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Maximizing Aloha Income with the “Selling the Wall” Strategy – Training Guide

Introduction and Core Principles

The “Selling the Wall” strategy is a dynamic options-income approach designed to generate steady cash flow (“Aloha income”) by selling option premiums at peaks of market fear and greed. It is rooted in timeless investment principles: buy fear, sell greed, disciplined risk management, and the power of compounding. In essence, the firm behaves like an insurance provider – collecting premiums upfront and potentially paying out (via option assignment) later . This approach emphasizes capital preservation (only taking calculated risks we’re prepared to handle) so that the income earned can continually compound. As famed investors like Warren Buffett and Seth Klarman have noted, avoiding large losses is crucial – big drawdowns hurt compounding . By preserving capital and reinvesting gains, “Aloha income” creates a flywheel of sustainable free cash flow fueling our core business and long-term investments.

Key Principles:

- Contrarian Mindset: We monetize excessive market sentiment – selling puts when others are fearful and selling calls when others are greedy, aligning with the adage “Buy fear and sell greed.”

- Risk-as-Insurance: Option selling is treated as an insurance business – we underwrite risks we understand, charge sufficient premium, and manage exposures to avoid ruin . Premiums collected act as “rental income” or float that we deploy for operations and reinvestment.

- Compounding & Cash Flow: The continuous stream of option premium (Aloha income) is reinvested after funding operations, leading to compounding growth of core assets over time . Small but consistent profits can accumulate significantly when compounded.

- Capital Preservation: Every trade is sized and managed to protect the downside. By limiting position sizes and hedging or adjusting when needed, we ensure no single market swing can jeopardize the portfolio. This defensive stance keeps the compounding process on track (since recovering from a large loss is extremely difficult) .

- Strategic Discipline: Entries and exits follow a rules-based framework informed by data, technical indicators (like RSI/VIX), and AI-driven models. We avoid emotional or impulsive trades, focusing instead on systematic edge and long-term objectives of free cash flow generation and portfolio growth.

New team members and strategic partners (like advisor Jim Collins) will recognize these principles as aligned with building an enduring great company: generating robust cash flows, staying disciplined in volatile times, and reinvesting for future growth. Next, we dive deeper into how “Selling the Wall” works in practice.

The “Selling the Wall” Strategy Explained

“Selling the Wall” refers to selling option contracts at the “walls” of extreme market sentiment – effectively taking the other side when the market hits emotional extremes. In practice, this means: selling put options during times of fear-driven market selloffs, and selling call options during times of exuberant rallies. We are systematically capitalizing on rich premiums that occur at these extremes.

- Selling Puts in Times of Fear: When the market is in panic (e.g. after a sharp drop), put option prices surge as investors rush to buy protection. This is when we step in to sell cash-secured puts on quality stocks or indices. By selling a put, we collect premium from the fearful investor. If the market stabilizes or rebounds (often the case after extreme fear), the put will expire worthless and we keep the premium as profit. If the decline continues and the put finishes in the money, we “pay the claim” by buying the underlying at the strike price – effectively acquiring a stock we wanted to own at a discount, plus we keep the upfront premium . In other words, fear gives us an opportunity to either earn income or buy assets cheap. We ensure the strike price chosen is one we are comfortable owning the stock at (a value-investor mindset). This mirrors Warren Buffett’s approach: he often sold puts on companies he liked at prices he felt were bargain levels . By doing so, he generated millions in premium (float) while positioning to buy stocks he wanted at lower cost .

- Selling Calls in Times of Greed: Conversely, when markets rally hard and greed or complacency sets in, call option premiums become attractive. We then sell covered calls on our long stock positions (or occasionally naked calls if backed by other hedges or high conviction of mean reversion). This locks in some upside on our holdings and yields immediate income from bullish investors willing to pay for further upside. If the rally stalls or reverses (as often happens after peaking sentiment), the calls expire worthless and we keep the premium. If the stock continues climbing through our strike, our shares get called away (sold at the strike price). While we forgo some upside, this happens at a pre-selected profit level – we’re happy to sell at that price, and we still keep the premium on top. Selling calls into strength thus serves as

a way to harvest gains and get paid for it. It trims exposure at frothy levels (protecting us if the market later pulls back) while monetizing the “greed wall” of the market. We can always re-enter the stock on dips or rotate the capital elsewhere. Many times, after an extreme rally, a period of consolidation or decline follows, making the call premium essentially “free” income for us due to mean reversion.

Why this works: Markets are cyclical and often emotional. Volatility and option premiums tend to spike during panic and vanish during euphoria. By providing liquidity (selling options) at those moments, we earn rich rewards for taking contrarian positions. It’s fundamentally a contrarian income strategy – we’re acting like the house (insurer) when most others are desperate to hedge or speculate. Over the long run, this behavior of systematically selling overpriced fear and greed can yield consistent profits, as emotional extremes usually revert to normalcy. We effectively put time on our side through theta decay – as time passes without the feared event or without infinite continuation of a rally, the options we sold lose value in our favor . It’s crucial to note we only do this on high-quality underlying assets (or diversified indices) that we wouldn’t mind owning or selling, and only when premiums sufficiently compensate the risk. By sticking to these disciplines, “Selling the Wall” turns market turbulence into an ongoing source of cash flow rather than a threat.

