Options Tricks They Don’t Want You To Know

(11-01-20)

Anton

Typical accumulation (pension) strategy

$10,000 = 138 shares @ $72.36, if the stock goes to $68 you lose $4.36 X 138 = $601.68 or 6.1%

Selling a Put

What about selling the 1X Feb $70 Strike Put receiving a Credit of $1.15?

Selling a Put

Contract Multiplier = 100 shares

Selling 1X the Feb' $70 Strike Put for $1.15 or 100 X $1.15 = $115 Credit to your account

If the stock is at or below $70 you may be exercised and will have to buy 100 shares at $70

You can then buy the other 38 shares at $70 as well and you would have saved yourself $2.36 on 138 shares

…or $2.36 X 138 + 1.15 = $440

Even if the stock continues going down to $68 at least you executed more efficiently and saved $440

The problem is the opportunity cost if the stock goes higher

You could have purchased 138 shares at $72.36 but instead you took in $115 by selling 1X Feb $70 Strike Put

$115 / 138 shares = 0.83 per share

If after expiry and collecting the $115 premium the stock is higher than ($72.36 + $0.83) = $73.19 you would have been better off just buying the stock at $72.36. You have not executed efficiently in this situation.

Covered Call at same time as the Stock purchase

Selling the 1X Feb $72.5 Strike Call receiving a Credit of $1.00

Covered Call at same time as the Stock purchase

Contract Multiplier = 100 shares

Buying 138 shares at $72.36 then just moments afterwards …

Selling 1X the Feb' $72.5 Strike Call for $1.00 or 100 X $1.00 = $100 Credit to your account

If the stock is lower than $72.50 by expiry you have added $100 of value to your execution

Even if the stock goes up $0.99 you will have added value i.e. $0.01

The problem is the opportunity cost if the stock goes higher than $72.36 + ($100 / 138) = $73.08

At this point being short the Call Option doesn't pay and you have added no value to your execution

If the stock continues going higher then the Call you are short will be worth more than $1.00 and your structure will be negatively affecting your execution

Of course at any point you can buy back the Call lower than $1 and take profits (positive execution effect) or cut it for flat (benign) or for a loss (negative execution affect)

The scenarios you don't want to happen is if the stock either goes up a lot or down a lot quickly

Covered Call Collar at same time as the Stock purchase

O US $ C 72.36 +0.41 N72.38 / 72.42N 11 x 3
On 24 Dec d Vol 621,718 O 72.04N H 72.59D L 71.80D Val 44.957M
O US Equity 95) Actions 96) Export 97) Settings Option Monitor
REALTY INCOME 72.36 .41 .5698% 72.38 / 72.42 Hi 72.59 Lo 71.80 Volm 621718 HV 15.37
Center 72.36 Strikes 5 Exp 17-Jan-20 Exch US Composite 92) 02/20/20 E | ERN »
Calc Mode As of 26-Dec-2019
81) Center Strike 82) Calls/Puts 83) Calls 84) Puts 85) Term Structure 87) Moneyness

