

MX

12th Annual Options Education Day in Toronto

Participant Handbook

Sept 14 2019



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Sessions

- **Options for a Bull Market (Equipping yourself for the next bull cycle)**
- **Options for a Bear Market (Preparing your account from a recession)**
- **Using Options for Managing a Portfolio of Stocks**
- **Option Acrobats: Short Puts vs Covered Calls vs Bull Call Spreads vs Calendar Spreads**
- **Options Unchained: OptionsPlay a Revolutionary Way to Trade Options**
- **Every Penny Counts! – Managing Your Currency Exposure with USX Options**
- **Top 2 Strategies to Generate Income for any Portfolio**
- **Unique Twists on the Collar Options**

Speakers



JASON AYRES

CEO and Director of Business Development, R N Croft Financial Group

Jason is CEO and Director of Business Development at R N Croft Financial Group, a member of the Croft Investment Review Committee and a Derivative Market Specialist by designation.

In addition, he is an educational consultant for Learn-To-Trade.com and an instructor for the TMX Montreal Exchange.

Speakers



PATRICK CERESNA

Derivatives Market Specialist, Big Picture Trading Inc.

Patrick Ceresna is the founder and Chief Derivative Market Strategist at Big Picture Trading. Patrick is a Chartered Market Technician, Derivative Market Specialist and Canadian Investment Manager by designation. In addition to his role at Big Picture Trading, Patrick is a derivatives instructor for the TMX Montréal Exchange, educating investors and investment professionals across Canada about the many valuable uses of options in their investment portfolios. Patrick is also co-host of the MacroVoices podcast and Market Huddle YouTube show.

Patrick specializes in analyzing the global macro market conditions and translating them into actionable investment and trading opportunities. With his specialization in technical analysis, he bridges important macro themes with the attempt to understand when those trends are beginning and where they are likely to go. With his expertise in options trading, he seeks to create opportunities that leverage returns, while managing/defining risk and/or generating consistent enhanced income. Patrick has designed and teaches Big Picture Trading's Technical, Options and Macro Masters Programs while providing the content for the members in regards to daily live market analytic webinars, alert services and model portfolios.

Speakers



EDWARD J. MODLA

Director, Retail Education, Options Industry Council

Edward J. Modla is director, retail education for the Options Industry Council (OIC). In this role, he oversees retail education programs which promote the responsible use of listed equity options.

Mr. Modla represents OIC by creating and presenting educational events in both online and in-person formats, serving as a guest speaker on panels, hosting a monthly podcast with industry personnel, and working with the media.

Speakers



TONY ZHANG

Head of Product Strategy, OptionsPlay

Tony Zhang is a specialist in the financial services industry with over a decade of experience spanning product development, research and market strategist roles across equities, foreign exchange and derivatives. As the current Chief Strategist for OptionsPlay, Tony currently leads the research and development of their OptionsPlay

Ideas & Portfolio platform. He has leveraged his interest in financial technology and product development to provide innovative reimagined solutions to clients and the users they seek to serve. Previously, he spent seven years at FOREX.com with a capital markets and research background as a market strategist specializing in equity and FX derivatives markets.

Sponsors



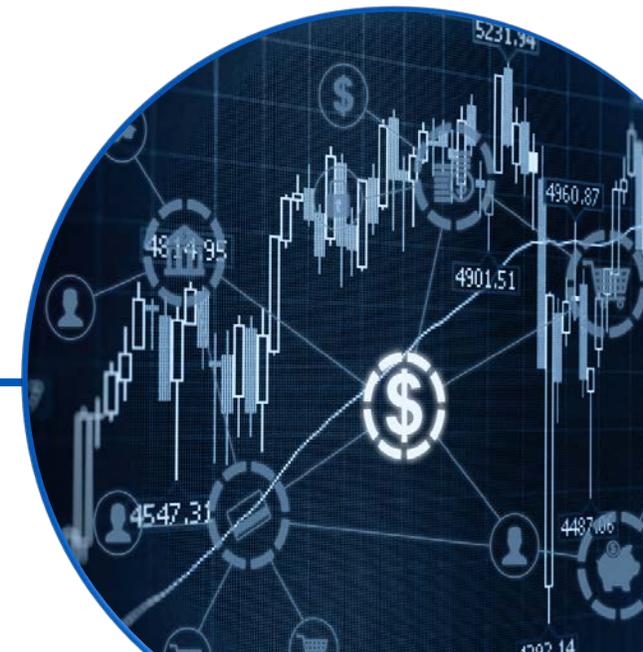
Understanding Options for a Bull & Bear Market

In Partnership with the Montreal Exchange

September 14, 2019

Edward J Modla

Director of Retail Education - Options Industry Council



Disclaimer

Options involve risks and are not suitable for everyone. Individuals should not enter into options transactions until they have read and understood the risk disclosure document, *Characteristics and Risks of Standardized Options*, available by visiting OptionsEducation.org. To obtain a copy, contact your broker or The Options Industry Council at 125 S. Franklin St., Suite 1200, Chicago, IL 60606.

