

# Trading Options My Way



By: Robert J. Seifert

**The Optionomics Group, LLC**

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## Table of Contents

Forward: Why You Lose And Probably Always Will .....	3
Chapter One: How A Casino Makes Money .....	6
Chapter Two: Introduction To Selling Weekly Credit Spreads .....	10
Chapter Three: The Bullish – Bearish Credit Spread Trade .....	18
Chapter Four: The 21 <sup>st</sup> Century Covered Call Strategy .....	26
Chapter Five: The Low Cost Put - Call Hedge Strategy.....	35
Chapter Six: The One-Day Wonder Trade.....	44
Chapter Seven: The Earnings Season Trade .....	<b>Error! Bookmark not defined.</b>
Chapter Eight: The Blow Off Top – Bottom Trade .....	52
Chapter Nine: The Billionaire – Limited Risk Reversal Strategy .....	56
Chapter Ten: The SPY Short-Term Power Play .....	61
Chapter Eleven: Putting It All Together.....	66
Appendix A.....	71
Appendix B.....	73
Appendix C.....	73
Worksheets .....	76

## Forward: Why You Lose And Probably Always Will

Hi, my name is Robert J. Seifert and I am the President and CEO of Optionomics Group, LLC. I'm a thirty-five-year veteran option trader. For almost twenty years, I was a market maker for options at the CME, CBOT and CBOE. I founded and managed two successful floor trading operations and have taught option strategies to hundreds of successful traders. I also taught Finance 485 - Applied Derivates at the University of Nevada Las Vegas - UNLV. It was the most advanced option course offered at UNLV. My complete bio is located in Appendix A.

One question that I am constantly asked is why is it so hard to make money trading options? There are seven problems that arise time and time again that I believe separate successful traders from those that can't make money in a market that offers so much opportunity. Let's address these problems that I have observed over my 35-year career and see if I can get you on the right track.

### Problem #1: Understanding Market Expectations

The first problem most traders confront is that they don't understand what I call market psychology. Did this ever happen to you? You have been waiting for the earnings report for ABC. You have owned the stock for a while and have decided to add to your position if the numbers are good. The company reports record earnings and sales. It is the news you have been waiting for, so you add to your position and after a brief rally the stock begins to sell off. Over the next two months it loses 8% of its value. How is it possible that ABC had record earnings and sales, yet the stock goes in the tank?

It is because of a situation known as '**market expectation**'. Heading into earnings season, Wall Street expects higher earnings with even higher sales and bids up the stock prior to the release. Even though the company produces the expected numbers, the Street sells the stock. This is explained as the news was built into the price of the stock. Even worse, the numbers are good but a touch below expectations. Look out below.

You need to learn how to react to these situations. You know your logic, but you need to try to figure out what your opponents are thinking. In all games and the market is the biggest game of them all, the players that can figure out their opponent's probable next move are the ones that win!

### Problem #2: You Have No Idea How The Market Works

Most traders have no idea how the market works. They watch the talking heads on TV and are told the reason that the market is higher today is because there were more buyers than sellers. The option market is an auction market, which means there must be a buyer for every seller and vice versa. The market goes higher when the buyers are willing to pay more for an option. It goes lower because the sellers are willing to take less for their options. Buyers and sellers are always the same number.

The price at which their bids and offers meet is called '**price discovery**' and that is where a trade takes place. Price might only be in equilibrium for a second or it could be for a longer period of time, but there must be a buyer for every seller in order for a trade to take place. So, forget about what the TV guys tell you and pay attention to the trading action for clues as to future direction.

### **Problem #3: Favorable And Unfavorable Games**

The third problem is that most unsuccessful traders don't understand the difference between favorable and unfavorable games. Owning stocks and bonds are favorable games in which all the participants are more likely to win than to lose over long periods of time. Unfavorable games are the ones casinos offer such as craps, roulette, blackjack and any other variation of those games. The casino knows that if they can grind out the small edge or advantage that they have, over time they are bound to win. Players who try to turn the casino's edge around generally find that in the end, playing an unfavorable game doesn't enhance their bankroll. Options trading, when played correctly is a favorable game. It is a game in which time is on your side providing you with an edge, just like the casino. If you know how to take advantage of this edge, you will find that over extended periods of time, you will become the casino and consistently grind out a profit.

### **Problem #4: The Silver Bullet**

The fourth problem is that most unsuccessful traders are looking for the '*Silver Bullet*' which is the trade that wins 97% of the time and produces a 200% return every year. Guess what - it doesn't exist. If it did the market makers would be all over it and the profit potential would evaporate. Trading is a grind it out game. A win or loss on any individual trade means nothing. The successful trader has the ability to grow their capital over long periods of time. That ability separates the winners from the losers. You must be willing to accept a reasonable rate of return on your investment and not try to hit home runs all the time. Silver Bullets don't exist, but profitable transactions are readily achievable.

### **Problem #5: Cheap Options**

Buying "cheap" out of the money calls and puts is a losing proposition. The logic is that you can make a killing by buying these options, but the truth is the options are usually fairly priced and are not cheap. So, even when you are correct in the direction of the underlying stock but have the wrong option in place you lose two ways. First, you lose money because the cheap option never ends up in the money and you lose the premium you paid for the option. Second, and even more damaging, is that you get psychologically dinged. You were right on the stock's direction, but you still end up with a losing trade. No good.

### **Problem #6: Unlimited Risk**

This is the number one reason that most retail and commercial traders blow out. The option chain is a probability model. It assigns each strike price a percentage chance of the option ending up in or out of the money. When you sell naked options, you have unlimited risk and limited reward. I can tell you that after thirty-five years in the option market, impossible things will happen. Ask Lehman Brothers and Bear Sterns. Ask the geniuses at Long Term Capital and AIG. It may take months or years but eventually if you have unlimited risk you will blow out. The difference between you and AIG is that the Federal Reserve will not be there to bail you out when you go broke.

### **Problem #7: You Can't Win Them All**

I don't care what game you are playing; you aren't going to win all of the time. It is the same deal when trading options. However, if you have a sound strategy you can win a lot more than you lose and that is what it is all about. That being said, it is very important to understand that at times everything will go wrong and extended losing streaks will occur. How you handle these situations is critical to your overall success.

Once you accept the fact that you are going to have losing trades, the next step is to know what kind of losing streaks you may have to deal with and what steps you can take to lessen the blow. To give you an idea of what to expect, if you have a 50% win rate, which should be easily obtainable, you can expect seven consecutive losing trades with a 99% confidence rate. Another way of stating this is that in a group of 100 trades, if you have a 50% win rate, you can expect losing runs of seven in a row, 1% of the time. With a 60% win rate, you can expect losing runs of six in a row 1% of the time. It sounds like a small percentage, but rest assured it will occur. That is why you need sufficient risk capital when employing this and every other option trading strategy.

## How Would You Like To Be The Casino?

To understand the options market you need to be familiar with how most games work. If the game is unfavorable, such as the ones offered at casinos, lotteries etc., the likelihood of winning is less than the chance of loss. The operator of the game has set the odds so that over the long run if you continue to play you are likely to lose your money. That is not to say that all participants will lose all of their money. In fact, some do win and when they do, the casinos and lotteries are quick to point out the big winners. However, if you continue to play unfavorable games for perpetuity, you will eventually lose most or all of your risk capital.

On the other hand, if a game is favorable it means that most participants can make money if they play it for eternity. Games such as the stock and bond markets would be examples of favorable games. Although there are periods when you will lose money, in the end most businesses tend to make money and borrowers with sufficient credit usually pay back their debts plus the interest that they owe.

Needless to say, when investing you want to play favorable games. Options, when used correctly and when market conditions are constructive, can be a favorable game. Most professional traders sell options. They know that taking advantage of option premium '**time decay**' gives them an edge and that is what makes it a favorable game. The problem is, most option traders are not sophisticated enough to take advantage of this phenomenon let alone understand what I refer to as favorable '**market conditions**'.

That is why Optionomics Group LLC has partnered with Computrade Systems Inc., the developer of Market Edge, to produce option strategies that give you the edge you need to be a successful trader. Depending on your goals, the strategies and trades presented in this book are simply to employ and can provide good results in any market condition. They are all mathematically sound and will show a net positive return on investment when used over longer periods of time. Will every trade be a winner? Of course not. Will you get 200% returns per year? Nope. But you should end up mastering some of the same strategies that the pros use to grind out their edge. You will learn how the option model works and how to price your trades correctly. But most of all, the strategies and trades described in this book all have one thing in common. They all have **limited risk** which I believe is the most important ingredient to any option approach.

It will take you some time to master the various strategies that are included in this book. Odds are that you have never seen anything like this before. If you are looking for the silver bullet, **Fuhgeddaboutit!** Along the way you will have help from me and other successful traders through my webinars who will teach you how to master the "Option Chain" so you will have complete confidence when you are ready to enter the pits.

## Chapter One: How A Casino Makes Money

Trading options is much like gambling in a casino. It is important to understand how the casino makes its money and the similarities between casino betting and trading options. It never ceases to amaze me when I meet people that gamble all of the time and have no idea why they lose money in the casino. They take the same strategies to the securities markets and turn winning propositions into losing trades. The following explains the differences and similarities between the two and shows you how to get a '**casino like edge**' when trading options.

### Casino Terms

The advantage that the casino has in each game and wager is called the **house's edge**. This is the theoretical advantage that the casino holds over the player on any single bet and is what makes the game a gambling proposition. While either party may win at any one time, the house's edge assures that the casino will make a profit over the long run. The **casino's win** is the net dollars retained by the casino after all bets are paid off. This can be a negative amount when the players win more than the casino holds. The **hold percentage** is the relationship of the casino's win to the **drop**.

If a slot machine has \$100 inserted into it during a day and pays out \$80, the casino's win is \$20. However, the **hold percentage** is based on total bets. If it is a \$1 per spin machine and the machine recorded 1000 spins, then \$1000 was wagered. Winning a total of \$20 means the **hold percentage** is just  $\$20/\$1000$  or  $2/100$  which is 2%.

The **hold percentage** is best explained by analyzing a roulette table with zero and double zero, the typical American wheel. This game gives the casino a **house edge** of 5.26%. However, at the end of a shift the game is likely to win close to 20% of the **drop**. For every \$100 in the **drop** box, the house will likely have a **hold percentage** of 20%. This is because a player is likely to make many bets against a **house edge** of 5.26%. They win some and they lose some, eventually losing what they were willing to risk on a particular table.

The **handle** is the total amount bet on any game over a period of time. This is the most important number to the casino. No matter how big the house's mathematical edge is, if no one plays the game the casino can't make any money. The overhead to run the game makes it mathematically impossible for the casino to be profitable if the **handle** is too small. The game only stays open as long as they can attract sufficient **handle**.

### Factors Influencing The Handle

The most important factor which determines a casino's **handle** is what is referred to as **time on device**. Regardless of the size of a bet, if there are no players at a table or machine, there is no handle and therefore no profit potential. Casinos maximize their income when they find ways to increase not just the house edge, but the average bet and the amount of time that each gaming device is in action.

The overall **handle** is a product of capacity of use, game speed and the average bet. This is why all players' comps are based on the average bet and the hours played, not on how much you win or lose. A casino with 1,000 slot machines is only successful if the machines are in constant use. However, the situation with table games is different. It is rare to see a blackjack table with a low \$2 or \$5 minimum, even though players are wandering around wanting to play that amount while there are several empty \$25 tables. This is due to the

expected win per hour at a blackjack table. With six players betting \$2 per hand, a dealer can get out around 360 hands per hour. The total wagers (excluding double downs and splits) would equal \$720 and the house would expect to win 2%, or around \$14 per hour. However, a single player at a \$25 table will produce \$1,500 in bets per hour where the house expects to win 2% for a total of \$30. Obviously, the \$25 game will be dead at times, but the single \$25 player easily makes up the difference. If all the tables have low limits and there are no seats available for the big player, the house is losing out.

## How To Be The Casino When Trading Weekly Options

Trading weekly options is like operating a casino. They offer tremendous leverage and when properly employed, can consistently grind out profits over a period of time. However, it has been estimated that 70% of options expire worthless. This tells you right of the bat that if you want a casino like edge, you don't want to **buy** options, you want to **sell** them. In addition, it helps if you have a reliable method of projecting price direction for the underlying stocks that you use in your trading strategies To accomplish this goal, Optionomics Group LLC has partnered with Computrade Systems Inc.- Market Edge. Market Edge has been providing computer generated stock projections with 70% accuracy since 1992. By combining the Optionomics trading strategies with the Market Edge, Bullish – Bearish 'Opinions', trading strategies have been developed which give you a casino like edge and should prove to be profitable in any type of market environment.

## The Problem With Selling Options

When you sell a naked option, you create a credit in your account. In order for the trade to become a loser the price of the underlying stock must move against you by more than the value of the strike price plus the premium you received when you sold the option. This is the lure for traders and investors. You can be wrong on the direction of the underlying stock and still collect on the trade. It is the only trade that can be made in the investment world that will pay off even if price goes against you. However, there is a downside to selling naked options. You create **unlimited risk**. Once a naked option position is in place there is no way to get out if the underlying stock suddenly 'gaps' against you. Many big traders have blown out and lost billions of dollars because they sold naked options. So, if you can't sell naked options because of the unlimited risk, is there a way to create a credit without the risk? Can you be like a casino and have a limited risk - limited reward strategy that will pay off over the long run? Yes, there is and it is called the '**credit spread**'.

## The Nuts And Bolts Of Selling Credit Spreads

Credit spreads are created by **selling** one option (put or call) and simultaneously **buying** another similar type of option with less premium. This strategy eliminates the **unlimited risk** factor that exists when you sell naked options. You can create either a vertical credit spread which is buying and selling an option in the same serial or a horizontal credit spread which is buying an option in one serial and selling one in another. In either scenario, you have limited risk and limited or unlimited reward.

When options were first offered to the public back in the 1970's, they had quarterly expirations which meant that you could only sell a credit spread four times a year. As time passed, regulators found that there was a demand for options with monthly expirations. As demand increased, the powers that be came up with the idea of weekly expirations which gave the seller the opportunity to sell credit spreads 52 times a year. Selling weekly credit spreads is somewhat equivalent to the **time on device** component of the casino business model.

Take a look at the two option chains below. They are for Tesla (TSLA). The first chain is the TSLA weekly option serial for July 20, 2018 which has four days remaining until expiration. The second chain is the same as the first, but it is a June 21, 2019 serial with 340 days remaining until expiration.



Last X	Net Chng	Bid X	Ask X	Size	Volume	Open	High	Low
309.91 P	-8.96	309.89 Q	309.94 Q	1 x 2	7,543,125	311.71	315.16	306.25

CALLS		PUTS			
Last X	Net Chng	Bid X	Ask X	Last X	Net Chng
20 JUL 18 (4) 100 54.20% (±15.279)					
14.80 N	-6.23	14.25 X	15.80 X	2.56 I	+1.14
13.07 I	-7.49	12.95 X	13.25 Z	3.19 E	+1.51
11.55 Q	-6.85	11.25 Z	11.75 X	3.88 I	+1.76
9.75 H	-6.85	9.65 T	9.85 Z	4.79 E	+2.26
8.30 C	-6.14	8.15 Z	8.40 Z	5.70 C	+2.72
6.93 A	-5.72	6.90 M	7.10 X	6.86 C	+3.03
5.81 X	-5.39	5.70 Q	5.90 X	9.10 H	+4.41
4.87 X	-4.61	4.65 C	4.80 Z	9.60 Z	+4.05
3.95 Z	-4.18	3.80 Q	4.00 X	11.35 C	+4.70
3.12 Q	-3.73	3.05 C	3.15 E	13.68 I	+5.88

CALLS		PUTS			
Last X	Net Chng	Bid X	Ask X	Last X	Net Chng
21 JUN 19 (340) 100 74.50% (±211.68)					
79.98 C	0	72.00 C	73.10 Z	47.15 H	0
73.00 C	0	69.30 X	70.45 X	52.66 C	-1.54
66.70 C	-6.69	67.00 C	67.85 C	52.85 Q	0
69.00 N	0	64.35 C	65.35 C	57.59 X	+2.59
61.00 Q	-13.90	61.90 C	62.85 Z	59.13 X	-2.47
59.00 P	-4.00	59.60 C	60.50 C	61.55 Z	+2.05
58.00 Z	-3.75	57.35 C	58.20 C	62.20 Q	0
55.00 Z	-1.91	55.05 C	55.95 C	67.00 P	+0.01
54.50 X	-3.77	53.00 C	53.80 C	70.65 Z	+2.35
52.15 C	0	50.95 C	51.70 Z	73.50 H	+2.95

To compare the difference in two credit spreads let's see what would happen if we sold the ATM, ATM+2 call credit spread in both serials. If you did the spread with four days until expiration, you would get a credit of about \$2.10. Now go to the 340-day expiration and sell the same spread. You would get a credit of about \$2.35. Even though the spreads have similar risk, the credit from the 340-day serial would only be \$0.25 (\$2.35 - \$2.10) more if the spread ended up being a total winner. You get roughly \$109.20 (\$2.10 x 52) a year for selling a **weekly** credit spread vs. \$2.35 when you sell the **yearly** spread. This is one of several pluses inherent in selling weekly credit spreads.

## Volume

The casinos are constantly worried about **handle**. If the handle isn't great enough on a certain machine or game, they lose their edge and can no longer make money. While Market Edge provides us with the **edge** you

want, you still need to trade in high-volume, liquid markets so that you're trading activity will not disrupt the market.

## **Diversification**

The casino uses a combination of slots and table games to make sure that their risk is spread over many profit centers. Since we only use stocks when creating our credit spreads, we can't pick different games or securities. However, we do have a means to diversify by using different types of trades under different market conditions. The Optionomics' trades and strategies are custom designed to take advantage of several common market scenarios with holding periods that range from one day to several months as long as conditions remain favorable.

## **Summary**

As you can see, Optionomics' uses a casino-based business model when combining proven option trading strategies with Market Edge's ability to predict price direction for the underlying stock selections. As noted above, it is important that you observe basic rules of trading and never risk more than 3-4% of your capital on any one trade. Also, only trade in liquid markets. Don't get caught in the 'roach motel' where you can get in, but you can never get out. By sticking with the Optionomics' selections, most of the work is done for you and you should get above average results in any kind of market environment. Just always remember. When it comes to trading options do what the pros do ***'Don't Buy Them - Sell Them'***.

## Chapter Two: Introduction To Selling Weekly Credit Spreads

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 have fifty-two opportunities a year to cash in a trade instead of only four.

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. The purpose of this book is to introduce several conservative, option trading approaches which should be profitable in any market environment. All of the strategies presented in this book are easy to implement and most importantly, always limit one's risk.

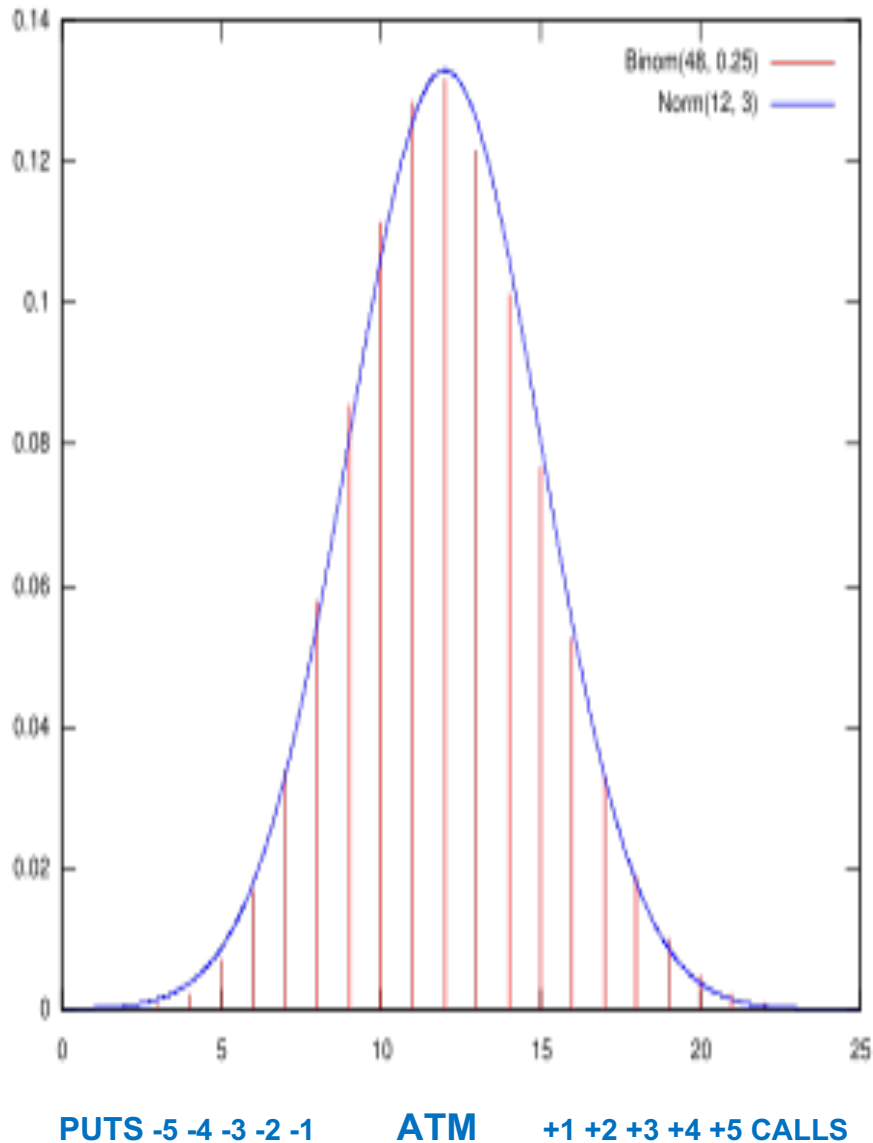
During my career as a trader, and then as an Adjunct-Instructor at UNLV, many of my students would ask me if I could trade just one option strategy, what would it be? My answer has always been and continues to be the same. I would sell **Weekly Credit Spreads**. The reason is simple. Most people don't understand that approximately 70% of options expire worthless so it makes a lot of sense to do what the professional floor traders do – **'Don't Buy them, Sell 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.

### The Option Model

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

To appreciate why this is such a favorable strategy, you need to understand how the Option Model functions. The original Option Model was introduced in a paper published by Fischer Black and Myron Scholes in 1973 (The Black Scholes 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)



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 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 the out of the money **puts** that are below the ATM strike price. ATM +1, +2, +3 etc. are the strike prices for the out of the money **calls** which are above the ATM strike price.