Strike Price and Expiration Selection – Optimizing Premiums vs. Risk

A critical aspect of the strategy is choosing the right strike prices (and expiration dates) for the options we sell. Our goal is to maximize the premium (income) collected while maintaining a high probability that we won’t have to fulfill the contract in an unfavorable way. This involves a balance between risk and reward:

- Out-of-the-Money (OTM) Strikes: We typically sell options just out-of-the-money – i.e. put strikes below the current market price and call strikes above the current price. This creates a cushion. For put options, selecting a strike price below current levels means the market has to fall further before we’re obligated to buy, giving us a margin of safety. We choose a strike at a price where we’d be comfortable buying the stock if needed . Similarly, for calls, we pick a strike above the current price (and above our cost basis if possible) so that if our shares are sold (called away), it’s at a profit we’re happy with . Setting strikes this way (below market for puts, above for calls) aligns with the goal of “buy low, sell high.” It also takes advantage of the fact that OTM options usually decay to zero if the market doesn’t move dramatically beyond recent ranges.

- Probability and Delta Considerations: We often use the option’s delta or the broker’s probability tools to guide how far OTM to go. For instance, selling a put with ~0.20 delta typically implies ~80% chance it will expire worthless (20% chance of being in-the-money). A lower delta (further OTM) means higher probability of keeping the premium but the premium itself is smaller. A higher delta (closer strike) gives more premium but higher chance of assignment. The choice depends on our objective: if our main aim is income (and we prefer not to take ownership), we lean toward strikes around 15–25 delta (roughly 75–85% chance of expiring worthless) . If we wouldn’t mind owning the stock or have a strong conviction on value,

we might sell a higher-delta put (30–40 delta) to earn more premium and potentially buy the stock at a bargain . The same logic applies to calls on the upside – a 15 delta call (15% chance of being exercised) yields moderate income and likely lets us keep our stock, whereas a 30 delta call pays more but with greater likelihood of being called away. Example: An investor targeting pure premium income might sell a put with only 20% assignment risk, whereas one who is fine acquiring shares might sell a 40% assignment risk put for double the premium . We calibrate delta to our risk appetite and market outlook for each trade.

- Optimizing Premium vs Safety: To optimize premium collection, we look for a sweet spot where the option is far enough OTM to have a high probability of expiring worthless, yet close enough to ATM that it still carries a substantial premium. Empirically, many income traders find strikes around 1 standard deviation away or around 70-85% probability of profit to be optimal in balancing risk/reward (roughly what a 0.15–0.30 delta corresponds to) . At those levels, premiums are juicy but the odds are in our favor. We avoid strikes that are too close (very high delta) which court disaster if the market moves against us too much. We also avoid strikes that are too far (very low delta) as the premium may not justify the effort or may not move the needle for cash flow.

- Selecting Expiration Dates: We strategically choose option durations to manage risk and maximize annualized returns. Shorter-term options (e.g. 1-4 weeks) have faster time decay, allowing us to collect premium more frequently and adjust positions often. Frequent short expirations mean we can compound the income faster by redeploying freed capital . For example, selling a one-month option 12 times a year can generate more total premium (when annualized) than selling a single 12-month option, thanks to rapid theta decay on short options . However, very short durations (like weekly or 0DTE) can be risky due to high gamma (sensitive to price moves). We often find a compromise around 30-45 days to expiration for initial sales – a window advocated by many option income strategies for balancing decay and predictability . At ~30-45 DTE, theta is significant and we can still manage/adjust the trade before gamma risk spikes in the final week. That said, we will sell even shorter tenor (1-2 weeks) during event-driven fear/greed spikes to capture extremely rich premium and then quickly exit. Longer expirations (2-3 months or more) are used selectively if we see an unusually high volatility environment where even far-dated options are overpriced, or if managing a position we want more time to work out. In general, shorter expirations allow us to be nimble and reinvest premiums sooner, compounding the income potential over time .

- Examples of Strike Selection: Suppose the S&P 500 is at 4000 during a bout of fear. We might sell a 1-month put at strike 3800 – about 5% below current levels. If the volatility index (VIX) is high, that 3800 put premium will be rich even though it's OTM. We're comfortable buying the index at an effective cost basis of 3800 minus premium if it comes to it (i.e. at a discount). On the flip side, if the S&P 500 is at 4200 in a greedy rally, we could sell a covered call at 4400 strike, collecting a nice premium. 4400 is above the recent highs, so if it hits, we'd lock in gains by selling our position at that price (plus keep premium). Both strikes are chosen to reflect levels slightly beyond the market's reach in the current sentiment extreme, giving us a buffer while monetizing that "wall" of sentiment.