	Calls						Strike		Puts					
	Ticker	Bid	Ask	Last	IVM	Volm	OInt		Ticker	Bid	Ask	Last	IVM	Volm	OInt
	17-Jan-20 (23d); CSize 100; R 1.74							5	17-Jan-20 (23d); CSize 100; R 1.74						
1)	O 1/20 C67.5	4.40y	5.40y	5.10y	17.30		21	67.50	31) O 1/20 P67.5	15y	25y	20y	21.64	12	406
2)	O 1/20 C70	2.70y	2.85y	2.77y	18.75	5	585	70.00	32) O 1/20 P70	.45y	.50y	.47y	18.30	34	12665
3)	O 1/20 C72.5	1.00y	1.10y	1.10y	15.77	61	632	72.50	33) O 1/20 P72.5	1.20y	1.35y	1.26y	15.43	23	1403
4)	O 1/20 C75	.20y	.25y	.21y	14.08	35	1078	75.00	34) O 1/20 P75	2.90y	3.10y	3.40y	14.65	2	737
5)	O 1/20 C77.5		.10y	.05y	17.80	21	772	77.50	35) O 1/20 P77.5	5.00y	5.50y	5.60y	16.34		196
	21-Feb-20 (58d); CSize 100; R 1.84							5	21-Feb-20 (58d); CSize 100; R 1.84						
6)	O 2/20 C67.5	5.20y	5.60y		20.20			67.50	36) O 2/20 P67.5	.60y	.75y	.66y	20.37	3	3
7)	O 2/20 C70	3.30y	3.60y	3.70y	19.12	3		70.00	37) O 2/20 P70	1.15y	1.25y	1.20y	18.69	17	17
8)	O 2/20 C72.5	1.80y	1.95y	1.90y	17.33	14	4	72.50	38) O 2/20 P72.5	2.15y	2.25y	1.85y	17.61	1	8
9)	O 2/20 C75	.80y	.90y	.85y	16.25	79	89	75.00	39) O 2/20 P75	3.50y	3.80y	3.60y	16.27	1	3
10)	O 2/20 C77.5	.25y	.35y	.32y	15.42	202	1	77.50	40) O 2/20 P77.5	5.50y	5.80y	6.00y	15.68		4
	20-Mar-20 (86d); CSize 100; R 1.94							5	20-Mar-20 (86d); CSize 100; R 1.94						
11)	O 3/20 C67.5	5.50y	7.00y	6.60y	25.46		3	67.50	41) O 3/20 P67.5	1.00y	1.15y	1.05y	20.54		921
12)	O 3/20 C70	3.70y	4.20y	3.67y	20.02		54	70.00	42) O 3/20 P70	1.65y	1.80y	1.70y	18.77	2	501
13)	O 3/20 C72.5	2.25y	2.35y	2.10y	17.94		250	72.50	43) O 3/20 P72.5	2.70y	2.85y	2.85y	17.80		180
14)	O 3/20 C75	1.20y	1.30y	1.26y	17.08	49	342	75.00	44) O 3/20 P75	4.10y	4.40y	4.08y	17.37		168
15)	O 3/20 C77.5	.50y	.70y	.65y	16.52	17	235	77.50	45) O 3/20 P77.5	5.90y	6.30y	5.88y	17.10		152
	19-Jun-20 (177d); CSize 100; R 1.91							5	19-Jun-20 (177d); CSize 100; R 1.91						
16)	O 6/20 C65	8.10y	8.90y	8.53y	22.52		4	65.00	46) O 6/20 P65	1.30y	1.50y	1.50y	20.17		179

Selling the 1X Feb $72.5 Strike Call receiving a Credit of $1.00 and buying the $70 Strike Put for $0.50

Covered Call at same time as the Stock purchase

Buying 138 shares at $72.36 then just moments afterwards …

Selling 1X the Feb' $72.5 Strike Call for $1.00 or 100 X $1.00 = $100 Credit to your account

Buying 1X the Feb' $70 Strike Put for $0.50 or 100 X $0.50 = $50 Debit from your account

Net $0.50 Credit

The problem is the opportunity cost if the stock goes higher than $72.36 + ($50 / 138) = $72.72

At this point being short the Structure doesn't pay and you have added no value to your execution

If the stock continues going higher then the Put you are long becomes worthless and the Call you are short will continuously rise in price the more it is in the money.

The breakeven on the strategy is $72.72. The higher the stock goes above this level the more negatively it affects the opportunity cost of your execution on the collar. You still make $ on the residual 38 shares but still a bad trade.

The scenarios we do not want in this situation is the Stock goes up a lot quickly…, or if the stock settles at expiry between $70 to $72 ($72.50-$0.50) – In this instance the Put you are long is worthless and the (Call Premium Credit less the Put Debit) $0.50 Credited does not cover the money lost on the stock position.

So what's the point?

Simple!

Think of these strategies over many execution trades over a long period of time….

For you not to add value by doing them the statement you are making is absurd

You are stating that in every trade you execute over a long period of time that pre-emptively manging risk is pointless. You are claiming your timing is so good when you buy a Stock that you'll never add value with Options.

That ladies and gentlemen is called delusion!

Think about it. If you have a $150,000 IRA and you do this 15X per year on all new $10,000 positions i.e. Portfolio is turned over once per year and you make a net $1500 that's 1% value added to your portfolio

This number wipes out all Commission costs associated with trading for the year and then some!

