

The War Room

Execution I

Session 5

March 24th

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Institute of Trading and Portfolio Management

www.itpm.com

Seminars, Online Education, Trader Mentoring

BUMBLE (BMBL)

July Vertical Call Spread

- \$50,000 account
- \$4,000 Net Spend per Strategy
- Original Order Buy an July Vertical Call Spread \$70 - \$105
- As of close Tuesday 23rd March
- BMBL stock price \$ 65.81
- Reworked Order
- July \$65 Calls quoted at 10.1-10.7
- July \$100 Calls quoted at 2.35-2.70

Execution Surgery v Butchery

		STRUCTURING							
TICKER	LAST	LONG / SHORT	TYPE	EXPIRATION	STRIKE	CONT. #	CONT. X	PREMIUM	TOTAL COST
BMBL	\$65.61								
earnings date	12-Jun-21	Long	CALL	16-Jul-21	\$65.00	5	100	\$10.70	\$5,350.00
stock price at expiry	\$100	Short	CALL	16-Jul-21	\$100.00	5	100	\$2.35	\$(1,175.00)
BUTCHERY									
									\$4,175.00
BMBL	\$65.61								
earnings date	12-Jun-21	Long	CALL	16-Jul-21	\$65.00	5	100	\$10.40	\$5,200.00
stock price at expiry	\$100	Short	CALL	16-Jul-21	\$100.00	5	100	\$2.55	\$(1,275.00)
SURGERY									
									\$3,925.00

Execution Surgery v Butchery

- Surgery Net Spend \$3,925
- Butchery Net Spend \$4,175
- Impacts Maximum Potential Loss
- Returns at the Exit

Execution Surgery v Butchery

			STRUCTURING													
EXPOSURE	TICKER	LAST	LONG / SHORT	TYPE	EXPIRATION	STRIKE	CONT #	CONT X	COST	INTR V	TIME V	IMPLIED PRICE	TOTAL COST	MARKET VALUE	CONT P/L	POS P/L
	BMBL	\$65.61														
earnings date	12-Jun-21		Long	CALL	16-Jul-21	\$65.00	5	100	\$10.70	\$35.00	\$-00	\$35.00	\$5,350.00	\$17,500.00	\$24.30	\$12,150.00
stock price at expiry	\$100		Short	CALL	16-Jul-21	\$100.00	5	100	\$2.35	\$-00	\$-00	\$-00	\$(1,175.00)	\$-00	\$2.35	\$1,175.00
Return								319%								
													\$4,175.00	\$17,500.00	\$26.65	\$13,325.00

			STRUCTURING													
EXPOSURE	TICKER	LAST	LONG / SHORT	TYPE	EXPIRATION	STRIKE	CONT #	CONT X	COST	INTR V	TIME V	IMPLIED PRICE	TOTAL COST	MARKET VALUE	CONT P/L	POS P/L
	BMBL	\$65.61														
earnings date	12-Jun-21		Long	CALL	16-Jul-21	\$65.00	5	100	\$10.40	\$35.00	\$-00	\$35.00	\$5,200.00	\$17,500.00	\$24.60	\$12,300.00
stock price at expiry	\$100		Short	CALL	16-Jul-21	\$100.00	5	100	\$2.55	\$-00	\$-00	\$-00	\$(1,275.00)	\$-00	\$2.55	\$1,275.00
Return								346%								
													\$3,925.00	\$17,500.00	\$27.15	\$13,575.00

Execution Surgery v Butchery

- \$50,000 Portfolio
- 10 x \$4,000 Net Spend Strategies (fully invested)
- Average duration of trades 2.5 months.
- 48 strategies per year
- 50% Win ratio
- 24 strategies will need execution to book profit
- 72 Execution events

Quantify Execution Slippage

On a \$4,000 net spend poor execution can cost 10% of Net Spend target.

Trading in the middle of the spreads all of the time is unlikely.

So lets conservatively assume that Execution Skill and Know-how can save 5% of Net spend (v Butchery)

BMBL actual difference was \$250 on a \$4,000 net spend equating to 6%

72 execution events per annum (conservative)

$72 \times \$ 125 = \$9,000$ (on a \$50,000 a/c)

It is a silent tax on performance.

Spread Trading

- Contingent order where the spread is the relative pricing between two (or more) securities.
 - Legging Risk (market risk and stock risk)
 - Spread Risk
 - Net Spend Considerations

Legging Risk

Legging Risk is the risk of the underlying security moving against us after we have purchased out Long Call but before we have made our Short sale.

Legging Risk cannot be eliminated but mitigated through executing the full order in tranches.

Trading Platforms will offer spread execution They will do butchery for you.

Spread Risk

Trading the Screen

- We are price takers not price setters so we have to be skillful in price discovery within the spread of our two securities.
- 2 Bid-offer spreads to navigate

Changes in the spread from the Market Makers

- Short term spreads between two option prices with the same underlier can change "ceteris paribus" owing to simple supply and demand dynamics on any given day and MM positioning.

