Trading Options My Way

By: Robert J. Seifert

Introduction To Selling Weekly Credit Spreads

Last	Chg	Bid	Ask	Vol	OpInt	Action	Strike	Last	Chg	Bid	Ask	Vol	OpInt	Action
	AugWk1 Calls					expires 8/4/2017			SPY @ 247.055				AugWk1 Puts	
11.97	-0.33	11.92	12.23	59	269	Trade | Detail	235.00	0.01	-0.01	0	0.01	2,137	12,275	Trade | Detail
11.36	0	11.52	11.64	00	48	Trade | Detail	235.50	0.01	-0.01	0	0.01	04	7,686	Trade | Detail
11.34	0	11.02	11.14	00	479	Trade | Detail	236.00	0.01	-0.02	0	0.01	10	7,657	Trade | Detail
9.26	0	10.52	10.64	00	155	Trade | Detail	236.50	0.01	-0.01	0.01	0.02	05	5,448	Trade | Detail
10.46	0	10.05	10.10	00	302	Trade | Detail	237.00	0.03	+0.01	0.01	0.02	179	6,090	Trade | Detail
9.68	+0.11	9.55	9.59	200	431	Trade | Detail	237.50	0.02	0	0.01	0.02	00	7,663	Trade | Detail
8.73	0	9.05	9.09	00	414	Trade | Detail	238.00	0.02	0	0.01	0.02	00	9,777	Trade | Detail
8.85	0	8.55	8.59	00	147	Trade | Detail	238.50	0.02	0	0.01	0.02	00	26,503	Trade | Detail
8.36	+0.21	8.05	8.09	20	857	Trade | Detail	239.00	0.02	0	0.01	0.02	13	28,033	Trade | Detail
7.70	0	7.55	7.59	00	229	Trade | Detail	239.50	0.02	0	0.01	0.02	01	2,790	Trade | Detail
7.06	-0.32	7.05	7.09	57	1,194	Trade | Detail	240.00	0.01	-0.02	0.01	0.02	5,408	23,639	Trade | Detail
6.50	-0.35	6.55	6.60	72	859	Trade | Detail	240.50	0.02	-0.01	0.01	0.02	234	6,912	Trade | Detail
5.97	-0.50	6.05	6.10	20	978	Trade | Detail	241.00	0.01	-0.02	0.01	0.02	331	11,374	Trade | Detail
5.52	-0.24	5.55	5.60	10	1,244	Trade | Detail	241.50	0.02	-0.01	0.01	0.02	121	5,98	

Optionomics Group LLC

Hi, my name is Robert J. Seifert and I am the President and CEO of Optionomics Group LLC**.** I'm a 35-year veteran option trader and was an option market maker for almost twenty years at the CME, CBOT and CBOE. I founded and managed two successful floor trading operations and have taught option strategies privately to hundreds of successful traders. I also taught Finance 485 - Applied Derivates at the University Nevada Las Vegas - UNLV. It was the most advanced option course offered at UNLV. If you want to read my complete bio, jump to Appendix A on Page 10.

There are many different option strategies available to individual traders which range from conservative, yield enhancement approaches to risky, speculative methods of trying to hit a home run. They all have their good and bad points. Most of them are listed in Appendix B on Page 8. The purpose of this booklet is to introduce a conservative, weekly approach to option trading that can be profitable in any market environment and with a little practice, is easy to implement. This strategy limits one's risk and with the help of additional tools it can be executed by both novices and experienced traders.

During my career as a trader, and as an Adjunct-Instructor at UNLV, many of my students would ask me if I could trade just one option strategy, what would it be? My answer has always been, and continues to be the same. "I would sell ***Weekly Credit Spreads.*** The reason is simple. Most people don't understand that approximately 70% of options expire worthless so it makes a lot of sense to do what the professional floor traders do – ***Sell them***, don't ***Buy them.*** The best way to sell them is via a credit spread, which is the sale of an option, either a put or call and the simultaneous purchase of a similar put or call at a different strike price. Sounds confusing? It can be at first but the basic strategy is very simple.

