

Swing Beast Momentum Strategy

DOTM Options

Deep out of the money Options (DOTM)

DOTM is short for deep-out-of-the-money.

This strategy involves buying cheap calls on bullish stocks.

If the stock price makes a strong move higher in a short amount of time, these call options can appreciate in value by many multiples.

It's not out of the ordinary for some of these call options to appreciate 30-50x.

DOTM Strategy

Here's an example to illustrate the power of DOTM calls.

Back in August of 2017 we issued a buy alert for Interactive Brokers in our MIR report ([link here](#)).

At the time IBKR traded at \$40.54.

The December DOTM call options struck at \$47 were trading for just \$0.20.

IBKR

INTERACTIVE BROKERS GROUP INC. COM

40.54

-0.15
-0.37%

NASDAQ

Underlying

Last
40.54

IBKR Stock Price

Volume
393,318

Option Chain

Filter: Off

Spread: Single

Layout: Impl Vol, Probability OTM, Delta

CALLS

Strikes: ALL

	Impl Vol	Prob.OTM	Delta	Bid	Ask	Exp	Strike
15 DEC 17 (133) 100							
	1.31%		.91	6.70	7.00	15 DEC 17	34
	4.88%		.88	5.80	6.10	15 DEC 17	35
	0.67%		.83	5.00	5.30	15 DEC 17	36
	20.61%	24.56%	.79	4.10	4.40	15 DEC 17	37
	20.19%	31.31%	.73	3.40	3.60	15 DEC 17	38
	19.58%	32.70%	.66	2.70	2.90	15 DEC 17	39
	19.52%	47.04%	.58	2.10	2.35	15 DEC 17	40
	18.60%	55.39%	.49	1.55	1.75	15 DEC 17	41
	18.36%	63.77%	.40	1.15	1.30	15 DEC 17	42
	18.05%	71.63%	.32	.80	.95	15 DEC 17	43
	17.38%	79.05%	.24	.50	.65	15 DEC 17	44
	17.45%	84.56%	.18	.35	.45	15 DEC 17	45
	17.07%	89.45%	.13	.20	.30	15 DEC 17	46
	16.75%	93.12%	.08	.10	.20	15 DEC 17	47

DOTM Calls

> 16 MAR 18 (224) 100

Difference between Stock and DOTM

Had you gone out and bought plain IBKR stock at \$40.54 you would of done pretty well by the end of the year. By December 15th, IBKR was trading for \$60.40. A 49% gain in a few months.

But take a look at the price of the 47 DOTM calls.

IBKR

INTERACTIVE BROKERS GROUP INC. COM

60.40

+0.35
+0.58%

NASDAQ

Underlying

Last
60.40Net Chng
+.35Volume
2,033,051

Option Chain

Filter: Off

Spread: Single

Layout: Impl Vol, Probability OTM, Delta

CALLS

Strikes: ALL

	Impl Vol	Prob.OTM	Delta	Bid	Ask	Exp	Strike
15 DEC 17 (0) 100							
	0.00%	0.00%	1.00	20.80	22.00	15 DEC 17	39
	431.96%	4.36%	.97	20.10	21.00	15 DEC 17	40
	0.00%	0.00%	1.00	19.00	19.80	15 DEC 17	41
	361.11%	3.37%	.98	18.10	18.90	15 DEC 17	42
	305.16%	2.03%	.99	17.10	17.80	15 DEC 17	43
	286.95%	2.09%	.99	16.00	16.90	15 DEC 17	44
	301.21%	3.68%	.97	15.10	15.90	15 DEC 17	45
	0.00%	0.00%	1.00	14.10	14.70	15 DEC 17	46
	234.16%	2.35%	.98	13.00	13.90	15 DEC 17	47
	216.87%	2.45%	.98	11.80	13.10	15 DEC 17	48
	200.03%	2.58%	.98	10.90	12.00	15 DEC 17	49
	207.39%	4.58%	.96	10.00	11.00	15 DEC 17	50
	0.00%	0.00%	1.00	5.10	5.70	15 DEC 17	55
	11.21%	12.81%	.87	.20	.65	15 DEC 17	60
	0.00%	0.00%	.87	0	.10	15 DEC 17	65
	0.00%	0.00%	.87	0	.05	15 DEC 17	70
	181.71%	38.99%	.81	0	.05	15 DEC 17	75

DOTM calls selling for \$13!

6400% RETURNS vs 49%

Those were trading for \$13.00 **That's a 6400% return in a few month. \$1,000 invested in this DOTM option would turn into \$65,000 in four months time....**

That's a serious difference in return.