To see how this works in real life, take a look at the table 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 the ATM strike prices for both the 1230.0 put and the 1230.0 call. 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: <input type="text" value="Single"/>			Layout: <input type="text" value="Last X, Net Change"/>			Exchange: <input type="text" value="Composite"/>				
CALLS					Strikes: <input type="text" value="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 Prices (Last X) for the Puts, located on the right side of the table and the Calls on the left resembles the bell-shaped curve. On the Calls side of the curve (left side), 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 Put side of the screen (right side), 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 (1230), 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 call for \$12.00 (\$1,200) when the stock is trading at \$1230.00. For some reason the stock runs up to \$1300.00 at expiration, a \$70.00 or 5.7% increase in price. The 1230 call that you sold short for \$12.00 (\$1,200) would go to \$70.00 (\$7,000) and you would lose \$5,800 (\$7,000 - \$1,200) per contract. Conversely, if you sell a 1230 put when the stock is at \$1230.00 for

\$12.00 (\$1,200) and the stock falls out of bed, closing at \$1130, the 1230 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 – 1235 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 call for \$12.50 (\$1250) and you buy the 1235 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 call bought and the 1230 call sold minus the \$2.40 (\$240) credit. Your profit potential is the \$2.40 (\$240) credit you received when you sold the spread. Following is what the trade would look like.

	Open	Open	Short Call	Long Call					%
**Stock	Date	Stock	04/14/18	04/14/18	Credit	Max	% Of	Quick	Risk Capital
		Price	Strike Price	Strike Price	Spread	Risk	Spread	Target	Max Risk
PCLN	04/10/18	\$1,230.00	1230.0	1235.0	\$2.40	\$2.60	48.0%	\$0.05	-1.3%

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

## Credit Spread 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 and 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 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)**

While the concept of selling credit spreads is 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 premium 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 with 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: Why Not Just Sell A Weekly ATM Straddle for A Larger Credit?**

**A:** Because selling a straddle, which is the simultaneous selling of both a put and a call with the same strike price and expiration date is selling naked options. An example of a straddle would be selling one PCLN April 14, 1230 call for \$12.00 and one April 1230 put with the same expiration date for \$12.00 for a \$24.00 (\$240.00) credit. While a straddle credit is much larger, it has unlimited risk since both sides of the trade are naked. **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: What Is The Story With Commissions?**

**A:** The typical transaction fees that brokers charge is a Ticket Charge, let's say \$5.00 and a per contract commission of between \$0.50 and \$1.00. Let's assume your broker charges you a \$5.00 ticket charge and a \$0.50/contract commission. The transaction fee when buying or selling a 10 lot would be \$10.00. If you were initiating a 10 lot, credit spread, the transaction fee would be \$20.00 since you would be buying and selling a total of 20 contracts on two tickets.

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 worthless by doing nothing while buying or selling back 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.

**Q: How Do Commissions Figure into Selling Credit Spreads?**

**A:** Commissions can be a consideration depending on the type of credit spreads that you create. The minimum strike price increment for all listed options in the US is 0.50 while the maximum is 5.0. A stock's price and its volatility will determine the width of the spreads. Let's assume that your broker charges you a \$5.00 ticket charge and \$0.50 commission per option contract. If you do a 10 lot, 5.0 widspread for a \$2.00 (10 x \$200 = \$2,000) credit, the commission (\$10.00) would represent 0.5% of the transaction. On the other hand, if you initiate a 10 lot, 0.50 widspread for \$0.40 (\$400), the commission (\$10.00) would be 2.5% of the transaction or 5 times more on a percentage basis.

**Q: What Is Assignment or Exercise?**

**A: Assignment** occurs when an option writer (seller) 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 from the owner at a specified strike price called for in the contract. **Exercise** is when the holder of an option exercises his right to buy (call) or sell (put) 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 scenarios that can occur at expiration 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.

<b>Bull Put Spread</b>						
Credit----->	\$2.00					
Max Loss--->	\$3.00					
	Stock Close	Short 100 Put Assignment	Long 95 Put Exercise	Action	Commission	Total 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



<b>Bear Call Spread</b>						
Credit----->	<b>\$2.00</b>					
Max Loss---->	<b>\$3.00</b>	<b>Short</b>	<b>Long</b>			<b>Total</b>
	<b>Stock</b>	<b>100 Call</b>	<b>105 Call</b>			<b>Closing</b>
	<b>Close</b>	<b>Assignment</b>	<b>Exercise</b>	<b>Action</b>	<b>Commission</b>	<b>Commissions</b>
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 as of 2020, most online brokerage firms eliminated commissions when trading stocks and options. Some may still charge a nominal \$0.50 to \$0.70 per option contract fee.*

## Summary

There you have it. A simple explanation of what I believe to be one of the best option strategies available to individual traders. It is the only approach that I know 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 based on the selling of weekly credit spreads into conservative but very profitable trading approaches. Five of these strategies are detailed in this book and are ideal for individual traders.

Key to the success of each option strategy is the proper selection of the underlying stocks used in creating the spreads. To address this situation, Optionomics Group, LLC has partnered with Computrade Systems Inc., the developer of the Market Edge web site ([www.marketedge.com](http://www.marketedge.com)). Market Edge has been in existence as either a software application or web site since 1992. The core of Market Edge is its Second Opinion report which provides unbiased, computer generated 'Opinions' for over 4,000 stocks on a daily basis. These Opinions are either Long (Buy), Neutral (Hold) or Avoid (Sell). They have a history since 1992 of being accurate around 70% of the time with the winners outperforming the losers by a 3:1 ratio.

Below is a Market Edge 'Status Report' as of 06/07/17 which shows the performance of the Market Edge Long, Neutral and Avoid Opinions. Note that 80.84% of the stocks with a Long Opinion (Buy) are up in price since the Opinion was formed while 71.85% of the stocks with an Avoid Opinion (Sell or Short) are down in price.

## Second Opinion Performance

The following is a current performance review of the Opinions generated by Market Edge. This report shows the user how well the model is forecasting each stock's price movement. The Opinions (Long, Neutral or Avoid) are categorized by whether or not the stock is a Winner (the stock's price has gone in the predicted direction), Loser (The stock's price has gone in the wrong direction) or Pushes (The price has not moved).

For reporting purposes only, AVOID is synonymous with short sale so that the Winners of AVOID stocks are the stocks whose price has gone down since the Opinion was generated. The average % change (% return) is calculated using the average number of days (average hold period of the opinions). The Maximum days shows how old the longest Opinion has been held in each category (Long, Neutral, Avoid).

	<b>LONG</b>		<b>NEUTRAL</b>		<b>AVOID</b>	
TOTAL	1764	100.00 %	533	100.00 %	1041	100.00 %
WINNERS	1426	80.84 %			748	71.85 %
LOSERS	331	18.76 %			279	26.80 %
PUSHES	7	0.40 %			14	1.34 %
<b>AVERAGE CHANGE</b>			<b>AVERAGE CHANGE</b>		<b>AVERAGE CHANGE</b>	
WINNERS	20.00 %		-2.73 %		WINNERS	10.13 %
LOSERS	-2.79 %				LOSERS	-2.99 %
AVERAGE	15.64 %				AVERAGE	6.48 %
MAXIMUM DAYS	491		<b>AVERAGE DAYS</b>		MAXIMUM DAYS	203
AVERAGE DAYS	83			18	AVERAGE DAYS	42

*It should be noted that even through the Market Edge Opinions have an extensive history of being correct around 70% of the time, for illustrative purposes going forward, we will use a more conservative figure of 60%.*

Market Edge maintains a list of approximately 120 tradable option stocks which are good candidates for weekly credit spreads. Each week, the guys at Market Edge select the best stocks from this list for both bullish (put) and bearish (call) spreads. These selections have the strongest (bull candidates) and weakest (bear candidates) Market Edge 'Opinions'. They also have been screened so they aren't scheduled to report earnings during the week. Remember, you want stocks that are going to remain flat or go your way. A surprise earnings report can blow up a spread in a matter of minutes. By combining the Market Edge top rated stocks with the Optionomics Option Strategies, a one-two punch has been developed that is tough to beat.

## Chapter Three: The Bullish – Bearish Credit Spread Trade

The basic credit spread strategy is what I call ‘The Bullish - Bearish Credit Spread Trade’. It involves the selling of either a weekly - **Bullish put spread** or a weekly - **Bearish call spread** depending on the Market Edge ‘Opinion’ for the underlying stock. When properly utilized, this strategy can be profitable in three out of five possible scenarios. The following example will give you a good idea how this trade should play out.

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: <input type="text" value="Single"/>		Layout: <input type="text" value="Last X, Net Change"/>		Exchange: <input type="text" value="Composite"/>				
CALLS					Strikes: <input type="text" value="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	

Let's assume that Market Edge has a Bullish ‘Opinion’ for PCLN and you think that it is going to rally over the short-term. You decide to sell a bullish 1230 -1222.5 put credit spread. You would **sell** the 1230 put for \$12.00 and **buy** the 1222.5 put for \$9.00. This spread would result in a credit of \$3.00 (\$12.00 - \$9.00) and a maximum risk of \$4.50 (\$7.50 differences in strike prices - \$3.00 credit). The trade would look like the following:

### Bullish - Put Vertical Credit Spreads

*Stock	Open Date	Open Stock Price	Short Put Strike Price	Long Put Strike Price	Credit Spread	Max Risk	% Of Spread	Quick Target	% Risk Capital Max Risk
PCLN	04/10/18	\$1,230.00	1230.0	1222.5	\$3.00	\$4.50	40.0%	\$0.05	-2.3%

Possible outcomes:

- 1) If you are correct and the stock closes above \$1230 at expiration, you would keep the \$3.00 (\$300) credit for a **Full \$300 Win**.
- 2) If the stock closes at \$1230 at expiration, you also would keep the \$300 credit for a **Full \$300 Win**.
- 3) If you are sort of wrong and the stock closes at \$1228.20, a decline of \$1.80, you would keep \$1.20 (\$120) of the \$3.00 credit (\$3.00 – \$1.80) for a **Partial \$120 Win**.
- 4) If you are a little more wrong and the stock closes at \$1226.20, a decline of \$3.80, you would lose \$0.80 (\$80) - (\$3.80 – \$3.00) for a **Partial \$80 Loss**.
- 5) If you are dead wrong and the stock closes below \$1222.50, you would lose the maximum risk amount \$4.50 (\$450) for a **Full \$450 Loss**.

So, if you are wrong but not by more than \$3.00, your trade will either breakeven or be profitable. No other trade in the option or equity markets gives you this kind of edge! The only scenario in which you lose a lot of money when creating a bullish put spread is if the stock breaks down hard. This is why you need to have sufficient risk capital to cover a series of losses of this nature if and when they occur.

The same outcome would occur if you are bearish on PCLN. You would sell a bearish 1230 – 1237.5 call credit spread. You would **sell** the 1230 call for \$12.00 and **buy** the 1237.5 call for \$9.00. This trade would result in a credit of \$3.00 (\$12.00 - \$9.00) and a maximum risk of \$4.50 (\$7.50 differences in strike prices minus the \$3.00 credit).

### Bearish - Call Vertical Credit Spreads

	Open	Open	Short Call	Long Call					%
**Stock	Date	Stock Price	04/14/18 Strike Price	04/14/18 Strike Price	Credit Spread	Max Risk	% Of Spread	Quick Target	Risk Capital Max Risk
PCLN	04/10/18	\$1,230.00	1230.0	1235.0	\$2.40	\$2.60	48.0%	\$0.05	-1.3%

Possible outcomes:

- 1) If you are correct and the stock closes below \$1230 at expiration, you would keep the \$3.00 (\$300) credit for a **Full \$300 Win**.
- 2) If the stock closes at \$1230 at expiration, you would also keep the \$3.00 credit for a **Full \$300 Win**.
- 3) If you are sort of wrong and the stock closes up at \$1231.80, an increase of \$1.80, you would keep \$1.20 of the initial \$3.00 credit (\$3.00 – \$1.80) for a **Partial \$120 Win**.
- 4) If you are a little more wrong and the stock closes up at \$1233.80, a gain of \$3.80, you would lose \$0.80 (\$80) (\$3.80 – \$3.00) for a **Partial \$80 Loss**.

- 5) If you are dead wrong and the stock closes above \$1237.50, you would lose the maximum risk amount - \$4.50 for a **Full \$450 Loss**.

I think that you will agree with me that the risk/reward of selling weekly, credit spreads makes a lot of sense and can be a very profitable trade. But that is only half the story. As mentioned above, weekly options have gradually grown to be the hottest option trading product in the U.S. market. That is why I recommend them as a good strategy for any option trader. By combining this strategy with the power of the Market Edge Opinions, a solid approach has been developed which should prove to be profitable in any market environment.

Below are several questions and answers which should help you further understand how credit spreads work and why selling premium is a great strategy.

**Q: What Should My Win - Loss Percentages Be?**

**A:** I'm asked this all of time and it is a good question. The probability model gives us the answer. Typically, you would be selling the ATM option (put or call) and buying an option whose strike price is further away from the current price of the underlying stock, either ATM +1+2 +3 (calls) or ATM -1 -2 -3 (puts). Without the benefit of the Market Edge selections, you should have a Full Win 50% of the time and keep the entire credit. That is because the ATM option you sell, whether a put or call has a 50% chance of expiring out of the money. It is impossible for both of them to finish in the money. On the negative side, 25% of the time things will go completely against you and you will get hit for the Full Loss. The other 25% of the time, the stock will settle somewhere between the long option and the short option strike prices and you will either keep or lose some of the credit (Partial Win or Partial Loss).

The following table is an example of how things should play out after 100 or so transactions. Let's assume that you sell a 10 lot, 5-wide (difference between the strike prices) vertical credit spread every week at an average credit of \$2.00 (\$200) per spread. Your maximum risk is \$3.00 (\$300) per spread. Your risk capital should be \$20,000. You have a 50% Random Win Rate since ATM options have a 50% chance of expiring out of the money. Ticket Charges of \$5.00 per trade and \$0.50 per contract are factored into the results. The outcome should look something like this:

<b>Random 50% Win Rate Projections</b>	<b>Monthly Dollar Profit /Loss</b>
50.0% of Trades = Full Win (\$200)	\$1,000.00
12.5% of Trades = Partial Win (\$100)	\$ 100.00
12.5% of Trades = Partial Loss (\$100)	\$ -100.00
25.0% of Trades = Maximum Loss (\$300)	\$ -750.00
Commissions	\$ -15.00
Monthly Dollar Gain/Loss	\$ 235.00
Risk Capital	\$20,000.00
Monthly Percentage Gain	1.2%
Annualized Percentage Gain	14.1%

## Q: What Should My Results Be If I Use The Market Edge Selections?

**A:** The table above shows the likely outcome of the credit spread trade with a Random 50% - Win Rate. The example shows that the trade should produce an annualized return of around 14% based on Risk Capital of \$20,000. Now take a look at the table below. These projections are based on a 60% Win Rate, which is what you should expect when using the Market Edge selections. Note that the Market Edge Annualized Percentage Gain is considerably higher than the Random - 50% Win Projections.

Market Edge Advantage 60% Win Rate Projections	Monthly Dollar Profit /Loss
60.0% of Trades = Full Win (\$200)	\$ 1,200.00
12.5% of Trades = Partial Win (\$100)	\$ 100.00
12.5% of Trades = Partial Loss (\$100)	\$ -100.00
15.0% of Trades = Maximum Loss (\$300)	\$ -450.00
Commissions	\$ -15.00
Monthly Dollar Gain/Loss	\$ 735.00
Risk Capital	\$20,000.00
Monthly Percentage Gain	3.7%
Annualized Percentage Gain	44.1%

While these projections are by no means a guarantee of future results, adding the Market Edge selections to the overall game plan should provide a nice boost to your profitability.

## Q: How Many Consecutive Losing Trades Can I Expect?

**A:** Based on the above projections, if you have a 50% win rate you can expect seven consecutive losing trades with a 99% confidence rate. Another way of stating this is that in a group of 100 trades, if you have a 50% win rate, you can expect losing runs of 7 in a row 1% of the time. With a 60% win rate, you can expect losing runs of 6 in a row 1% of the time. It sounds like a small percentage but rest assured it will occur. That is why you need risk capital when employing this and every other option trade.

## Q: If I Only Want To Initiate Two Credit Spreads How Do I Know Which Ones Are The Best Plays?

**A:** You would apply what I call the 40% - 60% rule. Simply put, you divide the credit spread by the difference in the strike prices and play the one which has the largest value. Let's assume that Stock A has 5.0 wide strikes while Stock B's strikes are 2.5 wide. Let's also assume that the credit received from Stock A's spread is \$2.50 while the credit from Stock B is \$1.00. Dividing the \$2.50 credit by the difference in Stock A's strike prices (5.0) equals 50%; meaning you are getting 50% of the spread. Dividing the \$1.00 credit by the difference in Stock B's strikes (2.5) would equal 40%. Stock A would be the better play.

Under normal market conditions, the following are the credit amounts that you should try to get based on the width of the strike price for the spread. You can accept less than the ideal credit but this is what you should shoot for as it is 40% of the spread.

<u>Credit Spread Width</u>	<u>Ideal Credit</u>
1.0 Wide	\$0.40
2.5 Wide	\$1.00
5.0 Wide	\$2.00
7.5 Wide	\$3.00
10.0 Wide	\$4.00

It should be noted that option premiums are largely dependent on the perceived volatility of both the underlying stock and the market as a whole. This volatility expectation is best reflected in the daily readings of the VIX indicator. VIX is the ticker symbol for the CBOE Volatility Index, which shows the market's expectation of volatility over the next 30-days. It is constructed using the implied volatilities of a wide range of S&P 500 Index put and call options and is widely used as a measure of market risk. VIX is often referred to as the "fear gauge." VIX values greater than 30 are generally associated with a large amount of volatility as a result of investor fear or uncertainty while values below 20 generally correspond to less stressful, even complacent times in the markets. When VIX is between 20 & 30, 40% premiums are usually obtainable. As VIX moves above 30, larger premiums are possible while the premiums decline when VIX is below 20. The weekly VIX reading is located on the top of the selections report.

**Q: What Should I Do If I Get Lucky And My Credit Spread Becomes A Big Winner Right Off The Bat.? Is There A Way To Lock In The Profit Before Expiration?**

**A:** This is a good question and I am asked it all of the time. There is no 100% correct way to handle this "happy problem", but here are several suggestions that should get the job done.

First of all, we have to define what is a Big Winner? Some traders want to take the spread off if it goes a few ticks in their favor. This is a bad decision. It is usually best to let the price run. So, by definition, a Big Winner is when you have captured at least 80% of the potential profit. If you put the spread on for a \$2.00 credit, 80% would be \$1.60. If you put it on for \$0.40, \$0.32 would be 80%. Following are several methods to lock in a profit when this occurs. Some are better than others. The choice is up to you.

- 1) Buy back the spread. Remember, you originally **sold** the spread so to unwind it you would want to **buy** it back. This is my least favorite way to handle this situation since it doesn't give you any additional profit potential.
- 2) Buy back the short leg and leave the long leg on as a **"Free Roll"**. This strategy lets you lock in most of the profit while giving you some additional upside potential if the underlying stock **"blows back"**. If the underlying stock continues in the direction that gave you the Big Winner, you will lose the amount of premium left in the Free Roll option and your trade will end up profiting less than 80%. But if the stock retraces the move, you could receive additional profit from the Free Roll option.
- 3) Buy another option with a strike price which is immediately above or below the short leg of the spread. This strategy insures the 80% profit and could also have additional upside. The option that you buy will probably have as much premium in it as the 20% that is left in the spread. If the stock blows back, you are now long a debit spread but you own the additional option for free. This method guarantees that you will capture the 80% and still have some upside potential.

4) You can roll up or roll down the credit spread to the current price. Using this method lets you capture a double credit for the week. You buy back the spread that is at least an 80% winner and then sell another credit spread at the new ATM. The problem with this strategy is that if you get a blow back, you may end up losing money for the week as your new spread could end up being a big loser.

### **Q: What Is The 'Break Even Price'?**

**A:** The Break Even Price is the price that the stock must hold for the trade to be profitable. For bullish put spreads, it is the short put strike price *minus* the credit. For bearish call spreads, it is the short call strike price *plus* the credit. If you were to initiate a bullish put spread for stock GS (\$245.11) by selling the 245 put and buying the 240 put for a \$1.63 credit, the Break Even Price that the stock would need to stay *above* by expiration for the trade to be profitable would be \$243.37 (245 - \$1.63). Conversely, if you initiated a bearish call spread for stock AAPL (\$156.90) by selling the 155 call and buying the 160 call for a \$2.14 credit, the Break Even Price that the stock would need to stay *below* by expiration for the trade to be profitable would be \$157.14 (155 + \$2.14).

### **Q: If This Deal Is So Great Why Won't Everyone Use It Which Would Cause It To Fail?**

**A:** It is possible but unlikely. It is important that you understand several points. First, the market has millions of participants trading trillions of dollars every day. The probability of all of them using Market Edge and changing the worldwide market is next to impossible. Second, even if that were to happen, the probability model assures us that the ATM put or call will always have a 50% chance of settling in the money and ATM +1, +2 or ATM -1, -2 will always have less of a chance of ending up in the money. So, if the short leg of the spread, the ATM Put or Call was to get depressed and the long leg, ATM +1, +2 call or ATM -1-2 put got inflated to the point that the profit potential disappeared, the market makers would put the market back in line. If for some crazy reason that didn't occur, you would take advantage of the situation by moving your spreads around to gain an edge on the other traders. In short there is always a counter strategy that will work.

### **Q: All Right - What's The Catch?**

**A:** There are several situations that can develop which could have an adverse effect on trades involving the selling of credit spreads. The probability is fairly low that any of these events will occur, but they need to be addressed so you will not lay awake at night trying to figure them out for yourself. The Bullish – Bearish Credit Spread Trade gives you the opportunity to initiate between one to four bullish *put* or bearish *call* credit spreads every week. Over a number of transactions, the results of these trades should be as follows: 50% of the spreads should produce a Full Win. 12.5% should result in either a Partial Win or Partial Loss while the remaining 25% should end with a Full Loss.

**Problem #1:** Mathematical models that produce a 50%-win rate are subject to losing streaks of around seven consecutive losses in a row. Trading only two spreads per week could result in three to four consecutive weeks of losing trades.

**Solution #1:** As noted above, the Market Edge 'Opinions' have a solid record of being correct around 70% of the time with the winners outperforming the losers by a 3:1 ratio. That's the good news. The bad news is that the performance record is based on a holding period of around 60 days. The Bullish – Bearish Credit Spread Trade outlined above has a one or two week holding period which is harder to forecast than a 60 day period. However, earlier on it was noted that the ATM put, or call option should expire out of the money around 50% of the time. With the addition of the Market Edge Opinions, over time around 60% of the trades should result in Full Wins. It should also be noted that for a Full Win to occur, all the stock has to do is close unchanged or



move slightly in the spreads direction by expiration. A Full Loss, however, requires the stock to have an adverse move of around 3% or more in a week.