Weekly credit spreads have two legs, the short leg (the option which is sold) and the long leg (the option which is bought). Spreads have either a bullish or bearish bias. If XYZ is trading at $50 and you think the stock will go up over the short-term, you would sell the 50.0 put, which has the most premium of any of the other puts and buy the 45.0 put for protection. If you think XYZ is going to decline in value over the short-term you would sell the 50.0 call and buy the 55.0 call for protection. That's all there is to it

When I started in the business back in 1982, options had only quarterly expirations, or four expirations a year. Because of this, credit spreads weren't that popular. However, since the advent of weekly options in 2010, the game has drastically changed. Weekly options have grown to be the hottest option product in the U.S. market. The reason is simple. With weekly options, you now have fifty-two opportunities a year to cash in a trade instead of only four.

The Option Model

To understand why this is such a favorable strategy, you need to know how the option model functions. The original option model was introduced in a paper published by Fischer Black and Myron Sholes in 1973 (The Black Sholes Model.) The model takes into consideration the option's strike price, the underlying stock's price, the number of days until expiration, the underlying stock's volatility and the current risk-free interest rate to calculate the proper, theoretical pricing for all of the calls and puts in an option series. The result is a bell shaped curve like the one below.

ATM STRIKE (1230)

CALLS -5 -4 -3 -2 -1 ATM +1 +2 +3 +4 +5 PUTS

The apex of the bell-shaped curve represents the current price of the underlying stock. This is known as the **At-The-Money (ATM)** strike price. ATM put and calls each have a 50% chance of being in the money at expiration. Their prices contain no intrinsic value. It is all ***premium*** since the stock's price equals the option's strike price. As the stock's price moves away from the ATM strike price in either direction or as time goes by, the amount of premium in the former ATM put or the call decreases until there is no premium left. At the bottom of the graph are ATM -1, -2, -3 etc. which are the strike prices for calls which are above the ATM strike price. ATM +1, +2, +3 etc. are the strike prices for the puts which are below the ATM strike price.

To see how this works in real life, let's take a look at the table located below which is the weekly option chain for Price Line (PCLN). I'm using this as an example since the stock's price, $1230 lines up

exactly with both the 1230.0 put and the 1230.0 call strike prices which are the ATM strikes. Ignore the Letters, Spread, Layout and Exchange drop downs at this time. All you need to understand is the relationships between the strike prices and the option prices.

UNDERLYING

Last X	Net Chng	Bid X	Ask X	Size	Volume	Open	High	Low
1230.00 D	+8.96	1229.50 P	1231.50 P	2 x 1	669,764	1222.01	1237.15	1220.15

TRADE GRID

OPTION CHAIN Spread: Single Layout: Last X, Net Change Exchange: Composite

CALLS				Strikes: 14		PUTS			
Last X	Net Chng	Bid X	Ask X	Exp	Strike	Bid X	Ask X	Last X	Net Chng
APR4 14 (3) 100 (Weeklys)									25.17% (±24.635)
22.00 Q	+5.00	20.40 X	21.70 X	APR4 14	1215	5.60 X	6.40 W	6.10 Z	-6.10
20.00 C	+4.30	18.70 W	20.40 X	APR4 14	1217.5	6.30 X	7.20 X	6.61 C	-9.29
17.01 I	+2.91	17.10 W	18.30 X	APR4 14	1220	7.10 X	8.10 X	8.10 Z	-6.30
15.50 C	+3.15	15.60 I	16.80 X	APR4 14	1222.5	8.10 X	9.20 X	8.39 W	-9.81
15.00 Z	+3.70	14.10 X	15.00 I	APR4 14	1225	9.20 H	10.10 X	9.80 Z	-8.00
13.00 C	+2.80	12.80 X	13.80 X	APR4 14	1227.5	10.30 X	11.10 H	10.61 W	-8.79
12.00 Z	+2.70	11.50 X	12.50 W	APR4 14	1230	11.40 X	12.30 X	12.00 A	-10.20
11.00 X	+3.19	10.40 W	11.30 X	APR4 14	1232.5	12.80 X	13.60 X	13.40 A	-10.17
9.30 X	+1.50	9.30 W	10.10 X	APR4 14	1235	14.10 X	15.00 X	14.80 N	-7.80
8.50 Q	+1.75	8.30 X	9.10 X	APR4 14	1237.5	15.60 X	16.40 X	16.30 X	-13.90
7.30 Q	+1.30	7.30 X	8.00 Z	APR4 14	1240	17.10 X	18.00 X	17.70 N	-12.40
8.52 C	+3.52	6.50 X	7.20 X	APR4 14	1242.5	18.80 X	19.60 X	20.50 N	-10.60
6.20 Q	+1.10	5.70 X	6.20 Q	APR4 14	1245	20.50 X	21.30 X	21.50 Z	-16.30