- Dynamic Adjustments: We don't set strike selection in a vacuum – it's informed by volatility conditions and technical levels. In high volatility (fearful times), we can sell strikes further away (for safety) yet still earn great premium. In low volatility (calm or greedy times), premiums are thinner, so we might sell a bit closer to the money (or choose only the best setups) to get worthwhile income. We also consider technical support/resistance: e.g. for puts, strike below a major support level, and for calls, strike above a resistance, since those levels are less likely to be breached. This way, statistical odds (delta/volatility) and chart context both favor our sold options staying OTM.

By carefully selecting strike prices above/below the market and appropriate expirations, we maximize the rent we collect on our capital/assets while keeping the risk of adverse assignment low. This strike discipline is key to making the "Selling the Wall" strategy profitable over the long haul.

"Aloha Income" as Rental Float – Funding Operations and Reinvestment

One of the most powerful aspects of this strategy is that the premium earned functions like **"rental income" or an insurance float for our business. We get cash in hand today for taking on a future obligation. This Aloha income serves as a financial float that can fund our operations and investments in the interim. Importantly, any surplus from this float (after covering expenses or potential option payouts) is plowed back into core long-term assets – fueling growth and compounding.

- Premiums = Immediate Cash Flow: Whenever we sell an option, the premium is deposited into our account instantly. This is real cash earnings that we can use right now, even though the outcome of the option will be determined later. For our firm, this means each option trade provides a cash inflow that can support operating expenses, R&D, strategic initiatives, or new investments without having to liquidate any core holdings. It's akin to earning rental income on a property or insurance premiums on policies – we receive cash up front for a promise made to the counterparty. As Buffett explained regarding insurance, "Insurers receive premiums upfront and pay claims later… leaving us holding large sums – money we call 'float' – that we get to invest for our benefit" . In our case, option premiums are our "float." We hold this money and put it to productive use for as long as we have it. If the option expires worthless, we never have to pay it back – that premium is pure profit (like an insurance premium that never results in a claim). If the option does end up in the money, we "pay out" by buying the stock or selling our stock at the strike, but even then the premium reduced the effective cost or boosted the sale price, so it's not a net loss.

- "Rental" Analogy – Monetizing Assets: We often compare selling options to renting out our assets. For example, when we sell covered calls, we are essentially renting out our stock holdings to someone who wants upside exposure – they pay us a fee (premium) for that right. Similarly, selling cash-secured puts is like getting paid to wait for a stock to drop to your buy price – you're renting out your idle cash in the meantime for a fee. In both cases, we retain ownership/use of our asset (stock or cash) unless a certain condition is met (stock hits strike). That fee we charge is the rental income (Aloha income). It's a steady stream that, if

managed well, can repeat over and over. We aim to generate a reliable yield on our portfolio from this rental activity, much like a landlord aims for rental yield on property. This yield can be assessed in percentage terms (premium collected relative to the capital at risk) and we seek to maximize it without taking undue risk. Done right, option premiums can provide a significant supplement to returns – often a few percent of portfolio value per month in volatile times, which can compound dramatically.

Example: The screenshot above shows an internal Gain/Loss summary for Q1 2025, attributed largely to our options income strategy. It reflects roughly $2.57M in premium gains vs $0.9M in losses, netting +$1.665M (about +3.99% on our trading capital) in just one quarter. This illustrates how “Aloha income” provides substantial cash flow – cash that supports the business and is reinvested, rather than sitting idle. (Source: internal account statement)

- Funding Operations: We treat the incoming premium as a source of operational funding. Instead of relying solely on revenue from core holdings or outside capital, our trading desk generates cash that can cover salaries, overhead, and growth initiatives. This is akin to a business unit producing free cash flow. By covering some or all of our expenses with options income, we free our core investment portfolio from the burden of funding withdrawals. Those core assets (our long-term equity stakes, etc.) can then remain fully invested for growth, which is crucial for compounding. Essentially, the options strategy can finance the company’s short-term needs, acting as a buffer so we don’t have to dip into long-term capital in down markets. It’s a form of self-insurance and self-funding. Many great conglomerates use insurance floats to fund operations (Berkshire Hathaway’s insurance subsidiaries famously do this) – our approach is similar but using options as the vehicle to create a float.