In order to simplify the computations used in the examples in these materials, **commissions, fees, margin, interest and taxes have not been included.** These costs will impact the outcome of any stock and options transactions and must be considered prior to entering into any transactions. Investors should consult their tax advisor about any potential tax consequences.

Any strategies discussed, including examples using actual securities and price data, are strictly for illustrative and educational purposes and should not be construed as an endorsement, recommendation, or solicitation to buy or sell securities. Past performance is not a guarantee of future results.

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- Online courses, podcasts, videos, & webinars
- Investor Services desk at *options@theocc.com*



Presentation Outline

- Options Defined
- Exercise & Assignment
- Pricing Basics
- Strategies



Calls and Puts



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Gold Star

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- Thomson Reuters Morning News Call
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- 2 free inbound account transfers (up to \$300)
- Preferred interest rates for balances in Margin accounts



Platinum Star

Place **75 trades or more**
per quarter or invest \$2 million

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- Top-tier research from BMO Capital Markets
- in addition to 5 Star Thomson Reuters, Morningstar and S&P research

Platinum rates

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- Preferred offers from BMO Private Banking
- Preferred interest rates for balances in Margin accounts
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- 50% additional RIF payments
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Place **180 trades or more**
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- in addition to 5 Star Thomson Reuters, Morningstar and S&P research

Diamond rates

- 4 free inbound account transfers (up to \$600)
- Preferred offers from BMO Private Banking
- Preferred interest rates for balances in Margin accounts
- Preferred IPO Allocation
- No deregistration fees
- No additional RIF payments
- Free securities transfers within BMO

5 STAR
EXCLUSIVE
TOOLS

BMO Market Pro professional-level platform for active traders. Updated for 2019 (see next page).

Simplified version available at Gold level (\$600 a year value). Full-featured BMO Market Pro available at Platinum and Diamond levels (\$1,500 a year value).

BMO Capital Markets - Ranked #1 Equity Research in Canada by 2018 Brendan Wood International Survey.

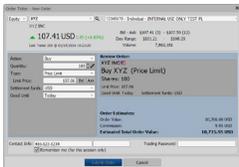
BMO Market Pro

Elevate your trading with streaming real-time data, advanced tools and powerful portfolio management.



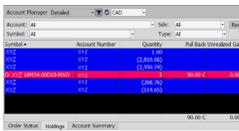
Charts

Robust charting of technical studies and comparison data. See price movements by minute, hours, days, weeks and months. Choose from over 100 technical studies to draw comparisons between stocks or indices.



Trading

Point-and-click trading. Act on opportunities quickly and easily with one-click trading from virtually any screen.



Account Manager

Your holdings, balances and order status info. See account and order information, including real time streaming gain or loss values of your investment holdings.



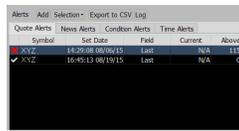
Market Depth

Real time Level 2 stock quotes for the North American markets. Streaming Level 2 information helps you see the market forces behind price support and resistance for better-informed decisions.



Options

Real time streaming quotes. View strike prices, expiry dates, bid and ask prices, volume and more refined options for the level of detail you want.



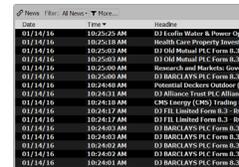
Alerts

Notifications that arrive at the right time. Create custom stock, news and trade fill alerts, and be notified when your criteria is met.



Hot Lists

Pre-set screens show which stocks are moving the markets. Identify trade opportunities from over 200 pre-set watch lists, including biggest gainers, losers and highest volume moving the North American markets.



News

Real time streaming news. See news for stocks and market events. Track major volume moves and analyst upgrades for an investment advantage.



Watch Lists

Real time streaming market data for the major North American exchanges. Create custom watch lists of up to 500 securities to track your trades, and opportunities you are following.

Updated for 2019: New tools and functionality for a heightened trading experience.

Portfolio Analysis

Create and analyze model portfolios to explore different investing opportunities through a detailed multi-factor lens.

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Find the U.S. stocks you want based on your criteria. Compact view helps make the most of your screen.

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Add heat maps to your watch lists to highlight changes in price or more nuanced factors.

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Choose Vertical, Diagonal and Calendar Spreads, Calls & Puts, Buy/Writes, Straddles and Strangles. Chart the option chain for strike/price/volatility curve.

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Ultra HD and 4K Options

For monitors above 1080p.

Workbooks

Organize multiple workspaces.

Notes

Add comments to a security to remain with that symbol in your watch lists, detailed quotes and charts.

Defining an Option

- Options are **contracts** that give:
 - the **buyer** the *right* to buy or sell an underlying asset
 - the **seller** an *obligation* to buy or sell an underlying asset

at a *specified price*, on or before a *given date* in the future.