Notice that the Last X (Prices) for the Puts on the right side of the table and the Calls, located on the left resembles the bell-shaped curve. On the Calls side of the curve (left side) Last X (price) ***decreases*** from $22.00 to $6.20 as the Strike Price (located in the center of the graph) increases from 1215 to 1245. On the Puts side of the screen (right side), Last X (price) ***increases*** from $6.10 to $21.50 as the strike prices increases from 1215 to 1245. The further away that the out of the money put or call is from the ATM strike price, the cheaper the option premiums are for both the puts and the calls. Also, note that the closing price for the 1230 ATM put and call is the same, $12.00.

Earlier on, I noted that approximately 70% of options expire worthless so it makes a lot of sense to sell options instead of buying them. The problem with simply selling a put or call which is referred to as a naked option is that you have unlimited risk. Let's say you sell one, April 1230.0 call for $12.00 ($1,200) when the stock is trading at $1230.00. For some reason the stock runs up to $1300 at expiration, a $70.00 (5.7%) increase in price. The 1230.0 call that you sold short for $12.00 ($1,200) would go to 70.0 ($7,000) and you would lose $5,800 ($7,000-$1,200) per contract. Conversely, if you sell a 1230.0 put for $12.00 ($1,200) and the stock falls out of bed, closing at $1130, the 1230.0 put would go to $100.00 ($10,000) and you would lose $8,800 ($10,000 - $1,200) per contract. That's why selling naked puts and calls, which

have unlimited risk is a dangerous proposition. On the other hand, selling credit spreads which have a defined maximum risk is a great way to implement a profitable options strategy.

Here is why I love weekly, credit spreads. Let's assume that you sell the **Yearly** ATM 1230.0 – 1235.0 bearish call spread for a $5.00 ($500) credit. At expiration, you would keep the $500 credit if the stock closes at or below $1230.00. Not bad but you would only collect the $500 credit one time over the course of the year.

On the other side of the coin, let's assume that you sell the **Weekly** ATM 1230.0 call for $12.50 ($1250) and you buy the 1235.0 call for $10.10 ($1010). You would have created a $2.40 ($240) credit ($12.50 – $10.10). Your maximum risk would be $2.60, which is the difference between the strike price of the 1235.0 call and the 1230.0 call minus the $2.40 ($240) credit. Your profit potential is the $2.40 credit you received when you sold the spread. Following is what the trade would look like.

Date	Stock Symbol	Stock Price	ATM Strike	Long Call 1235.0 4/14/18	Short Call 1230.0 4/14/18	Credit	Debit	Max Risk	Max Gain
04/10/18	PCLN	$1,230.00	1230.0	10.10	12.00	$2.40		$2.60	$2.40

If the stock closes at or below $1,230.00, you would keep the entire credit. If you do this trade every week, you will have the opportunity to collect the $240 credit 52 times a year for a total gain of $12,480 per spread.

Various Outcomes At Expiration

1) You initiate a bullish put spread and you are correct. The stock rallies and closes at or above the ATM short put strike price. You would keep the entire credit amount. Or, you initiate a bearish call spread and you are correct. The stock declines and closes at or below the ATM short call strike price. You would keep the entire credit amount (Full Win).

2) You are sort of right as the stock closes in between the spread's strike prices. For this to occur in the case of a bullish put spread, the stock can close below the short - put option strike price (100) but by no more than the credit spread amount. If you had sold the 100 – 95 put spread for a $2.00 credit and the stock settle at $98.50, your profit would be the credit ($2.00) minus the difference between the short strike price (100) and the stock's closing price ($98.50) for a $0.50 or $50.00 gain. (Partial Win).

   In the case of a bearish call spread, the stock can close above the short - call option strike price (100) but by no more than the credit spread amount. If you had sold the 100 – 105 call spread for a $2.00 credit and the stock settle at $101.50, your profit would be the credit ($2.00) minus the difference between the short strike price (100) and the stock's closing price ($101.50) for a $0.50 or $50.00 gain. In both scenarios, you would keep part of the credit. (Partial Win).