- Reinvesting Surplus into Core Assets: The ultimate goal is not just to earn income, but to grow our capital base. Any premium earnings that are not used for operating needs become excess cash that we reinvest into our core long holdings or new opportunities. This could mean buying more of our strategic equity positions, acquiring new businesses, or increasing other productive investments – effectively compounding the returns. For example, if in a year we generate an extra 15% return from option premiums and only 5% is needed for operations, the remaining 10% can be added to our investment portfolio. Over time, this dramatically boosts our asset growth. It’s sustainable free cash flow that increases the engine (core assets) which in turn allows for selling more options (since we have more stocks to write calls on, or more cash to secure puts). Thus, a virtuous cycle forms: premium income → funds operations + new investments → larger capital base → even more premium income (in absolute terms). This is the compounding flywheel effect in action. By continually reinvesting, the “Aloha income” strategy doesn’t just provide yield, it accelerates portfolio compounding beyond what pure buy-and-hold would achieve, all while preserving the underlying capital.

- Risk Consideration – Don’t Over-Leverage the Float: Just as an insurance company must be careful not to write more policies than it can cover, we must manage the risks of our option obligations. The premium “float” is beneficial only as long as we can meet our commitments under worst-case scenarios. We always maintain adequate liquidity and reserves (cash or margin capacity) to handle option assignments or losses. We avoid deploying the float

in a way that would compromise our ability to pay if claims come due. In practice, this means not over-leveraging our premium income (e.g. not using all collected cash to buy illiquid assets without reserve). We keep a portion of premium gains as a cushion for losses or assignment. By respecting worst-case scenarios, we ensure the float remains a blessing, not a curse. This disciplined approach is what makes the float truly “free” – it’s extra money at work with minimal chance of causing a loss.

In summary, “Aloha income” provides a reliable float that funds our business and investments. It’s like having a rental property empire built on our financial assets – generating cash year-round. This concept turns our trading strategy into a key strategic advantage for the firm: we can grow faster internally (with less dependence on external financing) and weather market cycles with a steady cash buffer. Over years, the reinvested option premiums significantly bolster our enterprise’s wealth, exemplifying how free cash flow optimization can drive compounding.

Sentiment Signals – Using RSI and VIX to Time Trades

Identifying when to sell puts or calls (“when to lean into fear or greed”) is crucial. We rely on a combination of market intuition and quantitative indicators to gauge extremes. Two of our primary indicators are the Relative Strength Index (RSI) and the CBOE Volatility Index (VIX). These serve as leading signals of momentum and sentiment that help trigger our trades:

Chart: Example of a stock’s price (blue line) and its RSI (orange line) over time. The green dashed line marks RSI 70 (overbought threshold) and red dashed line marks RSI 30 (oversold threshold). Note how price peaks often coincide with RSI > 70 (greed), and price troughs coincide with RSI < 30 (fear). Our strategy sells calls during those high RSI peaks and sells puts during those low RSI troughs, anticipating mean reversion.

- Relative Strength Index (RSI): RSI is a popular momentum oscillator that measures the speed and magnitude of price moves, oscillating between 0 and 100 . It’s used to identify overbought and oversold conditions. Typically, RSI above 70 is considered overbought (price has risen too fast and may be due for a pullback), while RSI below 30 is oversold (price has fallen too fast and may rebound) . We use RSI on both individual stocks and broad indexes to pinpoint when sentiment might be overextended. When RSI on a stock we follow drops under 30 – indicating heavy fear and potentially “too much” selling – it often signals a good time to sell puts on that stock. The oversold reading suggests downside may be limited (selling may be exhausted), and a bounce or at least stabilization is likely. By selling a put there, we either profit from the bounce (option expires worthless) or we get to buy the stock near what could be a local low. Conversely, when RSI on a stock pops above 70 – indicating overbought conditions and greed – it’s a cue to sell a call (especially if we own the stock). An overbought RSI hints that the stock’s rally may soon pause or reverse, so by selling a call we can earn premium that we likely keep if the stock cools off. Even if the stock continues to climb a bit, an extremely high RSI often can’t sustain for long; we can roll the call or take assignment knowing we sold at an advantageous time. In essence, RSI helps us time our entries to coincide with moments of peak pessimism or optimism on an asset.

RSI in Practice: We combine RSI signals with other context. For example, if a stock's RSI dips to 25 and it's a company we fundamentally like, we might aggressively sell puts, as the stock is both technically oversold and fundamentally attractive. If an index RSI is above 75 after a big run, we might sell index call spreads or calls on broad ETFs as a hedge/income play. We also watch divergences (when price makes new lows but RSI doesn't, signaling weakening momentum) as additional clues that fear may be subsiding – a good time to sell puts. Important: RSI is not foolproof – a strong downtrend can keep RSI oversold for an extended time, so we usually wait for some confirmation (like RSI turning back up through 30 from below, or simply scaling into positions). Likewise, in a roaring bull trend, RSI can stay overbought. Thus, we use RSI as a contextual tool rather than a strict trigger: it tells us when conditions are ripe to consider a trade, then we layer judgment and other indicators for final decision. Overall, RSI gives a quick snapshot of market emotion on a scale – we exploit that by selling insurance when emotion is at extremes.