**Problem #2:** As noted above, you want to get around 40% of the spread's value each week. This is usually obtainable and lets the model do its thing. However, in times when volatility dries up as measured by very low VIX readings, getting 40% can be hard to do.

**Solution #2:** There is not much you can do when volatility dries up. The good news is that when volatility declines, it usually doesn't last for long. Also, by providing selections to our subscribers which are based on Monday morning's opening prices, I can review the various credit spreads that are available and select the ones that offer the largest payouts

## Let's Go to the Races

I strongly suggest that you paper trade this strategy for a couple of weeks before you start trading for real. If your on-line-brokerage firm doesn't have a virtual platform that allows you to paper trade options, e-mail me at [optionomics@marketedge.com](mailto:optionomics@marketedge.com) and I will direct you to an appropriate web site. Instructions for a couple of sites that have paper trading capabilities can be found in Appendix D.

After a few weeks of paper trades, you should be comfortable with trading the Bullish – Bearish Credit Spreads and be ready to roll. You should have the proper amount of risk capital in your account and be confident as to what steps you need to take to execute your trades.

On Monday morning around 10:30 AM EST, go to the Optionomics web site ([optionomicsgroup.com](http://optionomicsgroup.com)) to retrieve the Selections for the week. Once you have a trade in place, I recommend that you do nothing until Friday morning after 11:00 AM EST. Remember, over time, 60% of the trades should be Full Winners and you will collect the entire credit. Partial Winners should occur around 12.5% of the time and you will need to take some form of action to lock in the profit. Partial Losers should also occur around 12.5%. The remaining 15% of the time will usually result in a maximum loss (Full Loser) that you will have to shake off and go on to the next trade.

The following actions should be taken depending on the likely outcome of the trade:

- 1) If the spread is a **Full Winner**, hold it until expiration. This occurs when the stock closes above the short put's strike price for a bull spread or below the short call's strike price for a bear spread. Both legs of the spread will expire worthless.
- 2) If the spread is a **Partial Winner**, take the trade off before the close of business on Friday. This situation occurs when the stock has sort of gone your way, but it isn't above the short put's strike price for a bull spread or below the short call's strike price for a bear spread. You will have to reverse the spread by buying back the short leg and selling the long leg for a small debit.
- 3) If the short leg of your credit spread has been assigned, you are now short the stock instead of being short the option. This is not a problem since your risk has not changed. If there is premium in the long leg, you can buy back the short stock position and sell your long option which will either reduce any losses or lock in any gains. If you do nothing and your long option is in the money, it will be exercised after expiration which will cover your short stock position. If the long option is out of the money, you will have to cover the short by buying back the stock. Check with your broker as some will charge you a fee to do this.

## Summary

The Bullish – Bearish Credit Spread Trade is an ideal approach for those who have a short-term *option* investment time horizon, limited risk capital and a decent tolerance for risk. The average price for the stock selections is around \$125 per share while the maximum number of Open Positions at any time is four. A fully invested cash account would require risk capital of around \$20,000. Finally, it is not necessary to purchase all of the recommendations since each is an independent event with similar technical characteristics so the performance should be similar. That being said, diversification into a number of selections is always recommended. I think that you will agree that The Bullish – Bearish Credit Spread Trade makes a lot of sense and can be a very profitable approach in any market environment.

## Chapter Four: The 21<sup>st</sup> Century Covered Call Strategy

Around 2010, the SEC decided that if monthly options were good, options that expired each week would be great. They figured that if selling covered calls four times a year was a good deal, it must be a much better proposition to write them fifty-two times a year. They were right. They started a pilot program using weekly options which evolved into the biggest option product in the world. Several years later, I developed what I call the 21<sup>st</sup> Century Covered Call Strategy. This strategy gives traders and investors alike a much better chance to make money than the old fashioned covered call approach. Let's take a look at how this strategy works.

First, you must address the number one problem when writing covered calls which is that the strategy doesn't provide any upside potential if the stock takes off. **We solve this problem by selling a weekly call - credit spread instead of simply selling an out of the money call.** To see how this works, let's look at the option chain below for Tesla Motor Co. (TSLA), when the stock closed at \$320.87 (Last X).

		Last X	Net Chng	Bid X	Ask X	Size	Volume	Open	High	Low	
		320.87 Q	0	320.25 P	320.87 P	3 x 1	0	0	0	0	
Trade Grid											
Option Chain		Filter: Off	Spread: Single	Layout: Last X, Net Change							
CALLS						Strikes: 18	PUTS				
	Last X	Net Chng	Bid X	Ask X	Exp	Strike	Bid X	Ask X	Last X	Net Chng	
3 NOV 17 (5) 100 (Weeklys) 72.98% (±23.50%)											
	24.40 H	0	23.65 Q	25.15 B	3 NOV 17	300	3.70 Q	3.90 Q	3.80 C	0	
	25.77 M	0	21.60 A	23.65 A	3 NOV 17	302.5	4.20 Q	4.55 X	4.59 I	0	
	21.00 Z	0	20.00 A	21.55 X	3 NOV 17	305	4.80 Q	5.15 C	5.30 C	0	
	0	0	18.35 A	20.05 X	3 NOV 17	307.5	5.65 Q	6.10 X	5.98 Q	0	
	17.33 I	0	16.55 Q	18.25 A	3 NOV 17	310	6.30 Q	6.80 Q	6.80 N	0	
	15.95 Q	0	15.25 A	16.75 X	3 NOV 17	312.5	7.35 Q	7.80 Q	7.60 N	0	
	14.00 I	0	13.80 X	15.10 M	3 NOV 17	315	8.05 Q	8.95 C	8.83 Q	0	
	12.61 I	0	12.35 A	13.55 B	3 NOV 17	317.5	9.50 Q	10.05 C	10.20 H	0	
	11.80 M	0	11.60 X	12.05 A	3 NOV 17	320	10.80 Q	11.10 M	11.00 N	0	
	10.40 I	0	10.35 Q	11.00 Q	3 NOV 17	322.5	11.45 I	12.60 Z	12.09 C	0	
	9.49 X	0	9.10 Q	10.10 X	3 NOV 17	325	13.10 Q	13.85 Q	13.44 C	0	
	8.35 N	0	8.05 Q	8.80 Q	3 NOV 17	327.5	14.05 Q	15.70 A	14.15 I	0	
	7.30 Z	0	7.35 Q	7.50 Q	3 NOV 17	330	15.75 A	16.90 Q	16.50 M	0	
	6.45 C	0	6.00 Q	6.80 Q	3 NOV 17	332.5	17.10 X	19.00 X	18.68 I	0	
	5.53 I	0	5.25 Q	5.70 Q	3 NOV 17	335	18.80 Q	20.05 Q	19.75 Q	0	
	4.65 X	0	4.60 Q	5.00 A	3 NOV 17	337.5	20.45 Q	22.90 A	22.20 Q	0	
	4.20 H	0	4.05 Q	4.30 Z	3 NOV 17	340	22.30 Q	24.70 Q	23.37 X	0	
	3.65 H	0	3.40 Q	3.90 Q	3 NOV 17	342.5	24.20 A	26.60 Q	25.50 N	0	

The ATM (At-The-Money) call is the 320 and it is trading at approximately 11.60 Bid – 12.05 Ask. You would want to use the ATM strike for the short call leg of the spread since it gives us the most premium. Under the old method of selling covered calls, you would buy the stock at \$320.87 and sell the 320 call for \$11.60. If the stock settled above \$320, you would lose the stock but would keep the \$11.60 premium. Not a bad deal but if the stock went on to \$360, you would miss out on any profit past the \$11.60 credit.

Under The 21<sup>st</sup> Century Covered Call Strategy, you would buy the stock at \$320.87, sell the 320 call at \$11.60 and buy another call at a higher strike price with the same expiration date. You can use any strike that you like but I recommend one that is no more than 15.0 points higher than the ATM which in this case would be the 335 call (ATM +3).

So, you would initiate a 320 - 335 call - credit spread by selling the 320 call for \$11.60 and buying the 335 call for \$5.70 which would result in a net credit of \$5.90 (\$11.60 - \$5.70). The trade would look like the following:

**The Market Edge - Market Posture:**

**Bullish**

	Initial		Current	Short	Long			
Stock	Stock	# Of	Stock	Call	Call	Credit	Best	Week %
	Price	Weeks	Price	11/03/17	11/03/17	Spread	Bet	Return
				Strike	Strike			
TSLA	\$320.87	1	\$320.87	320.0	335.0	\$5.90	2.3	1.8%

Now here is the good news. Even if the spread loses the maximum amount (\$9.10) which is the difference between the strikes (15.00) and the credit (\$5.90), you still make money. Although you lost \$9.10 on the spread, you would make \$14.13 (\$335.00 - \$320.87) on the stock for a net gain of \$8.23 (\$14.13 - \$5.90). That is quite a difference from the old fashioned, covered call strategy which would have resulted in losing the stock and maybe even creating a taxable event while limiting the upside potential.

What about the downside? If Tesla's stock were to close down for the week, you would keep the \$5.90 credit which would limit your stock loss for the week. No matter what happens, if you write the 21<sup>st</sup> Century Covered Call for a \$5.90 credit - 52 times a year, it would give you \$306.80 (\$5.90 x 52= \$306.80) of downside protection, which is 95.6% of the initial purchase price of the stock (\$320.87).

So how does all this work in real time? Ideally you want to do this covered call strategy with stocks that have a good chance of trending higher over the near term and have liquid, weekly options. Selecting stocks that meet these criteria is handled once again by Market Edge ([www.marketedge.com](http://www.marketedge.com)). Market Edge tracks approximately 120 tradable option stocks which have average daily volume of over one million shares in addition to favorable weekly options. These stocks are good candidates for this strategy. If it is a new stock, each Monday morning at the opening, the guys at Market Edge select two stocks from this list which have a Market Edge 'Bullish' Opinion along with other favorable characteristics. These Selections, along with the suggested option spreads are listed in the Open Positions report and in the 21<sup>st</sup> Century Covered Call Model Portfolio on the Optionomics web site. ([www.optionomicsgroup.com](http://www.optionomicsgroup.com)). New option spreads are added weekly. The stocks remain in the Model Portfolio for four consecutive weeks or until the Market Edge Opinion is downgraded.

The stock selections and options spreads are posted every Monday around 11:00 AM EST on the Optionomics web site ([optionomicsgroup.com](http://optionomicsgroup.com)). An example of the Week's Covered Call Selections, the Market Edge Opinions for the New Plays and the Model Portfolio - Track Record follow:

## This Week's Covered Call Selections

### The Market Edge - Market Posture:

**Bullish**

Stock	Initial	# Of Weeks	Current	Short Call	Long Call	Credit Spread	Best Bet	Week % Return
	Stock Price		Stock Price	11/03/17 Strike	11/03/17 Strike			
XOM	\$83.75	1	\$83.75	84.0	85.0	\$0.22	5.3	0.3%
ATHN	\$133.84	1	\$133.84	134.0	136.0	\$0.48	4.8	0.4%
							0.0	0.0%

Stocks Have Strongest Market Edge Opinions. Weekly % Return: The Higher The Better. Besty Bet: The Bigger The Better.

### Closed Positions

Stock	# Of Weeks	Close Price	\$ P/L	% P/L	Reason
None					

The maximum number of stocks in the portfolio at any time is ten. The # Weeks In Play column shows how long the stock has been in Play with four being the maximum. Best Bet is a numerical value that measures the relationship between the credit amount and the underlying stock's price (Weekly % Return) plus the correlation between the width of the spread and the stock's price. Additional points are assigned if the stock is scheduled to pay a dividend within the next 30-days and the dollar amount of that dividend. Stocks with the highest values are considered to be the best plays. If there are any new selections, the Market Edge technical opinion is displayed below the selections. Remember if you have an open position, you should exit the expiring spread near the close on Friday and sell the new ATM call spread to cover your risk over the weekend.

### Market Edge Opinion: XOM

The current technical condition for XOM is strong and the chart pattern suggests that upward momentum should continue. Over the last 50 trading days, when compared to the S&P 500, the stock has performed in line with the market. The MACD-LT is confirming that the intermediate-term trend is bullish. Chart formation indicates a strong rising trend. Upside momentum, as measured by the 9-day RSI indicator is very strong. Over the last 50 trading sessions, there has been more volume on up days than on down days indicating that XOM is under accumulation, which is a bullish condition. The stock is trading above a rising 50-day moving average. This validates the strong technical condition for XOM. The stock is above its 200-day moving average which is pointed up indicating that the intermediate term trend is bullish.

## Market Edge Opinion: ATHN

The current technical condition for ATHN is strong and the underlying indicators should keep the current uptrend intact. The stock has outperformed the market over the last 50 trading days when compared to the S&P 500. The MACD-LT is confirming that the intermediate-term trend is bullish. Upside momentum, as measured by the 9-day RSI indicator is positive but is beginning to slow. Over the last 50 trading sessions, there has been more volume on up days than on down days indicating that ATHN is under accumulation, which is a bullish condition. The stock is trading above a rising 50-day moving average. This validates the strong technical condition for ATHN. The stock is above its 200-day moving average which is pointed up indicating that the intermediate term trend is bullish

## Model Portfolio - Track Record

S&P: 11/06/17 2591.10

S&P: 03/25/18 2588.26

Gain/Loss: -2.84

S&P % Gain/Loss: -0.1%

Risk Capital: \$100,000

CC Total Profit/Loss: \$7,997

CC Total % Return: 8.0%

# Of Weeks: 20

CC To S&P Ratio: 8.0 To 1

Win % - Adjusted Prices: 60.0%

Annualized Return: 20.8%

\*Transaction Costs & Dividends Not Included

	Monday	Open					Total	Adjusted	Friday			
	Open	Stock	WK #1	WK #2	WK #3	WK #4	Spread	Stock	Close	Stock	\$ Profit	% Profit
Stock	Date	Price	Credit	Credit	Credit	Credit	Loss	Price	Date	Price	Loss	Loss
JPM	11/06/17	\$101.04	\$0.57	\$0.49	\$0.37	\$0.48	-\$2.46	\$101.59	12/01/17	\$104.79	\$3.20	3.2%
MSFT	11/06/17	\$84.38	\$0.78	\$0.72	\$0.68	Close	\$0.00	\$82.20	11/17/17	\$82.40	\$0.20	0.2%
MO	11/13/17	\$65.03	\$0.39	\$0.28	\$0.91	\$0.52	-\$2.83	\$65.76	12/08/17	\$71.54	\$5.78	8.9%
DE	11/13/17	\$131.50	\$0.90	\$1.49	\$0.81	\$0.78	-\$8.00	\$135.52	12/08/17	\$151.58	\$16.06	12.2%
GS	11/20/17	\$237.30	\$1.46	\$0.81	Close	Close	-\$5.00	\$240.03	12/01/17	\$248.95	\$8.92	3.8%
DFS	11/20/17	\$65.47	\$0.39	\$1.02	\$0.53	\$0.45	-\$2.79	\$65.87	12/15/17	\$74.59	\$8.72	13.3%

WYNN	11/20/17	\$156.28	\$1.97	\$1.02	\$1.33	\$0.72	-\$9.46	\$160.70	12/15/17	\$166.03	\$5.33	3.4%
PEP	11/27/17	\$115.90	\$0.34	\$0.45	\$0.48	\$0.53	-\$1.78	\$115.88	12/22/17	\$118.60	\$2.72	2.3%
PXD	11/27/17	\$154.10	\$1.80	\$1.85	\$0.92	\$0.78	-\$4.66	\$153.41	12/22/17	\$171.12	\$17.71	11.5%
AAPL	12/04/17	\$172.04	\$1.37	\$1.02	\$0.78	\$1.02	-\$2.51	\$170.36	12/29/17	\$169.23	-\$1.13	-0.7%
HSY	12/04/17	\$111.01	\$1.01	\$0.71	\$1.18	\$0.23	-\$4.95	\$112.83	12/29/17	\$113.51	\$0.68	0.6%
WBA	12/11/17	\$71.58	\$0.62	\$0.37	\$0.25	\$0.41	-\$0.44	\$70.37	01/05/18	\$72.92	\$2.55	3.6%
UAL	12/11/17	\$63.77	\$0.42	\$0.42	\$0.37	\$0.59	-\$1.80	\$63.77	01/05/18	\$69.36	\$5.59	8.8%
EW	12/18/17	\$114.62	\$0.32	\$0.70	\$0.91	\$0.91	-\$1.71	\$113.49	01/19/18	\$123.91	\$10.42	9.1%
IBM	12/18/17	\$153.91	\$1.27	\$0.95	\$0.41	Close	-\$0.92	\$152.20	01/05/18	\$162.49	\$10.29	6.7%
LVS	12/26/17	\$69.86	\$0.28	\$0.37	Close	Close	-\$0.49	\$69.70	01/05/18	\$67.92	-\$1.78	-2.5%
DIS	12/26/17	\$108.55	\$0.23	\$0.36	\$0.70	\$0.76	-\$1.62	\$108.12	01/19/18	\$110.59	\$2.47	2.3%
XOM	01/02/18	\$83.75	\$0.22	\$0.35	\$0.32	\$0.44	-\$0.17	\$82.59	01/26/18	\$89.00	\$6.41	7.7%
ATHN	01/02/18	\$133.84	\$0.48	\$0.67	\$0.74	\$1.17	-\$4.90	\$135.68	01/26/18	\$131.22	-\$4.46	-3.3%
PG	01/08/18	\$91.04	\$0.36	\$0.31	\$0.58	\$0.40	-\$0.54	\$89.93	02/02/18	\$84.25	-\$5.68	-6.2%
PXD	01/08/18	\$176.31	\$0.90	\$1.68	\$0.92	\$0.94	-\$2.22	\$174.09	02/02/18	\$178.74	\$4.65	2.6%
T	01/08/18	\$38.00	\$0.17	\$0.44	\$0.38	\$0.46	-\$1.92	\$38.47	02/02/18	\$38.07	-\$0.40	-1.1%
AAL	01/08/18	\$52.38	\$0.37	\$0.40	\$0.64	\$0.37	-\$0.22	\$50.82	02/02/18	\$52.10	\$1.28	2.4%
WYNN	01/15/18	\$171.23	\$2.04	\$1.02	\$2.35	\$1.70	-\$5.00	\$169.12	02/09/18	\$166.22	-\$2.90	-1.7%
PM	01/22/18	\$109.06	\$0.80	\$0.40	\$0.32	\$0.91	-\$3.19	\$109.82	02/16/18	\$104.31	-\$5.51	-5.1%
ALXN	01/29/18	\$128.09	\$0.97	\$0.96	\$0.39	\$1.09	-\$2.09	\$126.77	02/16/18	\$120.47	-\$6.30	-4.9%
CELG	01/29/18	\$105.17	\$0.70	\$0.41	\$0.40	Close	-\$1.00	\$104.66	02/16/18	\$95.26	-\$9.40	-8.9%
UTX	02/05/18	\$133.54	\$0.41	\$0.43	\$0.75	\$0.81	-\$3.61	\$134.75	03/02/18	\$129.94	-\$4.81	-3.6%
PEP	02/05/18	\$118.93	\$0.39	Close	Close	Close	\$0.00	\$118.54	02/09/18	\$111.18	-\$7.36	-6.2%
GLD	02/05/18	\$126.72	\$0.44	Close	Close	Close	\$0.00	\$126.28	02/09/18	\$124.77	-\$1.51	-1.2%
DECK	02/12/18	\$94.37	\$0.41	\$0.76	\$0.42	\$0.47	-\$1.00	\$93.31	03/05/18	\$97.50	\$4.19	4.4%
EA	02/12/18	\$123.71	\$0.90	\$0.38	\$0.37	\$0.92	-\$1.01	\$122.15	03/05/18	\$128.49	\$6.34	5.1%
WDC	02/12/18	\$82.35	\$0.69	\$0.68	\$0.70	\$0.39	-\$3.00	\$82.89	03/05/18	\$99.55	\$16.66	20.2%
ADSK	02/26/18	\$115.77	\$0.76	\$1.00	\$1.48	\$0.90	-\$0.28	\$111.91		\$128.02	\$16.11	13.9%
JPM	02/26/18	\$117.90	\$0.79	\$0.86	\$0.73	\$0.80	-\$0.32	\$115.04		\$107.01	-\$8.03	-6.8%
EW	03/05/18	\$134.56	\$0.90	\$1.12	\$0.82	\$0.58	-\$4.00	\$135.14		\$135.32	\$0.18	0.1%

SWKS	03/05/18	\$109.14	\$0.67	\$1.20	\$0.80	\$0.75	-\$2.00	\$107.72	\$101.41	-\$6.31	-5.8%
AMT	03/19/18	\$145.93	\$0.65	\$0.60			\$0.00	\$144.68	\$142.27	-\$2.41	-1.7%
VRTX	03/19/18	\$173.53	\$1.40	\$2.19			\$0.00	\$169.94	\$160.93	-\$9.01	-5.2%
ATHN	03/26/18	\$140.89	\$0.51				\$0.00	\$140.38	\$140.89	\$0.51	0.4%

## Risk Capital Needed To Trade The 21<sup>st</sup> Century Covered Call Strategy

The suggested amount of risk capital needed to trade this strategy depends on the number of positions that you want to initiate. Stock selections for this strategy are usually around \$125 per share. In a cash account, 100 shares would cost around \$12,500. There are a maximum ten stock positions in the portfolio. If you wanted to position all ten selections in a cash account, you would need to have about \$100,000. Four positions would require \$50,000 in cash and so on.

## Managing Your Spreads

The 21<sup>st</sup> Century Covered Call Strategy requires you to manage your expiring spreads. This should take you about 30 minutes per week. There are only three scenarios that can occur: 1) The stock closes at or below the short option's strike price, 2) The stock closes above both the short and long option's strike prices or 3) the stock closes in between the short and long option's strike prices. The following actions address each scenario.

- 1) The stock closes at or **below** the short option's strike price. The spread expires worthless. You would do nothing. Both option contracts would be removed from your account.
- 2) The stock closes **above** both short and long option's strike prices. In this situation, both legs of the spread are in the money. You can either buy the spread back as close to parity as possible or the Option Clearing Corp. (OCC) will **assign** the short leg and **exercise** the long leg leaving you flat. Your brokerage firm may charge you a fee for this, so you need to check it out. In either case, this will have no effect on your underlying stock position.
- 3) The stock closes **in between** the short and long option's strike prices. The stock is trading above the short leg's strike price but below the long leg's strike. In this case you have a couple of choices. You can either buy back the spread or buy back the short leg and allow the long leg to expire worthless. If the short leg is early assigned, you will have both a long and short stock position. If you want to maintain your original long stock position, simply cover the short stock position. You will maintain your original long stock position and also own the long option leg for free. In this case, if the stock continues to rally, you have a 'Free Roll' since you have no risk and unlimited upside going forward plus you maintain your original stock position. If you don't care about your original stock position, the short stock position will be covered by your long stock position.