Strategy Net Spend in a Live Market

Within Portfolio's mandate limits and executed within a tolerance of the agreed plan

- If the underlying stock trades materially higher or lower on execution day, whilst the spread may be the same, the absolute prices of the options will be higher or lower/
- This will obviously effect the net debit on your purchases and the credits on your sales.
- If you are trading an Options Expiry Calendar spread you will be more concerned with the absolute level of the short sale credit.
- If you are buying a long dated bull call spread you will be more concerned with the net spend.

Strike Changes On Execution Day



Consider buying ATM Structure based on a certain closing stock price...

- On the day of execution the stock may have moved materially from last night's close .
- Move the strikes accordingly to keep your structure ATM, to keep net spend within an acceptable range of plan and keep payoffs within realistic probabilistic levels.

Conclusions

- There will never be a rule book covering all scenarios.
- These lessons will become reinforcing with experience.
- Quality execution is a process that requires preparation and patience.
- You can't execute your way to the price target but you can adversely impact your pay outs and increase your maximum loss
- Do not underestimate the silent tax of poor execution.

Price Action Analysis

March 24

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TYPICAL RETAIL TRADERS CHART

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SCHOOLS OF THOUGHT

- Polarized
- Need to identify with a group
- Fundamentals or Technicals
- Best of both worlds
- ITPM is primarily a Fundamental process
- Technicals should not replace Fundamentals
- Price action can improve timing and help with structure
- Personality traits and backgrounds
- Quants
 - Renaissance Technologies (Medallion fund) – Math
 - Bridgewater Associates – Global Macro Quant
 - Tiger Global Management – Technical Trend Following
 - Pershing Square – Fundamental Activist
 - Systematica – HFT Price Discrepancies

WHAT DOES PRICE REPRESENT



- Basic premise of price movement
- Reflection of supply & demand
- More buyers than sellers and vice versa
- Value of a company is based on the **perceived** profitability in the future
 - Price adjust for the future
- Future always in flux
- Current value of any asset is just how much someone is willing to pay for it at the moment
- Price constantly try to adjust
 - Fear & Greed
 - Short covering
 - Liquidations
 - FOMO – Fear Of Missing Out
 - Macro views
 - Fundamental change
 - Technical breakouts
 - Support / Resistance levels
 - Etc...

TRENDLINES

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GPRO - Daily NASDAQ L=13.48 0.42 3.22% B=13.48 A=13.55 O=13.05 Hi=13.65 Lo=12.53 V=6,487,198



PRICE ACTION IS FRACTAL

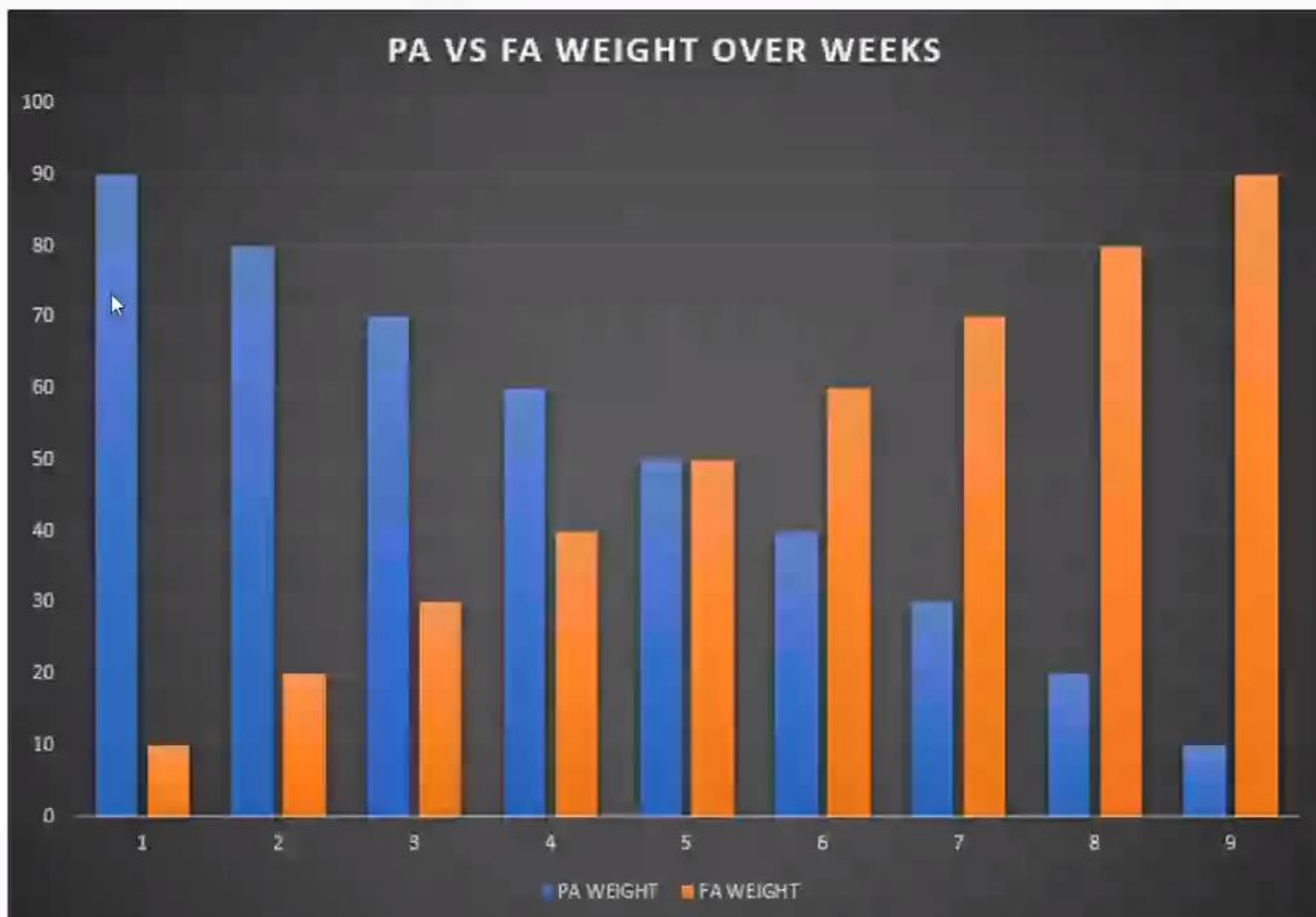
- Technical analysis can be used the same way for different time frames
- Monthly – Weekly – Daily
- Same repeatable patterns occur across the price spectrum