- VIX (Volatility Index): The VIX is often called the "fear index" of the market . It measures the implied volatility of S&P 500 index options – effectively the market's expectation of volatility (or demand for options) in the near term. When investors are scared of a market drop, they bid up put options, which drives VIX higher. When markets are calm or euphoric, demand for protection wanes and VIX falls. Thus, a high VIX reading signals market fear and risk aversion, while a low VIX indicates complacency . We use VIX as a barometer for timing our overall option selling aggression.

- During high VIX spikes (e.g. VIX shooting above 30 or 40 during a correction), we know option premiums across the board are very rich. This is when we want to sell puts most aggressively – not only are we getting paid more, but statistically such high VIX levels are mean-reverting (fear spikes are usually temporary) . Selling options when VIX is extremely high is like an insurer writing lots of policies at high premiums after an earthquake – those premiums are expensive because everyone is scared, which is exactly when the insurer has edge if they can manage the risk. We scale into selling puts on indices or a basket of stocks when VIX is at a relative extreme, since broad fear often results in quality stocks getting oversold in tandem. As fear subsides and VIX falls, the implied vol drops and those option prices sink (good for us as sellers). We might close the positions for profit or let them expire if conditions normalize. Empirically, strategies that "sell volatility" (short options) tend to do much better when initiated at high VIX than at low VIX – we follow that principle.

- During very low VIX (e.g. VIX in the low teens or single digits, indicating extreme complacency), we become cautious with selling puts (premiums are thin, and the risk/reward is worse if a volatility spike hits). Instead, low VIX environments – often corresponding to market highs – are ideal for selling calls or call spreads. We still get some premium, and we position ourselves defensively should volatility revert upward (i.e. if markets dip from highs, our sold calls will quickly expire safe). In low-VIX times, we might also hedge more or position for volatility to eventually rise (because from such low levels, it often can only go up). However, as an income strategy, we keep selling something – if premiums are too low on puts, we'll shift to calls on our holdings or find relatively higher-volatility stocks that still offer decent premium.

- Fear & Greed Index / Other Sentiment: Aside from VIX, we sometimes reference broader sentiment composites (like the CNN Fear & Greed Index) which incorporate VIX, momentum, safe-haven demand, etc., to confirm extremes . These can validate what RSI and VIX are showing. For instance, if the Fear & Greed Index is at extreme fear, VIX is high, and RSI on many stocks is oversold, it's a strong signal to sell puts heavily. If we see extreme greed readings, low VIX, and overbought RSIs, it's time to harvest gains and sell calls. The confluence of indicators gives us confidence to act decisively.

- Using RSI and VIX Together: We often pair RSI and VIX for timing. For example, an ideal put-selling setup might be: the market plunges, VIX spikes to ~40 (very high), and the stock we like has RSI 25 (oversold). That's a green light to sell a put or put spread – fear is likely peaking. An ideal call-selling setup: market soars, VIX sinks to 12 (complacency), and one of our core stocks has RSI 75 (overbought) after a big run – perfect time to write calls against it and take in premium, as greed is high. In essence, VIX measures market-wide fear/greed, RSI measures individual asset momentum – together they give a multi-scale view of sentiment. We also monitor volumes, news sentiment, etc., but RSI and VIX are our go-to quantifiable signals.

- Leading vs Lagging: We call RSI and VIX "leading signals" because they often precede a turn in markets. For instance, VIX might spike intraday to a level that indicates capitulation fear even as the market is still tanking – selling a bit of risk at that moment can lead to gains if the market bottoms shortly after. RSI can flash divergence (not making new lows while price does), "leading" a reversal. By paying attention to these, we try to **sell options at the peak of panic or hubris, not after the fact. It requires courage and trust in the data to sell when everyone else is shouting doom (or to bet against a raging rally), but that is where the edge lies. Our AI/ML models (discussed next) also incorporate these indicators to systematically identify such moments and even predict them a bit into the future.

In summary, RSI and VIX are integral tools in our playbook, helping us objectively quantify fear and greed. They ensure our "Selling the Wall" actions are well-timed: we sell the right option at the right moment. By heeding these signals, we consistently put the wind of reversion at our backs – selling options when odds favor that the extreme sentiment will soon ebb.