## Profit Or Loss Scenarios

For illustration purposes, let's assume that all of the option positions are closed on the weekly expiration date resulting in a realized gain or loss, while the stock position remains open. We will use TSLA once again as an example. The initial trade is long the stock at \$320.00, short the 320 call and long the 335 call for a \$5.90 credit.



1) The stock settles unchanged at \$320. This is a no brainer. You pocket the \$5.90 credit and initiate the 320.0 - 335.0 call credit spread once again for a \$5.90 credit. Profit/Loss: Option Account: +\$5.90. Stock Account: \$0.00. **Total P/L: +\$5.90.**

2) The stock rallies by about 5% to \$335. You lose \$9.10, the maximum loss on your call credit spread but make \$15.00 in the stock. You get assigned the stock at \$320.00 and exercise your long option at \$335.00. You initiate the 335.0 - 350.0 call credit spread once again for a \$5.90 credit. Profit/Loss: Option Account: \$5.90 credit - \$15.00 short option = -\$9.10. Stock Account: +\$15.00. **Total P/L: +\$5.90.**

3) The stock drops by about 5% to \$305. You pocket the \$5.90 credit and initiate the 305.0 - 320.0 call - credit spread once again for a \$5.90 credit. Profit/Loss: Option Account: +\$5.90. Stock Account: \$0.00. **Total P/L: +\$5.90.**

4) The stock rallies by about 5% to \$335 at the end of WK #1. You would initiate the 335.0 - 350.0 call - credit spread once again for a \$5.90. Then the stock drops by about 5% at the end of WK #2 to \$320. You initiate the 320.0 - 335.0 call credit spread for a \$5.90 credit. In this scenario, you pocket \$11.80 credit which reduces your cost basis of the stock to \$308.20 and you still own the stock. Profit/Loss: Option Account: +\$11.80. Stock Account: \$0.00. **Total P/L: +\$11.80.**

5) The stock rallies by about 2% to \$327. You pocket the \$5.90 credit and initiate the 327.5 - 342.5 call credit spread for a \$5.90 credit. Profit/Loss: Option Account: \$5.90 credit - \$7.00 short option = -\$1.10. Stock Account: \$7.00. **Total P/L: +\$5.90.**

6) The stock drops by about 2% to \$314. You pocket the \$5.90 credit and initiate the 315.0 - 330.0 call credit spread once again for \$5.90 credit. Profit/Loss: Option Account: +\$5.90. Stock Account: \$0.00. **Total P/L: +\$5.90.**

Notice that unlike the old fashioned covered call strategy, at no time is the stock called away from you. Also, you would always be writing the ATM call option, not one which is below your cost basis for the stock. Over the four-week period, your cost basis for the stock is reduced every week by the amount of the credit. When you close the stock position, you will realize either a gain or loss. If you sell the stock at a price above the **Adjusted Stock Cost**, you will have a gain. If you sell the stock below your **Adjusted Stock Cost**, you will have a loss, but the loss will be a lot less than if you had not initiated the credit spreads.

## **Q: What Can Go Wrong?**

**A:** As noted earlier, The 21<sup>st</sup> Century Covered Call Strategy is somewhat similar to the Old Fashioned Covered Call Method (OFCCM) whereby you buy a stock and sell an out of the money call. The difference is that you buy a stock and sell a weekly vertical call spread. This is a much better approach in that you have unlimited upside potential while at the same time reducing the cost basis of the stock.

Like the OFCCM, you are exposed to unlimited risk on the stock position even though it is somewhat buffered. If the stock closes down for the week, you keep the credit which limits the stock's loss for the week. You continue to sell the ATM - ATM +1 call credit spread every week whether the stock goes up or down. You can't do this under the OFCCM because if the stock rallies, your position will be called away. If the stock declines, you keep your position, but you must now sell a call at a lower strike price to realize any premium. Under The 21<sup>st</sup> Century Strategy, you continue to write the credit spread and reduce your cost basis until theoretically it would go to zero. So, while there is risk to your stock position, the negatives are a lot better than those associated with the OFCCM.

## Q: What's The Catch?

**A:** Sound good? There must be a catch, right? The catch, if you want to call it that, is that you are limiting your upside somewhat every week. Here's why. In the TSLA example, you are long the stock, short the ATM 320 call and long the 335 call for a \$5.90 credit. The 15 wide strikes give you a maximum risk of \$9.10 (\$15.00 – \$5.90). If the stock takes off, you have unlimited upside potential minus the \$9.10 maximum risk in the call spread. If you are long TSLA at \$320 and it closes the week at \$360, you would make \$40.00 on the stock, but would lose \$9.10 on your call spread for a net gain of \$30.90. If you had written an old fashioned covered call, you would have had the stock called away at \$320 while keeping the \$5.90 credit for a net gain of only \$5.90.

But there is more. One of the biggest problems individuals face when trading stocks or options is the psychological wear and tear that they must overcome on a daily basis. They are constantly confronted with making buy and sell decisions without much of a disciplined approach. The result is they usually buy when they should sell and vice versa as their emotions take over. The strategy outlined above eliminates much of this problem. If the stock goes up, you make money on the stock and on the long option position and don't lose the stock. That is quite a difference from the old fashioned covered call strategy which would result in losing the stock and maybe even creating a taxable event while limiting your upside.

What about the downside? If the stock closes down for the week, you keep the credit which limits the stock's loss for the week. As noted above, had you created The 21<sup>st</sup> Century Covered Call for TSLA when the stock was trading at \$320.87 and received a \$5.90 credit, 52 times a year, it would give you \$306.80 ( $\$5.90 \times 52 = \$306.80$ ) of downside protection, which is 95.6% of the purchase price of the stock (\$320.87).

## What You Can Expect

Frequency Of Play:	Weekly
Investment Option Time Horizon:	One - Four Weeks
Maximum # Of New Plays Per Week:	Two
Maximum # Of Open Positions:	Ten
Risk Tolerance:	Medium
Option Experience:	Low
Suggested Risk Capital. Fully Invested (One Spread Per Play):	\$100,000

## Summary

The 21<sup>st</sup> Century Covered Call Strategy is an ideal approach for those who have an intermediate-term investment time horizon and a low tolerance for risk. The average price for the stock selections is around \$125 per share while the maximum number of Open Positions at any time is ten. Therefore, a fully invested cash account would require risk capital of around \$100,000. While the strategy is designed to hold stock positions for four weeks, the holding period can be reduced if the Market Edge Opinion for an underlying stock is downgraded. While the maximum number of Open Positions at any time is ten, that number may be smaller at times due to adverse market conditions. Finally, it is not necessary to purchase all of the recommendations

since each is an independent event with similar technical characteristics so the performance should be similar. That being said, diversification into a number of selections is always recommended.

I think you will agree that the 21<sup>st</sup> Century Covered Call Strategy makes a lot of sense and can be a very profitable approach. Once again, combining this credit spread strategy with the power of the Market Edge Opinions produces a solid approach which over time, should prove to be profitable endeavor in any market environment.

## Chapter Five: The Low Cost Put - Call Hedge Strategy

Between 2010 – 2017, buying puts or calls as a hedging vehicle gradually lost its appeal, as the long bull market gave most investors and traders a sense of security. They no longer wanted to pay the premium necessary to insure their risk. In 2017, VIX, which measures the fear in the market, closed below 10 (extremely low) more times than in all of the other years combined since the index was created, almost 25 years ago. Many money managers decided that they did not need to offset risk by buying puts/calls because their competition wasn't buying them, and they were getting better returns since they didn't have the added expense.

Hedging a portfolio with put/call options can be expensive. But what if there was a way to insure your risk without paying a premium for the puts/calls? Is it possible to buy puts that protect your downside in case of a sudden drop or calls to protect any short positions without incurring the additional cost? The answer is yes. Over my twenty plus years of trading on the floor, I developed a strategy that accomplishes this goal. I called it 'The Low Cost Put/Call Hedge Strategy'.

To create The Low Cost Put/Call Hedge, you need to use horizontal option spreads. Horizontal spreads are option transactions that involve the purchase of a deferred option (call or put) and the selling (writing) of a near term vertical credit spread (call or put) with the same strike prices. Let me begin by explaining the specifics of how the transaction works and then I will show you how to manage the trade to protect either a long or short stock position with little or no cost.

The trades structure is based on the status of the Market Edge - '**Market Posture**' which is a computer generated market timing model that has been operative since 1992. The Market Posture is produced every Friday after the close and is either **Bullish**, **Bearish** or on rare occasions **Neutral**. When the Market Posture is Bullish, Optionomics list stocks with a Bullish Market Edge Opinion as potential Low Cost **Put** Hedge plays. Conversely, when the Market Posture is Bearish, Optionomics list stocks with a Bearish Market Edge Opinion as potential Low Cost **Call** Hedge plays.

The trades are done in two steps. First you buy an **anchor put or call**. The anchor put/call is your insurance policy against a collapse or large rally in the stock's price. I like to use a deferred serial month, usually one with a quarterly expiration since the put/call will be held throughout the duration of the trade. The second step is to sell the ATM +1,-1 **weekly vertical put or call credit spread**. When Market Edge '**Market Posture**' is **Bullish**, you would buy a stock and sell a vertical put spread which will give you the maximum opportunity to the upside. When the '**Market Posture**' is **Bearish**, you would short a stock and sell a vertical call spread. In either case, you are financing the anchor put/call with the credits received from selling the vertical spreads. Your profit potential is unlimited, and your position is always protected from an adverse move in the underlying stock.

Look at the two option chains located below for Tesla Motors (TSLA) which closed on Friday, 01/15/18 at \$336.22. The first table is for the weekly expirations that expire on Jan 19, 2018. The second table (the deferred serial contract) is for the quarterly option that expires three months later on April 20, 2018. If you wanted to hedge your long position in TSLA, the old-fashioned approach would be to buy a put in either the nearby or deferred contract. You could use any strike, but I always prefer the ATM since it gives you the most protection. The problem arises when you consider the cost of the put/call option. In this example, the weekly ATM put (335 strike) was trading around \$4.80 (For simplicity, I am using the mid-point of the Bid - Ask spread and round it to an even number). If you did this trade, you would have to buy the ATM put/call 52-times a year.

That would be a cost in the neighborhood of \$250 (\$4.80 x 52) a year or almost 75% of the total value of your stock position (\$250/\$336 = 74%). This obviously is not a good way to insure your position.

	Last X	Net Chng	Bid X	Ask X	Exp	Strike	Bid X	Ask X	Last X	Net Chng						
▼ 19 JAN 18	(4)	100									33.47% (±10.223)					
	17.50	N	0	16.55	X	17.85	Z	19 JAN 18	320	.86	A	1.12	N	1.12	Z	0
	15.01	C	0	14.25	H	15.65	H	19 JAN 18	322.5	1.10	A	1.36	H	1.27	A	0
	13.25	X	0	12.40	X	13.50	Z	19 JAN 18	325	1.61	N	1.82	I	1.60	I	0
	11.30	Z	0	10.65	C	11.45	N	19 JAN 18	327.5	2.20	Z	2.43	I	2.25	Q	0
	9.25	N	0	8.90	X	9.65	N	19 JAN 18	330	2.80	N	3.05	C	3.00	Z	0
	7.74	C	0	7.30	C	8.00	Z	19 JAN 18	332.5	3.65	H	4.00	Z	3.70	M	0
	6.07	X	0	5.90	C	6.50	N	19 JAN 18	335	4.65	A	5.10	Q	4.85	Z	0
	4.84	X	0	4.75	Z	5.00	Z	19 JAN 18	337.5	5.90	X	6.40	Q	6.00	Q	0
	3.80	N	0	3.70	X	4.05	Q	19 JAN 18	340	7.35	N	7.95	C	7.75	X	0
	3.10	E	0	2.89	C	3.25	N	19 JAN 18	342.5	8.95	N	9.70	X	9.12	E	0
	2.45	Z	0	2.21	X	2.54	H	19 JAN 18	345	10.75	C	11.60	A	11.60	Z	0
	1.89	B	0	1.68	C	2.00	H	19 JAN 18	347.5	12.50	X	13.80	N	12.30	Q	0
	1.40	Q	0	1.24	A	1.40	Q	19 JAN 18	350	14.55	X	15.50	Z	14.45	M	0
	1.12	C	0	.94	N	1.15	C	19 JAN 18	352.5	16.60	X	18.20	Z	16.60	Z	0

The second way to hedge your long or short stock position would be to buy a deferred put/call option. The table below shows that if you bought the April 20, 2018 – 335 put/call, it would cost around \$25 (\$250 per contract). You would need to do that trade four times a year to insure your stock position. It would cost you close to \$100 (\$1,000 per contract) which is nearly 30% of the underlying security (\$100/\$336 = 29.7%). Worse yet, you wouldn't be fully insured until the stock declined by more than 7% (\$25/\$336 = 7.4%) to \$311 (\$336 - \$25). Now you can see why money managers get heartburn when thinking about hedging their stock positions with puts or calls since the cost can be very high on a risk reward basis. However, if you use the two strategies in tandem, buying the anchor put/call and selling the expiring ATM, vertical – put or call spreads depending on Market Edge's **Market Posture**, you end up with The Low Cost Put/ Call Hedge which can alleviate most of the cost of hedging a stock position. Let's set up a trade and see how it works.

	Last X	Net Chng	Bid X	Ask X	Exp	Strike	Bid X	Ask X	Last X	Net Chng						
▼ 20 APR 18	(95)	100									40.62% (±56.603)					
	47.60	Z	0	44.25	H	45.60	Z	20 APR 18	305	12.85	A	13.55	Z	11.95	X	0
	41.30	H	0	40.95	N	42.20	Z	20 APR 18	310	14.45	H	15.15	Z	14.64	C	0
	38.22	C	0	37.70	H	38.85	Z	20 APR 18	315	16.15	C	16.95	Z	16.49	B	0
	34.25	B	0	34.65	H	35.70	Z	20 APR 18	320	18.00	A	18.80	Z	18.21	C	0
	31.40	I	0	31.75	N	32.75	Z	20 APR 18	325	20.05	H	21.00	C	21.14	C	0
	29.00	I	0	28.95	H	29.85	N	20 APR 18	330	22.25	X	23.25	C	22.63	C	0
	26.63	C	0	26.30	H	27.20	Z	20 APR 18	335	24.50	H	25.60	C	25.03	C	0
	23.15	Q	0	23.90	H	24.80	Z	20 APR 18	340	27.10	C	28.25	C	27.25	Q	0
	21.95	H	0	21.65	H	22.50	Z	20 APR 18	345	29.75	X	31.00	C	30.60	Q	0
	19.73	C	0	19.60	N	20.40	Z	20 APR 18	350	32.60	H	33.85	C	33.60	Z	0
	18.25	P	0	17.65	H	18.45	Z	20 APR 18	355	35.30	C	36.80	C	38.50	X	0
	16.30	Z	0	15.90	H	16.65	Z	20 APR 18	360	38.80	C	40.05	Z	37.02	W	0
	14.60	Z	0	14.25	H	15.00	Z	20 APR 18	365	41.75	X	43.55	C	43.55	Q	0
	12.55	X	0	12.75	Z	13.45	Z	20 APR 18	370	45.60	N	46.90	Z	44.75	Z	0

The first step whether you are long or short a stock is to buy your anchor put/call. In this example, you would use the April 20, 2018 – 335.0 (ATM) strike put/call as your anchor. The cost for the anchor for a \$300 stock will typically be about \$24. The second step is to sell the weekly ATM, ATM -1 vertical put spread against the long stock position or the weekly ATM, ATM +1 vertical call credit spread against the short stock position. The credit you receive each week is used to pay for the anchor put/call. For a stock like TSLA, the put/call credit should average about \$2.00 each week. You will be able to sell this spread every week (13 times) before the anchor put/ call expires (April 20, 2018). This trade should result in a net gain of \$2.00 from the sale of the credit spreads over the period ( $\$2 \times 13 = \$26 - \$24 = \$2.00$ ). The **Put Hedge** trade would look like the following.

### The Market Edge - Market Posture:

**Bullish**

	Initial		Current		Short Put	Long Put				
Long Stock	Stock Price	# Of Weeks	Stock Price	01/19/18	01/19/18	Credit Spread	Anchor Put Exp. Date	Anchor Put Strike	Anchor Put Debit	
TSLA	\$336.22	1	\$336.22	335.0	330.0	\$2.00	04/20/20	335.0	\$24.00	

ATM = At The Money. SP = Strike Price

#### Closed Positions

Stock	# Of Weeks	Close Price	\$ P/L	% P/L	Reason
NONE					

### The Market Edge - Market Posture:

**Bearish**

	Initial		Current		Short Call	Long Call				
Short Stock	Stock Price	# Of Weeks	Stock Price	01/19/18	01/19/18	Credit Spread	Anchor Call Exp. Date	Anchor Call Strike	Anchor Call Debit	
TSLA	\$336.22	1	\$336.22	335.0	340.0	\$2.00	04/20/18	335.0	\$24.00	

ATM = At The Money. SP = Strike Price

#### Closed Positions

Stock	# Of Weeks	Close Price	\$ P/L	% P/L	Reason
NONE					

\*It should be noted that in the rare instance if the stock would go to \$1,000, the Max Risk would be \$25.78.

Here is the beauty of The Low Cost Put/Call Hedge. You can insure your stock position against an adverse move with little or no cost. On the surface it would seem like it is impossible to lose money on this trade. Unfortunately, the real market doesn't always reflect what the theoretical market portends. During some quarters, the market will have very little price movement and the Low Cost Put/Call Hedge will work as advertised. However, during other quarters, there will be more volatility and the spread may not work quite as well. However, you know one thing for sure. Your downside (long positions) and upside (short positions) are protected no matter what happens at little or no cost while you have unlimited profit potential.

## Managing Your Spreads

For the Low Cost Put/Call Hedge to work properly, you must monitor your spreads on a weekly basis. Keep in mind that the strategy is to first buy or short a stock depending on the Market Edge 'Market Posture'. Then you would buy an ATM anchor put or call with an expiration date of between 10 to 13 weeks for protection. Lastly, you would sell weekly, ATM +1 or -1 put /call credit spreads throughout the holding period. The process is simple, and it takes no more than ten minutes per week to manage the various scenarios that you will encounter. The following describes these potential situations and the proper actions to be taken if they occur.

- 1) If the credit spread (put or call) is expiring worthless: **Do nothing**. The spread will be removed from your account at expiration.
- 2) The short leg is in the money while the long leg is out of the money: If the short leg is in the money, you have several choices.
  - a) You can buy back the spread, or you can buy back the short leg and allow the long leg to expire worthless. If the stock continues to move in the same direction, you will exercise and sell or buy back the stock. If the short leg has been assigned, it will replace the long leg.
  - b) Buy or sell the stock back and you may end up owning the long leg for free. In this case, if the stock has a big break or rally, you will have a "Free Roll" as you have no risk and only reward. If the stock rallies, you still have the stock.
- 3) Both legs of the spread are in the money: You can either buy the spread back as close to parity as possible or the OCC will **assign** the short leg and **exercise** the long leg. This would have no effect on your underlying equity position. Your broker may charge you a fee for this, so you need to check with your clearing house.

## Profit And Loss Scenarios

### The Low Cost Bullish-Put Hedge Strategy

As before, let's once again refer to the TSLA example located above. The assumption is that 100 shares of stock is initially **bought** at \$336 and the weekly option positions are closed on the expiration date resulting in a realized gain or loss each week while the **long** stock position and anchor **put** remains open throughout the period.

**Scenario #1:** The stock settles unchanged at \$336. You pocket the \$2.00 credit from the put spread and initiate the 335-330 vertical put credit spread once again for a \$2.00 credit. In this case, the anchor put will decline somewhat in value due to time decay (theta). The time decay will probably not be as large as the credit, so the worst case is that the Low Cost Bullish-Put Hedge will show a profit or break even in this case.

### Score Board

Stock Account: \$0

Option Account: Vertical put credit spread: 335-330 = +2.00 (\$200)

Option Account: Anchor put approximate decline: -\$2.00 (-\$200)

Approximate Total Profit/Loss: \$0

**Scenario #2:** With the stock unchanged at \$336, you once again initiate the 335.0-330.0 vertical put spread for a \$2.00 credit and the stock rallies by about 6% (20 points) to \$356. The long stock position would gain \$2,000 and you would keep the \$2.00 credit from the put spread, but the anchor put would decline by about \$6.00.

#### Score Board

Stock Account: +\$20.00 (\$2,000)

Option Account: Vertical put credit spread: 335-330 = +\$2.00 (+\$200)

Option Account: Anchor put approximate decline: -\$6.00 (-\$600)

Approximate Total Profit/Loss: +\$1,600

**Scenario #3:** With the stock now at \$356, you would initiate the 355.0 - 350.0 vertical put credit spread for a \$2.00 credit. The stock drops by about 5% (18 points) to \$338. The stock position would lose \$1,800. You would lose \$3.00 (\$2.00 credit - \$5.00 spread) from the put credit spread but the anchor put would gain about \$9.00 (\$900).

#### Score Board

Stock Account: -\$18.00 (-\$1,800)

Option Account: Vertical put credit spread 355-350: -\$3.00 (-\$300)

Option Account: Anchor put approximate gain: +\$9.00 (+\$900)

Approximate Total Profit/Loss: -1,200

### The Low Cost Bearish-Call Hedge Strategy

This example is the mirror of the Bullish-Put Hedge outlined above. The assumption is that 100 shares of TSLA stock is initially **sold short** at \$336 and the weekly option positions are closed on the expiration date resulting in a realized gain or loss each week while the **short** stock position and anchor **call** remains open throughout the period.

**Scenario #1:** The stock settles unchanged at \$336. You pocket the \$2.00 credit from the call spread and initiate the 335-340 vertical call credit spread once again for a \$2.00 credit. In this case, the anchor call will decline somewhat in value due to time decay but the decline will probably not be as large as the credit, so the worst case is that the Low Cost Bullish-Call Hedge Strategy will show a profit or break even in this case.

#### Score Board

Stock Account: \$0

Option Account: Vertical call credit spread: 335-340 = +2.00 (\$200)

Option Account: Anchor call approximate decline: -\$2.00 (-200)



Approximate Total Profit/Loss: +0

**Scenario #2:** With the stock unchanged at \$336, you once again initiate the 335.0-340.0 vertical call spread for a \$2.00 credit and the stock rallies by about 6% (20 points) to \$356. The **short** stock position would lose \$2,000 and you would lose \$3.00 (-\$300) credit from the call spread but the anchor call would rise by about \$6.00 (\$600).

