

Options II

8/1/15

P. 87

BEAR PUT

-3 -2 -1 0 1 2 3

- ❖ Outlook
 - Bearish
- ❖ Max gain
 - Spread between strikes – net debit
- ❖ Risk
 - Net debit
- ❖ Probability of Profit (POP)
 - Delta of lower strike put
- ❖ Expiration break-even
 - Higher strike put - net debit

The diagram illustrates the payoff for a bear put option strategy. It shows a horizontal axis representing price and a vertical axis representing profit/loss. A solid line starts at a high point labeled 'MAX GAIN' and slopes downward to a point labeled 'BE' (Break-Even), which is marked with a red circle. From the break-even point, the line continues to slope downward to a low point labeled 'MAX LOSS'. A horizontal dashed line represents the initial position level.

Elite
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BEAR PUT GREEKS

❖ Negative Delta (-) 1

- Profit as stock drops

❖ Negative Theta

- Time decay hurts) (4) THETA IF CLOSE TO SHORT PUT STRIKE

❖ Positive Gamma

- Delta increases as stock falls (acceleration)

❖ Positive Vega

- Profit as volatility increases

1) TRY TO ENTER WHEN IV LOW
2) WANT STOCK TO MOVE DRAMATICALLY





BEAR PUT STRUCTURE

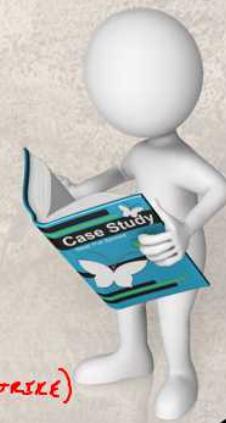
- ❖ The bear put spread is generally used when we anticipate a moderate drop in a particular stock
- ❖ Lower-risk than shorting the stock, or a long put
- ❖ Structure involves BTO higher strike puts while at the same time STO an equal number of lower strike puts
- ❖ Same expiration on both “legs” of the spread



BEAR PUT CASE STUDY

XYZ is trading for \$200

- ❖ BTO April 200 put for \$8, Delta 0.50
 - Right to sell @ \$200 ^{(ATM) COST}
- ❖ STO April 185 put for \$2, Delta 0.25
 - Obligated to buy @ \$185 ^{(OTM) CREDIT}
- ❖ Risk-Reward
 - Net debit \$6
 - Max Risk \$6
 - Breakeven 194 (\$200 strike - \$6 net debit) ^{DEXP.}
 - Probability of profit (POP) 25% ^{THROUGH EXP.}
PROB. OF TOUCHING SD%. (DOUBLE Δ OF LOW STRIKE)



<http://www.nber.org/cycles/cyclesmain.html>

Business cycle dating committee

BEAR PUT GUIDELINES

1. Moderately bearish outlook (traditional down-trend is best) – think lower lows + lower highs
2. Use an expiration that is at least 2 months out
3. BTO and STO an equal number of contracts
4. Enter so that cost (net debit) is $\leq 40\%$ of the spread (distance between the strikes)
5. The net Delta of the trade should be ≥ 0.25
6. Make sure there is plenty of liquidity in the options
7. Check for news – it is fine to hold through earnings



#1 BEARISH TREND

- ❖ We want to trade with the trend
- ❖ Don't second guess the trend
- ❖ Lower lows + lower highs
- ❖ What is the velocity of the stock?



#1 BEARISH TREND



#2 EXPIRATION DATE

- ❖ OII has moved down from \$72.00 to \$49.00 in 3.5 months which is an average monthly move of roughly \$~~7.40~~ ~~\$6.80~~ ~~\$7.60~~ per month
- ❖ We are expecting OII to move down \$10 per share, and based on its current trend it would take 2 months *LOW STRIKE IS OUR TARGET*
- ❖ With March expiration quickly approaching, we would look at MAY
3/2/15 expiration to trade a \$10.00 move
- ❖ We do not have to hold the position until MAY, but we want plenty of time





#3 EQUAL NUMBER OF CONTRACTS

- ❖ For a bear put spread, we always BTO and STO an equal number of contracts
- ❖ Never sell more contracts than we own
- ❖ If we STO more contracts than we BTO, then we will be in a naked position



#4 COST

- ❖ Enter so that the maximum cost is $\leq 40\%$ of the spread
*BTO 100 CALL PUT > \$5.00
STO 70 PUT > \$2.00
\$3.00 NET DEBIT*
- ❖ The spread is the difference between the strikes that we buy and sell
- ❖ This gives us a 1.5 to 1 reward/risk
- ❖ Same as the bull call spread



#4 COST

❖ The net debit (cost) of the bear put spread is

function of:

- Time until expiration *FARTHER EXP. = MORE EXPENSIVE*
- Underlying stock price *LARGER SPREAD = MORE EXPENSIVE*
- Spread between strikes *LARGER SPREAD = MORE EXPENSIVE*
- Using ATM vs. OTM *LONG PUT STRIKE, 13TD ATM = MORE EXPENSIVE
8TD OTM = LESS EXPENSIVE*

❖ We want the net debit \leq 40% of the spread

❖ Remember that net Delta must be ≥ 0.25 (more
on this later)



#5 NET DELTA Δ

- ❖ The bear put spread consists of buying one (or more) higher-strike puts and selling one (or more) lower strike puts
- ❖ We BTO and STO an equal number of contracts
- ❖ The options that we buy and sell will each have a different Delta
- ❖ XYZ @ 100
 - BTO XYZ 100 put Delta = -0.50
 - STO XYZ 90 put Delta = -0.25
 - Net Delta = 0.25 (?) \geq 0.25



#5 NET DELTA Δ

Oceaneering International Inc.									Time & Sales Chart Volatility View News															
Symbol	Last	Change	Bid	Ask	High	Low	Volume		Chart															
OII	54.17	-0.36 ▼	46.99	0.00	54.44	53.02	1,977,789																	
Dividend Information*																								
Dividend Frequency Div Date (mm/dd/yyyy) Int Rate																								
<input type="checkbox"/> Include Dividends		n/a	n/a	n/a	1.00	%																		
Oil Expiration Months: Mar15 Apr15 Jul15 Oct15																								
Calls <input type="checkbox"/> Disable Roll Overs																								
Last	Chg	Bid	Ask	Imp. Vol	Delta	Action	▲ Strike ▾	Last	Chg	Bid	Ask	Imp. Vol	Delta	Action										
Apr15 Calls (46 days to expiration) OII @ 54.17																								
0	0	17.90	19.60	1.0000	Trade Detail		35.00	0	0	0	0.10	57.7	-.0125	Trade Detail										
11.00	0	12.90	14.60	1.0000	Trade Detail		40.00	0.50	0	0	0.20	46.6	-.0273	Trade Detail										
7.00	0	8.20	9.70	1.0000	Trade Detail		45.00	0.35	0	0.15	0.40	38.8	-.0772	Trade Detail										
4.88	-1.02	4.70	5.10	29.2	7.984	Trade Detail	50.00 STP	0.75	0	0.75	0.90	32.1	-.2201	Trade Detail										
1.45	+0.05	1.45	1.80	25.7	.4573	Trade Detail	55.00 STP	2.72	0	2.50	2.85	29.5	-.5323	Trade Detail										
0.57	0	0.25	0.40	25.1	.1382	Trade Detail	60.00	7.30	0	5.90	7.40	36.1	-.7654	Trade Detail										
0.05	0	0	0.10	25.9	.0272	Trade Detail	65.00	11.98	0	10.50	12.20	44.9	-.8544	Trade Detail										
0.15	0	0	0.10	34.5	.0216	Trade Detail	70.00	11.03	0	15.40	17.40	58.1	-.8713	Trade Detail										
0.04	0	0	0.10	42.2	.0184	Trade Detail	75.00	10.90	0	20.30	22.30	65.9	-.8975	Trade Detail										
Trade Calc Mini Pricer Watch List Reset Trade																								





#6 LIQUIDITY

- ❖ Open interest equals the number of open contracts for a particular strike and expiration
- ❖ We want 100 contracts of open interest on both legs
- ❖ Make sure there is volume somewhere in the expiration we are trading
- ❖ We will look at open interest and volume on the option chain
- ❖ Birds in a tree
- ❖ BTO and STO adds open interest, and BTC and STC reduces open interest
- ❖ Open interest = running total
- ❖ Volume = resets at 0 each day



#7 CHECK FOR NEWS

- ❖ Check for pending news
- ❖ Earnings reports
- ❖ What does this change
 - ❑ Exit plans
 - ❑ Position size
- ❖ Check on chart
- ❖ Earnings calendar



BEAR PUT EXAMPLE

Oceaneering International Inc											Time & Sales Chart Volatility View News						
Symbol	Last	Change	Bid	Ask	High	Low	Volume	Chart									
OII	54.17	-0.36 ▼	46.99	0.00	54.44	53.02	1,977,789										
Dividend Information* Dividend Frequency Div Date (mm/dd/yyyy) Int Rate																	
<input type="checkbox"/> Include Dividends			n/a	n/a	n/a	1.00	%										
OII Expiration Months: Mar15 Apr15 Jul15 Oct15																	
Calls							Puts				<input type="checkbox"/> Disable Roll Overs						
Last	Chg	Bid	Ask	Imp. Vol	Delta	Action	▲ Strike ▼	Last	Chg	Bid	Ask	Imp. Vol	Delta	Action			
Apr15 Calls (46 days to expiration)							OII @ 54.17										
0	0	17.90	19.60		1.0000	Trade Detail	35.00	0	0	0	0.10	57.7	-0.0125	Trade Detail			
11.00	0	12.90	14.60		1.0000	Trade Detail	40.00	0.50	0	0	0.20	46.6	-0.0273	Trade Detail			
7.00	0	8.20	9.70		1.0000	Trade Detail	45.00	0.35	0	0.15	0.40	38.8	-0.0772	Trade Detail			
4.88	-1.02	4.70	5.10	29.2	.7984	Trade Detail	50.00 \$70	0.75	0	0.75	0.90	32.1	-0.2201	Trade Detail			
1.45	+0.05	1.45	1.80	25.7	.4573	Trade Detail	55.00 B70	2.72	0	2.50	2.85	29.5	-0.5323	Trade Detail			
0.57	0	0.25	0.40	25.1	.1382	Trade Detail	60.00	7.30	0	5.90	7.40	36.1	-0.7654	Trade Detail			
0.05	0	0	0.10	25.9	.0272	Trade Detail	65.00	11.98	0	10.50	12.20	44.9	-0.8544	Trade Detail			
0.15	0	0	0.10	34.5	.0216	Trade Detail	70.00	11.03	0	15.40	17.40	58.1	-0.8713	Trade Detail			
0.04	0	0	0.10	42.2	.0184	Trade Detail	75.00	10.90	0	20.30	22.30	65.9	-0.8975	Trade Detail			
Trade Calc Mini Pricer Watch List Reset Trade																	
LEGACY EDUCATION™																	

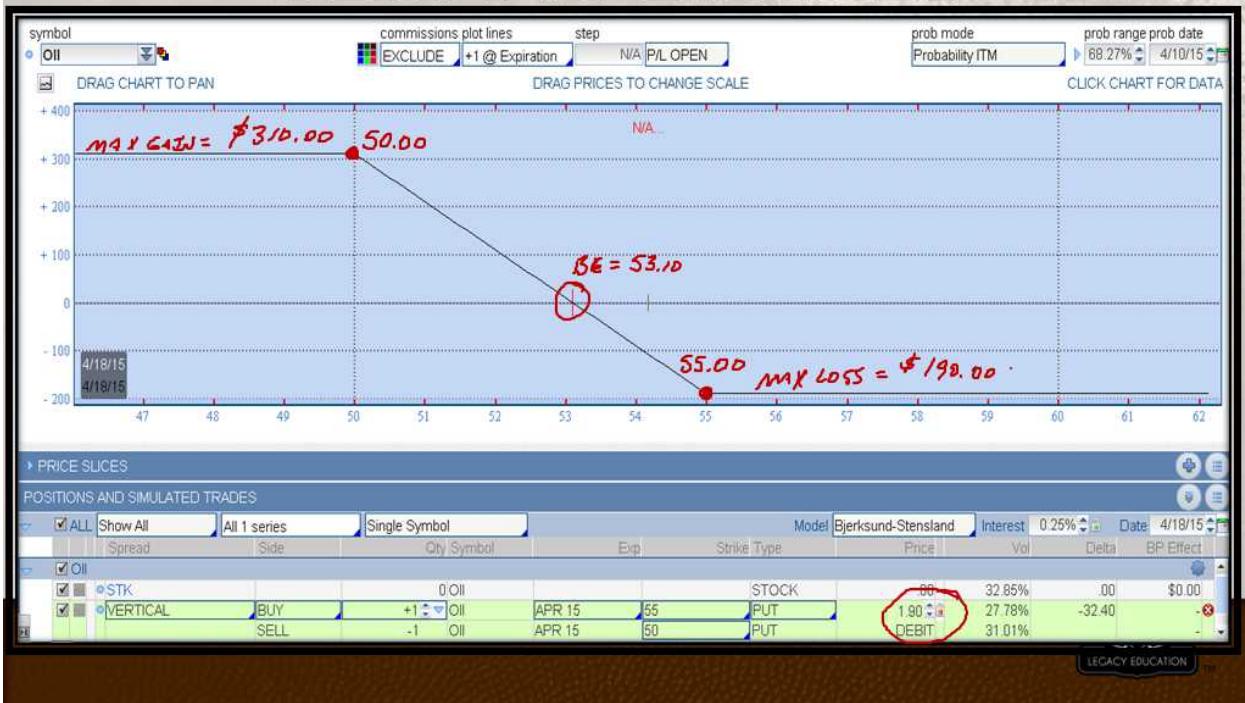
Net Delta = 0.53 Long Put Delta – 0.22 Short Put Delta = 0.31 > 0.25 ☺