Quantitative Framework: AI/ML, Backtesting, and Risk Management

While there is an art to reading the market, our strategy is heavily supported by data analytics, statistical modeling, and automation (AI/ML) to remove bias and improve consistency. We use a robust quantitative framework to determine when to enter trades, how much to allocate, when to adjust (roll), and when to close positions. This framework ensures our approach is evidence-based and repeatable, turning intuitive principles into concrete rules refined by historical analysis and machine learning. Here's how we apply these tools:

- Backtesting and Statistical Analysis: Before deploying any tactic live, we rigorously backtest it on historical data. We simulate how selling puts and calls during various market regimes would have performed, using decades of data (including 2008, 2020 crashes, etc.) to see outcomes in different scenarios. This testing helps validate the strategy's edge and

calibrate parameters like what delta to sell, how far before expiration to aim, when to take profits, etc. For example, backtests might show that managing a short option at 50% of max profit yields better risk-adjusted returns than holding to expiration (a finding consistent with industry research). Indeed, studies by option strategists (like Tastytrade) have found that closing winning trades at ~50% of the premium capture is optimal for many short option strategies , as it avoids the rapid gamma risk later in the trade while freeing capital to redeploy. We have incorporated such insights: our default rule is to take profit once ~50-70% of the premium is earned. Backtesting also informs our risk limits – e.g., knowing the worst-case one-day moves in history helps set how much capital to allocate per trade such that even that move won't threaten the firm. We analyze metrics like win rate, average profit, max drawdown, Sharpe ratio, return on capital for the strategy under various settings. This statistical grounding gives us confidence in the expected performance and helps identify weaknesses to address (for instance, maybe uncovered calls have unacceptable risk, hence we stick to covered calls or spreads).

- AI/ML for Signal Enhancement: We leverage machine learning models to augment our decision-making. These models can sift through vast amounts of market data to find patterns or predictive signals that a human might miss. For instance, we have trained models to predict short-term reversions in volatility and price – essentially forecasting when fear or greed might climax. Features going into these models include the level and rate of change of VIX, RSI values across multiple timeframes, option skew, put/call ratios, sentiment data, macro indicators, etc. The ML algorithm (e.g. a gradient boosting model or neural network) learns from past market episodes to output a probability or confidence score that "now is a good time to sell a put" or "sell a call." In internal tests, incorporating ML-based signals improved Sharpe ratios and returns over a baseline strategy . For example, an ML model might flag that when VIX term structure inverts (short-term vol > long-term vol) and RSI is deeply oversold, the 10-day forward returns are strongly positive – a cue to sell puts aggressively. We also apply ML to optimize strike selection dynamically. Instead of a fixed delta rule, a model may analyze current market conditions and suggest an optimal delta that maximizes expected utility (balancing premium vs risk of assignment) for each trade. This is akin to what some advanced hedge funds do, using reinforcement learning to "learn" the best actions in an options trading simulator. One recent paper demonstrated using machine learning to improve option selling strategies by adjusting based on technical indicators and Greeks – confirming that a data-driven approach can boost performance over static rules. Our AI tools act as a second set of eyes: they either confirm human-derived signals or occasionally highlight opportunities we might overlook. By continuously retraining on new data, the models adapt to evolving market regimes (for instance, learning post-2020 behavior which might differ from prior decades). This keeps our strategy robust to change.

- Risk Modeling and Scenario Analysis: Selling options carries tail risks, so we put heavy emphasis on risk management models. We employ techniques like Value at Risk (VaR) and Stress Testing to quantify what a worst-case scenario looks like. For example, we model scenarios such as a 1987-style crash (market down 20% in a day) or a sudden volatility explosion, to estimate losses on our short puts or calls. This ensures our sizing and hedging are set such that even those scenarios are survivable. We often implement worst-case hedges –

e.g., buying some far OTM calls against our sold calls to cap upside risk, or holding some long VIX calls as disaster insurance – especially when models show extreme outlier possibilities. Our position sizing is determined by risk models: we might limit total notional exposure of short puts to a certain percent of portfolio equity, or limit beta-weighted delta of the whole portfolio to ensure a crash would cause at most X% drawdown. We also use Greeks (Delta, Vega, Theta, Gamma) to monitor and manage exposures. For instance, we keep an eye on aggregate Delta (ensuring we're not unintentionally leaning too bullish or bearish beyond our plan), and on Vega (total volatility exposure – a high negative vega means we're very short volatility, which is fine when vol is high, but dangerous when vol is low). If our models indicate our vega risk is too high relative to potential vol spikes, we might reduce positions or buy some options to offset. By modeling statistically how often particular losses occur, we align our strategy with a controlled risk envelope – aiming for high probability of steady gains, and very low probability of large loss. As the saying goes, "take care of the downside and the upside takes care of itself." Our quantitative risk framework embodies that: no trade or single month's profit is ever worth jeopardizing the longevity of the fund. We'd rather miss some income than blow up from lack of caution. This discipline is what allows us to confidently leverage the strategy – we know the risks are quantified and managed.

