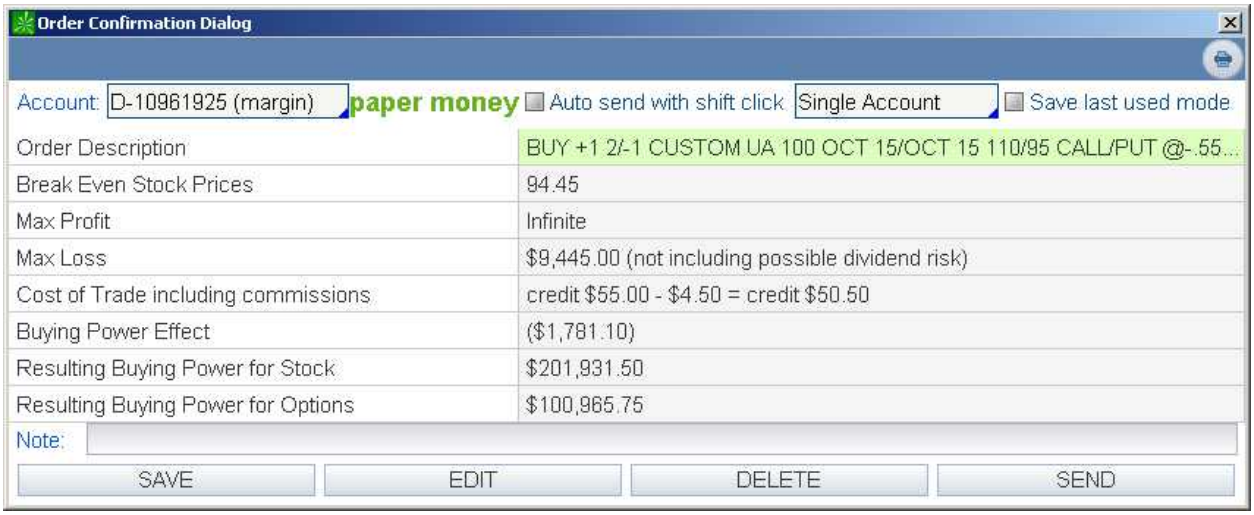
UA Bullish Risk Reversal @ 0.55 net credit