BTO April 55 put @ 2.65 cost

STO April 50 put @ 0.82 credit

Net debit = 1.83 < 40% of the spread ☺

BEAR PUT EXAMPLE



BEAR PUT EXAMPLE



BEAR PUT EXAMPLE

Stock oxx	Price \$4.17	Date 3/2/15
BTO higher strike put	STD APR 55 PUT	Debit 2 2.65
STO lower strike put	STD APR 50 PUT	Credit 2 0.82
Net debit/max loss	1.83/SHARE \$183.00/CONTRACT	Stock \geq high strike @ expiry oxx \geq 55.00
Max gain	SPREAD 5.00 - 1.83 cost = 3.17 OR \$317.00	Stock \leq low strike @ expiry 55.00 - 1.83
Break-even @ expiry	\$53.17	High strike - net debit 55.00 - 1.83
Best-case scenario	oxx \leq 50.00	Stock \leq low strike @ expiry



BEAR PUT EXIT

- 1 ♦ When stock hits the lower strike ☺ $022 \text{ HITS } \$2.00 \text{ (IT DID ON 3/13)}$
- 2 ♦ 60% gain on net debit $\$183 \text{ COST} \times 0.60 \text{ GAIN} = \110.00 PROFIT
- 3 ♦ 40% loss on net debit
- 4 ♦ If $\frac{1}{2}$ way to expiration we have not reached our profit, or price target, then reevaluate
- 5 ♦ We can exit prior to expiration – use risk graph
- 6 ♦ Predetermine exit strategy, and remember our IQ drops in $\frac{1}{2}$ once we enter
♦ Exit plan determines position size

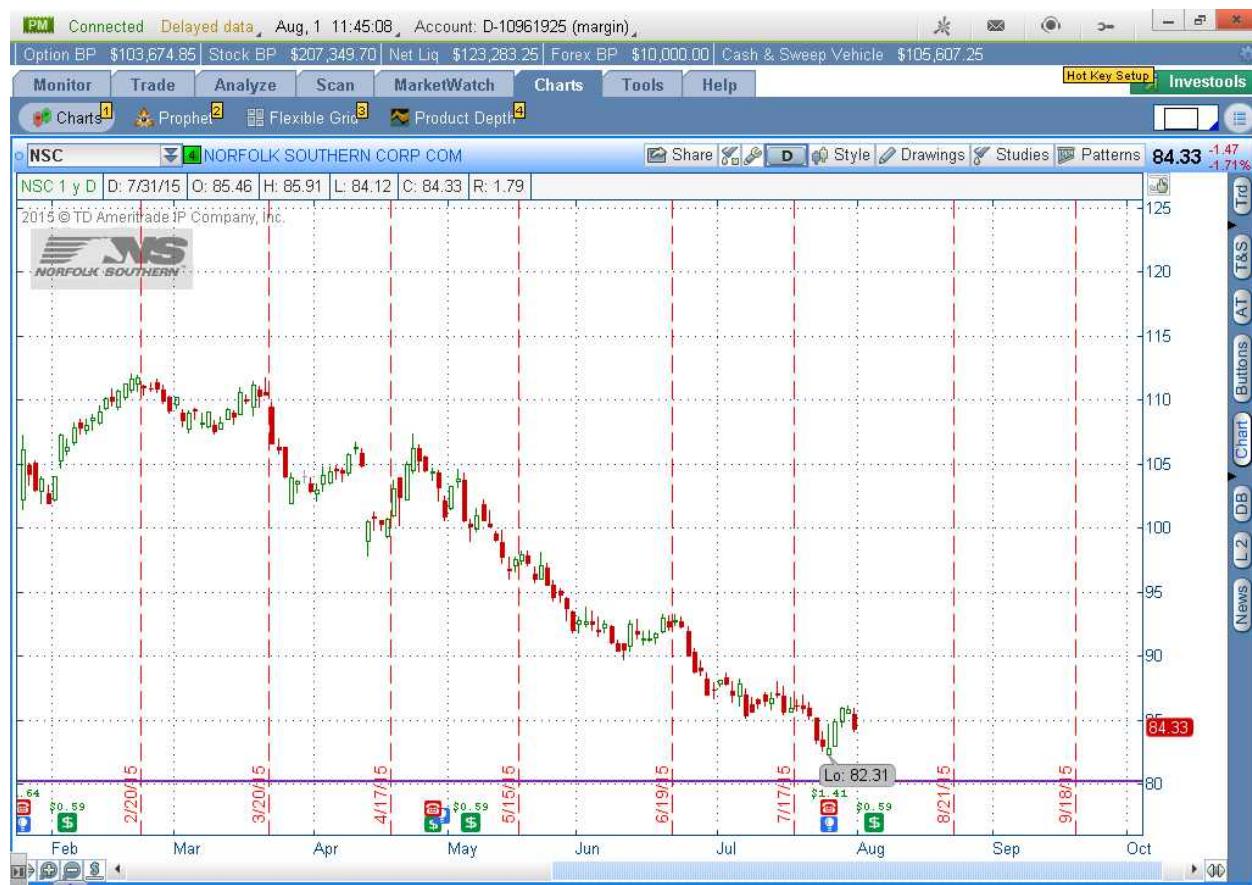
NO STOP LOSS REQUIRED

$$\rightarrow \begin{array}{l} \text{WILTING LOSS PER TRADE - \$500.00} \\ -\$500.00 / 183.00 MAX LOSS \\ = 3 CONTRACTS \end{array}$$





3 year weekly chart for NSC – targeting the old breakout level of 80.00



1 year daily chart for NSC – again targeting 80.00 by September expiration

Connected Delayed data Aug, 1 11:45:59 Account: D-10961925 (margin)

Option BP \$103,674.85 Stock BP \$207,349.70 Net Lig \$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

Add Simulated Trades Risk Profile Probability Analysis thinkBack Fundamentals

NSC NORFOLK SOUTHERN CORP. COM Company Profile B: 83.94 ETB: 84.33 -1.47 A: 85.35 -1.71

UNDERLYING

Last X	Net Chng	Bid X	Ask X	Size	Volume	Open	High	Low
84.33 N	-1.47	83.94 Q	85.35 Q	1 x 0	2,610,322	85.46	85.909	84.12

OPTION CHAIN Filter: Off Spread: Single Layout: Delta, Intrinsic, Extrinsic

CALLS					PUTS						
Delta	Intrinsic	Extrinsic	Bid X	Ask X	Exp	Strike	Bid X	Ask X	Delta	Intrinsic	Extrinsic
.96	14.33	.02	14.00 A	14.70 X	SEP 15	70	.10 X	.20 A	-.04	0	.15
.93	9.33	.12	9.20 X	9.70 X	SEP 15	75	.35 X	.45 M	-.10	0	.40
.89	6.83	.22	6.90 C	7.20 X	SEP 15	77.5	.65 A	.80 A	-.17	0	.725
.76	4.33	.72	4.90 X	5.20 A	SEP 15	80	1.25 W	1.35 X	-.27	0	1.30
.61	1.83	1.57	3.30 C	3.50 X	SEP 15	82.5	2.05 T	2.15 A	-.40	0	2.10
.46	0	2.10	2.05 X	2.15 A	SEP 15	85	3.20 M	3.40 C	-.54	.67	2.63
.31	0	1.20	1.15 A	1.25 X	SEP 15	87.5	4.80 X	5.00 X	-.67	3.17	1.73
.19	0	.625	.60 X	.65 X	SEP 15	90	6.70 X	7.10 X	-.77	5.67	1.23
.10	0	.20	.25 A	.25 A	SEP 15	92.5	9.00 T	9.20 A	-.89	8.17	.00

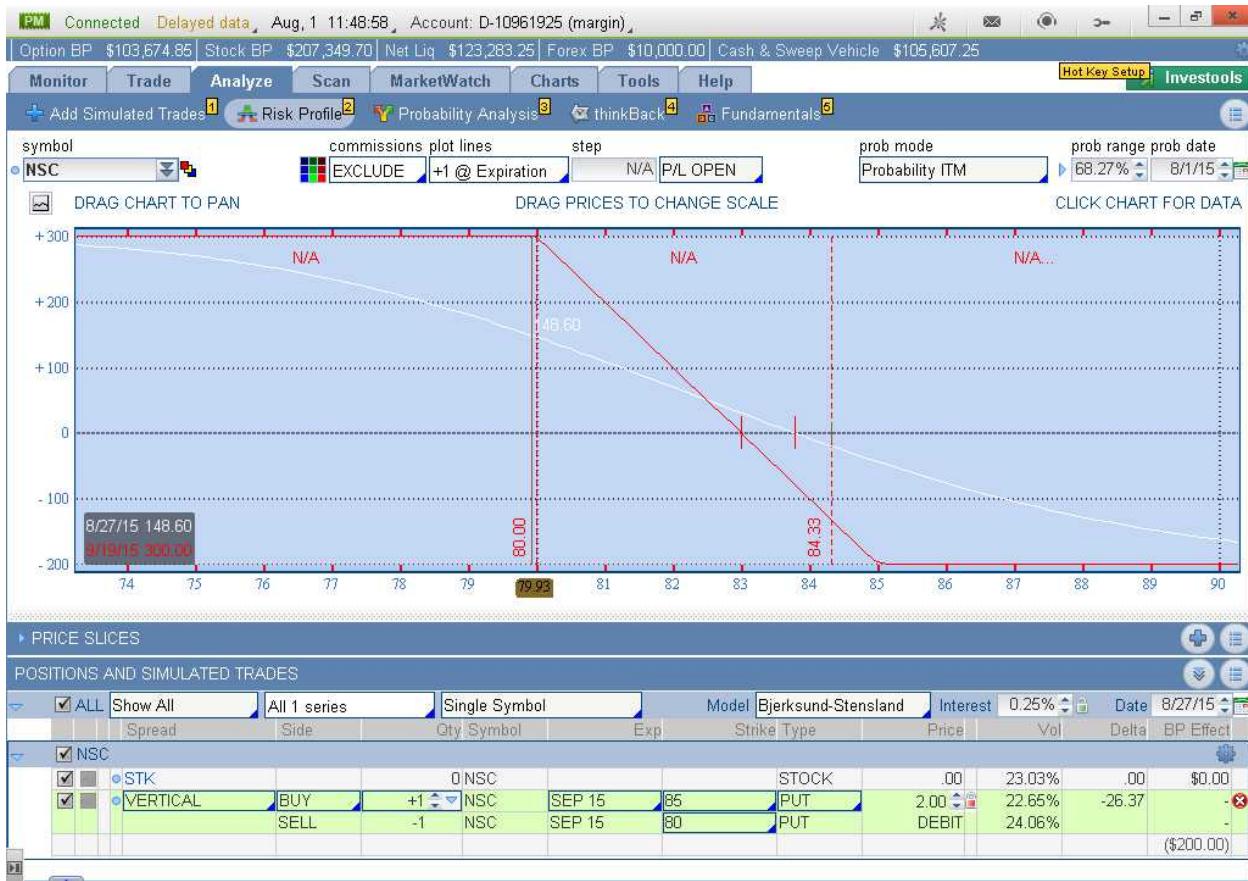
23.39% (+5.775)

PRICE SLICES

POSITIONS AND SIMULATED TRADES

ALL Show All	All 1 series	Single Symbol	Model	Bjerk sund-Stensland	Interest	0.25%	Date	8/1/15
Spread	Side	Qty Symbol	Exp	Strike Type	Price	Vol	Delta	BP Effect
<input checked="" type="checkbox"/> NSC	<input checked="" type="checkbox"/> STK	0 NSC		STOCK	.00	23.03%	.00	\$0.00
<input checked="" type="checkbox"/> NSC	<input checked="" type="checkbox"/> VERTICAL	BUY +1 NSC	SEP 15 85	PUT	2.00	22.65%	-26.37	-
		SELL -1 NSC	SEP 15 80	PUT		DEBIT	24.06%	
								(\$200.00)

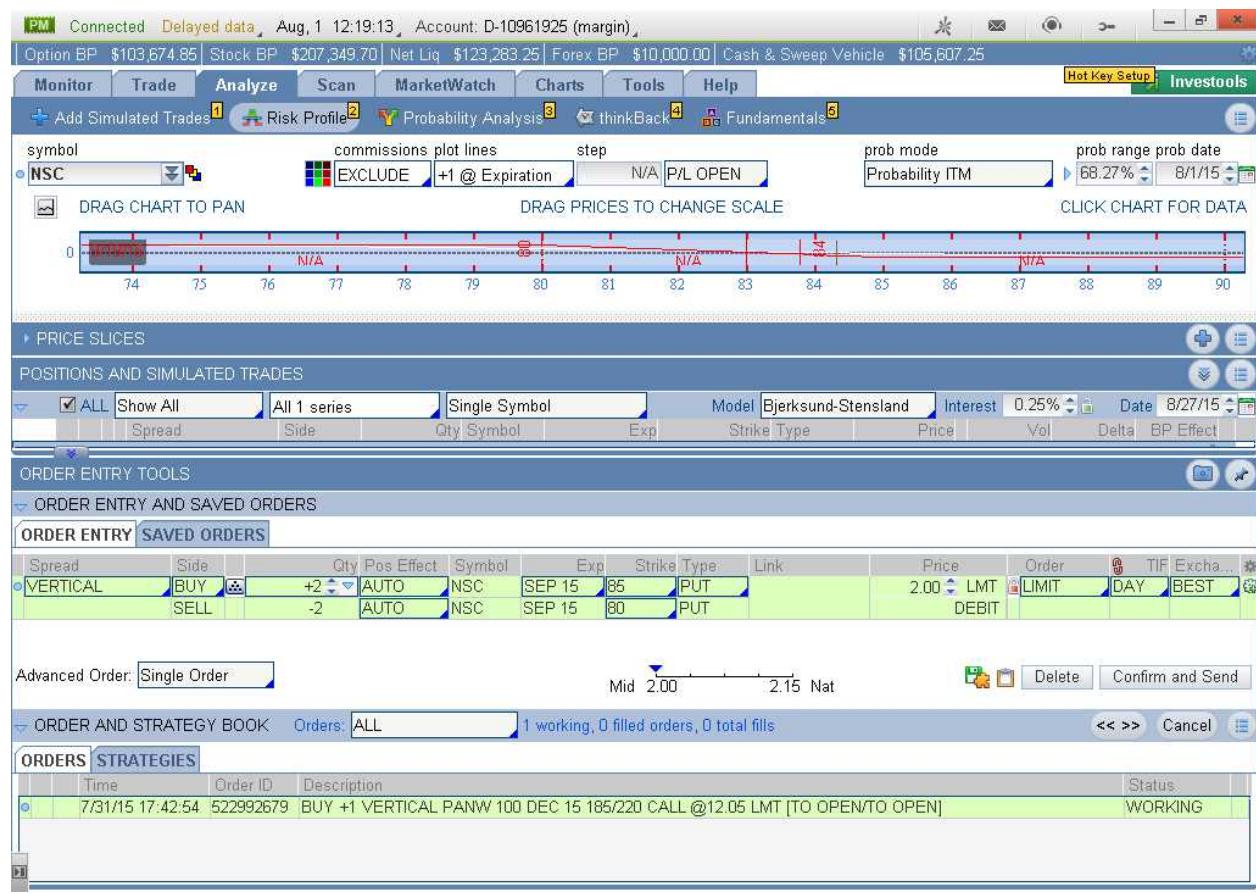
NSC September Bear Put spread @ 2.00 net debit, and the net Delta = 0.2637