- **Buyers** have **rights**
- **Sellers** have **obligations**



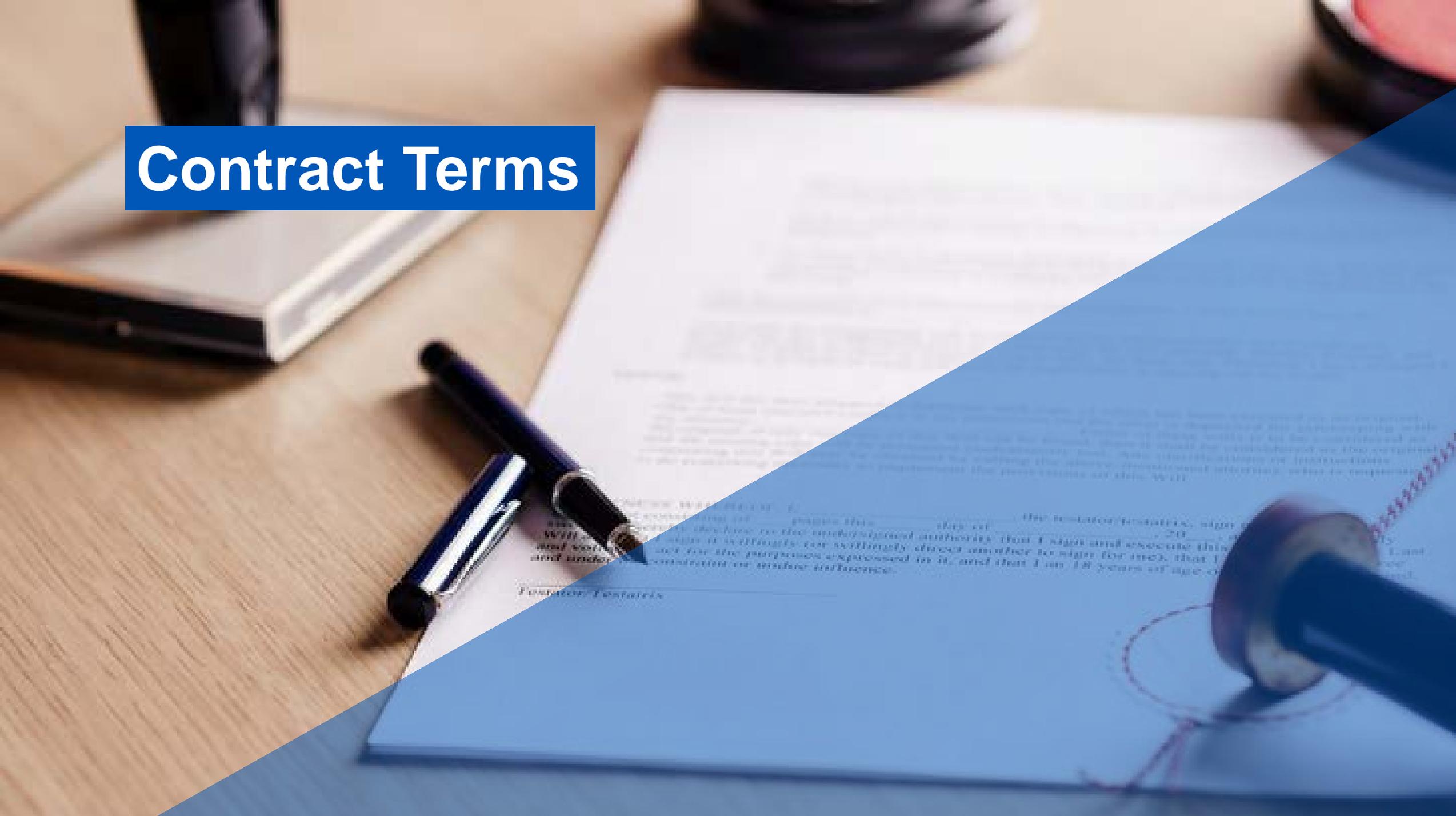
Basics of Calls

	<u>Call Buyers</u>	<u>Call Sellers</u>
Rights/Obligations	Has the <u>right</u> but not the obligation to buy shares at an agreed upon price within a specific period of time	Has the <u>obligation</u> to sell shares at the agreed upon price if assigned
Market Outlook	Typically Bullish (market increase)	Typically Bearish (market decrease)
Potential Benefits	Take advantage of rising share prices with small cash outlay and pre-defined risk. Possible to buy shares below market price	Receive premium to lower breakeven point for long stock or as income. Also possible to buy back option for profit in anticipated market declines
Potential Risks	Limited to 100% of premium paid.	UNLIMITED as you may be required to deliver shares well below market prices