- Position Sizing and the Kelly Criterion: To determine how much to allocate to each trade, we draw on tools like the Kelly criterion and volatility-based sizing. Kelly criterion (from information theory) helps compute the optimal fraction of capital to risk on each independent trade for maximal growth, given win probability and payoff ratio. While options trades are not entirely independent or identical, we use a risk-adjusted Kelly approach as a guide. If backtesting/ML indicates a certain setup has (for example) a 90% win rate and 0.5 reward/risk, Kelly might suggest risking ~10% of capital on it. We would then likely take half-Kelly or less to be safe (5% or less per position). We also scale position size to volatility: in high VIX environments, individual trades are riskier (bigger moves possible) so we allocate smaller size per option contract (even though premium is higher). In calmer markets, we can afford a bit larger size. Additionally, we cap the total number of positions to avoid portfolio concentration risk – ensuring we don't, say, sell puts on too many highly correlated stocks which could all drop together beyond expectation. Diversification is part of our risk model: we sell premium across different sectors and asset classes when possible, to spread risk. We track correlation and factor exposures – e.g., making sure we're not inadvertently short tech volatility across the board, but rather have a mix. By algorithmically sizing and spreading trades, we aim for a smooth aggregate income stream rather than a rollercoaster.

- Rolling and Trade Management Rules: Our quantitative framework also dictates when to adjust a position. "Rolling" means moving an open option position to a future expiry or different strike to extend duration or mitigate risk . We have clear rules for rolling: for instance, if a short put is breached (underlying trades below the strike) well before expiration and we still want to hold it, we typically roll it – i.e. buy back the current put and sell a new one for a later month, often at a lower strike, to give the stock time to recover while collecting additional premium . This is a common risk management move for premium sellers: "roll the credit" – delay potential assignment and collect more premium in the process . Our backtests show that timely rolling can turn many losing trades into eventual winners or break-evens, albeit with opportunity

cost. We use criteria like days to expiration (DTE) and moneyness to trigger rolls. For example, if a short option goes in the money and has less than 10 days to expiry, and we don't want assignment, we roll it out to next expiry, aiming to receive a net credit on the roll. We also roll winning trades sometimes to extend the profit: if a call we sold is almost worthless (say we captured 90% of the profit quickly), we might roll it out to another strike/month to squeeze more income rather than closing completely – as long as that aligns with our market view (this is essentially "lock in and extend" for winners). All these actions are informed by our models of expected value – we ask quantitatively, "Is it better to close, let it ride, or roll this position?" Given the volatility and time left, what yields the highest expected profit with acceptable risk? By simulating outcomes, our system might, for instance, suggest that when a short option is 80% likely to finish ITM, rolling early for a credit yields better long-run outcomes than waiting for assignment and then selling a new put after assignment. These nuanced decisions are codified into our playbook so that we handle them consistently.

- Automation and Execution: Finally, we leverage technology to automate parts of the strategy. We use algorithmic trading tools to place orders at predefined levels (for example, entering limit orders to sell puts on a stock once its RSI hits a trigger and VIX is above X). We also automate the process of closing at profit targets – e.g., a good-til-cancel order to buy back a short option at 20% of its original price (locking 80% profit) so we don't have to manually monitor every position. Automation ensures we don't miss opportunities or overstay positions due to human delay. Our systems can scan hundreds of tickers for our criteria (high implied vol, oversold RSI, etc.) and alert us or execute a batch of option sells efficiently. This is crucial for scaling the strategy across many positions and responding quickly to fast-moving markets (like intraday VIX spikes). We do maintain human oversight – especially in turbulent conditions – but much of the grunt work (screening, routine closing, minor rolling) is handled by our trading algorithms following the rules we've set. Additionally, our data pipeline continuously feeds into dashboards showing current portfolio Greeks, risk metrics vs limits, and P/L, so we have real-time insight and can intervene if needed.

In summary, our strategy is underpinned by a rigorous quantitative backbone. We marry the historical wisdom (backtest statistics, probability math) with modern AI techniques to refine our edge, and we enforce strict risk management to ensure survival through all seasons. This transforms "Selling the Wall" from a conceptual idea into a disciplined system – one that we can trust to deliver consistent results. Team members will be trained on these models and tools, so they can both understand the rationale and also challenge/improve the assumptions. Our goal is to keep learning and iterating: every trade outcome (win or loss) feeds back into our data to further sharpen the models. Over time, this creates a self-improving loop – our AI/ML gets smarter, our risk controls get tighter, and our performance becomes more robust.

Putting It All Together – Onboarding Summary

By now, you should grasp that "Selling the Wall" is not a random gamble, but a well-crafted strategy blending market savvy with analytical rigor. For new team members and strategic advisors, here's a high-level summary of how we operate and why it works, framed in the context of building a lasting, great enterprise:

1. Strategy Essence: We systematically sell options to generate income when market emotion is at extremes. In fearful times, we sell puts to buy low or get paid for the risk; in greedy times, we sell calls to sell high or earn extra yield. This contrarian approach exploits the insurance-like risk premium in options , flipping short-term market volatility into a source of reliable cash flow.

2. Timeless Philosophy: The strategy aligns with core principles of successful long-term investing. We focus on capital preservation first ("never lose money" is rule #1) – structuring trades with cushions and hedges so that no single event can cripple us . We harness compounding by continually reinvesting profits, turning each premium earned into more income-generating assets . And we emphasize discipline over emotion – much like Jim Collins' observation that enduring companies have fanatic discipline, we have strict trading discipline to stick to our system through market ups and downs.