Model gain = 148.00 (without commissions) if NSC drops to 80.00 (lower strike) on 8/27/15

ROI = 148.00 gain / 200.00 cost = 74%

1. Max gain = spread 5 – 2.00 net debit = 3.00, or 300.00 per contract; if NSC < 80.00 @ expiration
 2. Max loss = net debit of 2.00 per share, or 200.00 per contract; if NSC > 85.00 @ expiration
 3. Cost of trade = 200.00 per contract
 4. Breakeven @ expiration = high strike 85 – 2.00 net debit = 83.00
 5. Exit plans
 - a. Get out if NSC hits 80.00
 - b. Check the position ½ to expiration (reevaluate)
 - c. NO stop loss
 6. Position size = willing loss -500 / 200.00 max loss per contract = 2 contracts
-



Order entry for the Bear Put spread on NSC, 2 contracts @ 2.00 net debit

Connected Delayed data, Aug, 1 12:21:36, Account: D-10961925 (margin)

Option BP \$103,274.85 Stock BP \$206,549.70 Net Lig \$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 Rollo 4

Today's Trade Activity

Working Orders: 2 orders

	Time Placed	Spread	Side	Qty	Pos Effect	Symbol	Exp	Strike	Type	Price	TIF	Mark	Status	
①	8/1/15 12:21:25	VERTICAL	BUY	+2	TO OPEN	NSC	SEP 15	85	PUT	2.00	LMT	DAY	2.00	WORKING
			SELL	-2	TO OPEN	NSC	SEP 15	80	PUT		DEBIT			
②	7/31/15 17:42:54	VERTICAL	BUY	+1	TO OPEN	PANW	DEC 15	185	CALL	12.05	LMT	DAY	11.90	WORKING
			SELL	-1	TO OPEN	PANW	DEC 15	220	CALL		DEBIT			

Filled Orders Show average fill prices **>> <<**

Cancelled Orders **>> <<**

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
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	(\$400.00)
(S) PANW					+0.35%	\$0.00	\$0.00	(\$1,205.00)
(S) SPG	\$				+0.58%	(\$675.00)	\$0.00	\$0.00
SPY					-0.15%	\$262.00	\$0.00	(\$3,800.00)
TBT	+100		45.23	0	-1.57%	(\$373.00)	\$0.00	\$2,261.50
TLT					+0.74%	(\$47.50)	\$0.00	(\$1,000.00)
						(\$1,914.00)	\$0.00	(\$2,332.40)
						(\$1,914.00)	\$0.00	(\$2,332.40)

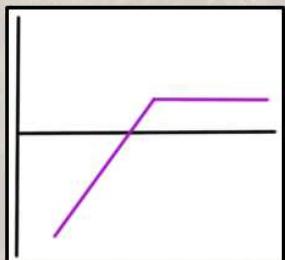
Cash & Sweep Vehicle: \$105,607.25
OVERALL P/L YTD: (\$1,225.90)

Order is now active

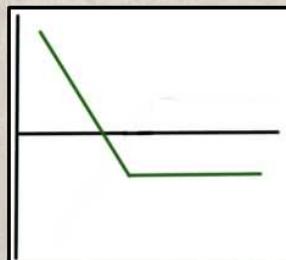
BULL PUT SPREAD

- ❖ Sell a higher strike put and buy a lower strike put in the same expiration month
- ❖ Aka sell a put vertical spread, short put vertical credit spread

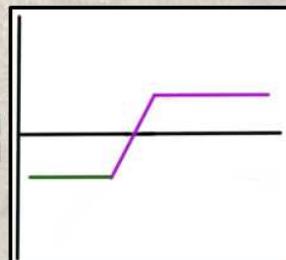
SHORT PUT



LONG PUT



BULL PUT SPREAD



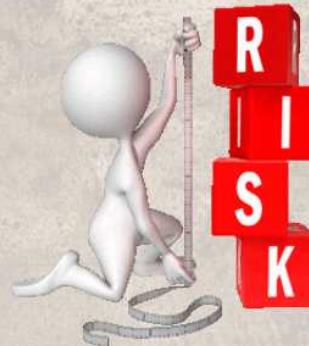
BULL PUT TRADE PROFILE

- ❖ Outlook -3 -2 -1 **(0)** + 3
 - Neutral to Bullish
- ✓ ❖ Net Credit/Max Reward
 - Premium received for short put minus premium paid for long put
- ✓ ❖ Risk
 - Limited to the distance between strike minus the net credit
- ✓ ❖ Probability of Profit (POP)
 - 1 – delta of short put
- ✓ ❖ Expiration Breakeven
 - Higher strike put minus net credit



BULL PUT GREEKS

- ❖ Positive Delta $(+)$ Δ
 - Profit as stock rises
- ❖ Positive Theta $(+)$ θ
 - Profit from time decay
- ❖ Negative Gamma
 - Rate of losses accelerate as stock falls
- ❖ Negative Vega
 - Profit as implied volatility falls



1) AUDIA NEWS
2) TRY TO PLACE WHEN IV IS HIGH



* WANT STOCK ABOVE HIGH STRIKE
AT EXP.

BULL PUT CASE STUDY

3/2/15

(OTM)

XYZ is trading for \$200

❖ Sell April 190 put for \$8, ~~CREBIT~~

delta,.25 $\Delta = 0.25$

- Obligation to buy @ \$190

FARTHER OTM

❖ Buy April 180 put for \$5 ~~COST~~

- Right to sell @ \$180

❖ Risk-Reward

• Net credit \$3 $W_2 \geq 190 \rightarrow$ EXP.

• Max Risk \$7 ($\$10 - \3) ~~SPREAD - CREDIT~~ $\rightarrow x42 \leq 180 \rightarrow$ EXP.

• Breakeven \$187 ($\$190 - \3)

• Probability of Profit 75% \rightarrow



HOW MUCH TIME?

❖ Long-term

- More conservative
- Takes longer to capture max gain
- Takes longer to incur max loss

❖ Short-term

- More aggressive
- Capture max gain quicker
- Incur max loss quicker

❖ Most traders sell short-term

put spreads (1 to 2 months)

2-60 DAYS OUT



WHICH STRIKE PRICE?

Out-of-the-money (OTM)

- ❖ Higher probability of profit (POP)
- ❖ Wider profit zone
- ❖ By using low Delta options, Theta becomes the primary driver for the trade

* *DELTA OF HIGH STRIKE PUT 0.16 TO 0.19*

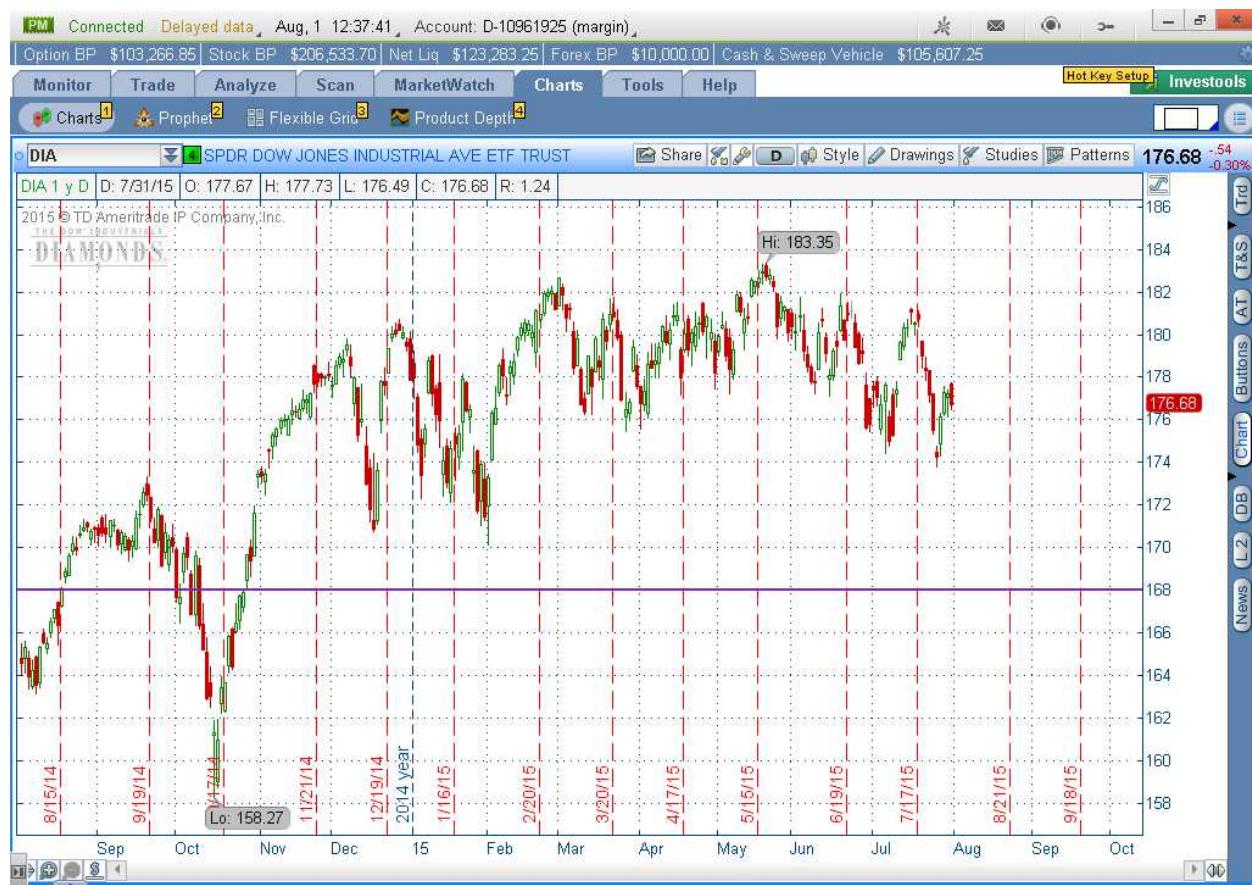


SUMMARY

- ❖ A bull put spread is known as selling a put vertical spread, or a put vertical credit spread
- ❖ It is created by selling a higher strike put and buying a lower strike put in the same expiration month
- ❖ Think of it as a limited risk short put



Bull Put spread example



DIA September Bull Put spread

Connected Delayed data Aug, 1 12:40:08 Account: D-10961925 (margin)

Option BP \$103,266.85 Stock BP \$206,533.70 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

Add Simulated Trades Risk Profile Probability Analysis thinkBack Fundamentals

DIA SPDR DOW JONES INDUSTRIAL AVE ETF TRUST ETB B: 176.10 176.68 -.54
A: 177.12 176.68 -.30%

UNDERLYING

Last X	Net Chng	Bid X	Ask X	Size	Volume	Open	High	Low
176.68 P	.54	176.10 Q	177.12 Q	5 x 0	4,483,781	177.67	177.73	176.49