- Time horizon is an important consideration as it affects the technical / fundamental mix
- Shorter time horizon = More emphasize on price action analysis
- Longer time horizon = More weight on fundamental analysis

- Graph shows this relationship with number of weeks on the horizontal axis and % weightings of Price action vs Fundamental analysis on the vertical axis

TIME HORIZON MATTERS

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WHO ARE THE PLAYERS

- Who drives the prices
- Penny stocks and highly speculative names – Retail
 - Mostly emotional and less accurate reflection of value
 - Liquidity driven
- More widely followed stocks – Big institutional participation
 - Better reflection of fundamentals
- Large order flow managed by professional institutional traders
 - Crossing networks
 - Impact trickles down
- Futures – More sophisticated investors, Hedgers and CTAs
 - Efficient and most accurate reflection of the macro picture
 - Use futures price action to support your macro view
- What does all this mean for the retail trader?
 - Can't expect to read all charts the same
 - Understand who the players are to evaluate what impact certain price action will have
 - Get a grip on what particular chart patterns represents

WHAT COMES FIRST – CHICKEN OR THE EGG

- Do fundamentals lead prices or the other way around
- Price based on the perception of future events
- Not random
- Markets are very efficient
- Buy – The Rumor – Sell – The News
- Prices can both lead and lag fundamentals
- Stock price is linked to the fundamentals at the hip
- Have to look at the full picture
- Price action only tells part of the story
- Hugely important to understand the catalyst

PRICE AND EARNINGS

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IBM - Monthly NYSE L=129.03 0.79 0.62% B=128.81 A=129.10 O=128.46 Hi=129.48 Lo=127.49 V=4,957,362 Fundamntl TTM ("SDBF".0,false,0) 6.26



PRICE AND EARNINGS

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PRICE AND EARNINGS

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FB - Monthly NASDAQ L=284.29 5.01 1.79% B=284.02 A=284.29 O=275.70 Hi=288.23 Lo=275.41 V=21,302,832 Fundamntl TTM ("Scdp",0,false,0) 10.09



PRICE AND EARNINGS



TECHNICAL STATE

- 3 Main Technical States
 - Uptrend = Succession of higher highs and higher lows
 - Downtrend = Succession of lower highs and lower lows
 - Consolidation = Sideways
- See the forest from the trees
 - Bigger timeframes paints a clearer picture
- Don't confuse trend with momentum
 - Momentum implies velocity
 - Trend is purely a measure of direction
 - Trend is your friend until it's not
- Technical state of an asset will impact trade structure
- Fundamentally bullish
 - Uptrend – Bullish tilt – Long Call
 - Downtrend – Further out in the chain – Calendar spread
 - Consolidation – Harvest time decay – Vertical spread