Basics of Puts

	<u>Put Buyers</u>	<u>Put Sellers</u>
Rights/Obligations	Has the <u>right</u> but not the obligation to sell shares at an agreed upon price within a specific period of time	Has the <u>obligation</u> to buy shares at the agreed upon price if assigned
Market Outlook	Typically Bearish (market decrease)	Typically Bullish (market increase)
Potential Benefits	Take advantage of falling share prices and sell stock above market price	Receive premium as income. Also possible to buy shares below market or buy back option for profit in anticipated market increases
Potential Risks	Limited to 100% of premium paid.	SUBSTANTIAL as you may be required to buy shares well above market prices

Contract Terms



Option Contract Terms

- Have an expiration date
- Equity option contracts have standardized terms:
 - underlying stock/ETF
 - unit of trade
 - strike or exercise price
 - expiration month



Option Components

XYZ June 15, 2020 45 call at \$2.50

Underlying

- Typically 100 shares of the stock/ETF on which the right or obligation exists
- Example: XYZ June 15, 2020 45 call at \$2.50
- 100 shares of XYZ is the underlying for this option

Expiration Date

- The day on which the option ceases to exist
- Example: XYZ June 15, 2020 45 call at \$2.50

Option Components

XYZ June 15, 2020 45 call at \$2.50

Strike or Exercise Price

- Price at which the underlying may be bought or sold
- Example: XYZ June 15, 2020 45 call at \$2.50

Premium

- The price of an option that is paid by the buyer and received by the seller
- Example: XYZ June 15, 2020 45 call at \$2.50
 - (\$2.50 per share or \$250 per option plus/minus commissions)

What is Exercise?

Example: XYZ trading \$79.00

Investor buys 1 XYZ March 80 call paying \$1.50

On March 15th, XYZ now trading \$84.00 & buyer exercises

- Investor pays strike price x \$100 (80 x \$100) or \$8,000 and takes delivery of 100 shares XYZ (valued at \$8,400)
- Profit is \$250 (\$8,400 - \$8,000 - \$150 premium)
- Investor now has risk/reward of being long 100 shares from \$81.50

—OR—

- Option now worth \$4.00 and investor sells back to market to close position (est. profit \$250)

What is Assignment?

Example: XYZ trading \$79.00

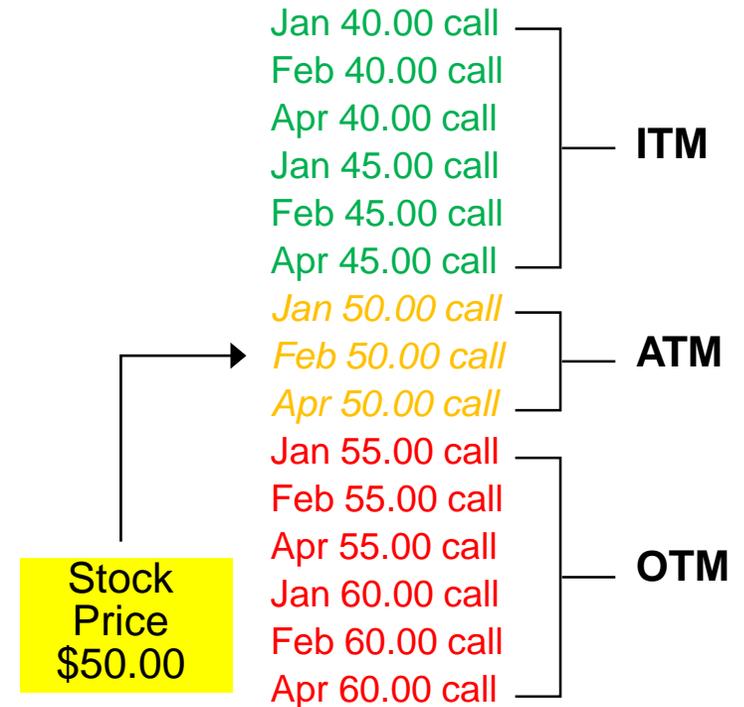
Investor sells 1 XYZ March 80 call at \$1.50

On March 15th, XYZ now trading \$84.00 & seller is assigned

- Investor collects strike price x \$100 (80 x \$100) or \$8,000 and delivers of 100 shares XYZ (valued at \$8,400)
- Loss is \$250 (\$8,000 + \$150 premium - \$8,400)
- Investor now has risk/reward of being short 100 shares from \$81.50