3) You are sort of wrong as the stock closes in between the spread's strike prices. For this to occur with a bullish put spread, the stock would have to close below the short - put option strike price (100) by more than the credit spread amount. If you had sold the 100 – 95 put spread for a $2.00 credit and the stock settle at $97.00, your loss would be the credit ($2.00) minus the difference between the short strike price (100) and the stock's closing price ($97.00) for a $1.00 or $100.00 loss. (Partial Loss).

In the case of a bearish call spread, the stock would have to close above the short - call option strike price (100) by more than the credit amount. If you had sold the 100 – 105 call spread for a $2.00 credit and the stock settle at $103.50, your loss would be difference between the short strike price (100) and the closing stock price ($103.50) minus the credit ($2.00) for a $1.50 or $150.00 loss. In both scenarios, you would lose part of the credit. (Partial Loss).

4) You are dead wrong and the stock breaks down hard (bullish put spread) or rallies big time (bearish call spread). For this to happen there would have to be a significant, adverse movement in the stock price over the five-day stretch. If this occurs and the stock settles below the long put strike price (bullish put spread) or above the long call strike (bearish call spread) at expiration, you would lose the maximum risk amount which would be the credit amount minus the difference between the two strike prices. (Full Loss)

Questions & Answers

While the concept of selling credit spreads is a relatively easy to understand, unfortunately at times it can be a little bit confusing. The following Q & A section should help you further understand how credit spreads work, what is involved and why selling option premiums is a great strategy in any kind of market environment.

Q: How Much Risk Do I Take If I'm Completely Wrong?

A: The formula for calculating risk is always the same in any credit spread. It is the credit you receive from selling the spread minus the difference between the two strike prices used in the spread. In the first PCLN example described above, you sold the 1230 put and bought the 1222.5 put for a credit of $3.61. The difference in the strike prices is $7.50 (1230 minus 1222.5). Subtracting the $3.61 credit from the $7.50 difference in strike prices leaves you with a maximum risk of $3.89 or $389 per spread.

Q: How Much Money Does The Brokerage Firm Require To Trade These Types Of Credit Spreads?

A: While this can vary between brokers, the typical amount is the difference between the strike prices that make up the spread multiplied by the number of spreads. For example: If you sell (initiate) one, 110–105 bullish put spread, the requirement would be $500. If you sold 10 spreads, the requirement would be $5,000. If you sell a 100-101 bullish put spread, the requirement would be $100. If you sold 10 spreads, the requirement would be $1,000.

Q: How Much Risk Capital Do I Need to Trade Weekly Credit Spreads?

A: All trading strategies have some degree of risk though the risk in credit spreads is low. I suggest that you have total risk capital equal to $2,000 per spread. Let's assume that you want to initiate ten spreads per week. Your risk capital should be $20,000. If you were doing six spreads, $12,000 should do.

Q: Why Do I Need So Much Risk Capital?

A: There is a mathematical application for calculating risk called the 'Random Walk Theory'. If you have a method of trading that wins 90% of the time and you only have one unit of risk capital, 10% of the time you will lose everything. On the other hand, if you have 5 units of risk capital, the chance of you losing your bankroll declines to less than 1%. In our method of trading, if you start with $2,000 of risk capital per spread, your chances of losing all your money before you make as much as you want will fall to near zero. You can

start with any amount of risk capital that you are comfortable with, but $2,000 per spread will almost ensure you that a losing streak won't cause you financial ruin.

Q: Why Not Just Sell the Weekly ATM Straddle for A Larger Credit?

A: Because selling a straddle, which is the simultaneous selling of both a put and a call at the same strike price is the same as selling naked options. While a straddle credit is much larger, it has unlimited risk. To negate the risk, you need to buy the same number of options that you sold. I have seen some of the most brilliant people on earth blow billions of dollars by taking unlimited risk. Don't be one of them. Stick with the weekly credit spread strategy.

Q: How Do Commissions Play Into Selling Credit Spreads?