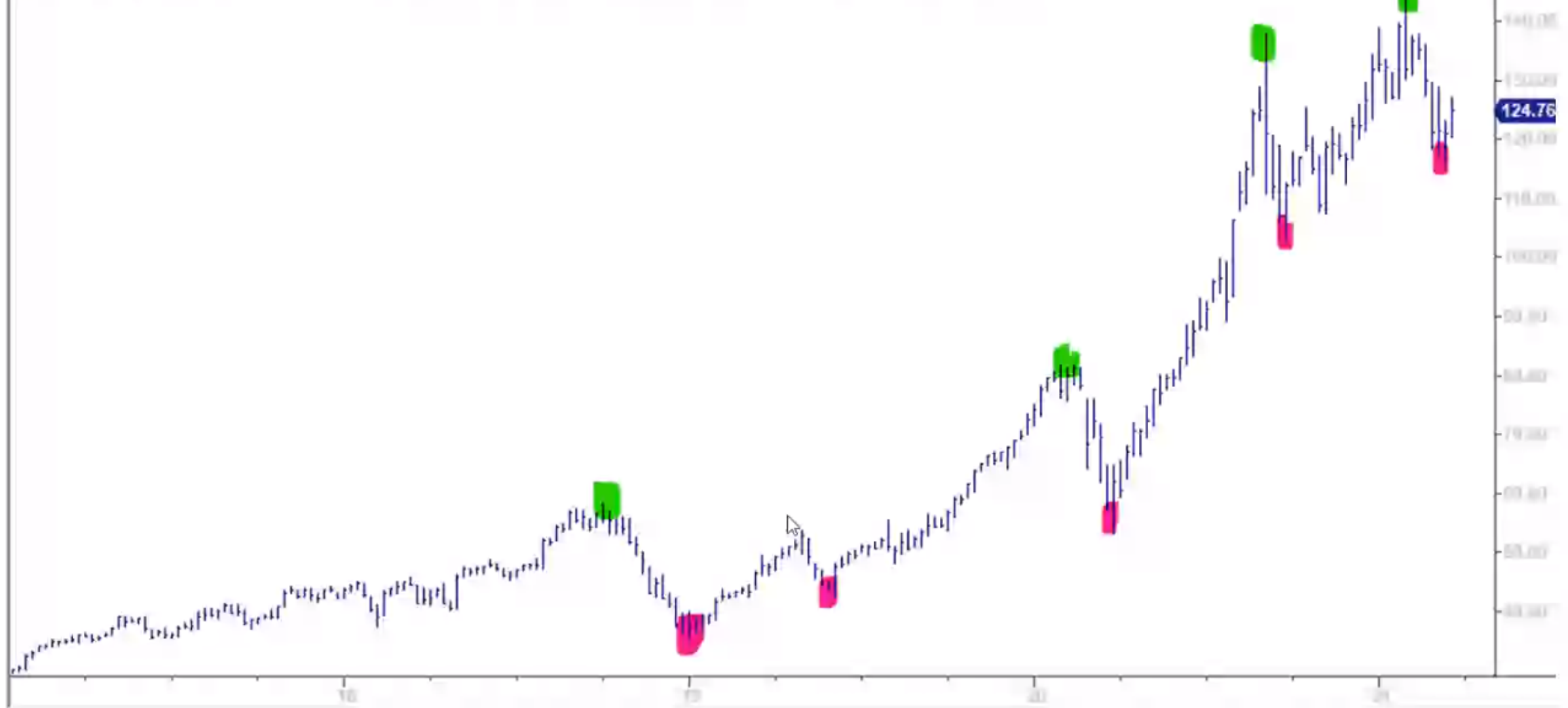
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MAJOR UP-TREND

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AAPL - Weekly NASDAQ L=124.78 -0.79 -0.63% B=124.75 A=124.70 O=124.05 Hi=125.06 Lo=122.34 V=111,840,319



TREND REVERSAL



CONSOLIDATION

PFE - Weekly NYSE L=35.61 -0.16 -0.45% B=35.60 A=35.61 O=35.75 Hi=35.82 Lo=35.47 V=12,836,826



PRICE MEMORY

- Do prices have memory?
- Classic question for those new to technical analysis
- Prices move for a reason
- People drive prices and people have emotions and memory
- If enough traders believe a stock will go higher it will (doesn't matter, why)
- Institutional traders will try to buy at support and sell resistance
- Self fulfilling prophesy
- Snowball effect...
- Common patterns:



DOWNTREND REVERSAL



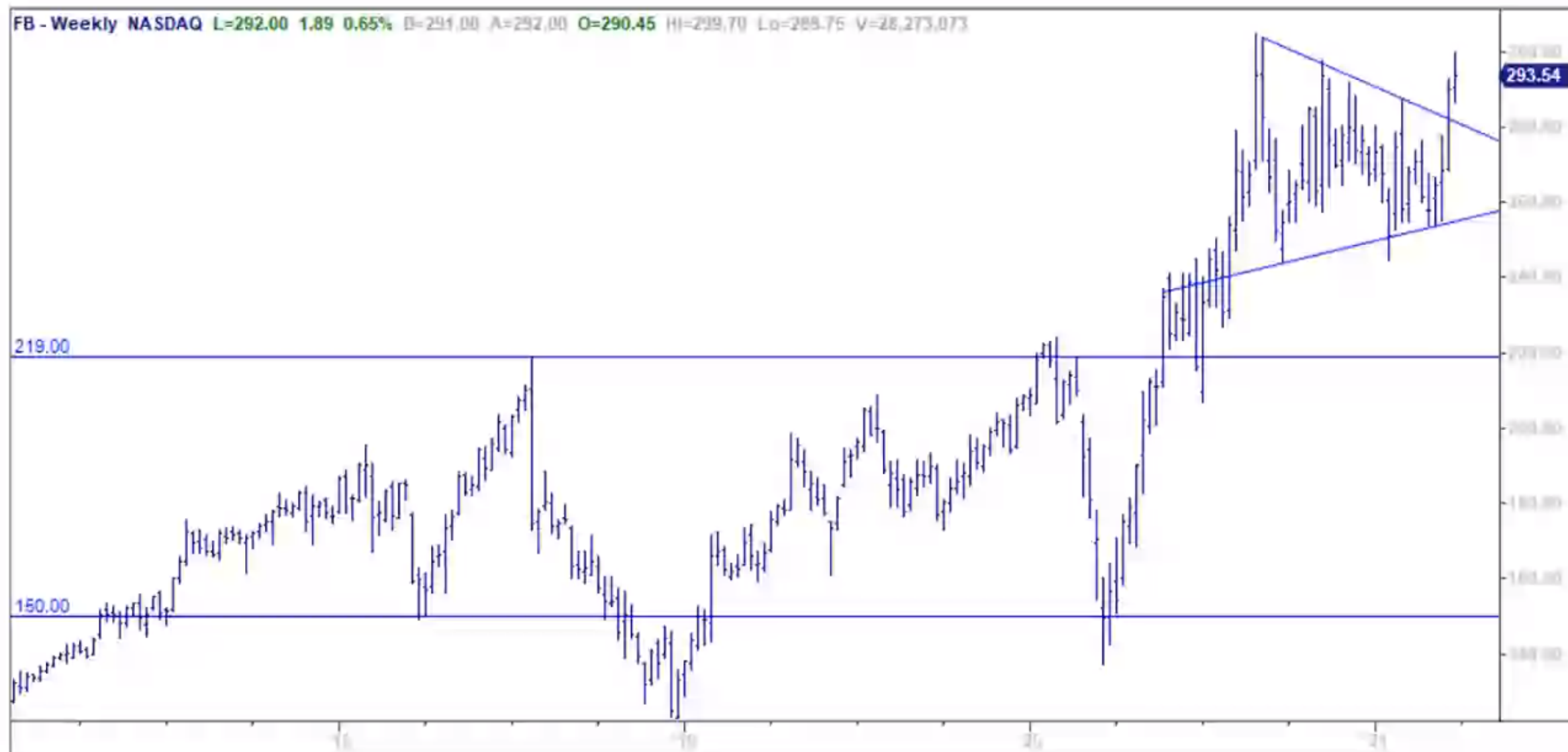
GAP FILLS



CUP & HANDLE



TRIANGLE



WEDGE WITH VOLUME



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H & S PERIOD DOUBLING

@CL - Daily NYMEX L=57.55 -0.21 -0.36% B=57.54 A=57.55 O=57.40 Hi=57.65 Lo=57.29 V=6,275



PUTTING IT ALL TOGETHER

EXAMPLES PRESUME YOU HAVE THE CATALYST AND FUNDAMENTAL VIEW TO GO WITH IT...

- Higher rates priced in (WOYM 58 Feb 5th)
 - Support in 30 Year Bond futures



XLF FINANCIALS ETF

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- Stocks that benefit from that scenario running out of steam
- Failed breakout and broken trendline 1st sign of a top