### Score Board

Stock Account: -\$20.00 (-\$2,000)

Option Account: Vertical call credit spread: 335-340 = -\$3.00 (-\$300)

Option Account: Anchor call approximate gain: +\$6.00 (+\$600)

Approximate Total Profit/Loss: -\$1,700

**Scenario #3:** The stock is now at \$356 so you would initiate the 355.0-360.0 vertical call credit spread for a \$2.00 credit. The stock drops by about 5% (16 points) to \$340. The short stock position would gain \$1,600. You would keep the \$2.00 credit from the call credit spread but the anchor call would lose about \$9.00.

### Score Board

Stock Account: +\$16.00 (+\$1,600)

Option Account: Vertical call credit spread: 355-360 = \$2.00 (+\$200)

Option Account: Anchor call approximate decline: -\$9.00 (-\$900)

Approximate Total Profit/Loss: +900

Note that unlike the old buy a put or call hedge strategy, you lose less money when there is a small decline or advance in the stock. The bigger the drop or gain, the more you will lower or raise your average cost for the stock. If TSLA were to open 50% lower at \$168 you would lose \$3.00 from the put spread, but you would make about \$144 on the anchor put and would have no further downside risk. You would be long the stock from \$195, not \$336. If TSLA opened at 0 you would be long the stock from \$27. The short stock, long anchor call is the exact mirror image of the put strategy. No strategy works perfectly in all market scenarios. That is too much to hope for. However, The Low Cost Put/Call Hedge allows you to realize about 94% of the upside potential in small moves and as much as 98% in large moves while limiting your risk to no more than 8% on the downside/ upside no matter how bad it gets.

### Q: What Can Go Wrong?

**A:** There are several scenarios which can develop that would have adverse results. Remember, this strategy involves the purchase or sale of a stock at let's say \$300 per share and an ATM anchor put/call which expires in approximately three months for around \$24. Each week, you sell an ATM put/call spread for \$2.00 which over the time period should pay for the anchor put/call. At the end of the period, you would realize a gain if the stock goes up, down or breaks even. However, adverse results can occur under the following scenarios.

- 1) If over the holding period, the stock trades within a narrow range around the opening price, you would realize a series of wins and losses with the put/call spreads. Let's say that you buy a stock at \$300 and sell a put/call spread for a \$2.00 credit every week. If the stock trades back and forth between \$305 and



## Model Portfolio-Track Record

S&P: 01/26/18 2872.87  
 S&P: 06/22/18 2779.42  
 S&P Points Gain/Loss: -93.45  
 S&P % Gain/Loss: -3.3%

Dollar Profit/Loss = Stock Price Friday - Adjusted Stock Price + (Anchor Close Credit - Anchor Open Debit) When The Position Is Closed

Adjusted Stock Price = Open Stock Price - Total Spread Profit / Loss

Risk Capital: \$100,000  
 Put Hedge Total P/L: \$2,568  
 Hedge Total % Return: 2.6%  
 # Of Weeks: 18  
 Hedge To S&P P/L Ratio: 6.0 :1  
 Win % - Adjusted Prices: 44.8%

Spread Losses Occur When The Stock's Friday Close Is Below The Short Put Strike Price

Anchor Put - Debit/Credits Included In P/L Calculations Only When Positions Are Closed

### Transaction Costs & Dividends Not Included

\* After Symbol Denotes Short Stock Position

Stock	Open Date	Open Stock Price	Anchor Strike Price	Anchor Open Debit	Total Spread P/L	Adjust Stock Price	Close Date	Stock Price Friday	Anchor Close Credit	Dollar Profit Loss	% Profit Loss	Anchor Exp Date
CELG	01/29/18	\$105.23	105.0	\$5.50	-\$0.59	\$105.82	02/16/18	\$95.26	\$10.40	-\$5.66	-5.4%	04/20/18
GILD	01/29/18	\$87.82	87.5	\$4.50	\$0.43	\$87.39	04/06/18	\$73.41	\$14.27	-\$4.21	-4.8%	04/20/18
SLB	01/29/18	\$77.18	77.0	\$1.72	-\$2.19	\$79.37	02/16/18	\$66.28	\$10.20	-\$4.61	-6.0%	04/20/18
EA	01/29/18	\$116.12	115.0	\$4.60	-\$1.62	\$117.74	04/20/18	\$120.89	\$0.00	-\$1.45	-1.2%	04/20/18
ADSK	01/29/18	\$117.84	115.0	\$5.80	-\$2.59	\$120.43	05/11/18	\$136.21	\$0.00	\$9.98	8.5%	04/20/18
WDC	01/29/18	\$89.33	90.0	\$5.50	-\$3.32	\$92.65	05/04/18	\$80.88	\$12.75	-\$4.52	-5.1%	05/25/18
PEP	02/05/18	\$118.24	120.0	\$4.35	-\$1.12	\$119.36	02/09/18	\$111.18	\$7.35	-\$5.18	-4.4%	04/20/18
XOM	02/05/18	\$82.98	82.5	\$2.75	-\$1.21	\$84.19	02/16/18	\$76.54	\$6.15	-\$4.25	-5.1%	04/20/18
DECK	02/12/18	\$93.90	92.5	\$5.15	\$2.11	\$91.79	04/20/18	\$89.00	\$3.50	-\$4.44	-4.7%	04/20/18
NOW	02/19/18	\$154.18	155.0	\$7.40	-\$0.55	\$154.73	05/18/18	\$173.94	\$0.00	\$11.81	7.7%	04/20/18
WDAY	02/19/18	\$125.25	125.0	\$7.53	-\$1.81	\$127.06	05/04/18	\$130.05	\$0.00	-\$4.54	-3.6%	04/20/18
JPM	02/26/18	\$117.90	120.0	\$5.10	-\$3.54	\$121.44	03/23/18	\$107.01	\$13.60	-\$5.93	-5.0%	04/20/18
SWKS	03/05/18	\$109.14	110.0	\$6.70	-\$4.32	\$113.46	04/06/18	\$95.56	\$14.70	-\$9.90	-9.1%	05/18/18
ATHN	03/26/18	\$139.00	140.0	\$6.70	\$3.03	\$135.97	04/20/18	\$146.07	\$5.80	\$9.20	6.6%	06/15/18
AMT	04/02/18	\$146.40	145.0	\$4.18	-\$2.44	\$148.84	04/13/18	\$138.90	\$7.30	-\$6.82	-4.7%	05/18/18
TLT	04/09/18	\$120.67	120.0	\$2.47	\$0.53	\$120.14	05/18/18	\$117.21	\$2.79	-\$2.61	-2.2%	05/18/18
PG	04/16/18	\$78.28	77.5	\$2.70	-\$1.17	\$79.45	05/04/18	\$72.43	\$5.75	-\$3.97	-5.1%	07/20/18
MSFT	04/23/18	\$95.36	95.0	\$4.45	\$1.28	\$94.08	01/00/00	\$100.13		\$6.05	6.3%	07/20/18
CVX	04/23/18	\$122.40	120.0	\$4.00	\$0.08	\$122.32		\$124.04		\$1.72	1.4%	07/20/18
MCD	04/30/18	\$166.00	165.0	\$4.65	-\$0.85	\$166.85		\$166.46		-\$0.39	-0.2%	07/20/18

## Summary

I think that you will agree that The Low Cost Put/Call Hedge Strategy makes a lot of sense and can be a very profitable endeavor. It is an ideal approach for those who have an intermediate-term time horizon and a low tolerance for risk. But that is only half the story. As always, to get good results we combine the mathematical applications of this strategy with the Market Edge Opinions when making stock selections. This combination gives you the kind of edge you need when looking for consistent results.

The average price for the stock selections is around \$125 per share while the maximum number of Open Positions at any time is twelve. Therefore, a fully invested cash account would require risk capital of around \$150,000. While the strategy is designed to hold stock positions for twelve weeks, the holding period can be reduced if the Market Edge Opinion for an underlying stock is downgraded. The maximum number of Open Positions at any time is twelve but that number may be smaller at times due to adverse market conditions. Finally, it is not necessary to purchase all of the recommendations since each is an independent event with similar technical characteristics, so the performance should be comparable. That being said, diversification into a number of selections is always recommended.

## Chapter Six: The One-Day Wonder Trade

Weekly credit spreads make possible a “Wise Guy” specialty trade that I call The One-Day Wonder Trade. This trade combines the Market Edge Opinions with a proven option strategy that I developed several years ago that gives you a proven trading approach that produces quick, consistent results.

Here is how this trade works. As always, it is designed around weekly options and the Market Edge Opinions which provides the probable direction of the underlying stock used in the transaction. The trade is initiated on Thursday as near to the close of the market as practical. If it is a short holiday week you should use Wednesday as our trade day. The trade is an *Off Strike Horizontal Spread* that takes advantage of the time decay in the expiring, weekly options. A horizontal spread involves the purchase of a farther-term put or call and the selling of an equal number of nearer-term options of the same type.

The trade is predicated on rapid **time decay** (Theta) which accelerates as the options reach their expiration. As Friday’s expiration approaches, all of the air (premium) will come out of the balloon (option price) and that is what provides us with this wonderful trading opportunity.

It is the certainty of time decay that makes it difficult for many retail traders to make money. They think that buying out of the money calls and puts is a cheap way to trade options. The problem is that they don’t consider how quickly the premium collapses in the out of the money options as expiration approaches. They can be correct on the price direction for the underlying stock but unfortunately, they still lose money. The One-Day Wonder Trade is designed to take advantage of this phenomenon. To see how this works, check out the option chains located below. They are both for Chipotle Grill (CMG).

The first chain is for the Feb 9, 2018 expiration while the second is for the Feb 16, 2018 expiration. On this day, CMG is trading at \$266.91, down \$5.30 on the day. One thing that should become immediately apparent is that even though the stock is **down** over \$5.00 for the day, the out of the money puts in the expiring weekly serial are also **down** on the day. How can this be? As I said earlier, this is what drives many retail traders crazy and eventually leads them to bag option trading altogether. Even when they were 100% correct on the price direction of the underlying stock, they still lost money. On the other hand, you will notice that in the Feb 16, 2018 option chain all the puts, both in and out of the money are **up** on the day.

Last X	Net Chng	Bid X	Ask X	Size	Volume	Open	High	Low	
266.91 T	-5.30	266.89 T	267.02 P	1 x 2	1,406,428	270.17	271.11	265.00	
Option Chain Filter: Off Spread: Single Layout: Last X, Net Change									
CALLS					Strikes: 10	PUTS			
Last X	Net Chng	Bid X	Ask X	Exp	Strike	Bid X	Ask X	Last X	Net Chng
9 FEB 18 (1) 100 (Weekly)									40.64% (±6.066)
18.53 E	-1.58	16.60 Z	18.40 Z	9 FEB 18	250	.05 N	.15 N	.05 C	-.15
10.50 N	-9.90	11.80 Z	13.40 Z	9 FEB 18	255	.15 X	.30 M	.20 Z	-.15
8.50 Z	-4.55	7.00 X	8.50 X	9 FEB 18	260	.55 X	.70 P	.70 Z	-.05
5.10 Q	-5.20	5.40 Z	5.90 Z	9 FEB 18	262.5	1.00 Z	1.20 Q	.82 E	-.38
4.60 P	-4.25	3.70 Z	4.10 Z	9 FEB 18	265	1.70 X	2.00 Q	1.45 M	-.20
2.50 I	-2.90	2.35 Z	2.70 M	9 FEB 18	267.5	2.80 Z	3.10 M	2.00 W	-.25
1.70 C	-3.40	1.35 N	1.65 Z	9 FEB 18	270	4.30 Z	4.70 Z	4.50 C	+1.30
1.01 C	-3.09	.70 X	1.00 X	9 FEB 18	272.5	6.00 Z	6.60 Z	4.50 Z	-.05
.45 I	-2.40	.35 X	.55 W	9 FEB 18	275	8.20 Z	8.70 Z	8.00 Z	+1.99
.35 X	-1.40	.20 M	.35 J	9 FEB 18	277.5	9.70 X	11.70 X	8.80 N	+1.15
16 FEB 18 (8) 100									41.49% (±13.732)
19.10 Z	-33.20	14.10 Z	14.60 Z	16 FEB 18	255	2.10 Z	2.20 Z	2.10 Z	+68
0	0	12.20 Z	12.80 Z	16 FEB 18	257.5	2.65 Z	2.90 E	2.96 I	N/A
10.00 P	-3.90	10.40 Z	11.00 Z	16 FEB 18	260	3.30 Z	3.70 Z	3.16 M	+56
8.60 N	N/A	8.80 Z	9.30 Z	16 FEB 18	262.5	4.20 Z	4.60 X	3.45 I	N/A
7.50 N	-3.20	7.30 Z	7.80 X	16 FEB 18	265	5.10 Z	5.60 X	4.30 N	+40
6.50 Z	-3.40	5.90 E	6.50 X	16 FEB 18	267.5	6.30 Z	6.60 P	5.25 I	+55
5.00 M	-2.75	4.80 J	5.30 N	16 FEB 18	270	7.60 W	8.00 H	7.09 X	+1.29
4.50 N	-1.95	3.80 X	4.30 X	16 FEB 18	272.5	9.10 N	9.70 N	8.60 N	+1.60
3.40 N	-2.20	3.00 M	3.40 E	16 FEB 18	275	10.70 Z	11.40 Z	9.40 I	+1.10
2.82 Z	-1.60	2.40 Z	2.65 Q	16 FEB 18	277.5	12.50 Z	13.10 Z	13.40 Q	+3.40

## Set Up For The One-Day Wonder Trade

The One-Day Wonder Trade involves the use of horizontal spreads. As noted above, a horizontal spread is the purchase of a farther-term (deferred) put or call and the selling (writing) of an equal number of nearer-term (expiring) options of the same type (put or call).

### Off-Strike - One-Day Wonder Bullish - Bearish Trades

This trade relies on the price divergence that occurs on the last day of trading which sees the front expiring options lose all of their air. The trade is simple to implement. Once again, it is keyed off the Market Edge Opinion for the underlying stock. If the Market Edge Opinion is Bullish, The *Off-Strike Bullish Horizontal Spread* would be your choice. In this scenario, you would buy the deferred ATM **call** (267.5 strike) and sell the expiring ATM +2 to +4 **call**. If the Market Edge Opinion is Bearish, The *Off-Strike Bearish Horizontal Spread* is your baby. You would buy the deferred ATM **put** (267.5 strike) and sell the expiring ATM -2 to -4 **put**. In the example below, I have used the ATM +2 call (272.5 strike) for the Bullish scenario and the ATM -2 (262.5 strike) put for the bearish setup. While these trades have limited risk, they could have unlimited reward if the market cooperates. Referring once again to the CMG option chain, these trades would look like the following.

### Bullish - One-Day Wonder Horizontal Trade

Stock	Open Date	Market Edge Opinion	Open Stock Price	Short Call 02/09/18 Exp. Call	Long Call 02/16/18 Def. Call	Open Debit Spread	100% Target	Max Risk	% Risk Capital Max Risk
CMG	02/08/18	Bullish	\$266.91	272.5	267.5	\$5.49	\$10.98	\$5.49	2.7%

## Bearish -One-Day Wonder Horizontal Trade

	Open	Market Edge Opinion	Open Stock Price	Short Put 02/09/18 Exp. Call	Long Put 02/16/18 Def. Call	Open Debit Spread	100% Target	Max Risk	% Risk Capital Max Risk
Stock	Date								
CMG	02/08/18	<b>Bearish</b>	\$266.91	262.5	267.5	\$4.43	\$8.86	<b>\$4.43</b>	<b>2.2%</b>

As you can see, it is all about draining the premium out of the front month (expiring) option. As always – this trade has limited risk but much more potential reward.

## Managing Your Spreads

### Off Strike – One-Day Wonder - Bullish Trade

If the stock closes at or near the short, **expiring ATM +2 call's strike price**, you should buy back the option or you will be short the stock come Monday AM. You may or may not have a loss in that trade. For a loss to occur, the stock would have to close *above the strike price plus the premium*. Otherwise you would have a small gain even though the stock closes above the short option's strike price. Also, since you would be long the deferred ATM option, if the short option moves higher, the ATM will also move higher. While you can hold the deferred leg and let it run over the next few days, I recommend that you close both sides of the trade on the expiring option's expiration day which is what we do for reporting purposes.

### Off Strike – One-Day Wonder - Bearish Trade

If the stock closes at or near the short **expiring ATM -2 put's strike price**, you should buy back the option or you will be long the stock come Monday AM. You may or may not have a loss in that trade. For a loss to occur, the stock would have to close *below the strike price plus the premium*. Otherwise you would have a small gain even though the stock closes below the short option's strike price. Also, since you would be long the deferred ATM option, if the short option moves lower, the ATM will also move lower. While you can hold the deferred leg and let it run over the next few days, I recommend that you close both sides of the trade on the expiring option's expiration day which is what we do for reporting purposes.

From time to time, the underlying stock will have a big move in your favor right out of the gate resulting in a **doubling of the debit**. When this happens, I recommend that you close the position before expiration Friday.

## Summary

The One-Day Wonder Trade is ideal for those who like a lot of short-term action. The trades described above are a couple of the simplest expiration transactions that can be made on a weekly basis. All trades have limited risk and either a substantial or unlimited reward over a short-term time frame. When you are wrong, your risk is limited, and you should go on to the next trade. As with all trades, you should limit your exposure to no more than 3-4% of your available risk capital. Using this allotment will assure you that over the long run, you should have positive results in any type of market environment.

## Chapter Seven: The Earnings Season Trade

### What Is Earnings Season

Earnings season is the first few weeks of each quarter when the Securities and Exchange Commission mandates that all publicly traded companies report their current financial position. Generally, the two biggest numbers that the public pays attention to are the total revenues for the company, as well as the profit or loss that has occurred on those revenues in the last quarter.

Major banks and hedge funds keep track of how a company is performing and publish their forecast of expected revenues and earnings. Many times, these numbers are accurate and when the earnings report is released it has very little impact on the price of the stock. However, a principal known as “market expectation” is always in the formula and it is the main component that can send prices flying up or down after the number is released. Many times, the banks “hedge” their numbers slightly but even if they hit the “expectation” dead on, the price of the stock could have a wild move. The first reaction may be a move to the downside, but after consideration traders decide that they were too pessimistic, and the stock suddenly reverses course and heads in the other direction. Or the number was too bullish, the stock reverses and ends up on its low. In either case, earnings season represents a chance to make a nice winning trade in a short period of time.

By now you should know that I never advocate strategies or trades that involve unlimited risk. You can do limited risk - limited reward trades or you can do spreads that offer limited risk and unlimited rewards. But you should never do trades that have unlimited risk. As always, the strategies listed below include the Market Edge Opinions when selecting the underlying stocks for the trades. These Opinions are always valuable in the stock selection process since a major component of their structure is to spot near-term accumulation or distribution in the stocks. Believe me. If there is ever a time when smart money is at work in the market place, it is during earnings season.

### Pricing The At The Money (ATM) Straddle

In order to understand how air (Vega) comes in and out of the option chain you must understand the concept of the **AT THE MONEY** straddle. The ATM is always the current strike price minus any intrinsic value. Assume that you are trading XYZ and it is priced at \$200 a share, If the \$200 call was priced at \$12 then the \$200 put would be priced at \$12. This is because each option has a 50% chance of ending up in the money at expiration. As the price rolls up and down across the mean it will create a new ATM. As an example, if the price rallied to \$210 then the \$210 put and the call would have the same value. As time goes on and we move closer to expiration even though the \$200 put and call would have the same amount of air, it would be less every day. Let's assume that we are now trading with four days until expiration, but we are still trading at \$200. If the call is trading at \$8 what would the price of the put be? If you said \$8 you would be correct.

Each serial has its own amount of premium attached to it. The only constant is the deferred serial will have more air in the balloon because there is more time until expiration. In the above example, if the expiring ATM were to have \$12 in both the put and call the next serial would have more Vega (air). The size of that Vega is determined by the supply and demand for the deferred option. We will use this principal of the air coming out of the balloon (theta) as the time to expiration shortens to create our winning trades.



Underlying		Last X	Net Chng	Bid X	Ask X	Size	Volume	Open	High	Low			
		268.14	N	0	267.56	P	268.08	P	1 x 1	0	0	0	0

Option Chain		Filter: Off	Spread: Single	Layout: Last X, Net Change												
CALLS																
Strikes: 15																
PUTS																
	Last X	Net Chng	Bid X	Ask X	Exp	Strike	Bid X	Ask X	Last X	Net Chng						
2 FEB 18 (6) 100 (Weeklys) 21.93% (±6.359)																
	18.22	I	0	17.75	M	18.60	M	2 FEB 18	250	.08	Q	.14	M	.14	E	0
	14.59	C	0	15.30	X	16.05	M	2 FEB 18	252.5	.12	X	.18	P	.18	C	0
	13.43	I	0	12.80	M	13.65	M	2 FEB 18	255	.21	Q	.27	M	.26	C	0
	11.30	N	0	10.70	N	11.45	M	2 FEB 18	257.5	.35	Q	.47	M	.40	H	0
	8.77	I	0	8.50	Q	9.15	X	2 FEB 18	260	.57	Z	.70	M	.66	C	0
	6.56	C	0	6.65	Q	6.90	M	2 FEB 18	262.5	.97	Q	1.17	M	1.09	Z	0
	4.90	Z	0	4.80	Q	5.05	M	2 FEB 18	265	1.60	Q	1.84	M	1.70	N	0
	3.29	B	0	3.25	N	3.55	M	2 FEB 18	267.5	2.58	Q	2.83	H	2.72	I	0
	2.15	X	0	2.16	Q	2.26	Z	2 FEB 18	270	3.85	H	4.25	M	4.11	C	0
	1.31	C	0	1.32	Q	1.44	M	2 FEB 18	272.5	5.50	X	5.80	M	5.80	Z	0
	.75	B	0	.76	Z	.87	M	2 FEB 18	275	7.35	Z	7.85	M	7.75	Z	0
	.53	X	0	.44	Z	.53	M	2 FEB 18	277.5	9.50	Z	10.00	M	9.90	C	0
	.28	B	0	.25	Q	.32	M	2 FEB 18	280	11.70	M	12.30	M	12.70	Z	0
	.18	A	0	.15	Q	.22	H	2 FEB 18	282.5	14.05	M	15.05	M	15.20	M	0
	.15	E	0	.10	Q	.17	Z	2 FEB 18	285	16.50	M	17.55	N	14.80	E	0

Option Chain		Filter: Off	Spread: Single	Layout: Last X, Net Change												
CALLS																
Strikes: 15																
PUTS																
	Last X	Net Chng	Bid X	Ask X	Exp	Strike	Bid X	Ask X	Last X	Net Chng						
9 FEB 18 (13) 100 (Weeklys) 21.85% (±0.107)																
	18.85	C	0	18.15	M	18.90	M	9 FEB 18	250	.32	K	.39	M	.37	C	0
	10.90	E	0	15.85	M	16.50	M	9 FEB 18	252.5	.44	H	.53	M	.48	Q	0
	15.53	C	0	13.60	M	14.20	M	9 FEB 18	255	.66	H	.74	M	.74	I	0
	11.88	L	0	11.40	M	12.00	M	9 FEB 18	257.5	.93	M	1.04	M	1.03	Z	0
	9.48	L	0	9.60	M	9.90	M	9 FEB 18	260	1.37	II	1.49	M	1.49	Q	0
	7.77	I	0	7.70	M	8.00	M	9 FEB 18	262.5	1.96	II	2.11	M	2.10	Q	0
	6.15	C	0	6.10	M	6.25	M	9 FEB 18	265	2.76	M	2.92	M	2.87	I	0
	4.64	C	0	4.55	Q	4.90	M	9 FEB 18	267.5	3.75	X	4.05	M	3.95	Q	0
	3.40	Z	0	3.35	M	3.55	M	9 FEB 18	270	5.05	X	5.35	M	5.23	X	0
	2.57	E	0	2.44	Q	2.61	Q	9 FEB 18	272.5	6.55	H	6.90	M	7.75	Q	0
	1.87	I	0	1.75	M	1.85	M	9 FEB 18	275	8.15	M	8.80	M	8.30	Q	0
	1.30	A	0	1.23	M	1.31	M	9 FEB 18	277.5	10.10	M	10.85	M	11.69	C	0
	.90	C	0	.85	M	.93	M	9 FEB 18	280	12.20	M	13.00	X	0	C	0
	.53	H	0	.59	M	.67	H	9 FEB 18	282.5	14.60	M	15.35	M	0	C	0
	.47	F	0	.40	M	.52	M	9 FEB 18	285	16.95	M	17.70	M	0	C	0

Above are two option chains for Goldman Sachs (GS). The first one is the weekly option chain that will expire on Feb 2, 2018. The second is the deferred weekly option that expires on Feb 9, 2018. The closing price for GS on Friday, 01/26/18 was **\$268.14**. The price settled in between strikes, so you would have to decide which strike represents the ATM option. The closest strike is the 267.5 so that is the strike you should use for your trade.