It also reduces the risk of your portfolio i.e. the Annualized Standard Deviation of your Portfolio

So over many trades and over time you are taking less risk to make the same or higher returns on average (Sharpe)

Note in an IRA when you are selling Options you need to have a Stock position (Calls) or Cash to cover stock purchases being exercised (Puts) in your account

Raj

Ridiculous Upside Structures for Massive ROI

FND US $ C 50.56 +0.57 N50.57/50.61N 15x52
On 24 Dec c Vol 274,495 O 49.99N H 50.69D L 49.64J Val 13.847M
FND US Equity | 95) Actions | 96) Export | 97) Settings | Option Monitor
FLOOR & DECOR-A 50.56 .57 1.1402% 50.57/50.61 Hi 50.69 Lo 49.64 Volm 274495 HV 34.56
Center 50.56 Strikes 5 Exp 17-Jan-20 Exch US Composite 92) 02/20/20 E | ERN »
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Calls							Strike	Puts						
Ticker	Bid	Ask	Last	IVM	Volm	OInt		Ticker	Bid	Ask	Last	IVM	Volm	OInt
17-Jan-20 (23d); CSize 100; R 1.74							5	17-Jan-20 (23d); CSize 100; R 1.74						
1) FND 1/20 C45	5.80y	6.50y	6.30y	44.02		461	45.00	26) FND 1/20 P45	.30y	.80y	.40y	49.19		598
2) FND 1/20 C47.5	3.50y	4.20y	4.32y	36.92		236	47.50	27) FND 1/20 P47.5	.70y	.85y	.85y	39.34		506
3) FND 1/20 C50	2.10y	2.35y	2.20y	35.69	28	426	50.00	28) FND 1/20 P50	1.50y	1.65y	1.65y	36.61		59
4) FND 1/20 C52.5	1.00y	1.10y	1.05y	33.83	61	3008	52.50	29) FND 1/20 P52.5	2.75y	3.00y	2.90y	35.40		39
5) FND 1/20 C55	.35y	.50y	.40y	33.38		123	55.00	30) FND 1/20 P55	4.60y	4.90y	7.97y	35.08		30
21-Feb-20 (58d); CSize 100; R 1.84							5	21-Feb-20 (58d); CSize 100; R 1.84						
6) FND 2/20 C45	7.10y	7.60y		49.29			45.00	31) FND 2/20 P45	1.35y	1.65y	1.58y	48.19	2	1
» 7) FND 2/20 C47.5	5.30y	5.70y		45.56			47.50	32) FND 2/20 P47.5	2.10y	2.65y	2.25y	48.20		5
8) FND 2/20 C50	3.90y	4.30y		45.36			50.00	33) FND 2/20 P50	3.10y	3.50y		45.45		
9) FND 2/20 C52.5	2.65y	2.90y	2.77y	43.28	4	18	52.50	34) FND 2/20 P52.5	4.40y	4.60y	4.60y	43.66	4	
10) FND 2/20 C55	1.75y	2.00y	1.84y	42.17	4		55.00	35) FND 2/20 P55	5.90y	6.30y		42.66		
17-Apr-20 (114d); CSize 100; R 1.94							5	17-Apr-20 (114d); CSize 100; R 1.94						
11) FND 4/20 C45	8.20y	9.10y	8.20y	48.17	25	1739	45.00	36) FND 4/20 P45	2.20y	2.70y	3.70y	45.65		412
12) FND 4/20 C47.5	6.50y	7.00y	6.80y	44.01		20	47.50	37) FND 4/20 P47.5	3.20y	3.50y	3.13y	44.63		278
13) FND 4/20 C50	5.10y	5.50y	4.90y	42.67	1	189	50.00	38) FND 4/20 P50	4.20y	4.60y	4.90y	43.34		15
14) FND 4/20 C52.5	3.90y	4.20y	4.10y	41.39	25	238	52.50	39) FND 4/20 P52.5	5.50y	5.70y	8.10y	41.65		1
15) FND 4/20 C55	2.90y	3.20y	2.76y	40.92		1837	55.00	40) FND 4/20 P55	7.00y	7.40y	9.80y	41.52		9
17-Jul-20 (205d); CSize 100; R 1.92							5	17-Jul-20 (205d); CSize 100; R 1.92						
16) FND 7/20 C45	9.60y	9.90y		43.54			45.00	41) FND 7/20 P45	3.60y	3.80y		44.42		

Buying the Apr $55 Strike Call ($3.20) and Selling the Feb $52.50 Call ($2.65) for net cost of $0.55

Ridiculous Upside Structures for Massive ROI

Assume $50,000 Margin trading account with Risk Management rule of no more than $5,000 in one position