OPTION CHAIN Filter: Off Spread: Single Layout: Delta, Intrinsic, Extrinsic

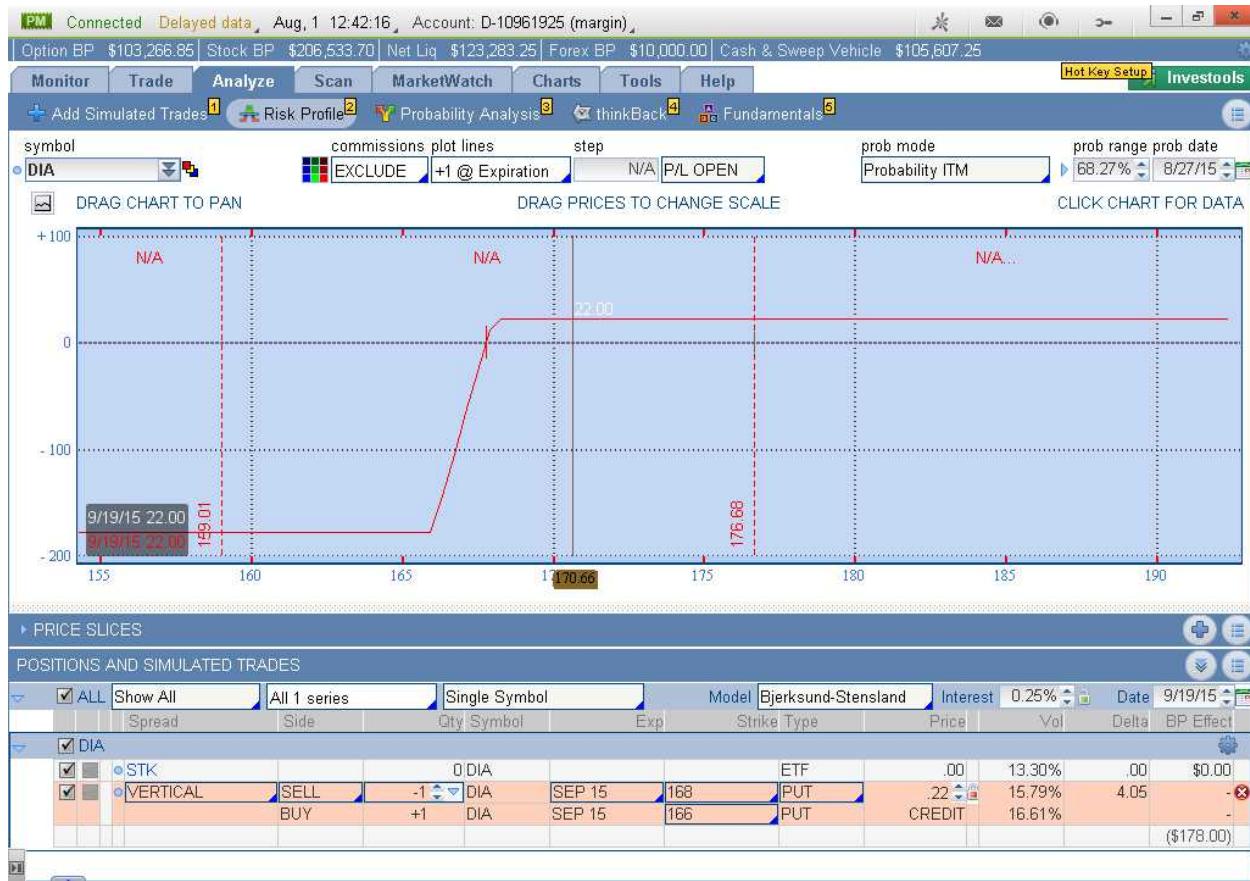
CALLS					PUTS						
Delta	Intrinsic	Extrinsic	Bid X	Ask X	Exp	Strike	Bid X	Ask X	Delta	Intrinsic	Extrinsic
SEP 15 (48) 100	.87	13.68	.645	12.60 X	SEP 15	163	.56 A	.68 C	-.11	0	.62
	.85	12.68	.745	11.65 A	SEP 15	164	.63 C	.76 A	-.12	0	.695
	.84	11.68	.845	10.65 C	SEP 15	165	.73 A	.86 A	-.14	0	.795
	.84	10.68	.77	9.75 C	SEP 15	166	.83 X	.96 X	-.15	0	.895
	.78	9.68	1.47	10.05 X	SEP 15	167	.94 C	1.03 Z	-.17	0	.985
	.79	8.68	1.045	9.40 X	SEP 15	168	1.07 X	1.21 N	-.20	0	1.14
	.76	7.68	1.27	8.65 N	SEP 15	169	1.21 C	1.36 M	-.22	0	1.285
	.74	6.68	1.395	7.80 N	SEP 15	170	1.38 A	1.54 N	-.25	0	1.46

PRICE SLICES

POSITIONS AND SIMULATED TRADES

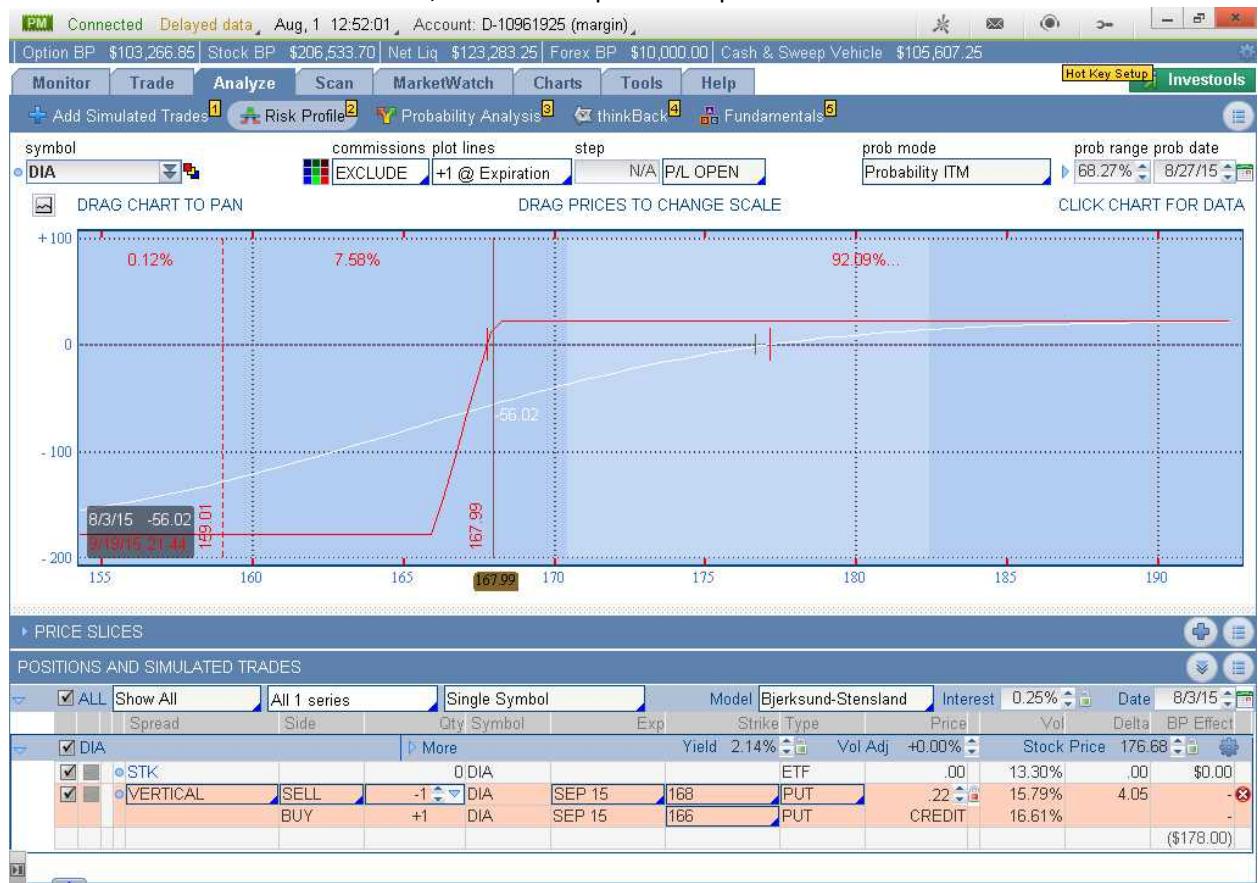
ALL	Show All	All 1 series	Single Symbol	Model	Bjerksund-Stensland	Interest	0.25%	Date	8/27/15	
Spread	Side	Qty	Symbol	Exp	Strike	Type	Price	Vol	Delta	BP Effect
<input checked="" type="checkbox"/> DIA	<input checked="" type="checkbox"/> STK		0 DIA			ETF	.00	13.29%	.00	\$0.00
<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/> VERTICAL	SELL	-1 DIA	SEP 15	168	PUT	22	15.79%	4.05	-
		BUY	+1 DIA	SEP 15	166	PUT	CREDIT	16.61%		(\$178.00)

September DIA 168/166 Bull Put spread @ 0.22 net credit



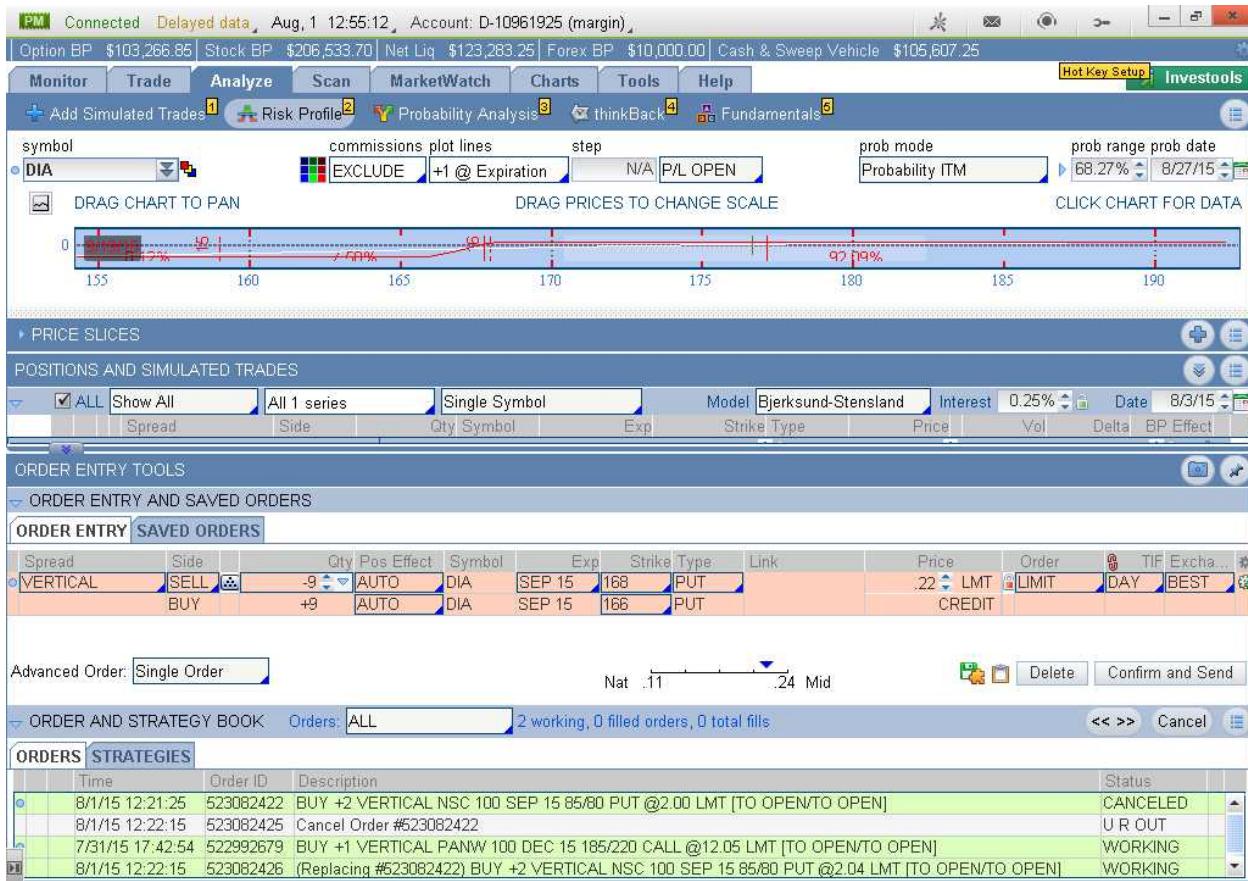
1. Max gain = 0.22 per share net credit, or 22.00 per contract; if DIA > 168 @ expiration. DIA is at 176.00.
2. Max loss = spread 2.00 – net credit of 0.22 = 1.78 per share, or 178.00 per contract; DIA < 166 @ expiration
3. Cost of trade, Buying Power effect = max loss of 178.00 per contract
4. ROI = 0.22 net credit / 1.78 cost of trade = 12%
5. Probability of max gain through expiration = 1.00 – Delta of high strike put 0.20 = 0.80
6. Exit plans
 - a. Best case is DIA > 168 @ expiration, nothing we have to do
 - b. Close the entire position if DIA touches 168.00
 - c. Set an alert slightly above 168

7. Model loss if we are forced to close, DIA hits 168 prior to expiration



Model loss = -56.00 per contract, if DIA touches 168 on 8/3/15

8. Position size = -500.00 willing loss / -56.00 model loss = 9 contracts



Order entry for our DIA Bull Put spread

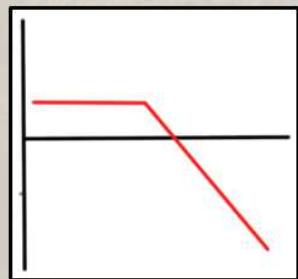
Confirm and send

BEAR CALL SPREAD

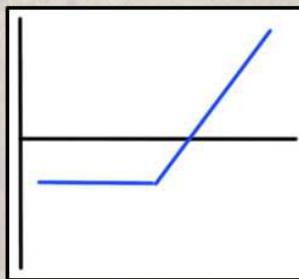
❖ Sell a lower strike call and buy a higher strike call in the same expiration month

❖ Aka sell a call vertical spread, short call vertical credit spread

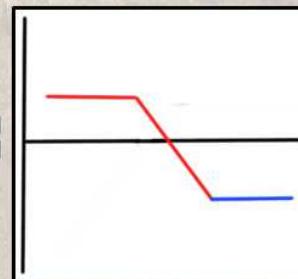
SHORT CALL



LONG CALL



BEAR CALL SPREAD



WANT STOCK BELOW LOW STRIKE AT EXPIRATION.

BEAR CALL TRADE PROFILE

❖ Outlook -3 -2 -1 0 1 2 3

- Neutral to Bearish

❖ Net Credit/Max Reward

- Premium received from short call minus premium paid for long call

❖ Risk SPREAD - NET CREDIT

- Limited to the distance between strike minus the net credit

❖ Probability of Profit (POP)

- 1 - delta of short call **OVER 0.80**

❖ Expiration Breakeven

- Lower strike call plus net credit



BEAR CALL CASE STUDY

3/2/15

XYZ is trading for \$150

- ❖ Sell April 155 call for \$5, CREDIT
delta .30 
 - Obligation to sell @ \$155
(FARTHER OTM)
- ❖ Buy April 160 call for \$3 COST
 - Right to buy @ \$160
- ❖ Risk-Reward
 - Net Credit \$2
 - Max Risk \$3 (\$5 - \$2)
 - Breakeven \$157 (\$155 + \$2)
 - Probability of Profit 70% → $1.00 - \text{APR 155 CALL } \Delta 0.30$

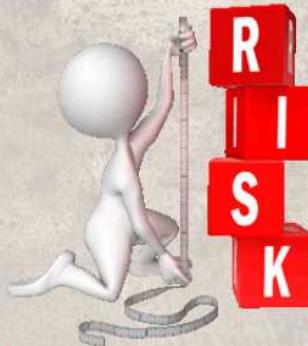


ROI = 66%



BEAR CALL GREEKS

- ❖ Negative Delta
 - Profit as stock falls
- ❖ Positive Theta
 - Profit from time decay
- ❖ Negative Gamma
 - Rate of losses accelerate as stock falls
- ❖ Negative Vega
 - Profit as implied volatility falls



1) DON'T WANT LARGE GAPS
2) TRY TO PLACE WHEN IV



HOW MUCH TIME?