What is considered DOTM?

A deep out of the money call is an option with a strike price that is far away (25%+) from the current price of the underlying.

If you're familiar with option greeks — DOTM calls are those with a 15 delta **or less**.

You can see in the example below that IBKR is trading for \$64.46.

The DOTM calls are the ones with a strike price far away from that value.

The red rectangle shows that these are the calls struck at \$85 and \$90.

IBKR

INTERACTIVE BROKERS GROUP INC. COM

64.46

+0.26
+0.40%B: 64.45
A: 64.48

NASDAQ

MM ±1.333

Underlying

Last X	Net Chng	Bid X	Ask X	Size
64.46 P	+0.26	64.45 Z	64.48 P	2 x 1

Trade Grid

Option Chain Filter: Off Spread: Single Implied Vol, Probability OTM, Delta

CALLS

Strikes: ALL

	Implied Vol	Prob.OTM	Delta	Bid X	Ask X	Exp	Strike
16 FEB 18	(18)	100					
16 MAR 18	(46)	100					
15 JUN 18	(137)	100					
21 SEP 18	(235)	100					
	42.00%	4.92%	.97	27.50 N	31.90 N	21 SEP 18	35
	39.03%	8.42%	.95	22.70 A	27.20 I	21 SEP 18	40
	36.22%	13.51%	.91	18.80 X	21.90 X	21 SEP 18	45
	30.59%	17.71%	.88	14.50 X	16.80 X	21 SEP 18	50
	30.25%	29.19%	.78	11.50 M	12.10 T	21 SEP 18	55
	27.76%	40.98%	.67	7.90 X	8.40 M	21 SEP 18	60
	27.13%	55.12%	.53	5.30 M	5.60 M	21 SEP 18	65
	26.36%	68.29%	.39	3.20 X	3.60 M	21 SEP 18	70
	26.50%	78.77%	.28	2.00 M	2.25 X	21 SEP 18	75
	27.04%	86.07%	.19	1.25 H	1.45 M	21 SEP 18	80
	29.87%	89.53%	.15	.80 T	1.45 M	21 SEP 18	85
	29.84%	93.25%	.10	.60 X	.80 M	21 SEP 18	90

DOTM calls have a strike price far away from the current price of the stock.

Asymmetric Risk

Also notice that these calls are much cheaper than the ones closer to the current stock price.

The 90 call in this example trades for \$.80.

The 65 call trades for \$5.60 — 7 times more expensive.

Buying DOTM calls can be a very lucrative strategy because if we're right about a stock trending higher these inexpensive calls give you incredible positive asymmetry versus buying ones closer to the money.

Time (duration) to expire

For Swing Beast we are looking for an immediate move lasting 25-30 trading days

2-3 months out captures the explosiveness of the move

6-18 months out captures a longer term move

What about stops?

Buying a call option defines your risk.

The most you can lose on a DOTM call is the amount of premium that you pay.

We can know our risk with absolute certainty before placing a trade.

By using a call option you don't have to worry about controlling your risk with stops.

The DOTM call does it for you.

In a sense, you're outsourcing the risk management process to the option.

Huge Leverage Limited Risk

Using DOTM calls also allows you to **greatly leverage your capital and amplify returns**.

Since 1 call option represents 100 shares of stock you can take on much more exposure for less cash. Let's run through a quick example.

Let's say IBKR is trading for \$64.46 and our target DOTM call option is trading for \$.80

Purchasing 100 shares of this stock would cost \$6,446. Replicating the same exposure in the DOTM call option would only require \$80 — a fraction of the cost.

We could buy exposure to 10x more shares in the DOTM option for only \$800 — still less cash than 100 shares of stock.

The cash savings we get from using the DOTM call option can be used for other trades or put into short-dated government securities to earn an additional return.

Downside?

DOTM call holders can also lose 100% despite a mild rally in the underlying stock.