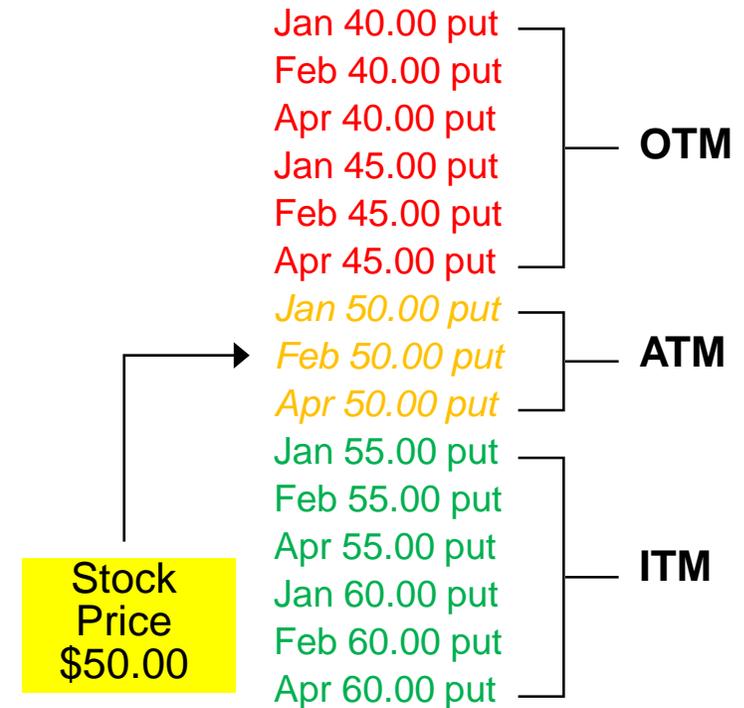
Calls: In-the-Money, At-the-Money, Out-of-the-Money

- Call is in-the-money (ITM)
 - Strike price **below** stock price
- Call is at-the-money (ATM)
 - Strike price **same** as stock price
- Call is out-of-the-money (OTM)
 - Strike price **above** stock price



Puts: In-the-Money, At-the-Money, Out-of-the-Money

- Put is in-the-money (ITM)
 - Strike price **above** stock price
- Put is at-the-money (ATM)
 - Strike price **same** as stock price
- Put is out-of-the-money (OTM)
 - Strike price **below** stock price



Bullish and Bearish Strategies





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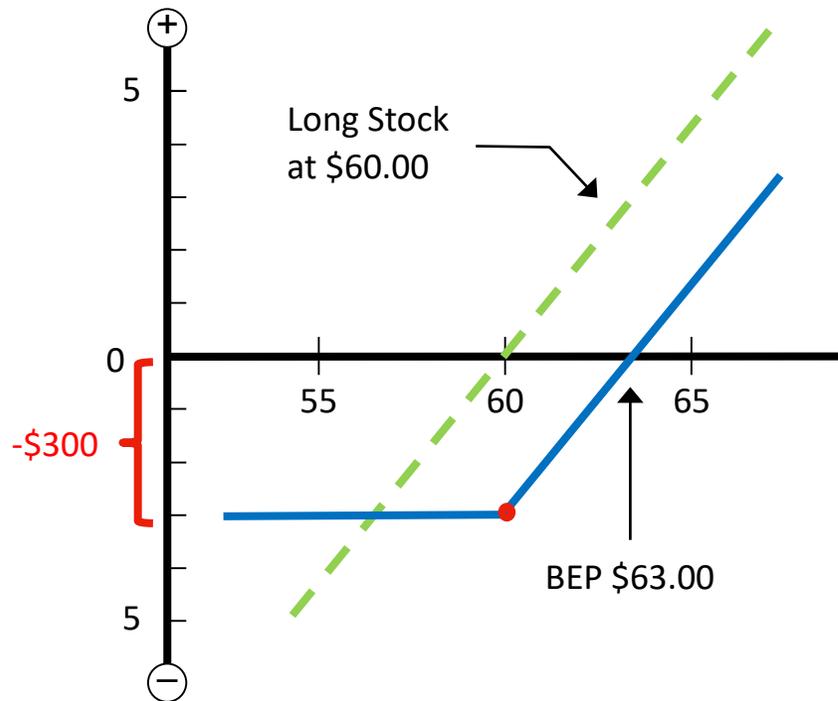
Learn the Option Strategy Patrick used to Catch the Last Two MARKET TOPS