A: Commissions can be a consideration depending on the type of vertical credit spreads that you create. The minimum strike price for all listed stocks in the US is $0.50 while the maximum is $2.50. A stock's price and its volatility will determine the width of the spreads. Let's assume that your broker charges you $0.50 commission per option contract. If you do a 10 lot, 5.0 wide for a $2.00 ($2,000) credit, the commission ($5.00) represents 0.25% of the transaction. On the other hand, if you initiate a 10 lot, 0.50 wide for $0.40 ($400), the commission would be 1.25% of the transaction or 5 times more on a percentage basis. As you can see, it is important to consider commissions when trading vertical credit spreads.

Commissions can be confusing at times. The basic charge usually consists of a Ticket Charge, let's say $5.00 and a per contract charge of between $0.50 and $1.00. Let's assume your broker charges you $5.00 Ticket Charge and $0.50/contract. The total commission charge when creating a 10 lot credit spread would be $5.50. Closing the trade is not as simple since there are a couple of ways of going about it. First you can close out both sides of the trade by buying back your short option while selling your long option. If you have a partial winner or loser you can let the out of the money option expire (go out worthless) by doing nothing while buying or selling the in the money option. If both sides of the trade are in the money, you can either try to buy back the spread at parity (pay $5.00 for a 5.0 spread), pay a penny or two above parity or you can use the process of assignment and exercise to close the trade.

Assignment is when an option writer delivers the underlying stock at a specific price and time to the buyer. If it is a call, the writer must sell the buyer the underlying stock at the specified strike price called for in the contract. If it is a put the writer must buy the stock at a specified strike price called for in the contract**.** ***Exercise*** is when the holder of an option exercises his right to buy or sell the underlying stock at the designated strike price. If you use assignment or exercise you usually will be charged a flat commission for the trade no matter how many contracts are involved.

The following table is an example of the various closing scenarios that can occur and the proper action to be taken. For this illustration, the following fees are assumed. $19.99 per Assignment or Exercise, $5.00 ticket charge plus $0.50 per contract for options and $4.95 per stock trade.

Bull Put Spread						
Credit------->	$2.00					
Max Loss--->	$3.00	Short	Long			Total
	Stock Close	100 Put Assignment	95 Put Exercise	Action	Commission	Closing Commissions
Full Win	$105.00	$0.00	$0.00	Nothing	$0.00	$0.00
Partial Win	$98.50	$19.99	$0.00	Sell Stock	$4.95	$24.94
Partial Loss	$96.00	$19.99	$0.00	Sell Stock	$4.95	$24.94
Max Loss	$90.00	$19.99	$19.99	Nothing	$0.00	$39.98

Bear Call Spread						
Credit------->	**$2.00**					
Max Loss--->	$3.00	Short	Long			Total
	Stock Close	100 Call Assignment	105 Call Exercise	Action	Commission	Closing Commissions
Full Win	$90.00	$0.00	$0.00	Nothing	$0.00	$0.00
Partial Win	$101.00	$19.99	$0.00	Sell Stock	$4.95	$24.94
Partial Loss	$104.00	$19.99	$0.00	Sell Stock	$4.95	$24.94
Max Loss	$90.00	$19.99	$19.99	Nothing	$0.00	$39.98

It should be noted that the flat fee for Exercise and Assignment is for an unlimited number of contracts. If you are trading a small number of contracts, it may make sense to unwind positions on Friday afternoon by buying back the spread.

Summary

There you have it. A description of what I believe what I believe to be one of the best option strategies available to individual traders or investors. It is the only approach that I know off that that can be profitable in any market environment even if you are not completely right on the direction of a stock.

But this is only the beginning. Over the years I have developed several strategies that incorporate the selling of weekly credit credits into relatively conservative but very profitable approaches. At Optionomics LLC, we combine these strategies with the power of the Market Edge 'Opinions" to form a powerful one-two punch that is tough to beat. Market Edge is a great web site developed by Computrade Systems Inc. in 1992. The core of the Market Edge web site is its computer generated 'Opinions' Long (Buy), Neutral (Hold) and Avoid (Sell). By using the ME top rated selections in the various option strategies that I have developed, we have a one two punch that is tough to beat.