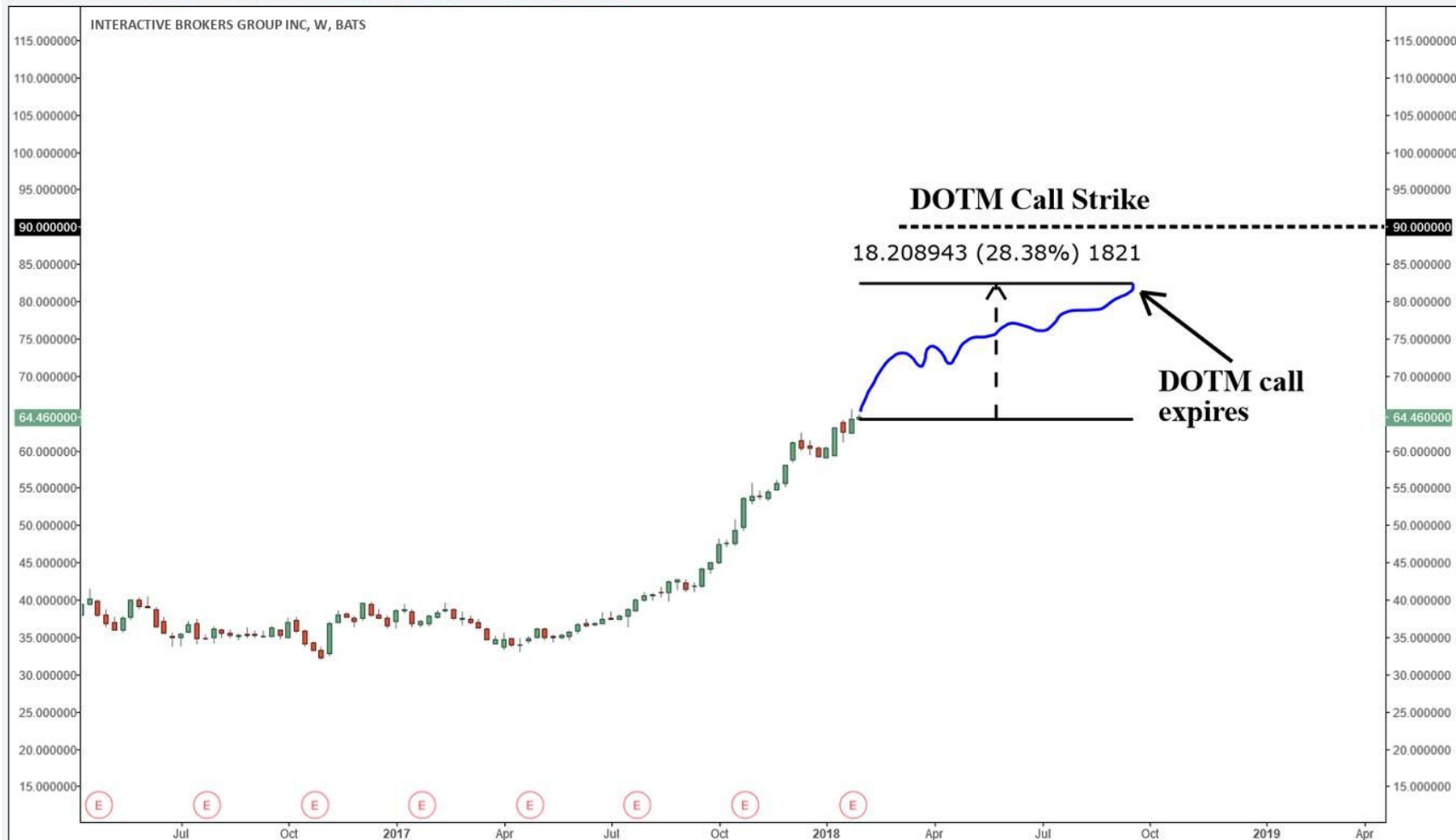
If the stock chops around and finishes lower than the strike price of the DOTM call it will expire worthless.

Be right but lose \$\$\$

In the following example, IBKR traveled up 28.38% by the time the DOTM option expired.

But because the strike on the DOTM call was at \$90 (above the current price of the stock) the option expires worthless.

In this situation the stock owner would have a 28.38% gain while the DOTM call holder would have a 100% loss.



Which Stocks?

Market makers only list options on underlyings that have a lot of public interest.

These companies will usually have a market cap of \$10 billion or higher.