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Call Buying Example

Buy 60.00 strike call at \$3.00

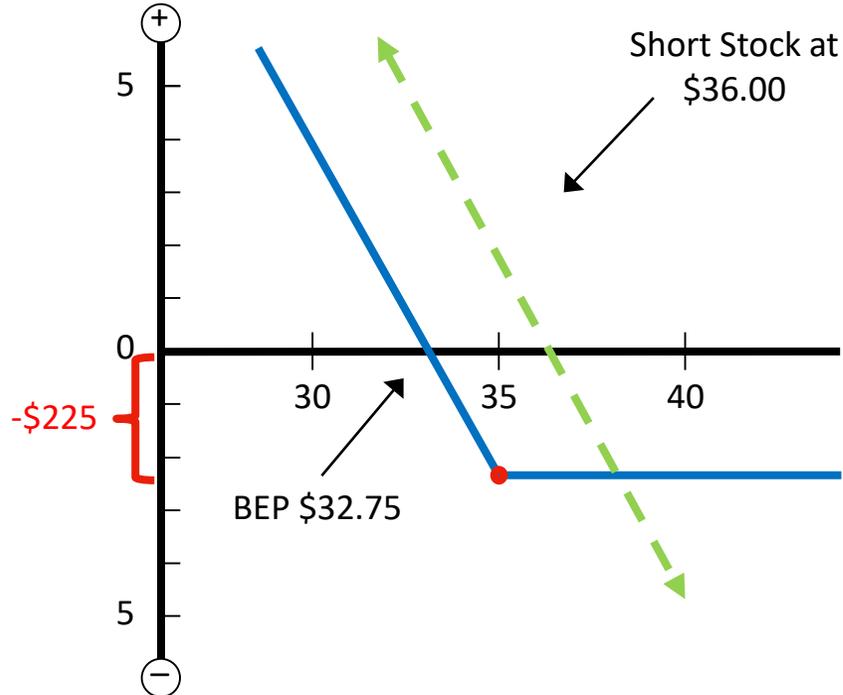


Break-even at Expiration:
Strike Price + Call Premium Paid
 $\$60.00 + \$3.00 = \$63.00$

Maximum Loss:
\$3.00 Call Premium Paid
\$300.00 Total

Put Buying Example

Buy 35.00 strike put at \$2.25



Break-even at Expiration:
Strike Price – Put Premium Paid
 $\$35.00 - \$2.25 = \$32.75$

Maximum Loss:
\$2.25 Put Premium Paid
\$225.00 Total

Multi-Leg Strategies



Bull Call Spread

XYZ @ \$90 28 Days to Expiration

Buy the 90 – 95 bull call spread for \$1.35

Maximum Gain: \$3.65

Maximum Risk: \$1.35

Margin: \$1.35 (MINIMUM margin requirement)

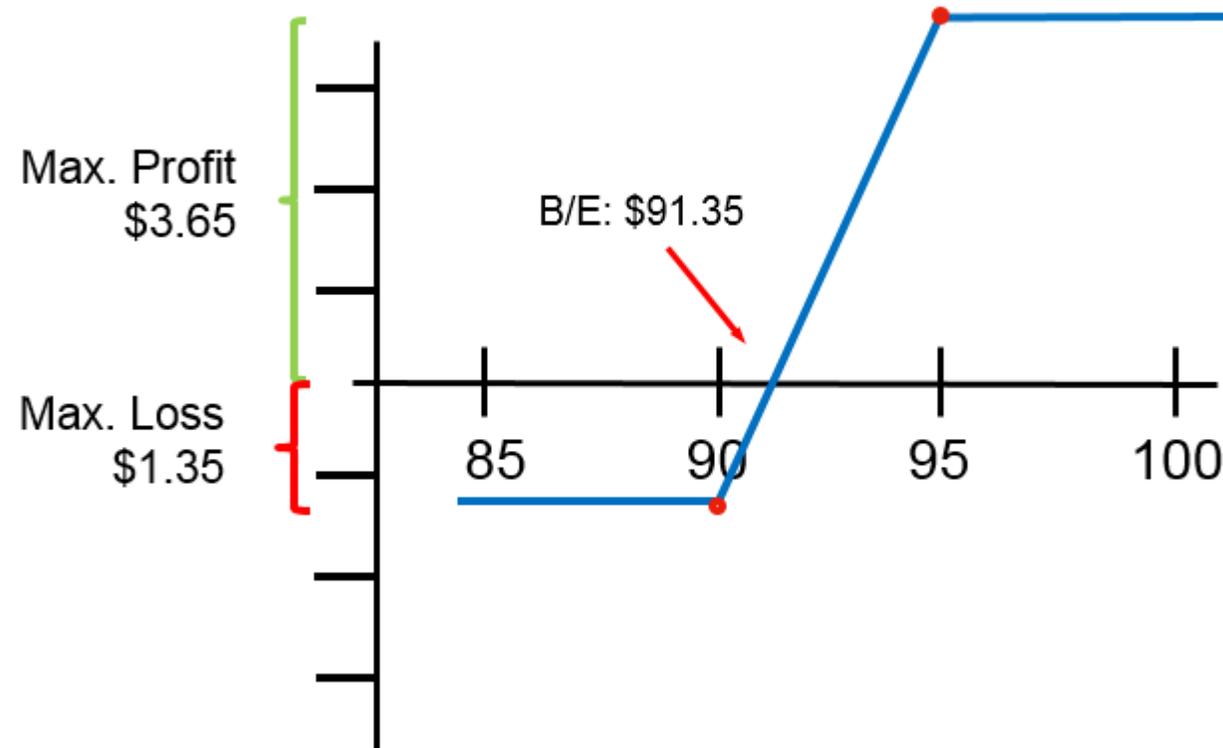
Breakeven: \$91.35

Excludes transaction costs

Bull Call Spread

Buy a lower strike call and **sell** a higher strike call

- Buy 1 90 Call \$2.05
- Sell 1 95 Call \$0.70
- **Net Debit \$1.35**



Bull Put Spread

Sell 1 45-day 115 strike put at \$2.00
Buy 1 45-day 110 strike put for \$0.70 } Net credit of \$1.30 (\$130)

