War Room - Options Spreads (Getting Advanced)

March 30th, 2021

Raj Malhotra

Institute of Trading and Portfolio Management

www.itpm.com

Seminars, Webinars, Conferences, Online Education,
Trader Mentoring,
Global Retail Trader Community

Actionable Examples

LONG(and Price Target)

SEM ($44)

KLIC ($65)

HUBB ($240)

SHORT(and Price Target)

COUP ($170)

LYV ($50)

TPX ($20)

Portfolio Parameters Assumed

Pre-Emptive Risk Management

$100,000 Deposited on Margin at Tradestation
Self imposed, single stock risk limit of 10% ($10,000) spend on the Debit leg of any Options Trade
Net Long or Short bias via implied stock risk via contracts at Strikes allowed hence long portfolio bias.

Re-Active Risk Management

5 positions put on would be equivalent to call number 4 or 5 in a Remote Mentoring Program
By call number 6 or 7 we aim to have a full portfolio (at least double the size of todays examples)

We trade aggressively into options expiries keeping the cash register ringing every month
We also Stay in Motion when we are wrong to claw money back
This means the downside calculations you see in the following examples are the max downside.
We typically lose a lot less when we know were going to be wrong.

What is a Calendar Call Spread?

- A Calendar Call spread is a seasoned options strategy where you buy a longer dated call and sell a shorter dated call against it.
- You do this in hopes that the stock doesn't move up much in the short term but a lot in the long term.
- When this happens, you cheapen the purchase price of your long call because of the premium that you collect.
- If done properly, the trade can be profitable even if your timing is wrong.
- It can often be a strategy that helps to reduce your portfolio P&L volatility.

Why Have Calendar Call Spreads Worked Better Lately?

- This strategy works best when short dated volatility is high, because you collect more premium than if implied volatility is low.
- With implied volatility/options prices higher than most historical levels, the R/R on verticals haven't been as good.
- You want to trade verticals for the highest conviction of price appreciation!
- However, timing is hard to predict on all trades so calendars have given us better risk/reward and more scenarios that are profitable.
- Calendars also allow for staggering of maturities for better P&L Management. You don't want a large proportion of the book expiring all at once.
- This can cause potential drawdowns and also prevent your book from being fully invested.
- The strategy also works in Put spreads but let's start with a Call calendar ratio.

KLIC – Kulicke & Soffa

Option chain

Symbol: KLIC | Expiration: Jul 16 2021 | Strikes: 10

CALLS			PUTS	
Bid	Ask	Strike	Bid	Ask
6.60	7.00	41.0	2.25	2.55
6.00	6.40	42.0	2.65	2.95
5.40	5.90	43.0	3.00	3.40
4.90	5.30	44.0	3.50	3.90
4.40	4.80	45.0	4.00	4.40
3.90	4.30	46.0	4.60	4.90
3.50	3.90	47.0	5.20	5.50
3.20	3.50	48.0	5.80	6.10
2.85	3.10	49.0	6.30	6.80
2.50	2.75	50.0	7.00	7.40

In the money

View full chain

Delayed up to 15 min Learn more

Option chain

Symbol: KLIC | Expiration: May 21 2021 | Strikes: 10

CALLS			PUTS	
Bid	Ask	Strike	Bid	Ask
5.70	6.10	41.0	1.30	1.65
5.00	5.40	42.0	1.25	2.00
4.30	4.80	43.0	1.95	2.40
3.80	4.70	44.0	2.50	2.75
3.30	3.70	45.0	2.95	3.30
2.85	3.20	46.0	3.50	3.80
2.45	2.75	47.0	4.00	4.50
2.10	2.35	48.0	4.70	5.00
1.35	2.15	49.0	5.40	5.70
1.50	1.80	50.0	4.80	6.50

In the money

View full chain

Delayed up to 15 min Learn more

KLIC- Calendar Call Spread

- Even though earnings are May 5th SOMETIMES it makes sense to buy a longer dated Call and sell the month that captures Earnings. You believe KLIC will be at $65 but think it will take time. Therefore, you believe it makes sense to sell a May call in a ratio given volatility is high due to the catalyst.