This is why we focus on the bigger stocks of the S&P 500

160.60 0.40 161.00

2

25 Days in
160.90

Simple entry 143.88
Complex entry 144.81



AAPL 160.90

MACD 2.38
Signal 1.45
Histogram 0.93

SQN 1.32

USD 162.00
160.00
158.00
156.00
154.00
152.00
150.00
148.00
146.00
144.00
142.00
140.00
138.00
3.00
2.00
1.00
0.00

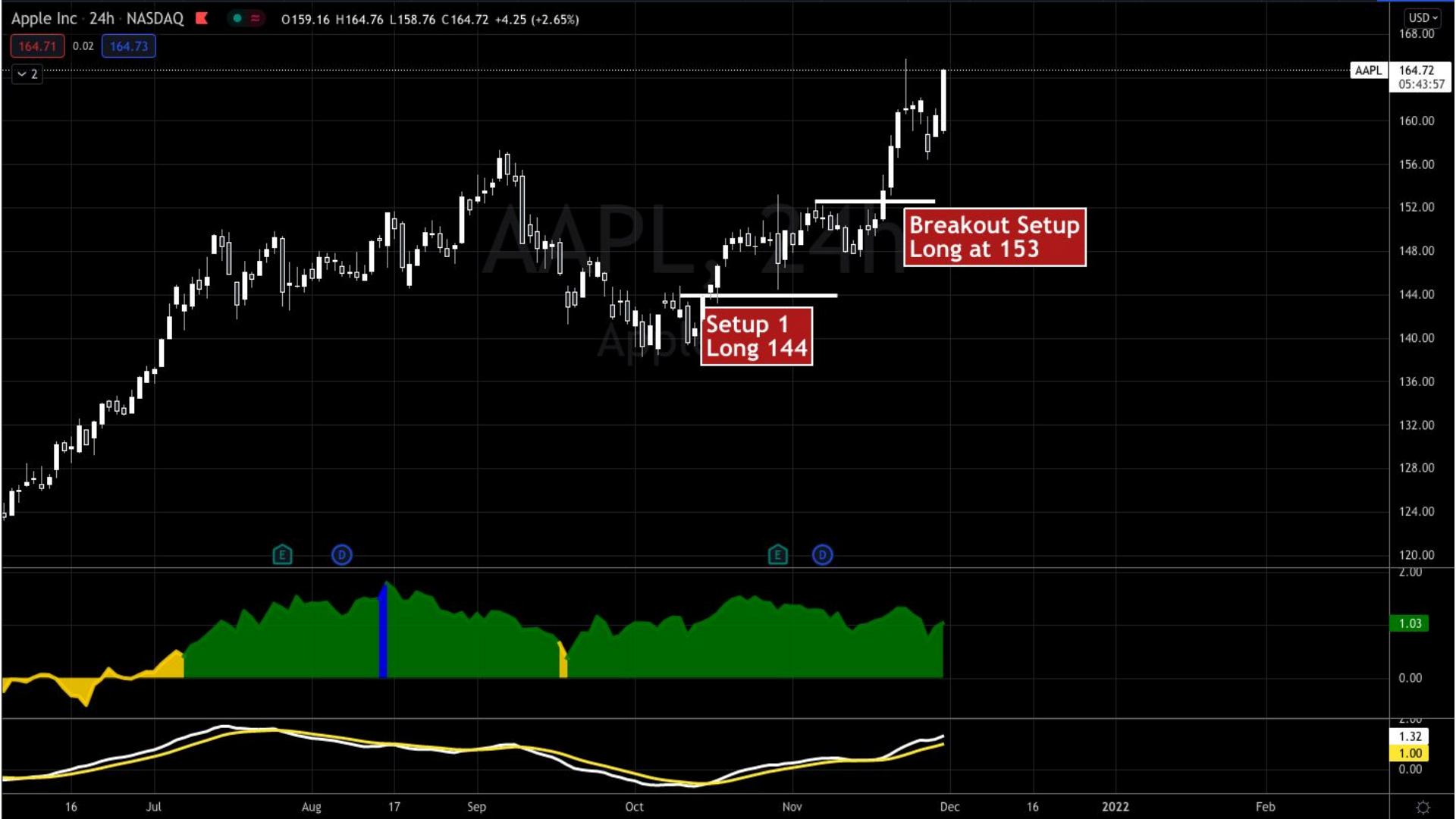
Results

Strike/Expiry	Delta	Entry Price	Size	Amount	Current Price	Current Value	Profit/Loss
Jan 135	70 Delta	1450	3	\$4,350.00	\$2,630.00	\$7,890.00	\$3,540.00
Jan 145	50 Delta	770	6	\$4,620.00	\$1,730.00	\$10,380.00	\$5,760.00
Jan 165	15 Delta	135	37	\$4,995.00	\$460.00	\$17,020.00	\$12,025.00
AAPL	Stock	143.88	34	\$4,891.92	160.8	\$5,467.20	\$575.28

Buying the stock outright returned \$575.28 in profit

Buying the .15 Deltas (Deep out of the money (DOTM) calls returned a whopping \$12,025 in profit!

Still more than 2x the other options by simply choosing the right calls



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