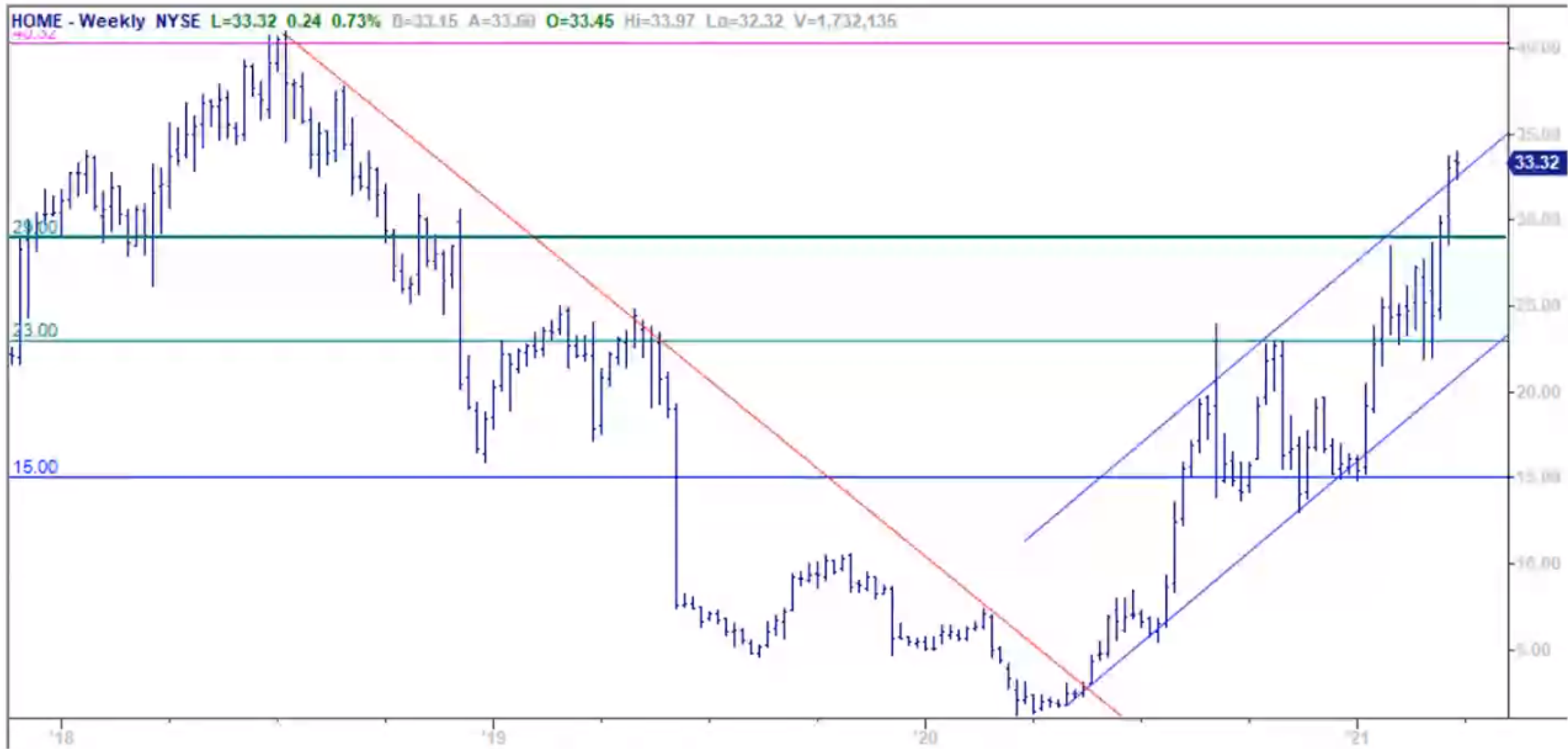
- Bought the May 34 Puts at 1.4
- Support at 31.5 (price target)



Strike	Bid	Ask	Mid
32	0.25	0.31	0.28
32.5	0.00	0.00	0.00
33	0.44	0.52	0.48
33.5	0.00	0.00	0.00
34	0.80	0.91	0.86
34.5	0.00	0.00	0.00
35	1.36	1.46	1.41
35.5	0.00	0.00	0.00
36	2.09	2.30	2.20
36.5	0.00	0.00	0.00
30	0.23	0.31	0.27
31	0.36	0.47	0.42
32	0.55	0.66	0.61
33	0.87	0.96	0.92
34	1.33	1.40	1.37
35	1.83	1.96	1.90
36	2.47	2.71	2.59