The front, Feb 2 (expiring) straddle closed at \$6.01 (267.5 call @ \$3.29 plus 267.5 put @ \$2.72 = \$6.01) with the call being \$0.64 in the Money. If the stock were to close next Friday at **\$268.14** the straddle would close at \$0.64 (\$268.14 – 267.50).

The back, Feb 9 (deferred) straddle closed at \$8.69 (267.5 call @ \$4.64 plus 267.5 put @ \$3.95 = \$8.69 with the call also being \$0.64 in the money (intrinsic value). If the stock settles at **\$268.14** on Feb 2, 2018 the 267.5 straddle will be worth \$0.64, its intrinsic value. The second straddle would lose time decay but should still be worth around \$6. Since Vega is very tough to predict, it could be more or less but \$6.00 is a reasonable price. The reason for the difference in the price of the straddle is our old friend time decay (Theta). As expiration nears the chance of having a wide divergence of price narrows since traders are willing to sell the calls and puts for less premium. The front straddle will lose \$5.37 of value while the Feb 9, 2018 straddle will lose approximately \$2.69 of value. This difference in the amount of time decay is why you want to buy horizontal debit spreads. The logic is that since the buyers will pump air into the balloon in the hopes of a large price move if the earnings come in anywhere near as expected, the premium will come out of both the expiring and the deferred weekly options, but it will leave the expiring serial at a faster rate.

## Earnings Season Trades

There are several trades that can be used in anticipation of an earnings release. They all involve a certain amount of risk and reward. Rather than confuse you with a slew of complex trades, I will give you a trade which will mimic 99% of all of the earnings-related trades without complicated rules or the need for sophisticated execution. Each trade uses the Market Edge Opinion for the underlying stocks when constructing the transaction. The trade has limited risk and limited reward. If you elect to have the winning side of the trade run, it could turn into unlimited reward. Remember, no matter which trade you initiate, the first step is always to buy the long side of the spread to ensure that you have limited your risk. Once that is complete, you can sell the credit side of the trade. Also, the trade should be completed as close to the earnings release date as possible.

## Directional Off-Strike Horizontal Earnings Trade

The risk and reward are both limited for this trade unless you elect to have the winning long option leg run, then it can have unlimited reward. This trade is used when Market Edge has either a **Bullish** or **Bearish Opinion** for a stock. In either scenario, you would use off-strike horizontal call and put spreads. As always, you would buy the debit side of the trade first to ensure that you don't have unlimited risk. You can choose any combination of strikes that you want. However, the wider the spread the more risk you assume and of course the more reward you receive. I prefer to use the ATM +2 or +3 strikes for the calls and the ATM -2 or -3 strikes for the puts. Whichever strikes you use is a 'traders' choice'. There is no right or wrong answer. It is simply a matter of how much risk you want to take.

In this example we will once again use the option chain for Goldman Sachs (GS) located above. Let's assume that Market Edge has a Bullish Opinion for GS. You would **buy** the Feb 9, 2018, deferred - weekly ITM 267.5 call and **sell** the Feb 2, 2018 expiring - weekly ATM +3 call - 275.0 call to create a horizontal spread. You would have paid approximately \$4.60 for the Feb 9, 2018 - 267.5 call and received around \$0.87 for the Feb 2, 2018 - 275 call for a **\$3.73** (\$4.60 - \$0.87) debit which is your Max Risk. The trade would look like the following:

## Bullish - Horizontal Earnings Trades

Stock	Report Date	Market Edge Opinion	Open Stock Price	Short 02/02/20 ATM +3 Call	Long 02/09/20 ITM Call	Open Debit Spread	100% Target	Max Risk	% Max Risk Capital
GS	01/31/18	<b>Bullish</b>	\$268.00	275.0	267.5	\$3.73	\$7.46	<b>\$3.73</b>	<b>1.9%</b>

On the surface, this trade may seem illogical since you are creating a large debit. However, you are doing this trade because you have a bullish opinion for the stock. If the stock rallies the call that you bought (**deferred option**) will have intrinsic value and the call that you sold (**expiring option**) will become all air. The market expectation will be met, and the traders will take the air out of the balloon. The long side of the trade will start to become intrinsic while the short side of the trade will gain value. However, it will not be enough to keep up with the long side of the trade. If Market Edge is correct, the more the stock rallies the bigger the winner will become until it maxes out at \$7.50 for more around 100% over your maximum risk (\$3.73). If you are wrong, you will lose money but because of the air in the balloon your risk is limited to \$3.73. It is highly unlikely that you would lose that amount because there will be more premium in the Feb 9, 2018 options than in the Feb 2, 2018 serials.

If Market Edge is bearish on the stock, you would do the exact same trade, but you would use **puts** instead of **calls**. You would want to buy the deferred ITM put and sell the expiring ATM -3 put. Again, your risk will be limited to the debit you paid while your reward could be about 300% of the maximum risk (\$3.29).

## Bearish - Horizontal Earnings Trades

Stock	Report Date	Market Edge Opinion	Open Stock Price	Short 02/02/20 ATM -3 Put	Long 02/09/20 ITM Put	Open Debit Spread	100% Target	Max Risk	% Max Risk Capital
GS	01/31/18	<b>Bearish</b>	\$268.00	275.0	267.5	\$3.29	\$6.58	<b>\$3.29</b>	<b>1.6%</b>

## Managing The Directional Off-Strike Horizontal Earnings Trade

Once you have an Off-Strike Horizontal Trade in place whether it is a bullish or bearish transaction, it is managed in the same manner since they are mirror images of each other. Most earnings releases are either before or after the market opens or closes. Usually, if there is going to be a favorable price move, it will occur by 11:00 am. For reporting purposes, we close the position at this time. If the trade is a winner right off the bat and the spread **doubles** in price, we will also close the position. You can hold the position if you want to make more but that increases your risk. On the other hand, if the trade is not immediately a winner, it can be held since we know that the *maximum risk* is limited to the original debit. If you are very adventurous, you can buy back the short call or put and let the long leg run. The only wrong way to manage this trade is to take off the long leg which creates maximum risk since you now would have an unprotected, short or naked option position.

## What You Can Expect

Frequency Of Play:	Quarterly
Investment Option Time Horizon:	One – Two Days
Maximum # Of New Plays Per Week:	Three - Five

Maximum # Of Open Positions:	Five
Risk Tolerance:	Medium
Option Experience:	Medium

## Summary

The above trades are similar to most of the more complicated trades that can be made during earnings season. The idea behind the trades is to take advantage of the Market Edge Opinions to forecast a stock's probable direction once the earning news is released. The trade has limited risk and either a substantial or unlimited reward over a short-term time frame. When wrong, your risk is limited. As with all Optionomics strategies, you should keep your dollar allotments to no more than 3-4% of your risk capital.

The Earnings Season Trade is great for those who like a lot of action over a short period of time. The problem is they are only available on a quarterly basis. The average price for the stock selections is around \$150 per share while the maximum number of potential trades on any day is less than ten. Therefore, a fully invested cash account would require risk capital of around \$20,000 if all selections were played. The trade is designed to be open for less than twenty-four hours so you should never have more than three to five positions in play at any time. Finally, it is not necessary to trade all of the selections. Each stock has similar technical characteristics so the performance should be comparable. That being said, diversification into a number of selections is always recommended.

Weekly options give a trader the best chance to make a profit during earnings season. They allow you to do very highly correlated, vertical and horizontal spreads with minimum risk. Before the advent of weeklies, the only choice a trader had was to do monthly spreads. The problem was that the difference in premium levels added an extra level of risk to the trade. Weekly options have greatly reduced that risk. What follows are a couple of trades that will allow you to profit during earnings season no matter what type of market environment exists.

## Chapter Eight: The Blow Off Top – Bottom Trade

All markets usually go through a trading cycle which consists of a congestion phase followed by a period of trending and then a blow off. Depending on the time frame that you are observing, blow offs can occur once or twice a day or they may only occur once in a decade. The important thing to understand is why the blow off occurs and how you can benefit. Almost all blow offs occur at the end of a trending phase that has seen investors become either too greedy or too fearful. If they are too greedy, they will keep buying as they race each other to the top of the market. If they are too fearful, they do the opposite and keep selling to get out of the market at any price. If it is a liquid stock it will fall until the market has a “final capitulation.”

If the current trend doesn't resolve itself in a rounding top or bottom and prices begin to accelerate at a much steeper angle than a sustainable 45-degree rate, the market will most likely end in a blow off. The blow off phase of the market takes the least amount of time of any of the three phases but may result in the most price movement. The blow off occurs when the weak hands get squeezed to the limit. They can no longer fight the trend and they are forced to cover, most likely due to lack of capital or margin calls that must be met. During the blow off phase, price and time may become infinite, meaning price reaches a vertical move of close to 90 degrees. The weak hands become very price insensitive and the only thing they are concerned with is ending the pain. The extent of the blow off attracts “new money” which replaces the old ‘weak hands’ which have now vacated their positions. The strong hands begin to take profits. They may also join the new money in changing directions. When this happens the classic “V” chart pattern is formed. Eventually everything returns to equilibrium and a new market pattern begins.

### Classic “V” Blow Off Bottom

The chart below shows a classic ‘blow off’ bottom for TSLA. The stock had been in a steady decline for a couple of weeks and then gapped down reaching a low of around \$244 on 04/02/18. As with most blow offs, the stock turned on a dime and traded back above \$300 three days later. That is the kind of action you want.



## How To Trade A Blow Off Top - Bottom

As with all Optionomics' Strategies and Trades, the Opinions and short-term trading signals provided by Market Edge ([www.marketedge.com](http://www.marketedge.com)) play an integral part in trading blow off tops and bottoms. Market Edge follows over 4,000 stocks on a daily basis using a variety of propriety tools to produce computer generated alerts which signal when a blow off top or bottom pattern is forming. In addition, Market Edge has an uncanny ability to identify at which point a stock is close to or has reached its peak or through.

Nearly all traders know what a blow off pattern looks like. Unfortunately, most don't know how to take advantage of this great trading opportunity. They are paralyzed by the rally or break and cannot tell when the weak hands can no longer hold on. Market Edge removes this fear and allows you to take advantage of the situation as "new money" enters the market and the stock begins to go in the opposite direction. One thing is always common when a stock is in the blow off phase. Option premiums (Vega) go through the roof. The volatility may be double or triple the normal level as the weak hands get squeezed.

There are many trades that can be used when a stock is in a blow off phase. Rather than give you the choice of numerous trades, I will give you one that will mimic 99% of all blow off strategies without complicated execution parameters.

## The Blow Off Horizontal Spread

This trade, as with all Optionomics recommendations has limited risk and either limited or unlimited reward depending on how the trade unfolds. When the blow off occurs, the premium levels in the options will be at

their peak as the wrong side hands will have been squeezed to the maximum. Here's how you can take advantage of this situation.

**Blow Off Top Horizontal Trade (Bearish):** Let's assume that Market Edge has a bullish opinion for AAL which has been in an upward trend for a while but has gone vertical over the past week. The trade is setting up as a classic "short squeeze" and Market Edge is signaling that the stock is very overbought and that an upside blow off is in the works. The first thing you should do is to **buy** a deferred, **ITM** +1, +2 or +3 **anchor put**. Whichever strike you use is a "traders' choice". There is no right or wrong answer. It is a matter of how much risk you want to take. I prefer to buy the next weekly serial (**put**). Since we are expecting a rapid price reversal to the downside, I would stay fairly close to the ATM. This will give you plenty of punch if the reversal occurs. The second step is to **sell a bearish**, weekly-vertical call credit spread in the expiring serial. This credit will help to finance the deferred put. If the trade doesn't hit immediately, you could continue to **sell** the weekly-vertical call credit spread. For this example, we will use AAL. The Total Cost for the trade is \$3.58 which is the difference between the credit spread's strike prices (\$1.00) minus the credit spread (\$0.42) plus the anchor put debit (\$3.00). The trade would look like the following:

### Bearish - Blow Off Top Horizontal Trades

Stock	Open Date	Open Stock Price	Combo	Combo	Combo	Total	100% Target	Max Risk	% Risk Capital
			Short Call 06/25/20 Strike Price	Long Call 06/25/20 Strike Price	Long Put 07/02/20 Strike Price	Combo Spread Cost			
AAL	06/21/19	\$41.49	41.5	42.5	44.0	\$3.58	\$7.16	\$4.58	2.3%

**Blow Off Bottom Horizontal Trade (Bullish):** If the stock is blowing off to the downside, you would do a mirror trade. You would **buy** a deferred **ITM** -1, -2 or -3 **anchor call** and then **sell a bullish** weekly-vertical put credit spread to finance the trade. As in the above example, I prefer to buy the next weekly serial (**anchor call**), but you can use any serial that you feel comfortable with. It is all about the amount of risk that you feel is appropriate. If you are aggressive, you may want to buy the call which is closer to the current ATM which will be more expensive. If the trade doesn't hit immediately, you would continue to **sell the weekly put credit spread**. For this example, we will use ULTA. The Total Cost for the trade is \$9.25 which is the difference between the credit spread's strike prices (\$5.00) minus the credit spread (\$1.80) plus the anchor call debit (\$6.05). The trade would look like the following:

### Bullish - Blow Off Bottom Horizontal Trades

Stock	Open Date	Open Stock Price	Combo	Combo	Combo	Total	100% Target	Max Risk	% Risk Capital
			Short Put 06/25/20 Strike Price	Long Put 06/25/20 Strike Price	Long Call 07/02/20 Strike Price	Combo Spread Cost			
ULTA	06/21/20	\$250.33	250.0	245.0	245.0	\$9.25	\$18.50	\$14.25	7.1%

## Managing Your Trades

Check the Optionomics web site on Monday, Tuesday and Wednesday around 3:00 pm EST to access the blow off trades. Managing the spreads is simple. Either hold the credit spread position and anchor put or call until Friday's expiration or sell the anchor put or call during the week. If the spread doubles, it is usually a good idea to close the trade and pocket the doe. A double occurs when the trade can be closed at twice the Total Cost amount and is listed on the trade ticket as 100% Target.

If the spread is worthless, the trade is over. If both legs of the spread are in the money, you can either buy the spread back within a tick or two of parity before Friday's expiration or allow the OCC to assign one leg and exercise the other leg for you. If only one leg of the spread is in the money, it is best to buy that leg back as it is your short leg and let the long leg run. In this scenario, you have created a **'Free Roll'** and if the stock goes your way, you have unlimited reward and limited risk.

## What you can Expect

Frequency Of Play:	Weekly
Investment Option Time Horizon:	Three – Five Days
Maximum # Of New Plays Per Week:	Three - Five
Maximum # Of Open Positions:	Five
Risk Tolerance:	Medium
Option Experience:	Medium

## Summary

The Blow Off Top - Bottom Trade is one of the best ways to benefit from blow off situations. When Market Edge indicates a Blow Off is likely, you sell a vertical credit spread and use your credit to finance an option in the direction of the probable Blow Off. These trades have limited risk but offer substantial reward over a short-term time frame. As with all Optionomics' trades, you should limit your risk to no more than 3-4% of your available risk capital. Using this guide line will assure you that over the long run, you will be able to take advantage of this great opportunity.



## Chapter Nine: The Billionaire – Limited Risk Reversal Strategy

Did you ever wonder how Carl Icahn and Warren Buffett are able to take over major corporations without anyone noticing until they release the forms to the SEC? Buying the stock would be obvious to the other big traders and like the “Duke Brothers” they would want in on the action. How they do it is by using options. Their staffs have a superior knowledge of the way the option market works, and they take advantage of it. Trading options is a probability model but a lot of it is common sense. The longer the time until an event can happen the greater the uncertainty.

Let's say you find a house you want to buy which is listed at \$200,000. You would like to buy it today but don't have the ready cash. You can afford a lease of \$1,000 a month and you know you will have the cash for a down payment in the near future. You ask the seller if they would give you an “option” on the house.

The seller agrees. You know the house is worth \$200,000 today but what will it be worth in the future? You can guess, but nobody knows for sure. Let's say that real estate values where you are living have gone up an average of 1% a year for the past 20 years, but it has been a bumpy ride because of the real estate meltdown in 2008. If you are going to look at the near term, an option premium of 1% a year should seem adequate. However, if you are looking 10 years into the future, the seller should ask for more of a premium as the market has more uncertainty. This is the way the option market works. As you go out further in time there is more air (premium) in the balloon (option). This long term air in the balloon provides you with the opportunity to leverage out your portfolio with a trade known as a *risk reversal*.

Let's go back to buying the option on the house. What you are really doing is leveraging up your capital in order to have the opportunity to buy the house later at a price you can afford. If the market depreciates, you can walk away from the transaction. You would lose your premium, but you have limited your risk. With this in mind I would like to explain how to leverage up a stock play and one of the ways the big hitters get involved in the market.

### What Is A Risk Reversal And How Does It Work?

A risk reversal is a way of taking a position in a stock synthetically by using options as a substitute for the underlying stock. It can hide the trade from other big investors. Here is how it works. Look at the two charts of BA (Boeing) located below. One is for the expiring March 22, 2019 serial and the other is the June 21, 2019 serial. Boeing's stock had been crushed because of a series of tragic accidents but you feel all of the bad news is now in the market and it is time to get long.

If you were to buy 100 shares of BA outright, it would cost you \$37,056. If you bought it on margin, you could buy it with 2x1 leverage for \$18,528 but remember, if things go wrong you would still have \$37,056 at risk.

BA BOEING CO COM 370.5658 -8.4242 -2.22% B: 370.53 A: 370.60 ETB MM ±7.247 Company Profile															
Underlying															
Last X	Net Chng	Bid X	Ask X	Size	Volume	Open	High	Low							
370.5658	D	-8.4242	370.53	N	370.60	P	2 x 1	8,949,042	370.00	372.3917	367.20				
Option Chain Filter: Off Spread: Single Layout: Last X, Net Change															
CALLS						Strikes: 12	PUTS								
Last X	Net Chng	Bid X	Ask X	Exp	Strike	Bid X	Ask X	Last X	Net Chng						
22 MAR 19 (4) 100 (Weeklys) 38.17% (±12.987)															
14.78	B	-9.77	15.00	N	15.30	Z	22 MAR 19	357.5	1.88	Q	1.96	Q	1.96	X	-0.54
13.16	Q	-7.95	13.15	Q	13.30	Z	22 MAR 19	360	2.33	E	2.45	E	2.40	H	-0.57
11.10	Q	-8.50	11.20	Q	11.40	H	22 MAR 19	362.5	2.96	Q	3.05	P	3.05	P	-0.35
9.35	Q	-7.81	9.40	Q	9.60	Z	22 MAR 19	365	3.70	Q	3.80	E	3.70	X	-0.30
7.75	Q	-7.51	7.80	Q	8.00	M	22 MAR 19	367.5	4.55	P	4.70	H	4.68	I	-0.13
6.50	I	-7.57	6.35	Q	6.50	E	22 MAR 19	370	5.60	Z	5.75	M	5.64	C	+0.31
5.10	Z	-7.90	5.10	Q	5.25	M	22 MAR 19	372.5	6.80	Q	7.00	X	7.00	Q	+0.60
4.08	X	-6.75	4.00	Q	4.10	H	22 MAR 19	375	8.20	Q	8.40	Z	8.80	C	+1.50
3.10	I	-6.23	3.05	H	3.15	Z	22 MAR 19	377.5	9.80	Q	10.00	M	10.05	Q	+1.85
2.39	Q	-5.61	2.32	Z	2.40	Q	22 MAR 19	380	11.50	Z	11.75	M	11.95	H	+2.65
1.77	Z	-4.93	1.73	P	1.77	Z	22 MAR 19	382.5	13.40	Z	13.65	Z	13.65	P	+3.20
1.29	C	-4.41	1.26	Q	1.34	P	22 MAR 19	385	15.40	M	15.75	M	15.65	I	+3.15

BA BOEING CO COM 370.7465 -8.2435 -2.18% B: 370.69 A: 370.76 ETB MM ±7.271 Company Profile															
Underlying															
Last X	Net Chng	Bid X	Ask X	Size	Volume	Open	High	Low							
370.7465	D	-8.2435	370.69	K	370.76	N	1 x 7	8,961,299	370.00	372.3917	367.20				
Option Chain Filter: Off Spread: Single Layout: Last X, Net Change															
CALLS						Strikes: 12	PUTS								
Last X	Net Chng	Bid X	Ask X	Exp	Strike	Bid X	Ask X	Last X	Net Chng						
21 JUN 19 (95) 100 32.00% (±48.939)															
52.25	Z	0	42.10	M	42.65	M	21 JUN 19	340	10.95	M	11.15	Z	11.00	X	+1.67
37.00	Z	-9.20	38.55	M	39.10	M	21 JUN 19	345	12.35	M	12.60	M	12.24	X	+1.65
35.50	B	-9.07	35.10	Q	35.65	M	21 JUN 19	350	13.95	Z	14.25	M	14.08	B	+2.03
31.00	Q	-7.05	31.90	M	32.30	M	21 JUN 19	355	15.70	Z	16.00	M	15.70	W	+3.30
27.80	N	-6.60	28.80	M	29.20	M	21 JUN 19	360	17.60	Z	17.90	M	17.57	E	+2.72
25.80	Z	-4.83	25.90	N	26.45	N	21 JUN 19	365	19.65	N	20.00	M	20.00	C	+2.55
22.46	C	-6.36	23.15	M	23.50	P	21 JUN 19	370	21.90	M	22.30	M	22.14	N	+2.98
20.20	I	-4.70	20.60	M	21.05	C	21 JUN 19	375	24.35	M	24.75	M	24.54	N	+3.34
16.85	C	-5.65	18.20	H	18.60	M	21 JUN 19	380	26.95	M	27.35	M	26.80	Z	+3.10
15.70	Q	-4.68	16.00	M	16.35	C	21 JUN 19	385	29.70	M	30.15	M	30.00	P	+4.26
14.00	B	-4.08	14.00	M	14.35	M	21 JUN 19	390	32.70	M	33.15	M	32.52	M	+4.37
12.10	H	-3.85	12.15	N	12.45	Z	21 JUN 19	395	35.90	M	36.30	M	36.55	X	+5.54

The risk reversal trade uses the premise that an option's premium is the same in each strike price. This allows you to create a synthetic **long** or **short** position with **unlimited risk** and **unlimited reward**. Let's look at the March 22, 2019 expiration to see exactly how this works. At the time, BA was trading near the 370 strike so we will use it in this example.