❖ Long-term

- More conservative
- Takes longer to capture max gain
- Takes longer to incur max loss

❖ Short-term

- More aggressive
- Capture max gain quicker
- Incur max loss quicker

❖ Most traders sell short-term call spreads (1 to 2 months)

* 2-60 DAYS OUT



WHICH STRIKE PRICE?

Out-of-the-money (OTM)

- ❖ Higher probability of profit (POP)
- ❖ Wider profit zone
- ❖ By using low Delta options, Theta becomes the primary driver for the trade

* DELTA OF LOW STRIKE CALL 0.16 TO 0.19 (SAME AS BULL PUT)

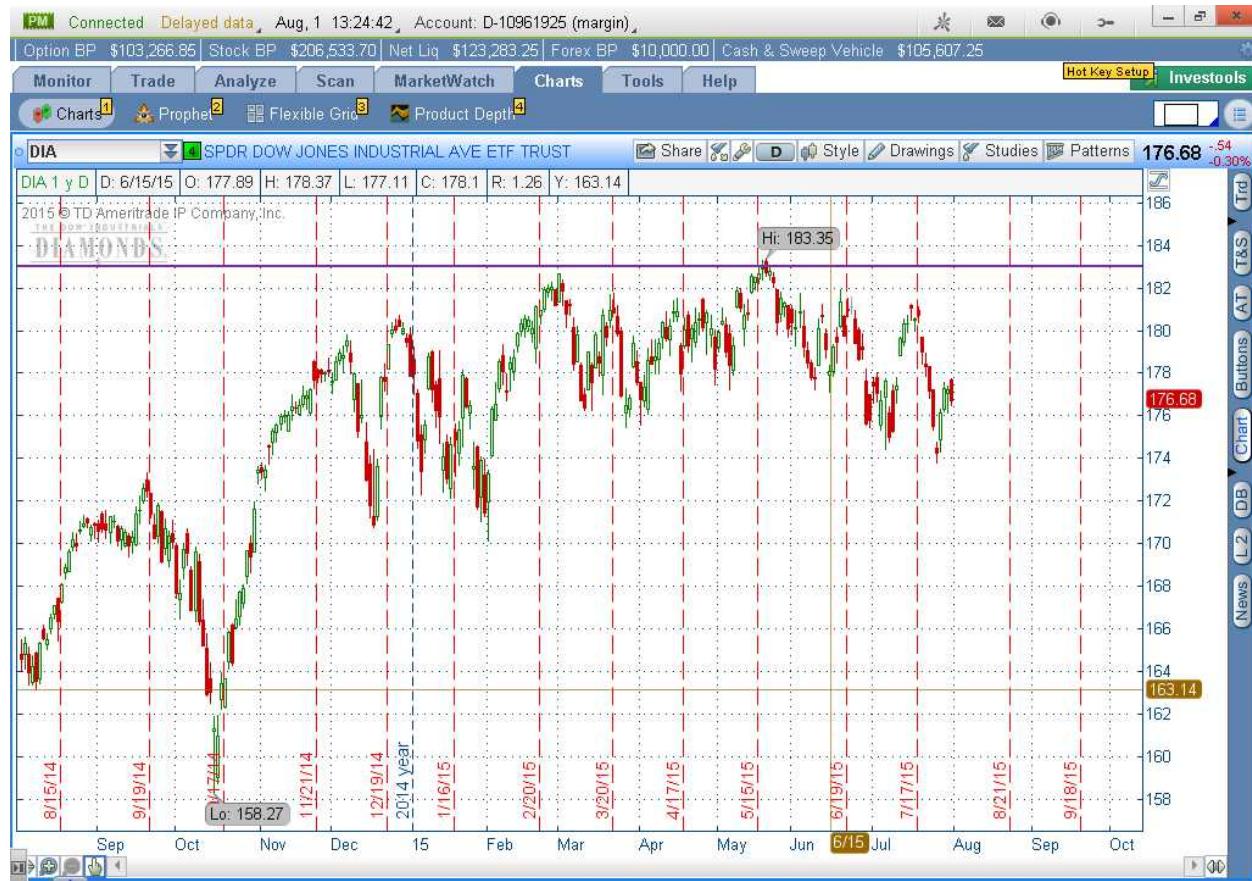


SUMMARY

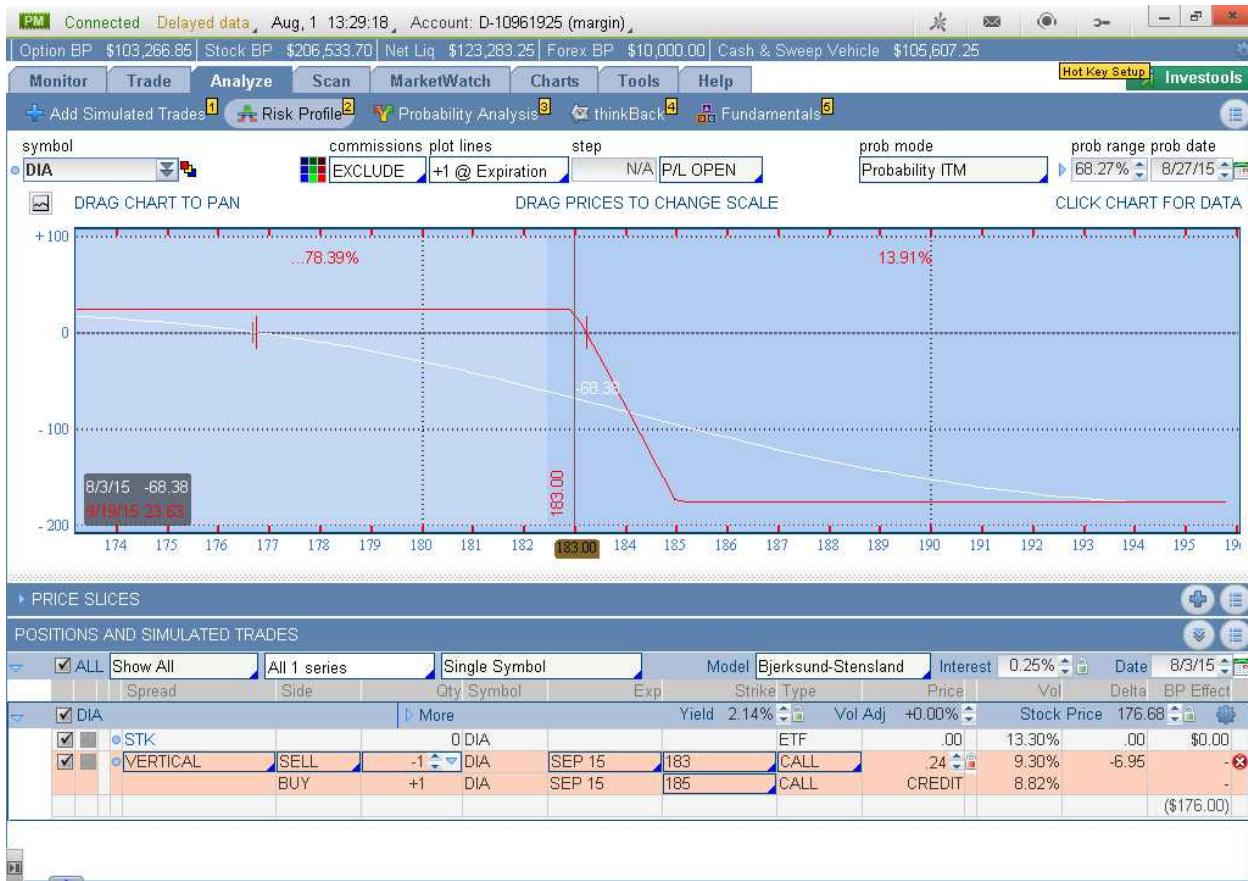
- ❖ A bear call spread is known as selling a call vertical spread, or a call vertical credit spread
- ❖ It is created by selling a lower strike call and buying a higher strike call in the same expiration month
- ❖ Think of it as a limited risk short call

NAKED CALL + INSURANCE





DIA Bear Call spread for September expiration – we are betting that DIA will settle below 183 on September expiration



Model loss = -68.00 per contract if DIA touches 183 on 8/3/2015

Position size = willing loss -500 / -68.00 model loss per contract = 7 contracts in trade

1. Max gain = net credit 0.24 per share, or 24.00 per contract; if DIA < 183 (lower strike) @ expiration
2. Probability of max gain = $1.00 - 0.14 \text{ Delta}$ of the lower strike call = 0.86
3. Max loss = spread 2.00 – net credit 0.24 = 1.76, or 176.00 per contract; if DIA > 185 (higher strike) @ expiration
4. Cost of trade = max loss of 176.00 per contract
5. ROI = 24.00 max gain / 176.00 max loss per contract = 13.6%
6. Exit plans
 - a. Best case, all calls expire worthless, nothing we have to do
 - b. Close the entire position if DIA touches the lower strike of 183

Iron Condor example using DIA September expiration:

Connected Delayed data Aug, 1 15:11:51 Account: D-10961925 (margin)

Option BP \$103,266.85 Stock BP \$206,533.70 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

Add Simulated Trades Risk Profile Probability Analysis thinkBack Fundamentals

DIA SPDR DOW JONES INDUSTRIAL AVE ETF TRUST ETB B: 176.10 176.68 -.54
A: 177.12 177.68 -.30%

UNDERLYING

Last X	Net Chng	Bid X	Ask X	Size	Volume	Open	High	Low
176.68 P	.54	176.10 Q	177.12 Q	5 x 0	4,483,781	177.67	177.73	176.49

OPTION CHAIN Filter: Off Spread: Single Layout: Delta, Intrinsic, Extrinsic

CALLS					PUTS						
Delta	Intrinsic	Extrinsic	Bid X	Ask X	Exp	Strike	Bid X	Ask X	Delta	Intrinsic	Extrinsic
SEP 15 (48) 100 13.99% (\$7,215)											
.36	0	1.735	1.65 N	1.82 A	SEP 15	179	4.30 A	4.60 W	-.64	2.32	2.13
.30	0	1.285	1.21 N	1.36 N	SEP 15	180	4.60 Z	5.20 Z	-.71	3.32	1.58
.24	0	.925	.86 N	.99 N	SEP 15	181	5.25 N	5.85 Z	-.77	4.32	1.23
.19	0	.645	.59 Q	.70 N	SEP 15	182	5.50 N	6.80 C	-.85	5.32	.83
.14	0	.415	.36 A	.47 C	SEP 15	183	6.60 C	7.60 C	-.88	6.32	.78
.10	0	.265	.22 Q	.31 Q	SEP 15	184	6.30 M	8.65 C	-1.00	7.32	.155
.07	0	.17	.13 C	.21 N	SEP 15	185	7.70 A	9.35 C	-1.00	8.32	.205
.05	0	.115	.09 N	.14 W	SEP 15	186	7.85 X	11.65 Q	-1.00	9.32	.43
.03	0	.07	.05 W	.09 W	SEP 15	187	8.80 M	12.60 X	-1.00	10.32	.38
					SEP 15	188	8.75 M	12.55 A	-1.00	11.60	

PRICE SLICES

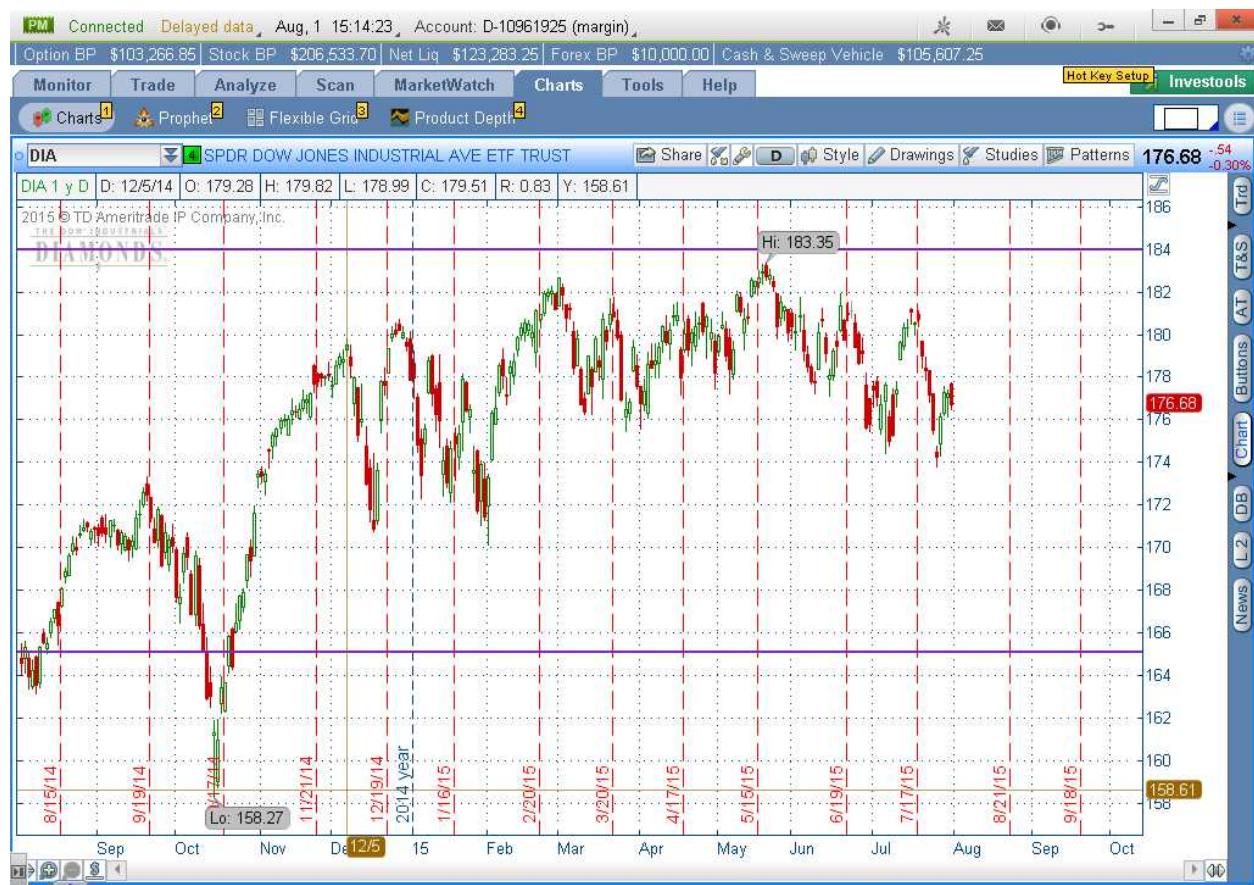
POSITIONS AND SIMULATED TRADES

ALL Hide Positions	All 1 series	Single Symbol	Model	Bjerkens-Stensland	Interest	0.25%	Date	8/3/15	Vol	Delta	BP Effect
Spread	Side	Qty Symbol	Exp	Strike Type	Price						
<input checked="" type="checkbox"/> DIA											
<input checked="" type="checkbox"/> STK		0 DIA		ETF	.00	13.32%	.00	\$0.00			
<input checked="" type="checkbox"/> IRON CONDOR	SELL	-1	DIA SEP 15	184 CALL	28	9.00%	-1.98				
	BUY	+1	DIA SEP 15	186 CALL		8.82%					
	SELL	-1	DIA SEP 15	165 PUT		17.03%					
	BUY	+1	DIA SEP 15	163 PUT		17.78%					
											(\$172.00)