Optionomics LLC currently offers four, weekly subscription services designed for individuals with specific market approaches. As a subscriber, you will have access to the Optionomics LLC web site (optionomocs@marketedge.com) where you can retrieve my weekly newsletter, Mr. Seifert Sez along with your choice of any of the following subscription services:

1) Bull & Bear Spreads: The nuts and bolts of trading weekly credit spreads.
2) 21st Century Covered Calls: A modern day alternative to the old fashioned covered call strategy.
3) The Low Cost Put Hedge: Sleep at night knowing your portfolio is protected for little or no cost.
4) Earnings Trades: Trade potential big movers with little or no downside risk.

I offer a FREE 4-Week trial to the various subscription services with no cost or strings attached. Each strategy is explained in a 5-7 page booklet which includes sample weekly recommendations and model portfolios. I doubt that you have ever seen anything like this. During your FREE 4-Week trial, you can paper trade the various strategies and get a feel for the deal without risking a penny. Simply click on the appropriate tab at the top on the Optionomics' Home page to access the informative booklets and then sign up for one or all of the weekly subscriptions. If your broker doesn't offer a play money, virtual option trading platform, click on cboe.com/trading-tools/virtual-trading-tools/virtual-trade to access the CBOE site.

Each Monday morning by 10:00 EST, the plays for the upcoming week plus updated model portfolios for each strategy are posted on the site. The prices in the reports are Monday morning's opening prices. In addition, I have a live webinar on Wednesday mornings where I discuss various option strategies, what is happening on the floor and answer any questions that you may have. Don't worry if you miss the show. They are archived on the site. Sound Good? Good! You can subscribe to one or more of the subscriptions for only $20 per month on a month to month basis with no contract or strings attached. I think you will agree that this is a super offer so give it a try. Click on optionomics@marketedge.com to access the Optionomics LLC web site and get started today doing what the pros do - ***"Sell Them – Don't Buy Them'***.

Mr. Seifert

Appendix A

A little bit about my background. I have been involved in the securities industry since 1976. I started my career as a municipal and government bond salesman in Atlanta, Ga. I moved forward and by1980 I started my own brokerage firm, Fixed Income Atlanta which also specialized in fixed income securities.

During this period, the securities industry was undergoing a major change as options on commodities could be traded for the first time. I became involved in this upheaval and in 1981 began to trade a commodity fund known as Oakmont Fund 1. The fund was highly successful and in 1982 I was rated by *Managed Accounts Report* as one of the top 10 small fund (under $10 million) mangers in the country. I also placed second, beating out over 300 contestants in a yearlong trading challenge sponsored by the *Wall Street Journal*.

In the fall of 1983 I decided to move to Chicago to take advantage of the opportunity to trade options on commodities. I started in the Treasury bond options pit and quickly learned that the books that I had read about options didn't work in the real world. They were all theory and this was "live" trading. I lost money and with my tail between my legs went back to Atlanta to manage the Oakmont Fund.

While in Atlanta I continued to study options trying to solve the puzzle of how they worked in a dynamic environment because the rocket scientists that wrote the text books didn't have a clue. I have never been a pessimist and I was determined to take another shot at the options world. In February of 1985 I went back to Chicago but this time I went to the Chicago Mercantile Exchange (CME) to trade the new Eurodollar option contract. It was the best financial decision that I have ever made.

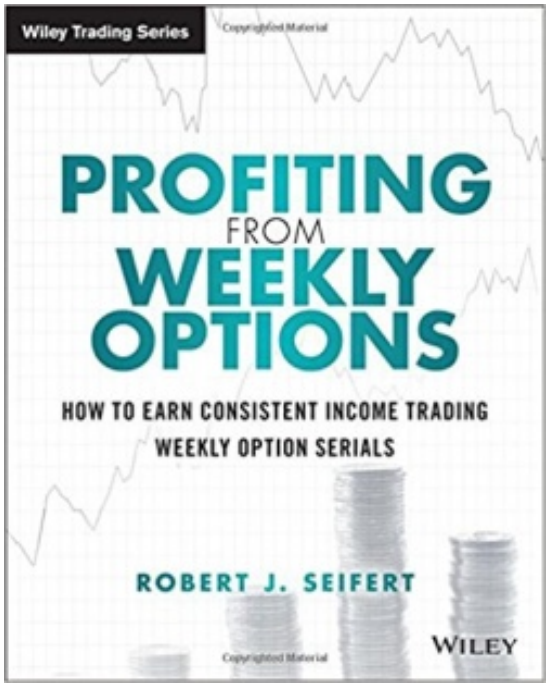
I learned from my previous mistakes and this time I was successful right off the bat. In fact, I was so successful that in 1986 I closed Oakmont Fund 1 and with a partner I started a new company, Futrex Trading. Futrex eventually evolved into an international trading firm with offices in Chicago and London, traders at four exchanges and more than 100 employees.