If you bought one 370 call and sold one 370 put, you would be **synthetically long** 100 shares of stock at approximately 370.56. If the stock rallied to \$600 a share, the call would go up and the put would go down to reflect the \$230 rise in the price of the underlying stock. If the put reached zero, the call would be at **parity** and continue to rise or fall dollar for dollar with the stock. In any case you make \$230, the same as if you owned 100 shares of the stock. If the stock went to zero, the put would go to parity and the call would go out worthless. You would lose the entire \$37,560 (\$370.56 \* 100) dollars that you had invested. So, what is the advantage of doing this trade? The answer is **none unless you want to hide the trade from your competition**, but this is not the way we do risk reversal trades.

The Optionomics' risk reversal trade relies on the same principal used in creating a synthetic long position, but it has a couple of major differences.

1) If you do the old fashioned-risk reversal trade outlined above, it doesn't decrease your margin which is the amount of cash needed to do the trade. It would remain at \$37,560, the same as if you bought 100 shares of the stock. The Optionomics risk reversal trade differs from the old fashioned trade in that you **buy a put** against the short side of the risk reversal, which limits your risk and reduces the margin requirement.

2) Since you need to pay for the put, you would sell a **weekly vertically call credit spread each week** to finance the cost of the put and although it increases your margin, (the requirement for the call spread) it gives you between 5-1 to 10-1 leverage. You only need about 10% - 20% of the cost of buying the stock outright.

3) You have removed the **unlimited risk** portion of the trade. The most you can lose is the value of the call plus the put spread. This gives you a huge edge. If the market goes your way, you make almost 100% of the gain but if it goes against you, there is a built in stop loss that assures you can sleep at night.

### How Do You Initiate An Optionomics Risk Reversal Trade?

- 1) First, make sure that **Market Edge** has a long term, **Bullish Opinion** for the underlying stock.
- 2) You don't want to be "rolling over" your spread each week since it is time consuming and you might have to pay breakage which will hurt your results. I like to go out approximately 90 days and do the risk reversal in that expiration month. In the BA example, you would create the 370 risk reversal trade in the June 21, 2019 serial. Remember it doesn't matter how far out you go. The premium in the put and call of the same strike price should have approximately the same amount of air. You use the ATM (At The Money) strike because it is the most liquid and you pay a smaller bid offer spread.
- 3) You would **buy** the ATM 21 June 19 - 370 call and simultaneously **sell** the ATM 21 June 19 - 370 put and **buy** the 21 June 19 - 365 put. This entire trade can usually be transacted on one ticket. The cost of this part of the trade is the spread risk, the difference between the put's strike prices minus the credit from the put spread plus the cost of the call. In this scenario the total cost of the risk reversal trade would be around 10% to 20% of the cost of buying the underlying stock outright.
- 4) Finally, you **sell** the expiring, **weekly** ATM, ATM +1 or +2 vertical call credit spread to pay for the 21 June 19 - 365 put. You will "roll over" this spread each week into a new ATM vertical call credit spread. It doesn't matter where the stock is trading. You use the current ATM as your short leg and then buy the ATM +1 or +2 call to complete the vertical credit spread. No matter where you own the risk reversal, you always sell the new ATM vertical call spread.

This risk reversal trade would look like the following:

## The Market Edge - Market Posture:

Bullish

	Initial		Current		Combo	Combo	Combo	Combo	Short	Long	Call
Long	Stock	# Of	Stock	Combo	Long Call	Short Put	Long Put	Spread	03/22/20	03/22/20	Spread
Stock	Price	Weeks	Price	Exp. Date	ATM SP	ATM SP	ATM -1 SP	Debit	ATM Call	ATM +2 Call	Credit
BA	\$370.54	1	\$370.54	06/19/20	370.0	370.0	365.0	\$21.20	370.0	372.0	\$0.80

## How Does The Optionomics Risk Reversal Trade Work?

The risk reversal strategy allows you to leverage up your position like the big boys do but without **unlimited risk**. How much leverage you want will depend on the strikes you use in the deferred put spread. Let's look at the BA, June 21, 2019 example to explain the leverage. As you go out further in time, the strike price differential become wider. The tightest spread that you could use in the June 21, 2019 put spread is \$5.00 (370-365). Your margin on this trade with most brokers would be \$500. The \$500 is not your maximum risk, (that is the difference between your credit and the width of the spread) but it is your cash requirement (margin) for the put spread. In addition, you would have the cost of the call

If you wanted to decrease your leverage you would do the same trade, but you would **widen** the deferred put strike price. As an example, if you wanted to widen the June 21, 2019 put spread to \$30 dollars (370 – 340) most brokerage firms would charge you \$3000 for margin (\$30\*100). Again, this is not your risk. It is your margin requirement. So, your margin requirement would be \$3000 for the put spread, \$2330 for the call (\$23.30\*100) and \$250 for the weekly call spread less the credit received from the call spread (\$80) for a total initial cost of \$5500 for a better than 6:1 leverage ratio (\$37,560 / \$5,500 = 6.8). The amount of leverage is a trader's choice since you can control your margin requirements by determining the width of the put spread. The tighter the put spread, the greater the leverage, the lower the risk and the lower the margin requirement.

## How Do I Calculate My Risk And Reward?

Calculating risk is simple. It is the cost of the call plus the potential loss in the put spread minus the credit from the call spread. So, in our BA example, no matter how low the stock goes you can never lose more than the \$2330 you paid for the call minus the credit you received from the put spread plus the credit you received for selling the call spread. If you used a \$500 wide put spread, the risk would be approximately \$300 in the put spread and \$100 of that would be offset by the credit in the call spread. Your maximum risk would be \$2530. If the stock opened at zero the next day, you would be long from \$25.30. (That would be your new average price) If you widened the put spread out to say \$30 (370-340) your risk would go up to around \$1100 in the put spread, \$2330 in the call minus the \$100 credit in the vertical call spread for total risk of \$3330. **In this case the more leverage you create, the lower your risk. It is the opposite of what logic would tell you. The smaller the width between the put's strike prices, the higher the leverage because you have reduced the downside risk.**

Your reward is **unlimited since** you are long a call. However, the speed at which the stock advances will influence your total return. If the stock were to open at \$600 the next day you would keep the premium in the put spread, minus the credit in the vertical call spread minus what you paid for the call. In our example, as the call goes up in price the put goes down in price dollar for dollar. If the put went to zero, the call would be at parity and go up or down dollar for dollar with the underlying stock. You paid \$2330 for the call so your gain

would be \$3670, a gain of approximately \$200 in the put spread and a \$300 loss in the call spread for a maximum gain of \$3370. Since the **maximum risk** was \$2530 you would get a 133% return on your risk. If the price rise is slow, you could gain less than the \$3370 depending on market conditions but you would still have a significant gain versus your risk. It depends on how your weekly call spreads perform during the rally.

### How Do I Take Off My Optionomics Risk Reversal Trade?

For each risk reversal, you can sell your call at any time or wait until expiration and take your profit. If the put spread is trading near zero you can either buy it back or let it expire worthless. You can either take off the weekly call spread or allow it to trade to expiration. Your downside is safe as your risk is limited to the put spread you have in place, or if you have bought back the put spread there is no risk.

Frequency Of Plays:	Weekly
Investment Time Horizon:	One - Twelve Weeks
Maximum # Of New Plays Per Week:	Two
Maximum # Of Open Positions:	Ten
Risk Tolerance:	Medium
Option Experience:	Medium
Suggested Risk Capital - One Reverse Trade Per Recommendation:	\$50,000

### Summary

The benefits of this trade should be obvious. The risk reversal strategy produces a gain or a loss in line with the movement of the stock's price. You have **limited risk** and at the same time you have **unlimited reward**.

The long ATM -1 put provides downside protection and also reduces the cash requirement for the transaction. Since you are buying premium (the ATM -1 put), you want to sell the weekly call credit spreads to pay for that put. Ideally, the weekly credits will offset the premium paid for the ATM -1 put but if the stock moves up quickly, the call spreads could lose money. Usually, but not always, a weekly call spread's loss is offset by an increase in the value of the Combo Trade. The trade reduces your margin requirements vs. buying the stock outright by as much as 90%. It gives you up to 11:1 leverage which has **unlimited risk**. The trade requires the use of serial, calendar spreads to initiate the positions. Once the trade is on, it requires about 10-15 minutes a week to adjust the weekly call spreads. The upside potential is **unlimited**, but because you use time spreads to lower your risk, you usually will not make 100% of the underlying stock's total move to the upside. However, you can make more than 100% of your risk depending on how quickly the underlying stock makes the move. In any case, this is the perfect trade for someone that wants to compete with the big boys but doesn't have the capital.

## Chapter Ten: The SPY Short-Term Power Play

With the advent of short term expirations for the SPY Index in March 2017, I developed a “Wise Guy” specialty trade that I call The SPY Short Term Power Play Trade. This trade combines the Market Edge Opinion for the SPY with a proven option strategy that gives you a solid trading approach that produces quick, consistent results.

Here is how it works. The trade is initiated on a day there is an expiring serial in the next couple of days. The trade should be initiated as near to the close of trading as practical. The trade is an **Off Strike Horizontal Spread** that takes advantage of the time decay in the expiring option segment of the trade. A horizontal spread involves the purchase of a farther-term put or call and the selling of an equal number of nearer-term options of the same type (put/call). The trade is predicated on rapid **time decay** (Theta) which accelerates as the options nears expiration. As expiration approaches, all of the air (premium) will come out of the balloon (option price) and that is what provides us with this wonderful opportunity. The SPY Short Term Power Play is designed to take advantage of this phenomenon. To see how this works, check out the option chains for the SPY (S&P 500) located below.

	Last X	Net Chng	Bid X	Ask X	Size	Volume	Open	High	Low	
	266.91 T	-5.30	266.89 T	267.02 P	1 x 2	1,406,428	270.17	271.11	265.00	
Option Chain Filter: Off Spread: Single Layout: Last X, Net Change										
CALLS					Strikes: 10	PUTS				
	Last X	Net Chng	Bid X	Ask X	Exp	Strike	Bid X	Ask X	Last X	Net Chng
▼ 9 FEB 18 (1) 100 (Weeklys)	40.64% (±6.066)									
	18.53 E	-1.58	16.60 Z	18.40 Z	9 FEB 18	250	.05 N	.15 N	.05 C	-.15
	10.50 N	-9.90	11.80 Z	13.40 Z	9 FEB 18	255	.15 X	.30 M	.20 Z	-.15
	8.50 Z	-4.55	7.00 X	8.50 X	9 FEB 18	260	.55 X	.70 P	.70 Z	-.05
	5.10 Q	-5.20	5.40 Z	5.90 Z	9 FEB 18	262.5	1.00 Z	1.20 Q	.82 E	-.38
	4.60 P	-4.25	3.70 Z	4.10 Z	9 FEB 18	265	1.70 X	2.00 Q	1.45 M	-.20
	2.50 I	-2.90	2.35 Z	2.70 M	9 FEB 18	267.5	2.80 Z	3.10 M	2.00 W	-.25
	1.70 C	-3.40	1.35 N	1.65 Z	9 FEB 18	270	4.30 Z	4.70 Z	4.50 C	+1.30
	1.01 C	-3.09	.70 X	1.00 X	9 FEB 18	272.5	6.00 Z	6.60 Z	4.50 Z	-.05
	.45 I	-2.40	.35 X	.55 W	9 FEB 18	275	8.20 Z	8.70 Z	8.00 Z	+1.99
	.35 X	-1.40	.20 M	.35 J	9 FEB 18	277.5	9.70 X	11.70 X	8.80 N	+1.15
▼ 16 FEB 18 (8) 100	41.49% (±13.732)									
	19.10 Z	-33.20	14.10 Z	14.60 Z	16 FEB 18	255	2.10 Z	2.20 Z	2.10 Z	+.68
	0	0	12.20 Z	12.80 Z	16 FEB 18	257.5	2.65 Z	2.90 E	2.96 I	N/A
	10.00 P	-3.90	10.40 Z	11.00 Z	16 FEB 18	260	3.30 Z	3.70 Z	3.16 M	+.56
	8.60 N	N/A	8.80 Z	9.30 Z	16 FEB 18	262.5	4.20 Z	4.60 X	3.45 I	N/A
	7.50 N	-3.20	7.30 Z	7.80 X	16 FEB 18	265	5.10 Z	5.60 X	4.30 N	+.40
	6.50 Z	-3.40	5.90 E	6.50 X	16 FEB 18	267.5	6.30 Z	6.60 P	5.25 I	+.55
	5.00 M	-2.75	4.80 J	5.30 N	16 FEB 18	270	7.60 W	8.00 H	7.09 X	+1.29
	4.50 N	-1.95	3.80 X	4.30 X	16 FEB 18	272.5	9.10 N	9.70 N	8.60 N	+1.60
	3.40 N	-2.20	3.00 M	3.40 E	16 FEB 18	275	10.70 Z	11.40 Z	9.40 I	+1.10
	2.82 Z	-1.60	2.40 Z	2.65 Q	16 FEB 18	277.5	12.50 Z	13.10 Z	13.40 Q	+3.40

The first chain is for the Feb 9, 2018 expiration while the second is for the Feb 16, 2018 expiration. On this day, SPY was trading at \$266.91, down \$5.30 on the day. One thing that should become immediately apparent is that even though the index is **down** over \$5.00, the out of the money **puts** in the expiring weekly serial are also **down** on the day. How can this be? As I said earlier, this is what drives many retail traders crazy and eventually leads them to bag option trading altogether. Even when they were 100% correct on the price direction of the underlying index, they still lost money. On the other hand, you will notice that in the Feb 16, 2018 option chain, all the **puts**, both in and out of the money are **up** on the day.

## Set Up For The SPY Short Term Power Play

The SPY Short Term Power Play involves the use of horizontal spreads. As noted above, a horizontal spread is the **purchase** of a further term (deferred) put or call and the **selling** of an equal number of near-term (expiring) options of the same type (put/call).

## Off-Strike- Horizontal Bullish - Bearish Spreads

The SPY trade relies on the price divergence that occurs on the last day of trading which sees the front, expiring options lose all of their air. The trade is simple to implement. Once again, it is keyed off the Market Edge Opinion for the underlying index, SPY. If the Market Edge Opinion for SPY is Bullish, the Off-Strike Horizontal Bullish Spread would be your choice. In this scenario, you would **buy the first deferred ITM** (In The Money) -1 to -4 call and **sell the expiring ATM** (At The Money) +1 to +4 call. If the Market Edge Opinion for SPY is Bearish, the Off-Strike Horizontal Bearish Spread is your baby. You would **buy the first deferred ITM** +1 to +4 put and **sell the expiring ATM** -1 to -4 put.

SPY		SPDR S&P500 ETF TRUST TR UNIT ETF		282.78	+64 +0.23%	B: 282.96 A: 282.99	ETB		
Underlying									
Last X	Net Chng	Bid X	Ask X	Size	Volume	Open	High		
282.78 P	+64	282.96 P	282.99 P	0 x 0	55,268,095	283.74	284.20		
Option Chain Filter: Off Spread: Single Layout: Last X, Net Change									
CALLS				Strikes: 8	PUTS				
Last X	Net Chng	Bid X	Ask X	Exp	Strike	Bid X	Ask X	Last X	Net Chng
29 MAY 19 (2) 100 (Weeklys) 17.49% (±3.7)									
3.06 C	+13	3.08 N	3.12 P	29 MAY 19	281	.85 P	.87 D	.90 C	-.82
2.51 Q	+06	2.72 N	2.76 P	29 MAY 19	281.5	1.00 Q	1.01 P	1.06 C	-.70
2.35 Q	+11	2.38 D	2.41 P	29 MAY 19	282	1.14 P	1.17 D	1.18 Z	-.96
2.03 A	+08	2.06 D	2.09 P	29 MAY 19	282.5	1.32 P	1.35 P	1.32 M	-.83
1.74 C	+07	1.75 W	1.78 P	29 MAY 19	283	1.51 I	1.55 P	1.55 N	-1.04
1.48 A	-.02	1.47 P	1.50 P	29 MAY 19	283.5	1.73 Z	1.76 P	1.76 C	-1.01
1.23 C	+05	1.22 D	1.23 N	29 MAY 19	284	1.97 P	2.01 P	2.00 P	-1.06
.99 Z	-.03	.99 P	1.01 P	29 MAY 19	284.5	2.24 P	2.28 P	2.31 C	-1.03
31 MAY 19 (4) 100 (Weeklys) 18.64% (±4.7)									
3.28 M	+13	3.42 D	3.45 P	31 MAY 19	281.5	1.60 W	1.63 P	1.68 Q	-.79
3.01 P	+26	3.09 P	3.10 C	31 MAY 19	282	1.78 P	1.80 P	1.79 C	-.91
2.77 N	+22	2.77 D	2.80 P	31 MAY 19	282.5	1.95 I	1.98 N	2.03 C	-.87
2.46 Q	+18	2.47 P	2.49 N	31 MAY 19	283	2.15 P	2.18 P	2.20 N	-.88
2.18 P	+10	2.18 D	2.20 Z	31 MAY 19	283.5	2.36 P	2.39 P	2.45 C	-.94
1.90 N	+13	1.91 D	1.94 P	31 MAY 19	284	2.59 P	2.63 P	2.67 P	-.98
1.59 A	-.04	1.66 W	1.69 W	31 MAY 19	284.5	2.84 P	2.88 P	2.89 Q	-1.04

## The SPY Short-Term Power Play

Above is the expiring option chain for SPY and the for the next deferred contract in late May 2019. SPY is trading 282.78 so the At The Money (ATM) straddle would be the 282.50. Let's look at how both the bullish and bearish SPY Short Term Power Plays would set up.

If the Market Edge Opinion for SPY is Bullish, you would want to **buy the deferred, 31 May 2019** - ITM (In The Money) call and **sell the expiring, 29 May 2019** - OTM (Out Of The Money) call. In this example, you would **buy** the ITM, -3 call, which would be the 281.5 strike for around \$3.45. For the expiring serial, we would **sell** the OTM +3 call, which would be the 284 strike for a credit of \$1.22. The trade would be done for a **debit** of \$1.23 (\$3.45 - \$1.22). What we are hoping for is that Market Edge's bullish Opinion is correct and that the SPY would expire around the 284 strike. If that happens, the deferred 281 call would gain intrinsic value and the expiring 284 call would go out very close to zero. If the spread were to double in price to \$2.46 before expiration, you should take the trade off and book the 100% profit.

If the Market Edge Opinion for SPY is Bearish you would want to **buy the deferred, 31 May 2019** - ITM (In The Money) put and **sell the expiring 29 May 2019** - OTM (Out Of The Money) put. This trade is a mirror image of the call spread. For this example, you would **buy** the ITM +3 put, which would be the 284 strike for around \$2.60. For the expiring serial, we would **sell** the OTM -3 put, which would be the 281 strike for a credit of \$0.86. The trade would be done for a **debit** of \$1.74 (\$2.60 - \$0.86). This time we are hoping for is that Market Edge's bearish Opinion is correct and that the SPY would expire around the 281 strike. If that happens, the deferred 284 put would gain intrinsic value and the expiring 281 put would go out very close to zero. If the spread were to double in price to \$3.48 before expiration, you should take the trade off and book the 100% profit. In both instances, you can use any strike in either serial that you desire. That's a traders choice. Just remember that the wider the spread, the greater chance for profit, but you are also taking on more risk.

## Managing Your Trades

Managing these trades is very simple since you only have two alternatives. The first is to close the trade if you get a big run and the value of the spread doubles. The second is to wait until expiration and close the trade.

### Bullish, SPY Short-Term Power Play

If the SPY closes at or near the **short, expiring OTM (+) call's strike price**, you should buy back the option or you will be short the index on the day after expiration. You may or may not have a loss in that trade. For a loss to occur, the SPY would have to close **above the strike price plus the premium**. Otherwise you would have a small gain even though the SPY closes above the short option's strike price. Also, since you would be long the deferred ITM option, if the short option moves higher, the ITM will also move higher. While you can hold the deferred option and let it run over the next few days, I recommend that you close both sides of the trade on the expiring option's expiration day. If the spread doubles which would be a 100% gain you should close the position and pocket the dough. That is what we do for reporting purposes. Another course of action would be to take the short leg off and let the long leg run. That is a traders choice.



## Bearish, SPY Short-Term Power Play

If the SPY closes at or near the **short, expiring OTM (-) put's strike price**, you should buy back the option or you will be long the index come the day after expiration. You may or may not have a loss in that trade. For a loss to occur, the index would have to close **above the strike price plus the premium**. Otherwise you would have a small gain even though the index closes above the short option's strike price. Also, since you would be long the deferred ITM option, if the short option moves lower, the ITM will also move lower. As above, while you can hold the deferred leg and let it run over the next few days, I recommend that you close both sides of the trade on the expiring option's expiration day. While these trades have limited risk, they can have unlimited reward if the market cooperates. It is all about draining the premium out of the front month (expiring) option. As always, these trades have defined, limited risk. The table below is how the trade would look.