- Buy 12x July $45 Strike Call for $4.70 = $5,640 Debit

- Sell 4x May $50 Strike Calls for $1.60 = $640 Credit

- Net Debit of $5,000.

- Best case scenario is if the stock stays below $50 by May expiration. Should that happen, you lowered your cost of your July Calls by $640.

- Should stock then rally to $65 on July expiration you would make $19,000. Risk/Reward of ~3.8 to 1. ($24,000-$5,000 = $19,000/$5,000 = 3.8) - Scenario 1

- If the stock goes up to just $49.17 on July expiration, then you break even. (49.17 – 45) x 1200 = $5,004 -$5,000(initial premium) – Scenario 2

KLIC- Calendar Call Spread

- Even though earnings are May 5th SOMETIMES it makes sense to buy a longer dated Call and sell the month that captures Earnings. You believe KLIC will be at $65 but think it will take time. Therefore, you believe it makes sense to sell a May call in a ratio given volatility is high due to the catalyst.

- Buy 12x July $45 Strike Call for $4.70 = $5,640 Debit

- Sell 4x May $50 Strike Calls for $1.60 = $640 Credit

- Net Debit of $5,000.

- Best case scenario is if the stock stays below $50 by May expiration. Should that happen, you lowered your cost of your July Calls by $640.

- Should stock then rally to $65 on July expiration you would make $19,000. Risk/Reward of ~3.8 to 1. ($24,000-$5,000 = $19,000/$5,000 = 3.8) - Scenario 1

- If the stock goes up to just $49.17 on July expiration, then you break even. (49.17 – 45) x 1200 = $5,004 -$5,000(initial premium) – Scenario 2

KLIC- Calendar Call Spread - continued

Edward Shek

- If the stock never goes up, you just lose your initial premium of $5,000. – Scenario 3
- If the stock goes up a lot by May expiration you will STILL make money. However, you MUST map out each scenario before you make the decision looking at all risk/reward scenarios. - Scenario 4.
- If stock went to say $60 on May expiration, you would lose $3,440 on that leg ((60-50-1.60) * 400 = -$3,360).
- However, on your July options you would be up a minimum of $13,680 ((60-45-3.6) * 1200 = $13,680). So your net profit is still up over $10,000!

KLIC- Calendar Call Spread - continued

- If the stock never goes up, you just lose your initial premium of $5,000. – Scenario 3
- If the stock goes up a lot by May expiration you will STILL make money. However, you MUST map out each scenario before you make the decision looking at all risk/reward scenarios. - Scenario 4.
- If stock went to say $60 on May expiration, you would lose $3,440 on that leg ((60-50-1.60) * 400 = -$3,360).
- However, on your July options you would be up a minimum of $13,680 ((60-45-3.6) * 1200 = $13,680). So your net profit is still up over $10,000!

KLIC- Calendar Call Spread

Edward Shek

- Even though earnings are May 5th SOMETIMES it makes sense to buy a longer dated Call and sell the month that captures Earnings. You believe KLIC will be at $65 but think it will take time. Therefore, you believe it makes sense to sell a May call in a ratio given volatility is high due to the catalyst.

- Buy 12x July $45 Strike Call for $4.70 = $5,640 Debit

- Sell 4x May $50 Strike Calls for $1.60 = $640 Credit

- Net Debit of $5,000.

- Best case scenario is if the stock stays below $50 by May expiration. Should that happen, you lowered your cost of your July Calls by $640.