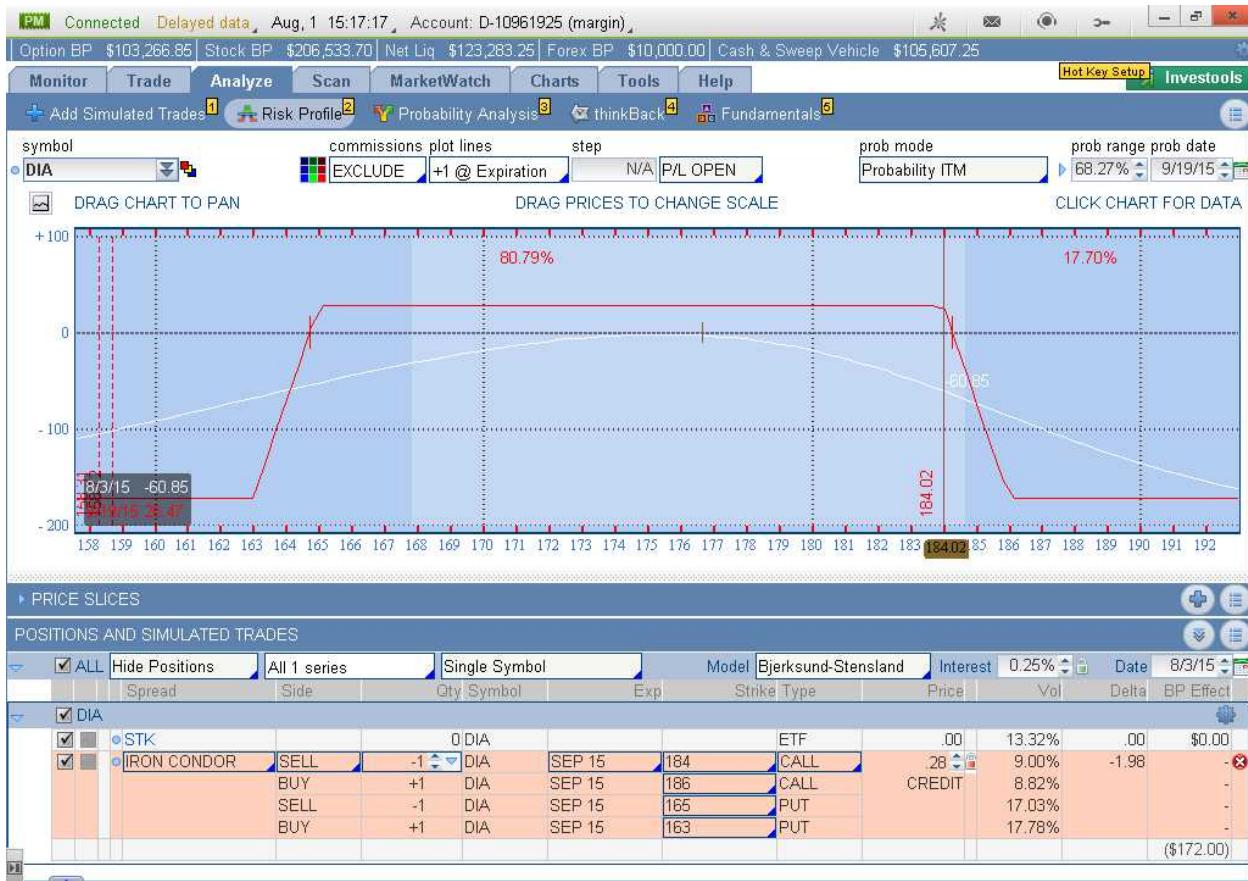
DIA September Iron Condor @ 0.28 (we bumped this down 0.04)

We are betting that DIA will stay between 165 and 184 through September expiration

Let's look at the chart



Will DIA stay between the purple lines (short strikes) through expiration?



Model loss = -\$61.00 per contract if DIA touches our short call strike of 184 on 8/3/2015

Position size = willing loss -500 / -61.00 per contract = 8 contracts

1. Max gain = 0.28 net credit, or 28.00 per contracts; if DIA is between 165 and 184 @ expiration
2. Max loss = spread of one side 2.00 – 0.28 net credit = 1.72 per share, or 172 per contract; if DIA is outside our long strikes of 163 and 186 @ expiration
3. Cost of trade = max loss of 172.00 per contract
4. ROI = 0.28 max gain / 1.72 max loss = 16.3% over 15% ☺
5. Exit plans
 - a. Best case, all options expire worthless and we keep the credit (no commissions)
 - b. Close out the side that is in danger of going ITM – take the loss
 - c. Leave the safe side alone – it has a high probability of making max gain
 - d. We might try to place another credit spread to replace the side closed for the same expiration (roll the loser)

NEWS EVENTS

- ❖ Options are sensitive to news
 - Stock price can move dramatically
 - Premium can inflate/deflate with implied volatility
- ❖ Two categories of news events
 - Unscheduled
 - Mergers
 - Earnings pre-announcements
 - Personnel changes
 - Scheduled
 - Earnings
 - Economic reports





EARNINGS

- ❖ There are two main methods to play earnings
 - We want stock to move more than expected
 - We want stock to move less than expected
- ❖ Another way to think about it
 - We think that options are overpriced **SELL OPTIONS**
 - We think that options are underpriced **BUY OPTIONS**





HISTORICAL VOLATILITY



❖ Historical Volatility (HV)

- The level of volatility exhibited by a stock over a certain time frame
- Also referred to as realized or statistical volatility



IMPLIED VOLATILITY



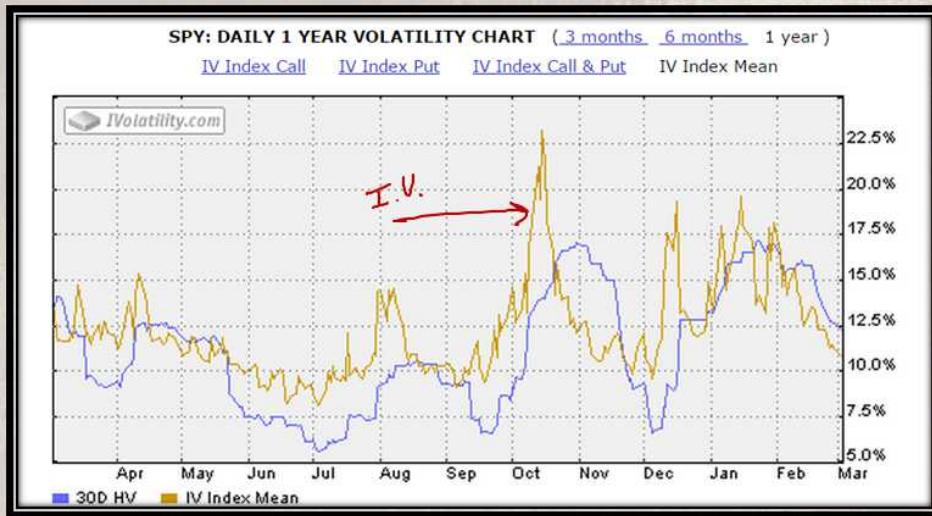
❖ Implied Volatility (IV)

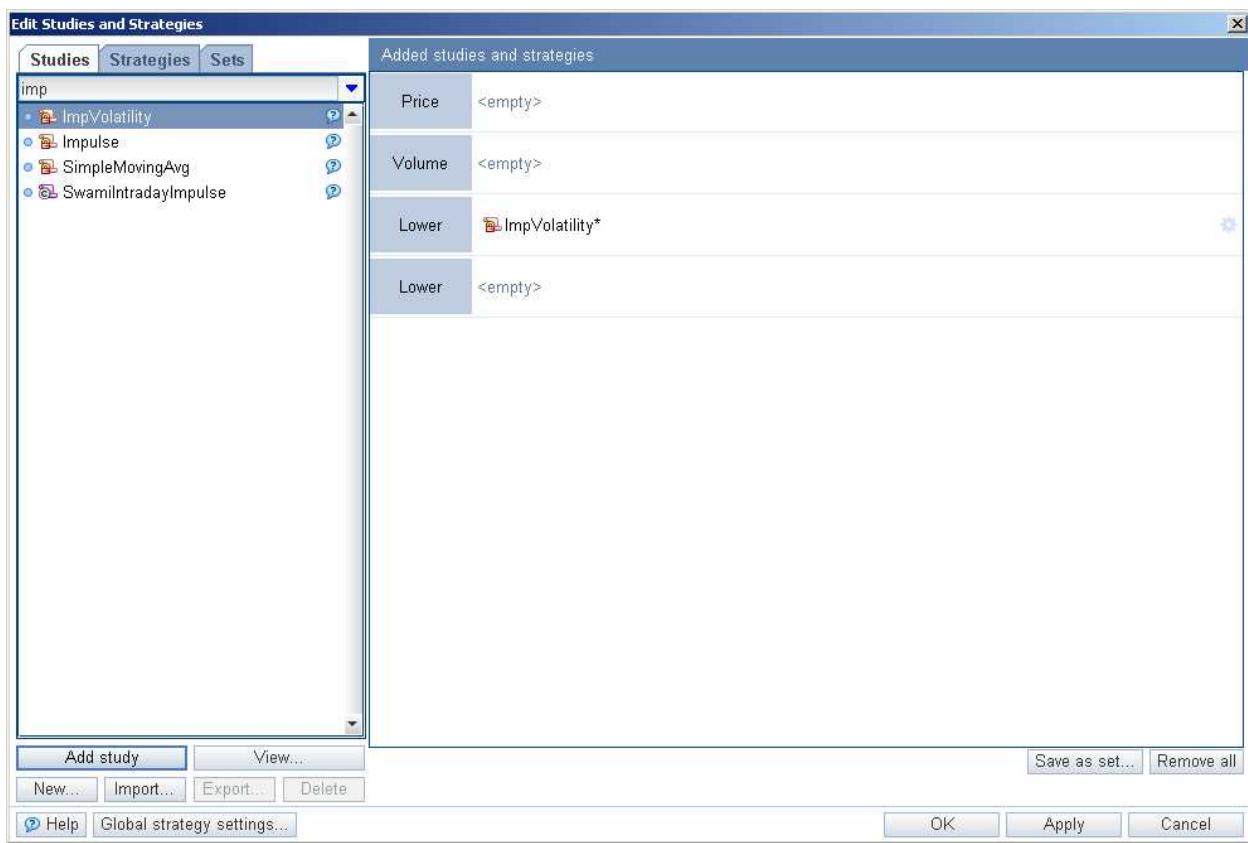
- Expectation of future volatility
- Derived from option premiums

❖ Vega measures how much an option will change in value given a 1% change in *implied* volatility

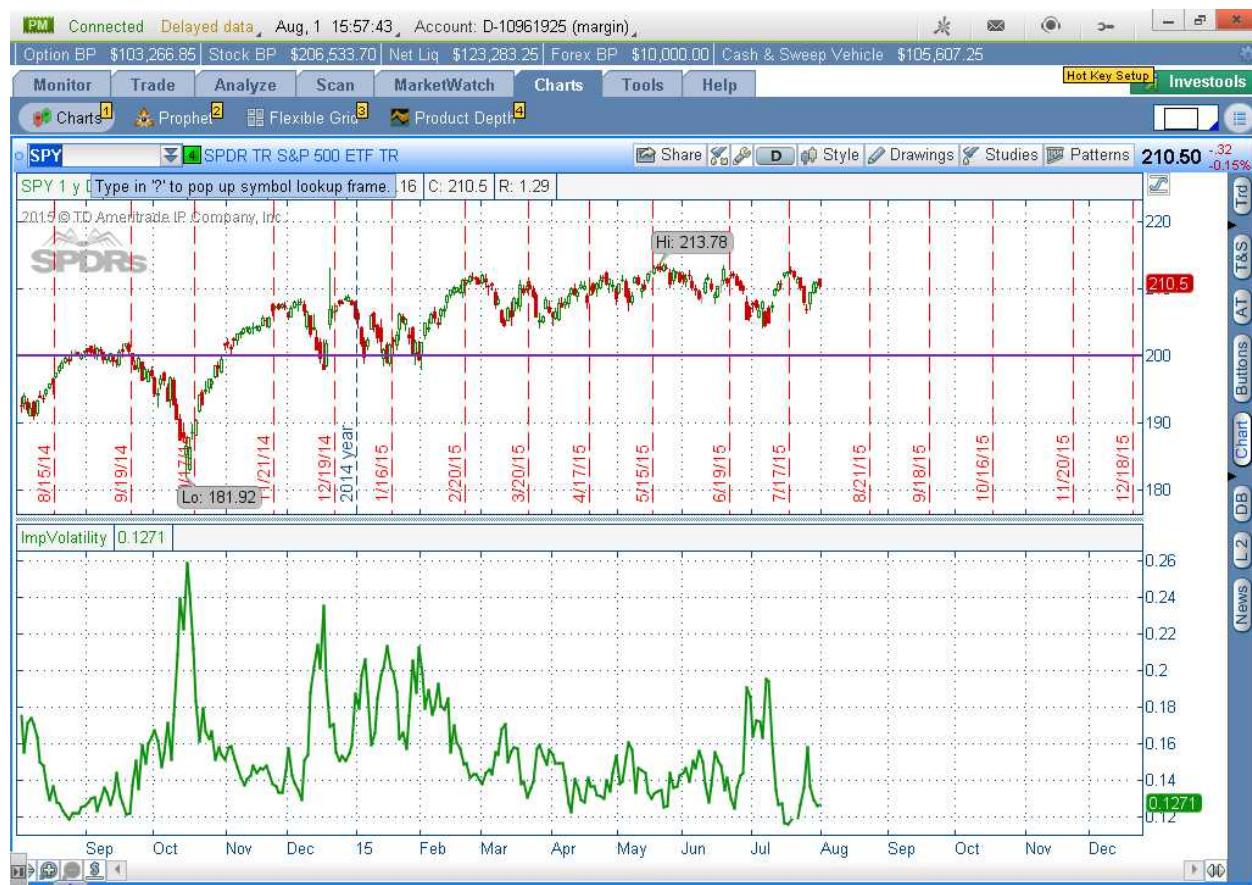


~~HV AND IV~~ IV *FOCUS*





Adding IMPVOLATILITY



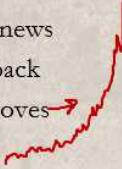
When IV is relatively low on SPY (0.11 to 0.14) – options are considered inexpensive