### Bullish - SPY Horizontal Trade

	Open	Market Edge	Open SPY	Short 05/29/20	Long 05/31/20	Open Debit	100% Spread	Max Risk	% Risk Capital
Symbol	Date	Opinion	Price	Exp. Call	Def. Call	Spread	Target		Max Risk
SPY	05/27/20	Bullish	\$282.78	284.0	281.5	\$1.23	\$2.46	\$1.23	0.6%

### Bearish - SPY Horizontal Trade

	Open	Market Edge	Open SPY	Short 05/29/20	Long 05/31/20	Open Debit	100% Spread	Max Risk	% Risk Capital
Symbol	Date	Opinion	Price	Exp. Put	Def. Put	Spread	Target		Max Risk
SPY	05/27/20	Bearish	\$282.78	247.0	252.0	\$1.74	\$3.48	\$1.74	0.9%

## What You Can Expect

Frequency Of Play:	Weekly
Investment Option Time Horizon:	Three Days
Maximum # Of New Plays Per Week:	Two
Maximum # Of Open Positions:	One
Risk Tolerance:	Medium
Option Experience:	Low

## Summary

The SPY Short Term Power Play Trade is ideal for those who like a lot of short-term action. The trades described above are a couple of the simplest expiration transactions that can be made on a weekly basis. All

trades have limited risk and either substantial or unlimited reward over a short-term time frame. When you are wrong, your risk is limited, and you should go on to the next trade. As with all trades, you should limit your exposure to no more than 3-4% of your available risk capital. Using this allotment will assure you that over the long run, you should have positive results in any type of market environment.

## Chapter Eleven: Putting It All Together

There you have it. Five risk adverse option Strategies and Trades that belong in every option trader's war chest. If after reading this book you feel a little overwhelmed, don't worry about it. Odds are you have never been exposed to anything like this before. Rest assured that with a little bit of effort on your part, you will become a very efficient and profitable option trader in a short period of time. The Optionomics Group LLC offers monthly subscriptions to the strategies for only \$19.95 each per month with no contracts or strings attached. Discounts are available for multiple subscriptions. I strongly suggest that you take advantage of our FREE 2-Week trial and paper trade the systems so as to get your feet wet without risking any real money. If your brokerage firm doesn't have a virtual option trading platform, you can access either the CBOE site or Think Or Swim. Instructions for both sites are listed in Appendix D.

I have a few suggestions for you that should make the learning process much easier. Select one of the three strategies that match your investment *option* time horizon, risk tolerance, temperament, trading acumen and option experience. You may have noticed that I said '**investment option time horizon**' which is different from investment time horizon. In option land, option time horizon varies from one hour to three months. In the real world, time horizons are usually much longer. The Strategies described in this book have an option time horizon of between one week to three months while the Trades are mostly one - two day transactions.

It is highly unlikely that you will want to trade more than one of the Strategies. However, a combination of one of the Strategies and either one or more of the Trade subscriptions is a good combination. The following is a brief summary of the main characteristics of each of the offerings.

### Summary Of Strategies And Trades

#### The 21<sup>st</sup> Century Covered Call Strategy

Frequency Of Play:	Weekly
Investment Option Time Horizon:	One - Four Weeks
Maximum # Of New Plays Per Week:	Two
Maximum # Of Open Positions:	Ten
Risk Tolerance:	Medium
Option Experience:	Low
Suggested Risk Capital. Fully Invested (One Spread Per Play):	\$100,000

Summary: If the stock stays flat or moves down, the credit spread will expire worthless and you will keep the credit. If the stock moves up, the stock and the long call will appreciate in line with the stock price.

#### The Low Cost Put - Call Hedge Strategy

Frequency Of Play:	Weekly
--------------------	--------

Investment Option Time Horizon:	One - Twelve Weeks
Maximum # Of New Plays Per Week:	Two
Maximum # Of Open Positions:	Twelve
Risk Tolerance:	Medium
Option Experience:	Low
Suggested Risk Capital. Fully Invested (One Spread Per Play):	\$100,000

Summary – Bullish Put Hedge Strategy: If the stock stays flat or moves up, the credit spread will expire worthless and you will keep the credit. However, the deferred put will decline in value in line with the long stock position price rise. If the long stock position moves down, the loss will be offset by the amount of the credit spread and the appreciation in the deferred anchor put.

Summary – Bearish Call Hedge Strategy: If the stock stays flat or moves down, the credit spread will expire worthless and you will keep the credit. However, the deferred call will decline in value in line with the short stock position price decline. If the short stock position moves up, the loss will be offset by the amount of the credit spread and the appreciation in the deferred anchor call.

### **The Bullish – Bearish Credit Spread Trade**

Frequency Of Play:	Weekly
Investment Option Time Horizon:	One Week
Maximum # Of New Plays Per Week:	Four
Maximum # Of Open Positions:	Four
Risk Tolerance:	Medium
Option Experience:	Low
Suggested Amount Of Risk Capital To Trade All Of The Traders Selections:	\$20,000

Summary – Bullish Trades: If stock stays the same or moves up, the spread will expire worthless and you will keep the entire credit. If the stock goes down big, you will lose the maximum risk amount. If the stock closes within the spread, you will keep part of the spread.

Summary – Bearish Trades: If stock stays the same or moves down, the spread will expire worthless and you will keep the entire credit. If the stock goes up big, you will lose the maximum risk amount. If the stock closes within the spread, you will keep part of the spread.

### **One-Day Wonder Bullish - Bearish Trades**

Frequency Of Play:	Weekly
Investment Option Time Horizon:	One Day
Maximum # Of New Plays Per Week:	Two
Maximum # Of Open Positions:	Two
Risk Tolerance:	Medium
Option Experience:	Low
Suggested Amount Of Risk Capital To Trade All Of The Traders Selections:	\$20,000

Summary – Bullish Trade: The stock performs as anticipated. The premium (air) is the short expiring call goes to zero while the long deferred call gains additional premium.

Summary – Bearish Trade: The stock performs as anticipated. The premium (air) in the short expiring put goes to zero while the long deferred put gains additional premium.

### **Earnings Season Bullish – Bearish Trades:**

Frequency Of Play:	Quarterly
Investment Option Time Horizon:	One – Two Days
Maximum # Of New Plays Per Week:	Three - Five
Maximum # Of Open Positions:	Five
Risk Tolerance:	Medium
Option Experience:	Medium
Suggested Amount Of Risk Capital To Trade All Of The Traders Selections:	\$20,000

Summary – Bullish Trade: The stock performs as anticipated. The short expiring ATM +2 call expires worthless and the long ATM deferred call gains additional premium.

Summary – Bearish Trade: The stock performs as anticipated. The short expiring ATM -2 put expires worthless and the long ATM deferred put gains additional premium.

### **Blow Off Top – Bottom Trades:**

Frequency Of Play:	Weekly
--------------------	--------

Investment Option Time Horizon:	Three – Five Days
Maximum # Of New Plays Per Week:	Three - Five
Maximum # Of Open Positions:	Five
Risk Tolerance:	Medium
Option Experience:	Medium
Suggested Amount Of Risk Capital To Trade All Of The Traders Selections:	\$20,000

Summary – Bullish Trade: The stock performs as anticipated. The short expiring put spread expires worthless and the long deferred call gains additional premium. Bearish Trade: The stock performs as anticipated. The short expiring call spread expires worthless and the long deferred put gains additional premium.

**The Billionaire - Risk Reversal Strategy:**

Frequency Of Plays:	Weekly
Investment Time Horizon:	One - Twelve Weeks
Maximum # Of New Plays Per Week:	Two
Maximum # Of Open Positions:	Ten
Risk Tolerance:	Medium
Option Experience:	Medium
Suggested Risk Capital - One Reverse Trade Per Recommendation:	\$50,000

The following Questions and Answers section should address any questions that you may have. If you still need help, e-mail us at [optionomics@marketedge.com](mailto:optionomics@marketedge.com).

**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.

## Appendix A



### Mr. Seifert

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 by 1980 I started my own brokerage firm, Fixed Income Atlanta which 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 funds (under \$10 million) managers in the country. I also placed second, beating out over 300 contestants in a year-long 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.

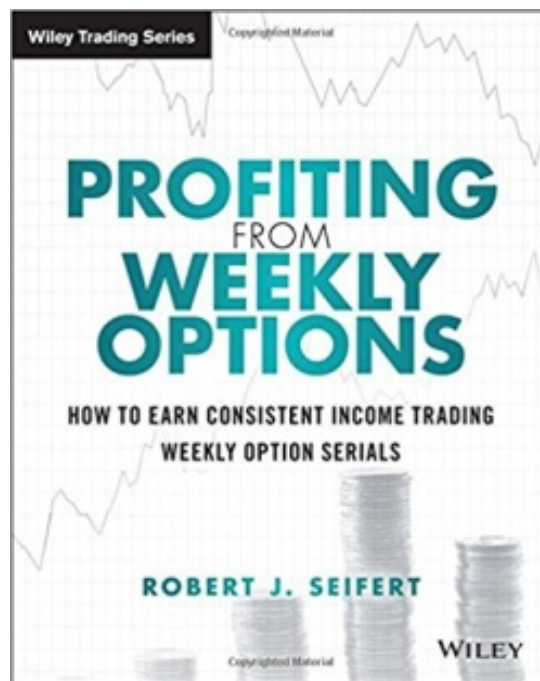
During my time at Futrex, I became more involved with the management end of the exchange. I chaired numerous option committees and was Vice Chairman of the Eurodollar Option pit, which eventually became the largest option trading pit in the world. I was elected Chairman of the International Monetary 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 derivatives course offered by the University. I also wrote the textbook, 'Profiting From Weekly Options' for the course, which deals with weekly options. It was published in 2015 by John Wiley and Sons and is part of their financial series.



## Appendix B

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

**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.

**Risk Level:** High

**Opportunity:** Big upside if you are right on the direction and time period.

**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.

**Risk Level:** Very High

**Opportunity:** Very limited upside. Only premiums.

**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 call 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 down, 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.

**Risk Level:** Moderate

**Opportunity:** Limited upside, big downside.

**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.

**Risk Level:** Low

**Opportunity:** Limited risk and reward.

**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.

**Risk Level:** Low

**Opportunity:** Good upside if you are right on the direction and time period.

There are several terms that you need to understand when trading options. It is best if you learn all that you can, but you should 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.

**Margin Requirements** – The minimum equity required to support a stock or option position. Varies with the strategy. Check with your broker.

**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 the 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 U.S. 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 charge 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.

## Appendix C

### The Think Or Swim Virtual Option Trading Platform

The Think Or Swim (TOS) virtual trading platform is one of the most comprehensive, sophisticated option platforms. It can be intimidating at first, but the basics are fairly simple. Once you register, you will have unlimited use of the site for 60-days with paper money. The following instructions will enable you to get up and running in a just few minutes.

- 1) Go to [www.thinkorswim.com](http://www.thinkorswim.com) and click on the **Trading** tab. Scroll down and click on **Download** Think Or Swim. Register on this page. Once your account is verified, click Download.
- 2) Double-click on the desktop icon. Enter your username and password. Choose **Paper Money** and then click on **Login**. You can change the font size or the background color by clicking on **Configure**.
- 3) Set Up: Click on an option expiration date (29 MAR 18) to open the Chain. Next to Option Chain and Spread click on Single. Right click on Bid and then roll over SELL. A drop down will appear. Click on Vertical. The Spread box will be displayed at the bottom of the screen. Under VERTICAL (lower left corner) click on the small arrow and then on CUSTOM. Now you are ready to roll.
- 4) To buy a stock, click on the **Trade** tab. Enter the stock's symbol in the upper left box and press **Enter**. Click on the **Ask Price**. The Order Entry Tools screen will open at the bottom of the screen. Adjust the order (# of shares, price and type of order) and then click on **Confirm** and **Send**. Click on **Delete, Edit** or **Send**.
- 5) To buy an option or option spread, click on the **Trade** tab. You can enter numerous types of option orders including Single buy or sells and Vertical Spreads. To select the type of trade that you want to initiate, click on **Option Chain** under the stock price area and select an expiration date. Then click on **Spread** which is on the right of the Option Chain box and select either **Single** or **Vertical**. Next to the strike prices click on **Bid** if you want to sell a single option or **Ask** if you want to buy a single option. The order entry box will open at the bottom of the page where you can adjust the order. To initiate a vertical spread, choose **Vertical** from the Spreads box and repeat the process outlined above. When your order is correct, click on **Confirm and Send** in the lower right corner.

*Note:* In both instances, the Price box located in the order Entry box displays the last price that the spread or single order that you have created took place. Most of the time, the price is somewhere between the current Bid and Ask and your order can be filled at that number.

- 6) To see how your positions are performing, go to the **Monitor** page where you will find **Activity And Positions**, which lets you monitor your orders and **Account Statement** which details your trade history and account balances.
- 7) If you need additional help, click on the Support/Chat button.

### Questions And Answers

The following are the most common questions and answers associated with credit spreads.

### **Q: What Is The Best Way To Initiate A Weekly - Vertical Credit Spread?**

**A:** In my opinion, the best way to initiate a vertical credit spread if you are bearish on a stock is to sell the ATM call and buy the ATM +1 +2 or +3 call for a bearish call spread. If you are bullish on the underlying stock, sell the ATM put and buy the ATM -1-2-3 put. Remember, if you are bullish on the stock and think that it will rally, you should **Sell Put Spreads**. Conversely, if you are looking for the stock to head south, **Sell Call Spreads**. Using the ATM call or put for the short leg of your credit spread gives you the best possible opportunity to make a profit. It provides the highest risk/reward scenario.

### **Q. Why Do My Spreads Always Seem To Be Losers During The Week?**

**A:** It is not your imagination. During the week your spread will always be marked against you. Here is why. Let's assume that you sell the TSLA 335-330 bullish put spread at \$2.10. The two components of the spread, the 335 and the 330 puts each have a bid - offer spread. Your short leg, the 335 put will be marked on the offer while the long leg, the 330 put will be marked on the bid. Assume the bid - offer spread for both options is 0.10 wide. If the fair settlement is 2.20 then your spread will settle at 2.40. Conversely, if you had created a bearish 335-330 call spread, it would settle at 2.00. Don't worry about these aberrations. The only price that matters is where the spread settles on Friday after the market is closed and that is always a fair settlement because it is where the stock settles.

### **Q. Why Do I Get These Crazy Numbers in My Account On Saturday During Exercise And Assignment?**

**A:** The crazy numbers on Saturday which tell you whether you either made a zillion dollars or you better mortgage your house **means nothing!** As the OCC (Option Clearing House) matches up the exercise and assignments, it may temporarily leave you naked either long or short stock. This situation will sort itself out in a matter of hours and by Monday your account will reflect exactly where it should be in both cash and stock positions.

The information contained herein has been carefully compiled from sources believed to be reliable, but its accuracy is not guaranteed. Use it at your own risk. There is risk of loss in all trading. Past performance is not necessarily indicative of future results. Traders should read The Option Disclosure Statement before trading options and should understand the risks in option trading, including the fact that any time an option is sold there is an unlimited risk of loss. When an option is purchased, the entire premium is at risk. In addition, any time an option is purchased or sold, transaction costs including brokerage and exchange fees are at risk. No representation is made that any account is likely to achieve profits or losses like those shown or in any amount. An account may experience different results depending on factors such as timing of trades and account size. Before trading, one should be aware that with the potential for profits, there is also potential for losses, which may be very large. All opinions expressed are current opinions and are subject to change.



# Billionaire Trade Worksheet

Date: \_\_\_\_\_ Market Posture: \_\_\_\_\_ S&P 500: \_\_\_\_\_

## Bull Market Billionaire Worksheet - One Week Call Options - (Short Call Below Long Call)

			Long 3 Mo.	Short 3 Mo.	Long 3 Mo.	O-Combo	C-Combo	Short	Long	O-Call		
Long		Mon	ATM Call	ATM Put	ATM -1	Spread	Spread	Exp ATM	Exp ATM +2	Spread	Spread	Stock
Symbol	WK	Open	Strike	Strike	Put Strike	Debit	Debit	Call SP	Call SP	Credit	Loss	F-Close
			/	/	/			/	/			
			/	/	/			/	/			
			/	/	/			/	/			
			/	/	/			/	/			
			/	/	/			/	/			
			/	/	/			/	/			
			/	/	/			/	/			
			/	/	/			/	/			

**NEW**

			Long 3 Mo	Short 3 Mo	Long 3 Mo	O-Combo	C-Combo	Short	Long	O-Call		
		Mon	ATM Call	ATM Put	ATM -1	Spread	Spread	Exp ATM	Exp ATM +2	Spread	Spread	Stock
Symbol	WK	Open	Strike	Strike	Put Strike	Debit	Debit	Call SP	Call SP	Credit	Loss	F-Close
			/	/	/			/	/			
			/	/	/			/	/			

**Closed**

Symbol	WK	F-Close	Reason	Stock P/L	Bill P/L	WK	Symbol	F-Close	Reason	S-P/L	Bill P/L

## Bear Market Billionaire Worksheet - One Week Put Options - (Short Put Above Long Put)

			Long 3 Mo	Short 3 Mo	Long 3 Mo	O-Combo	C-Combo	Short	Long	O-Put		
Short		Mon	ATM Put	ATM Call	ATM +1	Spread	Spread	Exp ATM	Exp ATM -2	Spread	Spread	Stock
Symbol	WK	Open	Strike	Strike	Call Strike	Debit	Debit	Put SP	Put SP	Credit	Loss	F-Close
			/	/	/			/	/			
			/	/	/			/	/			
			/	/	/			/	/			
			/	/	/			/	/			
			/	/	/			/	/			
			/	/	/			/	/			
			/	/	/			/	/			
			/	/	/			/	/			

**NEW**

			Long 3 Mo	Short 3 Mo	Long 3 Mo	O-Combo	C-Combo	Short	Long	O-Put		
		Mon	ATM Put	ATM Call	ATM +1	Spread	Spread	Exp ATM	Exp ATM -2	Spread	Spread	Stock
Symbol	WK	Open	Strike	Strike	Call Strike	Debit	Debit	Put SP	Put SP	Credit	Loss	F-Close
			/	/	/			/	/			
			/	/	/			/	/			

**Closed**

Symbol	WK	F-Close	Reason	Stock P/L	Bill P/L	WK	Symbol	F-Close	Reason	S-P/L	Bill P/L



## Traders Worksheets

**Week Start:**

**Market Posture:**

***Bullish Blow Off Bottom - Put Spread - Long Deferred Call - (Short Put Above Long Put)***

		Open	Short-Exp	Long-Exp	Open	Long-Deferred	Open	Open		Close	Close	Total
Open	Stock	Stock	ATM Put	ATM -2 Put	Spread	ITM - Call	Call	Combo	Close	Stock	Combo	Profit
<u>Date</u>	<u>Symbol</u>	<u>Price</u>	<u>Strike</u>	<u>Strike</u>	<u>Credit</u>	<u>Strike</u>	<u>Debit</u>	<u>Debit</u>	<u>Date</u>	<u>Price</u>	<u>Credit</u>	<u>Loss</u>
			/	/		/						
			/	/		/						
			/	/		/						

***Bearish Blow Off Top - Call Spread - Long Deferred Put - (Short Call Below Long Call)***

		Open	Short-Exp	Long-Exp	Open	Long-Deferred	Open	Open		Close	Close	Total
Open	Stock	Stock	ATM Call	ATM +2 Call	Spread	ITM - Put	Put	Combo	Close	Stock	Combo	Profit
<u>Date</u>	<u>Symbol</u>	<u>Price</u>	<u>Strike</u>	<u>Strike</u>	<u>Credit</u>	<u>Strike</u>	<u>Debit</u>	<u>Debit</u>	<u>Date</u>	<u>Price</u>	<u>Credit</u>	<u>Loss</u>
			/	/		/						
			/	/		/						
			/	/		/						

**Totals---->**                      **\$ P/L**                      **# Wins**                      **# Loss**                      **Win %**                      **# Trades**

***Bullish Put Verticle Spread - (Short Put Above Long Put)***

		Open	Short-Exp	Long-Exp		Open			Close	Close	Stock	Total
Open	Stock	Price	ATM Put	ATM -1 Put		Credit			Date	Spread	Price	Profit
<u>Date</u>	<u>Symbol</u>	<u>Price</u>	<u>Strike</u>	<u>Strike</u>		<u>Credit</u>			<u>Date</u>	<u>Spread</u>	<u>Price</u>	<u>Loss</u>
			/	/								
			/	/								

***Bearish Call Verticle Spread - (Short Call Below Long Call)***

		Open	Short-Exp	Long-Exp		Open			Close	Close	Stock	Total
Open	Stock	Price	ATM Call	ATM +1 Call		Credit			Date	Spread	Price	Profit
<u>Date</u>	<u>Symbol</u>	<u>Price</u>	<u>Strike</u>	<u>Strike</u>		<u>Credit</u>			<u>Date</u>	<u>Spread</u>	<u>Price</u>	<u>Loss</u>
			/	/								
			/	/								

**Totals---->**                      **\$ P/L**                      **# Wins**                      **# Loss**                      **Win %**                      **# Trades**

***Bullish One-Day Wonder Trade - (Short Exp Call Above Long Def Call)***

						Open			Close		Total
Open		Open	Short-Exp	Long-Def		Debit	100%	Close	Stock	Close	Profit
<u>Date</u>	<u>Symbol</u>	<u>Price</u>	<u>+1, +2 Call</u>	<u>-1, -2 Call</u>		<u>Spread</u>	<u>Target</u>	<u>Date</u>	<u>Price</u>	<u>Spread</u>	<u>Loss</u>
			/	/							
			/	/							

***Bearish One-Day Wonder Trade - (Short Exp Put Below Long Def Put)***

<i>Long Deferred Put Above Short Expiring Put</i>						Open			Close		Total
Open		Open	Short-Exp	Long-Def		Debit	100%	Close	Stock	Close	Profit
<u>Date</u>	<u>Symbol</u>	<u>Price</u>	<u>-1, -2 Put</u>	<u>+1, +2 Put</u>		<u>Spread</u>	<u>Target</u>	<u>Date</u>	<u>Price</u>	<u>Spread</u>	<u>Loss</u>
			/	/							
			/	/							

**Totals---->**                      **\$ P/L**                      **# Wins**                      **80**                      **# Loss**                      **Win %**                      **# Trades**

**Weekly Total:**    **\$ P/L**                      **% P/L**                      **# Wins-# Loss**                      **Win %**                      **# Trades**