- Should stock then rally to $65 on July expiration you would make $19,000. Risk/Reward of ~3.8 to 1. ($24,000-$5,000 = $19,000/$5,000 = 3.8) - Scenario 1

- If the stock goes up to just $49.17 on July expiration, then you break even. (49.17 – 45) x 1200 = $5,004 -$5,000(initial premium) – Scenario 2

LYV – Live Nation

Option chain

Symbol	Expiration	Strikes
LYV	Jul 16 2021	All

CALLS			PUTS	
Bid	Ask	Strike	Bid	Ask
23.65	24.35	60.0	0.97	1.14
21.25	22.15	62.5	1.27	1.48
19.35	20.95	65.0	1.67	1.80
17.40	18.00	67.5	2.15	2.89
15.60	16.05	70.0	2.72	2.93
13.75	14.35	72.5	3.40	3.65
12.10	12.50	75.0	4.20	4.50
10.55	10.90	77.5	5.15	5.45
9.15	9.50	80.0	6.25	6.55
7.85	8.25	82.5	7.45	7.75

In the money

View full chain

Delayed up to 15 min Learn more

Option chain

Symbol	Expiration	Strikes
LYV	May 21 2021	All

CALLS			PUTS	
Bid	Ask	Strike	Bid	Ask
32.30	33.90	50.0	0.03	0.19
27.40	28.60	55.0	0.04	0.26
22.75	24.40	60.0	0.25	0.39
18.20	19.00	65.0	0.59	0.81
13.90	14.40	70.0	1.26	1.45
12.05	12.50	72.5	1.79	1.97
10.15	10.60	75.0	2.43	2.62
8.55	8.95	77.5	3.20	3.45
7.00	7.45	80.0	4.20	4.45
5.75	6.05	82.5	5.40	5.60

In the money

View full chain

Delayed up to 15 min Learn more

LYV- Calendar Put Spread

- Since May volatility is high because of earnings on May 6th, sell a May downside Put but buy more of a July put in a ratio. You think LYV will go to $50 but take time.
- Sell 5x May $70 Strike Puts for $1.30 = $650 Credit
- Buy 10x July $80 Strike Puts for $6.50 = $6,500 Debit
- Net Debit of $5,850.
- Best case scenario is if the stock stays above $70 before May expiration.
- Should that happen, you lowered your cost of your July Puts by $650.
- Should stock then sell off to $50 on July expiration you would make $24,150. R/R of 4.13 to 1. ((80 – 50) * 1000 = $30,000 - $5,850 = $24,150/$5850 = 4.13) - Scenario 1
- If the stock goes down to $74.15 on July expiration, then you break even. (80 – 74.15) x 1000 = 5,850 -$5,850 (initial premium) – Scenario 2

LYV- Calendar Put Spread - continued

- If the stock never goes down, you just lose your initial premium of $5,850. – Scenario 3.
- If the stock goes down a lot by May expiration to say $60, let's examine that.
- On the May options, you lose $4,350. (70(strike) – 60– 1.30(initial premium) x 500 = - $4,350)
- On the July options, the option has an intrinsic value of $20 (80 – 60). The time value will likely be around $1.00 Each July option is likely worth $21 each(Time Value + Intrinsic Value.). So the July options will have a profit of about $14,500 ((21 – 6.50) x 1000 = $14,500)
- Then you could cover your May puts and let the July puts run, unwind the whole position for a profit of around $10K , or sell downsides put in July to take in more premium.
- The Options (pun intended) are plentiful!

COUP – Coupa Software

Option chain

Symbol: COUP | Expiration: Jun 18 2021 | Strikes: All

CALLS Bid	CALLS Ask	Strike	PUTS Bid	PUTS Ask
68.70	71.00	175.0	2.80	3.20
64.70	66.20	180.0	3.40	3.80
60.20	62.40	185.0	4.20	4.60
56.20	58.00	190.0	5.10	5.60
52.30	54.10	195.0	6.10	6.50
48.40	49.90	200.0	7.20	7.60
41.10	42.60	210.0	9.90	10.50
34.80	36.20	220.0	13.20	13.90
28.80	30.00	230.0	17.20	18.00
23.50	24.80	240.0	21.90	22.80