During my time at Futrex, I became more involved with the management end of the exchange. I chaired numerous option committees and was Vice Chairman of the Eurodollar Option pit, which eventually became the largest option trading pit in the world. I was elected Chairman of the International Monetary Market (IMM), which was quite an honor as I oversaw the option floor at the CME. I also served as a political representative of the Exchange in Washington DC and helped design many of the contracts that are still used today.

After twelve years of grinding out 15 hour days, I decided to retire from Futrex in 1995. That didn't last too long and in 1997 I formed a new floor trading company, Cat in the Hat Trading. The firm specialized in trading duration weighted options in the Eurodollar market. The firm had a small but elite group of traders and quickly became one of the largest floor market making firms in Chicago. By 2003 it was obvious that the world of pit trading was coming to an end and that the business was moving 'upstairs'. I disbanded Cat in the Hat Trading and followed the crowd upstairs.

Upstairs was quite an adjustment. I formed a new trading firm, CWS Trading which was designed to use the electronic markets. The firm traded not only options but also commodities and stocks. In addition to trading, I began to do more teaching and writing. Eventually, most of my endeavors were involved with writing and teaching.

In addition to my role with Optionomics Group LLC, I have taught Finance 485 at UNLV. It is the highest level derivates course offered by the University. I also wrote the text book, 'Profiting From Weekly Options' for the course which deals with weekly options. It was published 2015 by John Wiley and Sons and is part of their financial series.



Appendix B

The following are various option strategies and their risk - reward characteristics.

Strategy	Risk Level	Opportunity

Buy Puts & Calls	High	Big upside if you are right & right
Sell Naked Puts & Calls	Very High	No upside - premium only
Covered Calls	Moderate	Limited upside - big down side
Debit Spreads	High	Must be right & right
Credit Spreads	Low	Good yield enhancement. Limited risk-reward.

Buy Puts And Calls: A traditional way of trading the option market. However, while you have unlimited reward and limited risk, this strategy can be a tough sled to pull. You are constantly fighting the premium you paid for the option. You have to be right and right. Right on the direction of the underlying stock and right on the amplitude of the move so that you can overcome the premium that you paid for the option.

Sell Naked Puts and Calls: This is the worst strategy possible since you are taking on unlimited risk for the chance of a small gain.

Covered Calls: This strategy has been used for years in an attempt to reduce risk while increasing yield. However, this approach can actually increase your risk. A covered involves selling a call against a long stock position. You have limited your upside potential since the stock can be called away from you at any time. If the stock goes up a lot, you only have the premium which you received when you sold the call. If the stock breaks, you are long the stock at your cost minus the premium you received from the call you sold. Therefore, you have unlimited risk and limited reward. I would avoid this strategy.

Credit Spreads: The gold standard for trading options is the Credit Spread. It is the only strategy whereby you can win in three out of four scenarios. You win if you are right on the price direction of the stock. You also win if you are sort of right on the price direction of the stock and you win again if you are only slightly wrong on the price direction of the stock.

Debit Spreads: The opposite side of the Credit Spread. The problem with buying debit spreads is that you can only win in one situation. You have to be right and right. Right on the price direction of the stock and right on the degree of the movement in the underlying stock to overcome the debit that you paid for the option. I would never recommend this trade.

Appendix C

There are several terms that you need to understand when trading options and creating credit spreads. It is best if you learn all that you can but you will have a good working knowledge of the game once you are familiar with the following terms.

At-The-Money (**ATM**) - An At-The-Money option is an option whose strike price is equal to or very close to the current price of the underlying stock.

At The Money (ATM) Straddle - The combined value or price of both the ATM Call and the ATM Put. The price is all premium and has no intrinsic value.