Maximum Gain: $\$1.30 \times \$100 = \$130$

Maximum Risk: $\$3.70 \times \$100 = \$370$

Minimum Margin: $\$370$ (May vary from broker to broker)

Breakeven: $\$113.70$

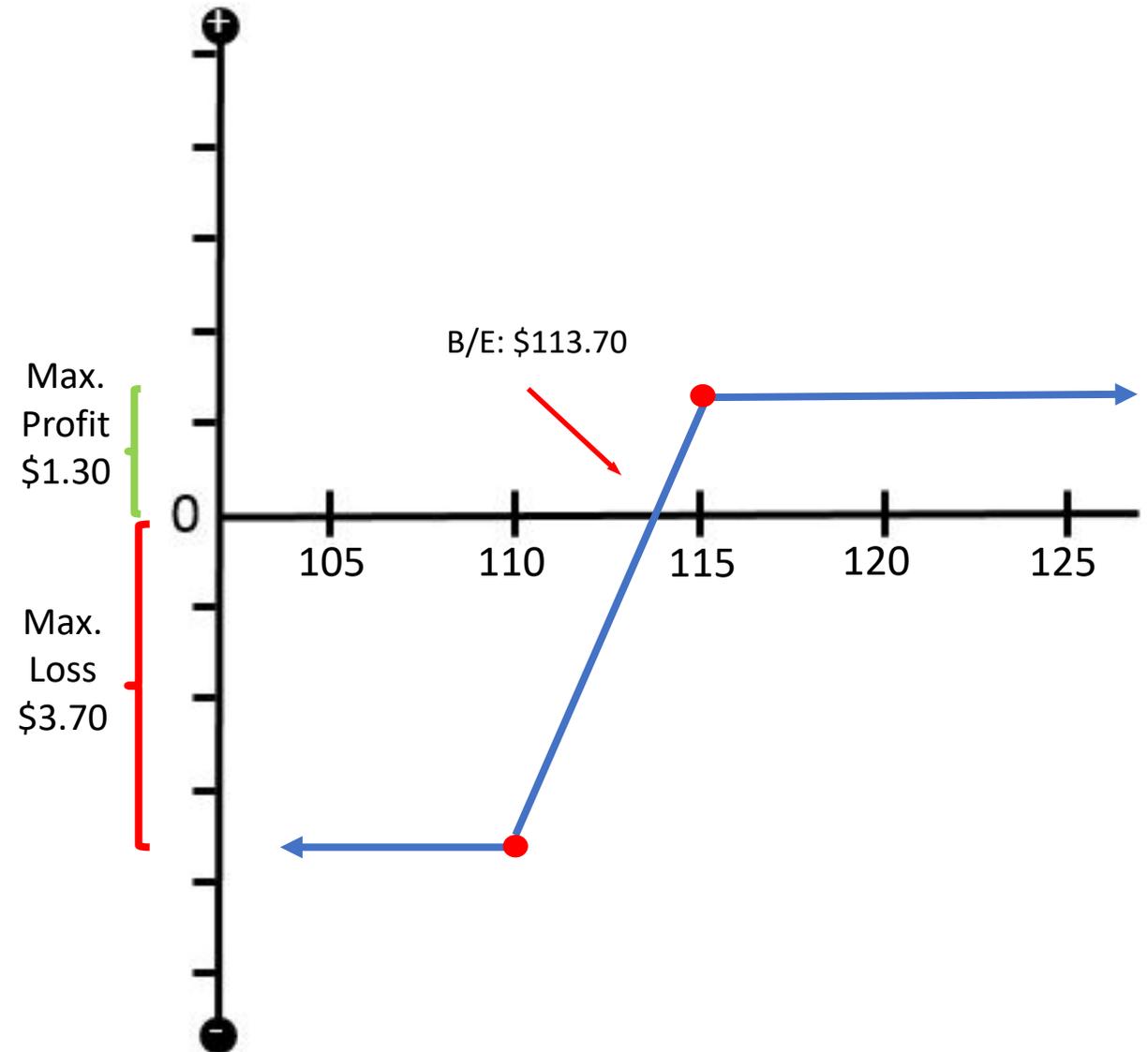
Excludes transaction costs

Bull Put Spread

If shares finish above \$115, both legs expire worthless and max profit achieved. No stock position

If shares finish between \$110 and \$115, short put is assigned and long put expires OTM. Long stock position results

If shares finish below \$110, short put is assigned and long put exercised. Result is max loss and no stock position