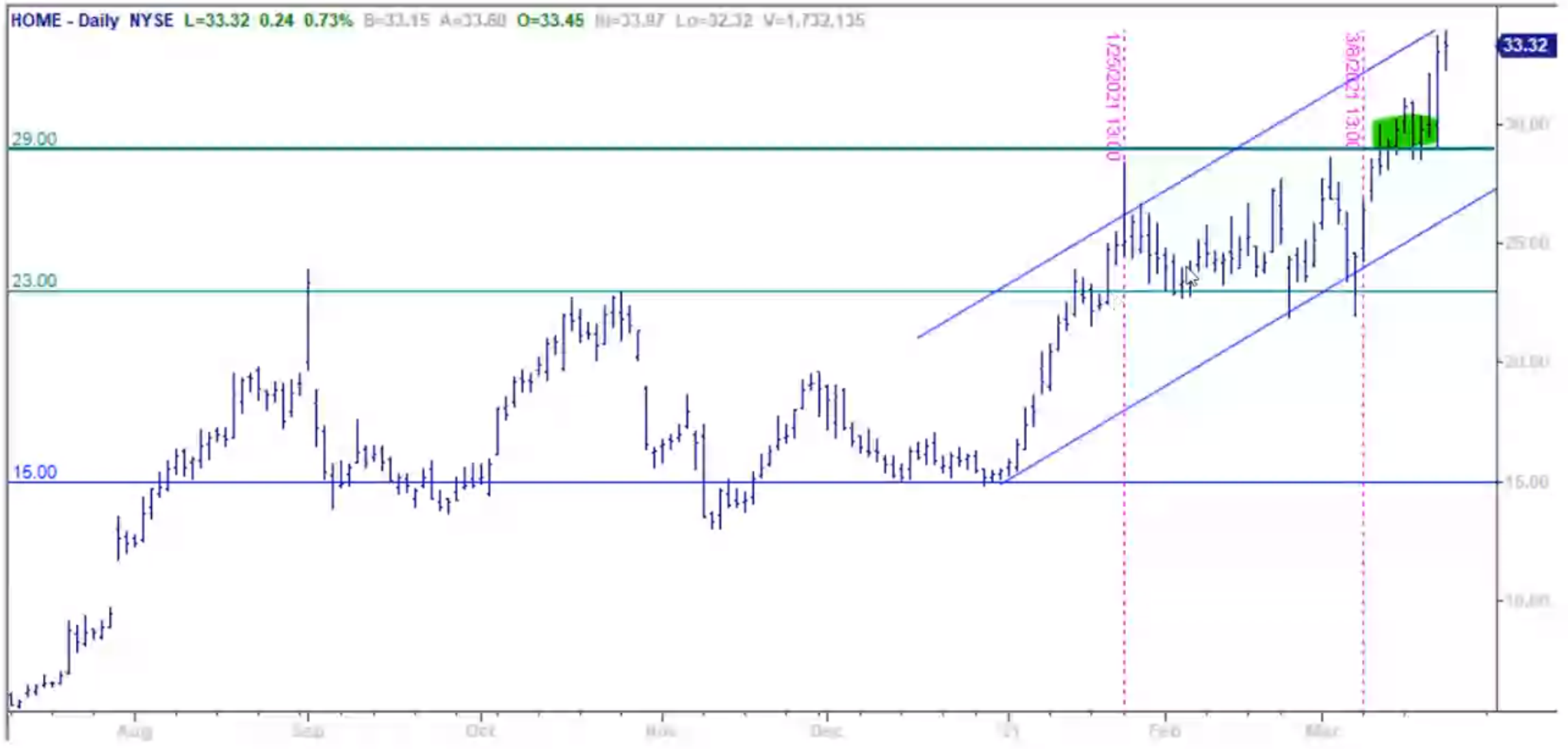
AT HOME GROUP

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CLUSTER AT 29/30

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ITM DIAGONAL BULL SPREAD

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- Presuming we have a fundamental view with a bullish predisposition
- Long June 30 Calls at 7
 - 1st Support
- Short May 40 Calls at 2.3
 - Major overhead resistance at 40
- Pays for most of the June 30 intrinsic value
- Aligned with the technical picture

Symbol	Description	Last	Net Chg	Bid	Ask						
HOME	At Home Grp Inc	33.32	0.24	33.15	33.30						
Spread: Single Filter: NONE Strikes: 20											
CALLS											
Pos	Theta	Delta	Imp V...	Open ...	Volume	Extrin...	Intrin...	Mid	Bid	Ask	Strike
21 May 21 (50m)											
	-0.02	0.87	85.11 %	0	0	0.88	9.32	10.20	9.90	10.50	24
	-0.02	0.84	84.01 %	0	0	1.08	8.32	9.40	9.20	9.60	25
	-0.03	0.81	84.87 %	0	0	1.38	7.32	8.70	8.50	8.90	26
	-0.03	0.77	96.98 %	0	0	2.18	6.32	8.50	7.80	9.20	27
	-0.03	0.75	83.47 %	0	0	1.98	5.32	7.30	7.00	7.60	28
	-0.03	0.72	83.81 %	0	0	2.38	4.32	6.70	6.50	6.90	29
	-0.03	0.68	85.37 %	2	26	2.88	3.32	6.20	6.00	6.40	30
	-0.04	0.65	86.04 %	5	4	3.38	2.32	5.70	5.40	6.00	31
	-0.04	0.61	83.03 %	18	4	3.73	1.32	5.05	4.90	5.20	32
	-0.04	0.58	84.22 %	1	78	4.33	0.32	4.65	4.40	4.90	33
	-0.04	0.54	82.84 %	11	13	4.15	0.00	4.15	4.00	4.30	34
	-0.04	0.51	81.78 %	5	31	3.70	0.00	3.70	3.50	3.90	35
	-0.04	0.48	83.84 %	0	0	3.45	0.00	3.45	3.30	3.60	36
	-0.04	0.44	82.54 %	1	0	3.05	0.00	3.05	2.90	3.20	37
	-0.04	0.42	85.42 %	10	0	2.90	0.00	2.90	2.60	3.20	38
	-0.03	0.38	81.58 %	26	110	2.43	0.00	2.43	2.30	2.55	39
	-0.03	0.35	82.54 %	0	114	2.23	0.00	2.23	2.10	2.35	40
	-0.03	0.32	79.98 %	0	0	1.88	0.00	1.88	1.70	2.05	41
	-0.03	0.22	78.45 %	0	2	1.13	0.00	1.13	0.90	1.35	45
18 Jun 21 (170)											
	-0.02	0.85	78.52 %	8,245	1	1.18	9.32	10.50	10.00	11.00	24
	-0.02	0.82	79.17 %	671	3	1.48	8.32	9.80	9.30	10.30	25
	-0.02	0.78	89.57 %	24	1	2.28	7.32	9.60	9.20	10.00	26
	-0.02	0.76	86.01 %	1,159	1	2.48	6.32	8.80	8.60	9.00	27
	-0.03	0.73	85.94 %	70	1	2.88	5.32	8.20	8.00	8.40	28
	-0.03	0.71	85.29 %	31	0	3.28	4.32	7.60	7.40	7.80	29
	-0.03	0.68	85.00 %	569	0	3.73	3.32	7.05	6.90	7.20	30