Assignment - An obligation whereby an option writer must deliver the underlying stock at a specific price and time. If it is a call, the writer must sell the buyer the underlying stock at the specified strike price called for in the contract. If it is a put the writer must buy from the buyer the stock at a specified strike price called for in the contract.

Call - An option contract which conveys the right to buy a standard quantity (100 shares) of a stock at a fixed price (the strike price) for a specified length of time (expiration date).

Calendar Spread – A strategy that involves the purchase of a longer-term option (put or call) and the selling of an equal number of nearer-term options of the same type and strike price.

Closing Transaction - To sell a previously purchased position or to buy back a previously sold position. This effectively closes out the position.

Commissions – Broker's fee per contract. Not to be confused with 'Ticket Charge'. Varies from broker to broker. Currently (01/26/18) around $0.50 to $0.75 per option.

Credit - The amount of cash you receive for writing (selling) an option. This is the maximum amount that you can make on a trade.

Credit Spread - A spread that you sell regardless of whether you are trading puts or calls. When you sell a spread, you receive a credit for the trade. Credit spreads are risk defined spreads so your maximum profit and maximum loss are both defined before you place the trade. Maximum profit is the credit you receive for selling the spread. You can't make any more money than the initial credit received. Maximum loss is the difference between the strikes prices of the spread minus the credit received from selling the spread.

Debit - The amount you pay for buying an option. It is your maximum risk.

Debit Spread - A spread that you buy regardless of whether you are trading puts or calls. When you buy a spread, you create a debit for the trade. Debit spreads are risk defined spreads so your maximum profit and maximum loss are both defined before you place the trade. Maximum profit is the debit you paid for buying the spread added to the strike price differential. Maximum loss is the debit you paid for buying the spread.

Exercise - The act by which the holder of an option exercises his right to buy or sell the underlying stock at the designated strike price.

Expiration, Expiration Date Or Expiration Month - This is the date by which an option contract must be exercised or it becomes void and the holder of the option ceases to have any rights under the contract. The front month or weekly serial is referred to as the expiring serial.

Horizontal Spread – A strategy that involves the purchase of a longer-term option (put or call) and the selling of an equal number of nearer-term options of the same type and strike price.

In the Money (ITM) - Term used when the strike price of an option is less than the price of the underlying stock for a call option or greater than the price of the underlying stock for a put option.

Leg – Is one of the strike prices used in a spread that consists of two or more strike prices.

Option Chain - Is the list of available options for a given underlying serial.

Out of The Money (OTM) - An out of the money option is one whose strike price is either above or below the current price of the underlying stock. This means that the strike price of a call option is greater than the

price of the underlying stock or the strike price of a put is less than the price of the underlying stock. An out of the money option has no intrinsic value, only time value.

Parity – An option that is trading for only its intrinsic value. There is no time premium in the option's price.

Premium - This is portion of an option's price which is in excess of its intrinsic value.

Put - An option contract which conveys the right to sell a standard quantity (100 shares) of a specified stock at a fixed price (the strike price) for a limited length of time (expiration date).

Serial – The grouping of options by expiration dates. The shortest time frame currently traded in the US is the weekly expiration. The longest time frame is the yearly leaps. All option contracts have an expiration date when they are listed and that expiration date determines their serial group.

Strike Price - The price at which the holder of an option has the right to buy or sell the underlying stock.

Straddle – The simultaneous buying (long straddle) or selling (short straddle) the same number of puts or calls with the same strike price and expiration. Buying both the put and call creates unlimited reward and limited risk. The sale of both the put and call creates limited reward and unlimited risk.

Strangle – The same as a straddle except that a strangle has two different strike prices.

Ticket Charge – The amount a broker charges per trade (ticket). Not to be confused with 'Commissions'. Ticket charges vary from broker to broker. Currently (01/26/18) they are around $5.00 - $7.00 per trade.

Weekly Serial - An option serial that expires every Friday, fifty-two times a year.

Vertical Call Spread – A spread involving call options which is used when you have a bearish opinion of a stock or the market

Vertical Put Spread - A spread involving put options which is used when you have a bullish opinion of a stock or the market

Write or Writer – To sell an option that is not owned through an opening sale transaction. While the position remains open, the writer is obligated to fulfill the terms of that option contract if the option is assigned. The seller of an option is called the writer, regardless of whether the option is covered or uncovered.