Buy 15X Apr $55 Strike Call @ $3.20 = ($3.20 X 15 X 100) = $4,800 Debit

Sell 15X Feb $52.50 Call @ $2.65 = ($2.65 X 15 X 100) = $3,975 Credit

Net Cost of $0.55 per contract or $825

Ideal scenario? The stock doesn't rally above $52.50 before Feb 21 then rallies like crazy between Feb 21 and Apr 17th

If the stock doesn't rally above $52.50 by Feb 21 the Call you're short expires worthless and you keep the $2.65 Credit

If the stock then rallied to $60 between Feb 21 and Apr 17 your Net Profit would be as follows;-

($60-$55-$0.55) X 15 X 100 = $6,675

Congratulations! You just added ($6,675 / $50,000) X 100 = 13.35% performance to your account in one trade

Potential ROI per contract = $60-$5-$0.55 = $4.45 / $0.55 = 8.3 to 1

Ridiculous Upside Structures for Massive ROI

Think about your implied exposures for a moment

Once the Call you are short expires on Feb 21 you are now long 15 Contracts of the $55 Strike in Apr

When the stock goes through $55 you own the right to buy 1,500 shares at $55

1,500 X $55 = $82,500 worth of stock

This is in a trading account with $50,000 deposited as margin

If you manage to keep ALL of the premium that you are short (the $52.5 Strike in Feb) it cost you just $825 to get an implied exposure when the Stock goes through $55 of $82,500

That ladies and gentlemen is ridiculous!

For every Dollar that the stock goes up above $55.55 (Breakeven), you make $1,500 profit

Who knows? The stock could go to $80 !!! That's the beauty of Options!

Ridiculous Upside Structures for Massive ROI

Now what happens if it doesn't go ideally?

Well, this just means that the stock is likely above $52.50 before Feb 21

If the stock is between $52.50 and $55 by Feb 21 you are still fine

This is because you shorted the $52.50 Strike at $2.65 (breakeven $55.15) and you are long the $55 Strike with a longer dated maturity (crossover)

As the $52.50 Strike Call that you are short approaches maturity it will lose its time value and tend towards a Delta of 1. On expiry it will be worth the Stock price minus the Strike Price.., i.e. less than $2.65

Whilst on the other side the long $55 Strike Call in Apr will be worth a lot more because it still has 2 months left till expiry (time value)

You bought the $55 Strike Call for $3.20 and with the stock between $52.50 and $55 you will likely be flat over all or small up on the trade.

The worst scenario is if the stock is much higher than $55 on Feb 21.

Ridiculous Upside Structures for Massive ROI

If the stock is above $55 by Feb 21 then both Options are In The Money

This will be a similar situation as if the stock was between $52.50 and $55 before Feb 21 except worse

Lets say the stock went to $65 before Feb 21. The $52.50 Strike you are short will be worth $12.50 by expiry and the $55 Strike that you are long in April will be worth $10 + the time premium left in the April Option

You will likely be down small in P/L terms

Both these scenarios are not ideal as it means we were right but didn't make money (yet). We could have made the same or more by just buying an ATM Call or put on a classic Call Spread

What you have to remember is 2 things;-

1. We haven't discussed what happens if the Stock went down
2. This structure assumes you are in it for Fundamental reasons and specific Catalysts that you are forecasting to occur between Feb 21 and Apr 17

Note: You don't have to short all 15 contracts. You can also sell half or a portion of the size of the contracts you have bought to hedge against a big move higher.

Ridiculous Upside Structures for Massive ROI

What happens if the stock goes down initially?

If the Stock goes down quickly and you buy the Call Option contracts you are short back for 25c, then the Stock goes back up again you are in for a Net Price of $.80 not $0.55

This scenario is actually more ideal than if the stock just hovered around $50 for a month or so then went up. You want to cover all of your short back as quickly as possible because it gives you more time to be right

This also proves that you are hedging for the first month or so. You are giving up the possibility of quick upside in exchange for a potential higher ROI.

Essentially you are saying that you are happy to be wrong for a month and that you are likely to be wrong for a month. This gives you a chance at getting ridiculous ROI instead of just buying a naked Call and watching your premium bleed till expiry.

Additionally in both instances when you are wrong before Feb 21, after Feb 21 you can sell a higher Strike Call to bring in more premium. In this case you can make money even if you are wrong overall! You just wont make as much.

When you're right you win big. When you're wrong you don't lose. Now that's called Winners Win!