In the money

View full chain

Delayed up to 15 min Learn more

Option chain

Symbol: COUP | Expiration: May 21 2021 | Strikes: All

CALLS Bid	CALLS Ask	Strike	PUTS Bid	PUTS Ask
67.20	69.80	175.0	1.25	1.50
62.70	65.30	180.0	1.65	1.80
58.40	60.70	185.0	2.05	2.30
53.90	56.30	190.0	2.55	2.80
49.40	51.70	195.0	3.20	3.60
45.30	47.40	200.0	3.90	4.30
37.70	39.50	210.0	5.90	6.40
30.90	32.20	220.0	8.60	9.30
24.50	25.90	230.0	12.10	12.80
19.00	20.00	240.0	16.40	17.60

In the money

View full chain

3:30:10 pm ET 3/29/21

Delayed up to 15 min Learn more

COUP- Calendar 3-way Put Spread

- June volatility is high because of earnings on June 5th. However, in this example you are willing to pay up for June and sell May options because that month lacks catalysts.

- Buy 3x June $240 Strike Puts for $22.50 = $6,750 Debit
- Sell 3x June $175 Strike Puts for $3 = $900 Credit
- Sell 3x May $220 Strike puts for $9 = $2,700 Credit

- Total Debit of $3,150

- Best case scenario is if the stock stays above $220 before May expiration leaving all 3 June Put spreads on the books for earnings.

- Should that happen, then COUP sells off to your target of $175 on June expiration you will make $16,350. Risk Reward of 5.2 to 1. ($19,500 on the June Put spread minus the premium of $3,150). - Scenario 1

- If the stock goes down to $229.50 on June expiration, then you break even. (240 – 229.5) x 300 = $3,150 -$3,150 (initial premium) – Scenario 2

COUP- Calendar 3-way Put Spread – continued

- If the stock never goes down, you just lose your initial premium of $3,150. – Scenario 3.
- Let's say COUP goes down a lot before May expiration.
- There is about a 50/50 chance of keeping all the credit or making a little money on this trade prior to May expiration. In such case, you can take the whole trade off and buy a lower strike in June.
- Let's say COUP goes down to $190 on May expiration. In this case, you lose $6,300 on the May puts. (220(strike) – 190) – $9 (initial premium) x 300 = -- $6,300)
- On the June put spread, my estimate is the structure would be worth $41 (intrinsic +/- time value of both options). NOTE: The time value of the 175 strike put would be worth more than the 240 strike. The P&L at the time on the June put spread would be $6,450. ((41 – 19.50(net June Premium) x 300 = $6,450)
- So in this scenario, you basically break even. - Scenario 4 – Here your preference is to take your chances at the big bucks!

in place?

selling OTM calls will likely get very little credit so not viable option .... you either cut to save some premium (only if the fundamentals have changed) or sell a lower strike call KNOWING that you will raise a credit to offset max loss BUT if the stock rallies back you will have locked in a LOSS

Your questions will only be sent to the host and moderators

Order by **Date**

Emanuel You

In COUP strategy, what about the risk of having 3 naked short puts till May?

Emanuel You

To Edward: In the calendar call spread, after the short leg expired and we collect the premium, we notice that we were wrong and the long leg is going to expired as well.
To get some money back, what do you recommend? Sell OTM calls? Sell Calls with same strike and expire of the leg in place?

selling OTM calls will likely get very little credit so not viable option .... you either cut to save some premium (only if the fundamentals have changed) or sell a lower strike call KNOWING that you will raise a credit to offset max loss BUT if the stock rallies back you will have locked in a LOSS

TWR Portfolio

LONG IDEAS /CALL STRUCTURES			
TICKER	NAME	SECTOR	PRICE TARGET $
SEM	SELECT MEDICAL	HEALTH CARE	44
KLIC	KULICKE & SOFFA	IT - SEMICONDUCTOR EQUIPMENT	65
HUBB	HUBBELL INC	INDUSTRIAL	240

SHORT IDEAS /PUT STRUCTURES			
TICKER	NAME	SECTOR	PRICE TARGET $
COUP	COUPA SOFTWARE	IT - APPLICATION SOFTWARE	170
LYV	LIVE NATION	COMM SERVICES/ENTERTAINMENT	50
TPX	TEMPUR SEALY	CONSUMER DISCRETIONARY	50