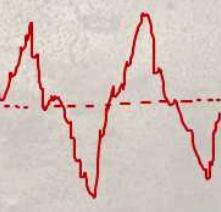
Buying makes sense

When IV is relatively high on SPY (0.20 to 0.24) – options are considered expensive

Selling make sense

HV AND IV

- ❖ Implied volatility (IV) fluctuates
 - Impending news
 - Large pull-back
 - Parabolic moves 
- ❖ High IV
 - Options expensive
 - Better to sell premium
- ❖ Low IV
 - Options inexpensive
 - Better to buy premium

- ❖ Most people look at an IV index 
- ❖ Every option has its own unique IV
- ❖ IV is mean reverting
- ❖ IV is auto-correlating



HV AND IV

IV INDEX

Implied Vola (%)	Call Delta	Option Value	Change (%)	Call Bid/Ask Mean	Expiry	Strike	Days	Put Bid/Ask Mean	Change (%)	Option Value	Put Delta	Implied Vola (%)
1 26.72%	55.90%	10.3000	1.95 (23.35)	10.300	Mar 13, 2015	477.5	11	7.600	-3.30 (-30.28)	7.6000	-44.14%	26.92% 1
2 26.55%	51.41%	8.9500	1.82 (25.61)	8.950	Mar 13, 2015	480.0	11	8.775	-3.55 (-28.80)	8.7750	-48.59%	26.84% 2
3 26.50%	46.90%	7.7500	1.10 (16.54)	7.750	Mar 13, 2015	482.5	11	10.625	-2.52 (-19.20)	10.6250	-52.77%	28.46% 3
4 26.26%	42.37%	6.6000	1.20 (22.22)	6.600	Mar 13, 2015	485.0	11	11.475	-4.00 (-25.85)	11.4750	-57.49%	26.70% 4
5 27.20%	55.04%	12.9750	2.00 (18.22)	12.975	Mar 20, 2015	477.5	18	10.250	-3.27 (-24.21)	10.2500	-44.97%	27.35% 5
6 27.14%	51.60%	11.6750	1.80 (18.23)	11.675	Mar 20, 2015	480.0	18	11.475	-3.42 (-22.99)	11.4750	-48.40%	27.34% 6
7 26.99%	48.14%	10.4250	1.57 (17.80)	10.425	Mar 20, 2015	482.5	18	12.725	-3.60 (-22.05)	12.7250	-51.85%	27.18% 7
8 26.88%	44.68%	9.2750	1.42 (18.15)	9.275	Mar 20, 2015	485.0	18	14.125	-3.67 (-20.65)	14.1250	-55.25%	27.18% 8

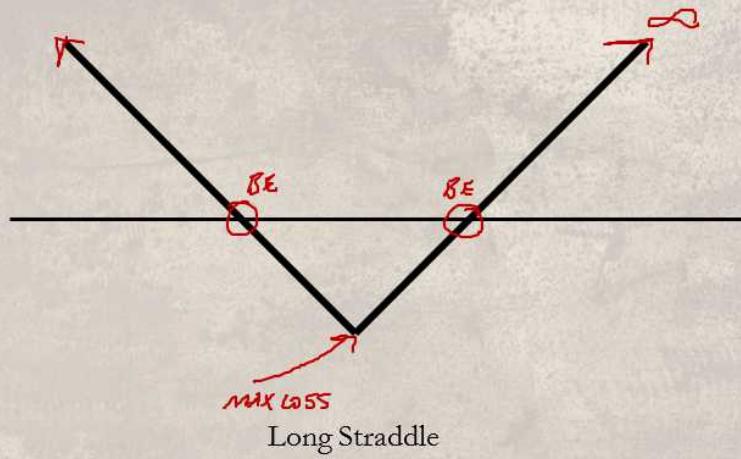


<http://stockcharts.com/freecharts/yieldcurve.php>



http://www.newyorkfed.org/research/capital_markets/yfaq.html

LONG STRADDLE/STRANGLE



LONG STRADDLE/STRANGLE



Long Strangle

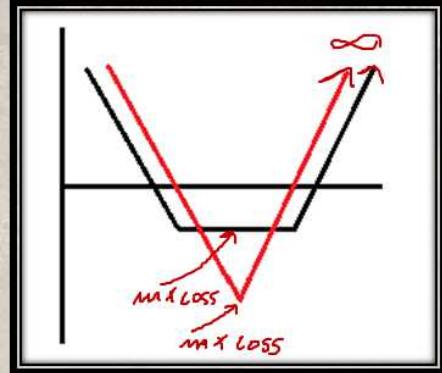


LONG STRADDLE/LONG STRANGLE PROFILES

- ❖ Outlook ~~-3 -2 -1 0 1 2 3~~

 - Bi-directional

- ❖ Max Reward
 - Unlimited
- ❖ Risk
 - Net debit/cost of trade
- ❖ Probability of Profit (POP)
 - Use a risk graph
- ❖ Break-evens (2)
 - HIGH** • Call strike + total debit
 - LOW** • Put strike - total debit

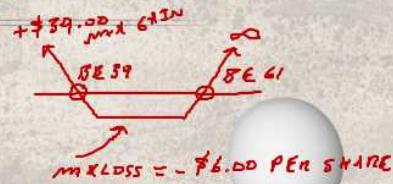


LONG STRANGLE CASE STUDY

1/15/2015

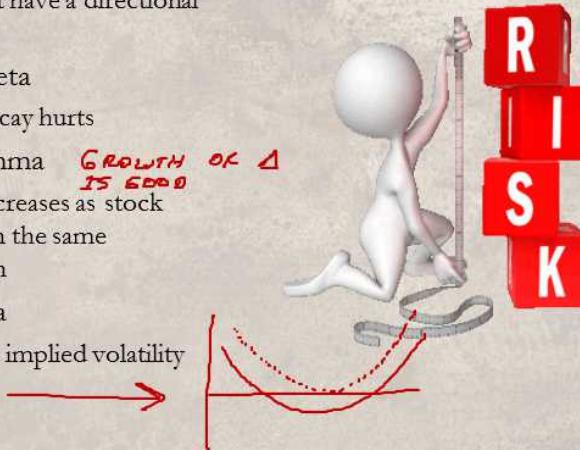
XYZ is trading for \$50

- ❖ Buy April 55 call for \$3, Delta 0.25
 - Right to buy @ \$55
- ❖ Buy April 45 put for \$3, Delta 0.25
 - Right to sell @ \$45
- ❖ Risk-Reward
 - Net debit \$6
 - Max Risk \$6
 - Two break-evens
 - Probability of profit less than 50%

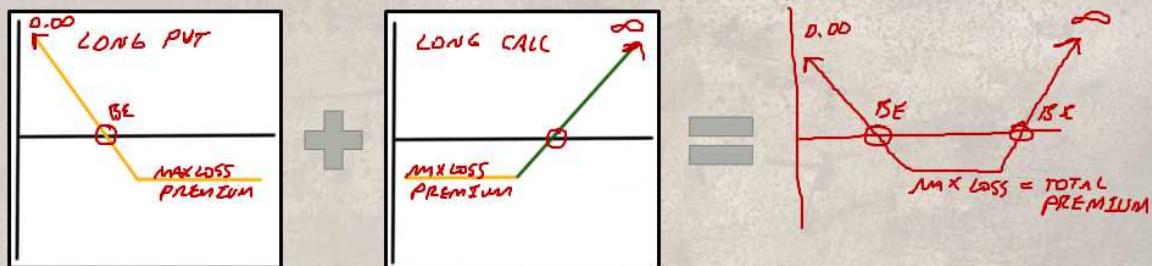


LONG STRADDLE/STRANGLE GREEKS

- ✓ ♦ Neutral Delta
 - We don't have a directional opinion
- ✓ ♦ Negative Theta
 - Time decay hurts
- ✓ ♦ Positive Gamma *GROWTH OR A IS 6000*
 - Delta increases as stock moves in the same direction
- ✓ ♦ Positive Vega
 - Profit as implied volatility rises

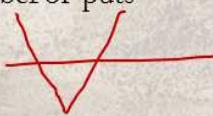


LONG STRADDLE/STRANGLE

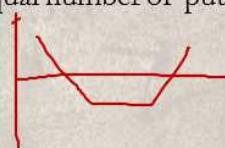


LONG STRADDLE/STRANGLE

- ❖ STRADDLE = BTO calls + BTO an equal number of puts
with the same expiration month and same strikes



- ❖ STRANGLE = BTO calls + BTO an equal number of puts
with same expiration and different strikes



#1 FINDING CANDIDATES

- ❖ Enter 3-8 weeks prior to the known event (*Earnings*)
 - ① Give the stock time to move
 - ② Lower option prices (lower IV) **CHECK SPY I.V.**
- ❖ Look at stocks that are trading over \$30.00 per share
- ❖ Have history of moving dramatically prior to earnings
- ❖ Specifically, look for stocks that have a history of moving at least 15% in a 1.5 month window
- ❖ Verify past movement



#1 FINDING CANDIDATES

Filters: 3

	Descriptive(2)	Fundamental	Technical(1)	All(3)					
Exchange	Any	Index	Any	Sector	Any	Industry	Any	Country	Any
Market Cap.	Any	P/E	Any	Forward P/E	Any	PEG	Any	P/S	Any
P/B	Any	Price/Cash	Any	Price/Free Cash Flow	Any	EPS growth this year	Any	EPS growth next year	Any
EPS growth past 5 years	Any	EPS growth next 5 years	Any	Sales growth past 5 years	Any	EPS growth qtr over qtr	Any	Sales growth qtr over qtr	Any
Dividend Yield	Any	Return on Assets	Any	Return on Equity	Any	Return on Investment	Any	Current Ratio	Any
Quick Ratio	Any	LT Debt/Equity	Any	Debt/Equity	Any	Gross Margin	Any	Operating Margin	Any
Net Profit Margin	Any	Payout Ratio	Any	Insider Ownership	Any	Insider Transactions	Any	Institutional Ownership	Any
Institutional Transactions	Any	Float Short	Any	Analyst Recom.	Any	Option/Short	Any	Earnings Date	Any
Performance	Any	Performance 2	Any	Volatility	Any	RSI (14)	Any	Gap	Any
20-Day Simple Moving Average	Any	50-Day Simple Moving Average	Any	200-Day Simple Moving Average	Any	Change	Any	Change from Open	Any
20-Day High/Low	Any	50-Day High/Low	Any	52-Week High/Low	Any	Pattern	Any	Candlestick	Any
Beta	Any	Average True Range	Any	Average Volume	Over 500K	Relative Volume	Any	Current Volume	Any
Price	Over \$30								

Reset (3)

- ❖ www.finviz.com
- ❖ Enter the criteria



http://finviz.com/screener.ashx?v=111&f=sh_avgvol_o500,sh_opt_option,sh_price_o30,ta_volatility_w_o6&ft=4&o=industry

Stock Screener - Overview finviz.com/screeners.ashx?v=111&f=sh_avgvol_o500,sh_opt_option,sh_price_o30,ta_volatility_wo6&ft=4&o=industry

Home News Screeners Maps Groups Portfolio Insider Futures Backtests Elite Sat AUG 01 2015 5:07 PM EST Help Login Register

My Presets Order: Industry ASC Signal: None (all stock) Tickers: Filters

Filters: 4

		Descriptive(3)		Fundamental		Technical(1)		All(4)	
Exchange	Any ▾	Index	Any ▾	Sector	Any ▾	Industry	Any ▾	Country	Any ▾
Market Cap.	Any ▾	P/E	Any ▾	Forward P/E	Any ▾	PEG	Any ▾	P/S	Any ▾
P/B	Any ▾	Price/Cash	Any ▾	Price/Free Cash Flow	Any ▾	EPS growth this year	Any ▾	EPS growth next year	Any ▾
EPS growth past 5 years	Any ▾	EPS growth next 5 years	Any ▾	Sales growth past 5 years	Any ▾	EPS growth qtr over qtr	Any ▾	Sales growth qtr over qtr	Any ▾
Dividend Yield	Any ▾	Return on Assets	Any ▾	Return on Equity	Any ▾	Return on Investment	Any ▾	Current Ratio	Any ▾
Quick Ratio	Any ▾	LT Debt/Equity	Any ▾	Debt/Equity	Any ▾	Gross Margin	Any ▾	Operating Margin	Any ▾
Net Profit Margin	Any ▾	Payout Ratio	Any ▾	Insider Ownership	Any ▾	Insider Transactions	Any ▾	Institutional Ownership	Any ▾
Institutional Transactions	Any ▾	Float Short	Any ▾	Analyst Recom.	Any ▾	Option/Short	Optional ▾	Earnings Date	Any ▾
Performance	Any ▾	Performance 2	Any ▾	Volatility	Week - Over ▾	RSI (14)	Any ▾	Gap	Any ▾
20-Day Simple Moving Average	Any ▾	50-Day Simple Moving Average	Any ▾	200-Day Simple Moving Average	Any ▾	Change	Any ▾	Change from Open	Any ▾
20-Day High/Low	Any ▾	50-Day High/Low	Any ▾	52-Week High/Low	Any ▾	Pattern	Any ▾	Candlestick	Any ▾
Beta	Any ▾	Average True Range	Any ▾	Average Volume	Over 500K ▾	Relative Volume	Any ▾	Current Volume	Any ▾
Price	Over \$30 ▾	Target Price	Any ▾	IPO Date	Any ▾				