3. Free Cash Flow Machine: The selling-the-wall program functions as an internal free cash flow machine for the firm. It produces ongoing "ALOHA" income (cash profits) that supplement our other revenue streams. This incremental cash flow improves our operational resilience – e.g., during a market downturn, while others might be scrambling for liquidity, we are actually bringing in cash from the heightened volatility. Over a full cycle, the premium income materially boosts our total returns, but with relatively low incremental risk because it's mostly harvested during moments of peak opportunity. This is analogous to a side business that funds the growth of the main business – except it's integrated with our investment strategy.

4. Visualizing the Flywheel: Think of our overall business as having two parts – core investments (long-term holdings that grow over years) and options income strategy (short-term cash generator). The relationship is symbiotic. The options income provides cash to fuel the core (we can add to positions, start new ventures, or simply not sell core assets in a pinch), and the growing core gives us more capacity to sell options (more assets to write calls on, bigger capital base to secure puts). This forms a flywheel of growth:

- Step 1: Use existing assets/cash to sell options at optimal times → generate premium income.
- Step 2: Deploy premium to cover expenses and reinvest in more assets.
- Step 3: Now with a larger asset base, go back to Step 1 and sell slightly more/larger options positions → more income.

Over time, this flywheel accelerates. Our capital base compounds faster than it would from market appreciation alone, thanks to the added engine of option income. Crucially, we manage risk tightly at each turn of the flywheel so that it never spins out of control. The compounding engine is protected – we avoid severe losses that could halt the flywheel, which is why we use all the risk management and hedging discussed.

5. Team Roles and Onboarding: New traders and analysts joining the team will be trained in both the theory and practice of this strategy. You'll learn to read market sentiment

indicators (like an engineer monitoring gauges) to know when conditions are ripe. You'll master the tools for analyzing options – calculating payoff scenarios, understanding Greek risk measures, etc. Our AI-driven dashboards will guide a lot of decisions, but human judgment and oversight are key – you'll develop an intuition for when to trust the models and when to override (e.g., during unprecedented events where historical data might mislead AI). We encourage a culture of continuous improvement and research. If you discover a new indicator or model that could enhance our timing or selection, test it, validate it, and we'll integrate it. The strategy itself has evolved over years from purely manual trading to this sophisticated hybrid; it will continue to evolve with your contributions. Strategic advisors like Jim Collins provide an outside perspective to ensure we never stray from foundational principles in pursuit of short-term gains. For instance, they'll ask: "Are we staying within our circle of competence? Is this strategy reinforcing our long-term vision or distracting from it?" This kind of high-level check keeps our implementation honest and aligned with the firm's values.

6. Sustainable Edge: One might ask, "If this strategy is so great, why isn't everyone doing it?" The answer lies in the difficulty of execution and temperament. It is true that many investors sell options for income, but few do it in as integrated and disciplined a way as we do. Many falter by reaching for too much yield (blowing up in a crash) or by being too timid (not seizing the opportunity when fear is high), or simply by not treating it as a serious business. Our edge is that we approach option selling professionally and scientifically, much like a top-tier insurer approaches underwriting – with rigorous data, prudent risk management, and a long-term outlook. Additionally, we leverage technology and talent in a way that's hard for a lone retail trader or a less sophisticated fund to match. This creates a sustainable competitive advantage. Markets will always have fear and greed; thus there will always be demand for the "insurance" we provide. As long as we stay ahead in how we price and manage that insurance, we can keep profiting from it.

7. Culture of Safety and Growth: Lastly, as part of onboarding, we emphasize our culture: we celebrate steady gains that contribute to the compound growth, and we treat risk management wins (avoiding a loss) just as importantly as profit wins. Every team member is a steward of our capital and our reputation. We operate with a margin of safety mindset – much like core value investing principles – even though we're doing short-term trades. This means always erring on the side of caution if unsure, and ensuring the strategy's longevity. We don't chase windfalls or double down recklessly – we let time and repetition work in our favor. When done methodically, "Selling the Wall" produces an antifragile outcome: volatility and market stress (which hurt many traditional portfolios) actually benefit us by upping our income. This makes our overall firm more resilient. It's a powerful synergy of risk and reward that we are proud of and guard carefully.

By understanding and internalizing this guide, you should be ready to contribute to the strategy. You'll help execute trades, improve the systems, and monitor risks, all while appreciating the broader picture of how this strategy fuels our company's mission. Remember, at its heart this is about turning the emotional tides of the market into a steady stream of cash flow, and doing so in a way that compounds our wealth and protects our capital. It's the art and science of "making volatility our ally."

Welcome aboard, and let’s continue to build the flywheel of Aloha income – combining prudent risk-taking with innovation and discipline – to drive our long-term success.