FOX CORP TRUMP EFFECT



FOXA PUT BEAR SPREAD

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- Presuming we have a fundamental bearish view
- Stocks tend to fall faster than they rise
- Long May 42 Puts at 2.8
- Short Apr 39 Puts at 0.6
 - Major support at 38 but not enough premium
- We can use price action analysis to help structure trades maximizing profit potential

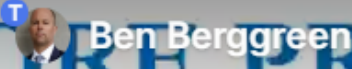
PUTS									
Strike	Bid	Ask	Mid	Intrin...	Extrin...	Volume	Open ...	Imp V...	Delta
37.5	0.25	0.35	0.30	0.00	0.30	0	0	41.31 %	-0.13
38	0.30	0.40	0.35	0.00	0.35	302	167	39.96 %	-0.15
38.5	0.40	0.50	0.45	0.00	0.45	0	0	40.09 %	-0.18
39	0.50	0.60	0.55	0.00	0.55	0	265	39.60 %	-0.22
39.5	0.60	0.75	0.68	0.00	0.68	3	0	39.35 %	-0.25
40	0.75	0.90	0.83	0.00	0.83	59	1,754	39.23 %	-0.30
40.5	0.90	1.05	0.98	0.00	0.98	13	0	38.54 %	-0.34
41	1.10	1.25	1.18	0.00	1.18	0	109	38.57 %	-0.38
41.5	1.35	1.75	1.55	0.00	1.55	0	0	42.17 %	-0.43
42	1.60	1.75	1.68	0.00	1.68	18	1,346	39.25 %	-0.48
42.5	1.85	2.25	2.05	0.50	1.55	1	0	41.68 %	-0.52
43	2.10	2.50	2.30	1.00	1.30	3	493	40.65 %	-0.57
43.5	2.45	2.85	2.65	1.50	1.15	0	0	41.49 %	-0.61
44	2.80	3.10	2.95	2.00	0.95	0	547	40.62 %	-0.65
44.5	3.20	6.00	4.60	2.50	2.10	0	0	72.86 %	-0.59
45	3.50	3.90	3.70	3.00	0.70	0	5	41.25 %	-0.73
45.5	3.90	6.30	5.10	3.50	1.60	0	0	68.42 %	-0.64
46	4.30	5.20	4.75	4.00	0.75	0	1	49.22 %	-0.75
46.5	4.80	7.50	6.15	4.50	1.65	0	0	76.84 %	-0.66
47	5.30	7.00	6.15	5.00	1.15	0	0	66.92 %	-0.72
30	0.05	0.95	0.50	0.00	0.50	0	0	67.88 %	-0.08
35	0.45	0.60	0.53	0.00	0.53	45	0	43.93 %	-0.13
36	0.70	0.75	0.73	0.00	0.73	40	6	44.09 %	-0.17
37	0.85	1.05	0.95	0.00	0.95	9	0	43.77 %	-0.21
38	1.10	1.30	1.20	0.00	1.20	3	0	43.06 %	-0.25
39	1.40	1.60	1.50	0.00	1.50	4	1	42.41 %	-0.30
40	1.80	2.05	1.93	0.00	1.93	0	0	42.95 %	-0.36
41	2.20	2.45	2.33	0.00	2.33	19	30	42.18 %	-0.41
42	2.70	2.90	2.80	0.00	2.80	51	43	41.73 %	-0.47

FAILURE TO LAUNCH (Feb 25th)

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DON'T IGNORE PRICE ACTION



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- These examples presume the fundamental leg-work is done
- **Technicals do not replace fundamentals**
- Understanding price action can be extremely useful, especially for options traders
- Vastly improve timing for entries and exits and help with the selection of strikes

- Stop looking for that secret indicator or setting that you think will make all the difference
- Focus on the clean price action

- Deeper analysis of price action goes way beyond this short presentation
- **More in-depth through mentoring**

Encountering issues with audio or video?



Your questions will only be sent to the host and moderators

Order by **Date** ▾

00:52:33



Emanuel You

Was there any advantage in choosing the horizontal calendar spread in BMBL at market price (65,8)?



the example I went through was a vertical.

If I decided to trade a calendar ratio spread (horizontal) my view would have been that I would expect a period of consolidation or even weakness before the stock rallied into july..... so the type of strategy is entirely dependent on YOUR view of the stock



Emanuel You

Portugal