Risk graph above is at October expiration

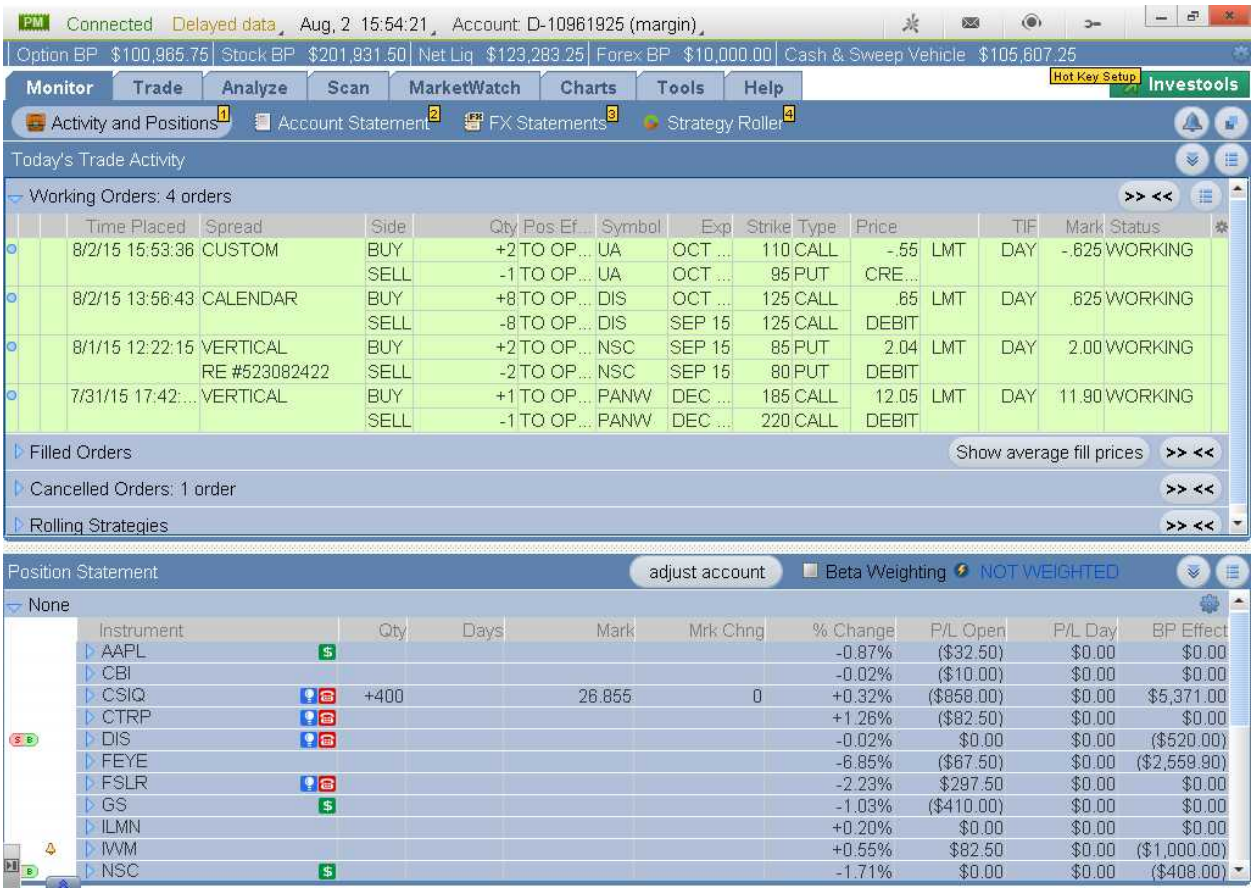


Model date is 9/8/15 – breakeven is 99.98, and the current stock price is 99.33

If IV increases, then we can model the results using the Vol steps (see above)



Confirmation of order


PM Connected Delayed data Aug, 2 15:54:21 Account: D-10961925 (margin)
Option BP $100,965.75 Stock BP $201,931.50 Net Liq $123,283.25 Forex BP $10,000.00 Cash & Sweep Vehicle $105,607.25
Monitor Trade Analyze Scan MarketWatch Charts Tools Help
Hot Key Setup
Investools
Activity and Positions 1 Account Statement 2 FX Statements 3 Strategy Roller 4
Today's Trade Activity
Working Orders: 4 orders
Time Placed Spread Side Qty Pos Ef... Symbol Exp Strike Type Price TIF Mark Status
8/2/15 15:53:36 CUSTOM BUY +2 TO OP... UA OCT ... 110 CALL -.55 LMT DAY -.625 WORKING
SELL -1 TO OP... UA OCT ... 95 PUT CRE...
8/2/15 13:56:43 CALENDAR BUY +8 TO OP... DIS OCT ... 125 CALL .65 LMT DAY .625 WORKING
SELL -8 TO OP... DIS SEP 15 125 CALL DEBIT
8/1/15 12:22:15 VERTICAL BUY +2 TO OP... NSC SEP 15 85 PUT 2.04 LMT DAY 2.00 WORKING
RE #523082422 SELL -2 TO OP... NSC SEP 15 80 PUT DEBIT
7/31/15 17:42:... VERTICAL BUY +1 TO OP... PANW DEC ... 185 CALL 12.05 LMT DAY 11.90 WORKING
SELL -1 TO OP... PANW DEC ... 220 CALL DEBIT
Filled Orders
Show average fill prices
Cancelled Orders: 1 order
Rolling Strategies
Position Statement
adjust account
Beta Weighting NOT WEIGHTED
None
Instrument Qty Days Mark Mrk Chng % Change P/L Open P/L Day BP Effect
AAPL -0.87% ($32.50) $0.00 $0.00
CBI -0.02% ($10.00) $0.00 $0.00
CSIQ +400 26.855 0 +0.32% ($858.00) $0.00 $5,371.00
CTRP +1.26% ($82.50) $0.00 $0.00
DIS -0.02% $0.00 $0.00 ($520.00)
FEYE -6.85% ($67.50) $0.00 ($2,559.90)
FSLR -2.23% $297.50 $0.00 $0.00
GS -1.03% ($410.00) $0.00 $0.00
ILMN +0.20% $0.00 $0.00 $0.00
IWM +0.55% $82.50 $0.00 ($1,000.00)
NSC -1.71% $0.00 $0.00 ($408.00)

LESSONS

- What do we learn from the marbles and urn game?
  - The typical person underestimates risk in any situation
  - Trading results are random in the short-run
  - Streaks happen, but are also random
  - Play enough and we start to see a pattern emerge
  - We need to be consistent

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