[Reset \(4\)](#)

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Total: 24 #1 [save as portfolio](#) [Page 1/2 ▾](#)

No.	Ticker	Company	Sector	Industry	Country	Market Cap	P/E	Price	Change	Volume
1	DATA	Tableau Software, Inc.	Technology	Application Software	USA	7.45B	-	104.74	-1.97%	1,295,289
2	CEMP	Cempra, Inc.	Healthcare	Biotechnology	USA	1.82B	-	41.86	1.31%	859,088
3	ESPR	Esperion Therapeutics, Inc.	Healthcare	Biotechnology	USA	1.39B	-	62.00	-3.50%	1,248,449
4	INSY	INSYS Therapeutics, Inc.	Healthcare	Biotechnology	USA	3.21B	86.38	44.92	2.04%	505,883
5	MCRB	Seres Therapeutics, Inc.	Healthcare	Biotechnology	USA	1.47B	-	37.85	-0.47%	161,626
6	MDVN	Medivation, Inc.	Healthcare	Biotechnology	USA	8.29B	30.62	105.33	8.62%	3,170,916

Resolving host... [Page 1/2 ▾](#)

#1 FINDING CANDIDATES

Total: 27 #1	Save as portfolio										= Page 1/2 ▾
No.	▲ Ticker	Company	Sector	Industry	Country	Market Cap	P/E	Price	Change	Volume	
1	AGIO	Agius Pharmaceuticals, Inc.	Healthcare	Biotechnology	USA	3.93B	- 105.66	-2.07%	361,393		
2	CRL	CARBO Ceramics Inc.	Basic Materials	Oil & Gas Equipment & Services	USA	847.16M	15.10	36.39	0.55%	389,061	
3	CYBR	CyberArk Software, Ltd.	Technology	Business Software & Services	Israel	1.77B	725.25	58.02	0.48%	1,365,164	
4	DO	Diamond Offshore Drilling, Inc.	Basic Materials	Oil & Gas Drilling & Exploration	USA	4.16B	10.79	30.33	-1.08%	1,631,462	
5	EMES	Emerge Energy Services LP	Basic Materials	Oil & Gas Equipment & Services	USA	1.28B	16.44	53.77	4.71%	401,495	
6	GPRO	GoPro, Inc.	Consumer Goods	Photographic Equipment & Supplies	USA	5.20B	54.46	40.30	0.93%	4,312,769	
7	GTLS	Chart Industries Inc.	Industrial Goods	Metal Fabrication	USA	1.14B	14.05	37.23	4.52%	1,000,386	
8	HLF	Herbalife Ltd.	Consumer Goods	Personal Products	Cayman Islands	2.88B	9.35	31.24	2.63%	1,691,279	
9	ICPT	Intercept Pharmaceuticals, Inc.	Healthcare	Drug Manufacturers - Major	USA	5.58B	-	247.36	9.67%	831,654	
10	JUNO	Juno Therapeutics Inc.	Healthcare	Biotechnology	USA	4.35B	-	48.06	3.24%	565,017	
11	KITE	Kite Pharma, Inc.	Healthcare	Biotechnology	USA	2.60B	-	61.47	-4.13%	1,015,295	
12	LL	Lumber Liquidators Holdings, Inc.	Services	Home Improvement Stores	USA	1.10B	16.92	40.78	5.02%	17,095,024	
13	NBIX	Neurocrine Biosciences Inc.	Healthcare	Drugs - Generic	USA	3.45B	-	40.86	1.05%	1,136,733	
14	NUS	Nu Skin Enterprises Inc.	Consumer Goods	Personal Products	USA	3.09B	16.74	52.07	-0.72%	812,068	
15	PCYC	Pharmacyclics Inc.	Healthcare	Biotechnology	USA	16.48B	200.71	216.76	-2.04%	1,494,794	
16	PDCE	PDC Energy, Inc.	Basic Materials	Independent Oil & Gas	USA	1.94B	18.44	54.04	1.43%	1,290,070	
17	RCPT	Receptos, Inc.	Healthcare	Biotechnology	USA	3.94B	-	124.99	-1.65%	399,257	
18	RDUS	Radius Health, Inc.	Healthcare	Biotechnology	USA	1.62B	-	43.87	-0.70%	333,237	
19	SCO	ProShares UltraShort Bloomberg Crude Oil	Financial	Exchange Traded Fund	USA	-	-	74.91	-2.14%	1,514,265	
20	SHAK	Shake Shack Inc.	Services	Specialty Eataries	USA	1.62B	893.60	44.68	-1.76%	657,389	

SCREENER RESULTS FROM MARCH 2015



#2 VERIFY MOVEMENT

- ❖ Check to see if the stock has a history of moving up/down at least 15% over 1.5 months ~~prior to earnings~~
- ❖ ~~We would like to see this degree of movement at least twice out of the last four earnings announcements~~



$$\% \text{ CHANGE} = \frac{\text{START} - \text{FINISH}}{\text{START}}$$

#2 VERIFY MOVEMENT



#3 ENTER WHEN IV IS LOW

- ~~SPY~~
- ❖ Check the IV for ~~the given stock~~
 - ❖ Note the high/low for the last 12 months
 - ❖ We want IV in the bottom 1/3 of its 12-month range CHECK SPY
 - ❖ When IV is lower than normal, then options could be inexpensive
 - ❖ ~~IV will increase closer to earnings~~
 - ❖ See the article “Putting Volatility to Work”



<http://www.bloombergview.com/articles/2014-06-09/the-vix-is-not-a-great-way-to-measure-complacency>

#3 ENTER WHEN IV IS LOW



#4 EXPIRATION DATE

- ❖ If we BTO 1 month options, we will suffer strong time decay (-) Theta
- ❖ If we BTO 3 - 5 month options, we give up some Delta growth (Gamma), but in return we suffer a smaller amount of time decay (Theta)
- ❖ If 4 month contracts are not available, then go to the 3 month expiry before looking at 5 month expiry
- ❖ Do not BTO less than 3 month expiry



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#5 DELTA NEUTRAL

- ❖ To build a long straddle,

- BTO ATM call/put

- Net Delta between the call/put ≤ 0.05

Example: $\begin{array}{l} \$101.00 \quad X42 \\ \text{BTO } 100 \text{ CALL } \Delta = 0.55 \\ \text{BTO } 100 \text{ PUT } \Delta = -0.45 \end{array} \quad \left. \right\} \text{NET } \Delta = 0.10$

- ❖ If the stock is not on a strike, we might want to use a long strangle

- ❖ To build a long strangle

- Enter the trade with an OTM call and put

- Net Delta between the call/put ≤ 0.05

- Delta on each leg must be ≥ 0.25

Example: $\begin{array}{l} \$101.00 \quad X42 \\ \text{BTO } 110 \text{ CALL } \Delta = 0.28 \\ \text{BTO } 90 \text{ PUT } \Delta = -0.25 \end{array} \quad \left. \right\} \text{NET } \Delta = 0.03$



#5 DELTA NEUTRAL

LONG STRANGLE

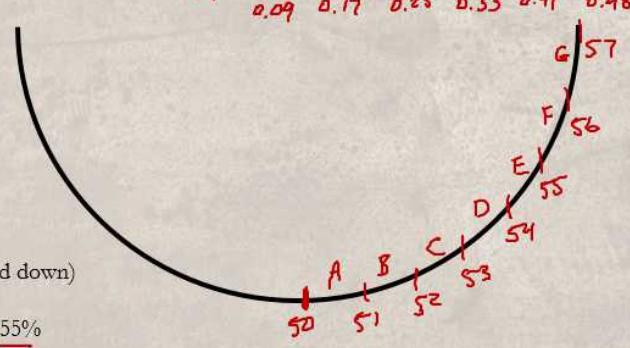
XYZ \$50

BTO 55.00 Call Delta =	0.25	0.30	0.35	0.41	0.47	0.53	0.58
BTO 45.00 Put Delta =	-0.25	-0.21	-0.18	-0.16	-0.14	-0.12	-0.10

BTO 55 call @ 1.50
 BTO 45 put @ 1.60
 Net debit = 3.10

After a \$7.00 dollar move:

55C = 4.39
 45P = .44
 Trade = 4.80 (rounded down)
- Cost 3.10
1.70 Gain or 55%



HLF LONG STRADDLE

Herbalife Ltd									Time & Sales Chart Volatility View News							
Symbol	Last	Change	Bid	Ask	High	Low	Volume	Chart								
HLF	31.45	+0.21 ▲	31.40	31.88	31.68	30.32	1,879,150									
Dividend Information*																
<input type="checkbox"/> Include Dividends n/a n/a n/a 1.00 % NET Δ < 0.10 😊																
HLF Expiration Months: MarWk1 MarWk2 MarWk4 AprWk1 AprWk2 Mar15 Apr15 May15 Jun15 Aug15 Jan16 Jan17																
Calls							Puts									
Last	Chg	Bid	Ask	Imp. Vol	Delta	Action	▲ Strike ▼	Last	Chg	Bid	Ask	Imp. Vol				
Jun15 Calls							Jun15 Puts									
13.70	0	10.20	10.70	80.5	.8396	Trade Detail <input type="checkbox"/>	22.50	1.92	-0.18	1.77	1.92	90.1				
9.30	0	8.35	8.85	76.8	.7785	Trade Detail <input type="checkbox"/>	25.00	2.84	0	2.45	2.62	85.7				
6.49	-1.81	6.75	7.20	74.3	.7061	Trade Detail <input type="checkbox"/>	27.50	3.80	+0.15	3.30	3.55	82.5				
5.15	-0.40	5.30	5.70	71.2	.6265	Trade Detail <input type="checkbox"/>	30.00	4.95	-0.05	4.35	4.60	79.2				
4.45	+0.24	4.30	4.60	71.7	<u>5466</u>	Trade Detail <input type="checkbox"/> (B 870)	32.50	5.80	+0.05	5.65	6.00	77.9				
3.20	-0.15	3.15	3.50	68.2	.4614	Trade Detail <input type="checkbox"/>	35.00	7.30	-0.90	7.15	7.50	76.4				
2.49	-0.21	2.39	2.69	67.1	.3843	Trade Detail <input type="checkbox"/>	37.50	9.60	0	8.85	9.20	75.4				
1.80	-0.30	1.92	2.09	67.7	.3209	Trade Detail <input type="checkbox"/>	40.00	11.50	0	10.60	11.15	74.7				



HLF LONG STRANGLE

Herbalife Ltd										Time & Sales	Chart	Volatility View	News	
Symbol	Last	Change	Bid	Ask	High	Low	Volume				Chart			
HLF	31.45	+0.21 ▲	31.40	31.88	31.68	30.32	1,879,150							
Dividend Information*														
<input type="checkbox"/> Include Dividends	n/a	n/a	n/a	1.00	%	<i>NET Δ = 0.03</i> ☺								
HLF Expiration Months: MarWk1 MarWk2 MarWk4 AprWk1 AprWk2 Mar15 Apr15 May15 Jun15 Aug15 Jan16 Jan17														
Calls							Puts			<input type="checkbox"/> Disable Roll Overs				
Last	Chg	Bid	Ask	Imp. Vol	Delta	Action	Strike ▾	Last	Chg	Bid	Ask	Imp. Vol	Delta	
Jun15 Calls (107 days to expiration)							HLF @ 31.45	Jun15 Puts						
13.70	0	10.20	10.70	80.5	.8396	Trade Detail	22.50	1.92	-0.18	1.77	1.92	90.1	-.1745	
9.30	0	8.35	8.85	76.8	.7785	Trade Detail	25.00	2.84	0	2.45	2.62	85.7	-.2318	
6.49	-1.81	6.75	7.20	74.3	.7061	Trade Detail	27.50	3.80	+.05	3.30	3.55	82.5	-.2979	
5.15	-0.40	5.30	5.70	71.2	.6265	Trade Detail	30.00	4.95	-.05	4.35	4.60	79.2	-.3702	
4.45	+0.24	4.30	4.60	71.7	.5466	Trade Detail	32.50	5.80	+.05	5.65	6.00	77.9	-.4443	
3.20	-0.15	3.15	3.50	68.2	.4614	Trade Detail	35.00	7.30	-0.90	7.15	7.50	76.4	-.5179	
2.49	-0.21	2.39	2.69	67.1	.3843	Trade Detail	37.50	9.60	0	8.85	9.20	75.4	-.5868	
1.80	-0.30	1.92	2.09	67.7	.3209	Trade Detail	40.00	11.50	0	10.60	11.15	74.7	-.6499	



LONG STRADDLE VS. LONG STRANGLE

Long Straddle Order:

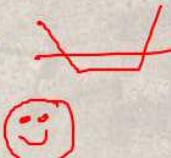
BTO 1 June 32.5 call @ 4.45 Net Delta = 0.10

BTO 1 June 32.5 put @ 5.85 Limit debit = 10.30

Long Strangle Order:

BTO 1 June 40 call @ 2.02 Net Delta = 0.03

BTO 1 June 27.5 put @ 3.44 Limit Debit = 5.46



- ❖ We will negotiate the lowest net debit possible

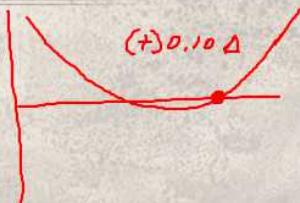


LONG STRADDLE VS. LONG STRANGLE

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