Bear Call Spread

Sell 5 60-day 50 calls at \$1.65
Buy 5 60-day 52.50 calls for \$0.65 } Net Credit of
(\$1.00 x \$100) x 5 = \$500

Maximum Gain: (\$1.00 x \$100) x 5 = \$500

Maximum Risk: (\$1.50 x \$100) x 5 = \$750

Minimum Margin: \$750 (May vary from broker to broker)

Breakeven: \$51.00

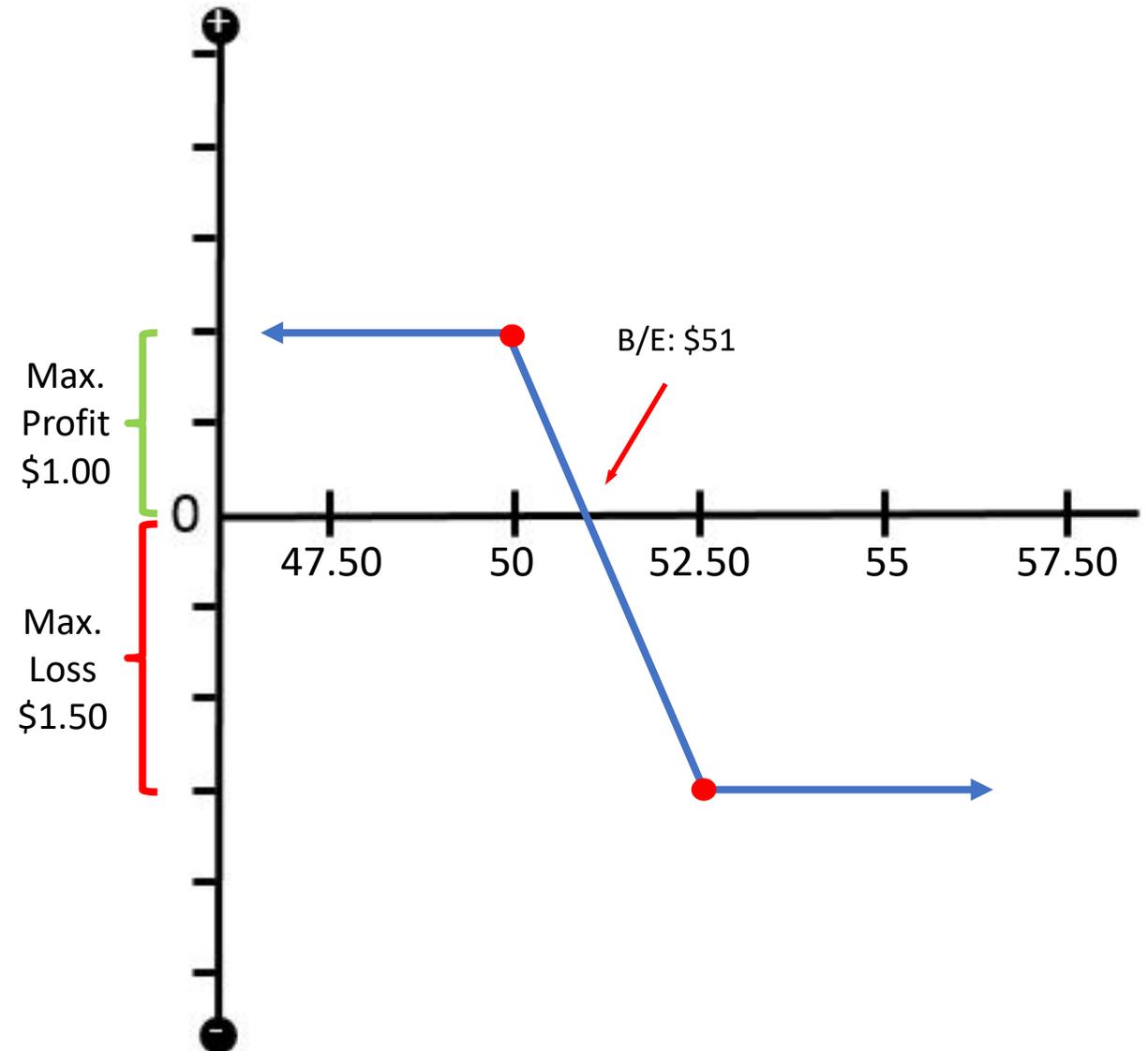
Excludes transaction costs

Bear Call Spread

If shares finish below \$50, both legs expire worthless and max profit achieved. No stock position

If shares finish between \$50 and \$52.50, short call is assigned and long call expires OTM. Short stock position results

If shares finish above \$52.50, short call is assigned and long call exercised. Result is max loss and no stock position



Bear Put Spread

XYZ @ \$88.50 28 Days to Expiration

Buy the 90 – 85 bear put spread for \$1.70

Maximum Gain: \$3.30

Maximum Risk: \$1.70

Margin: \$1.70*

Breakeven: \$88.30

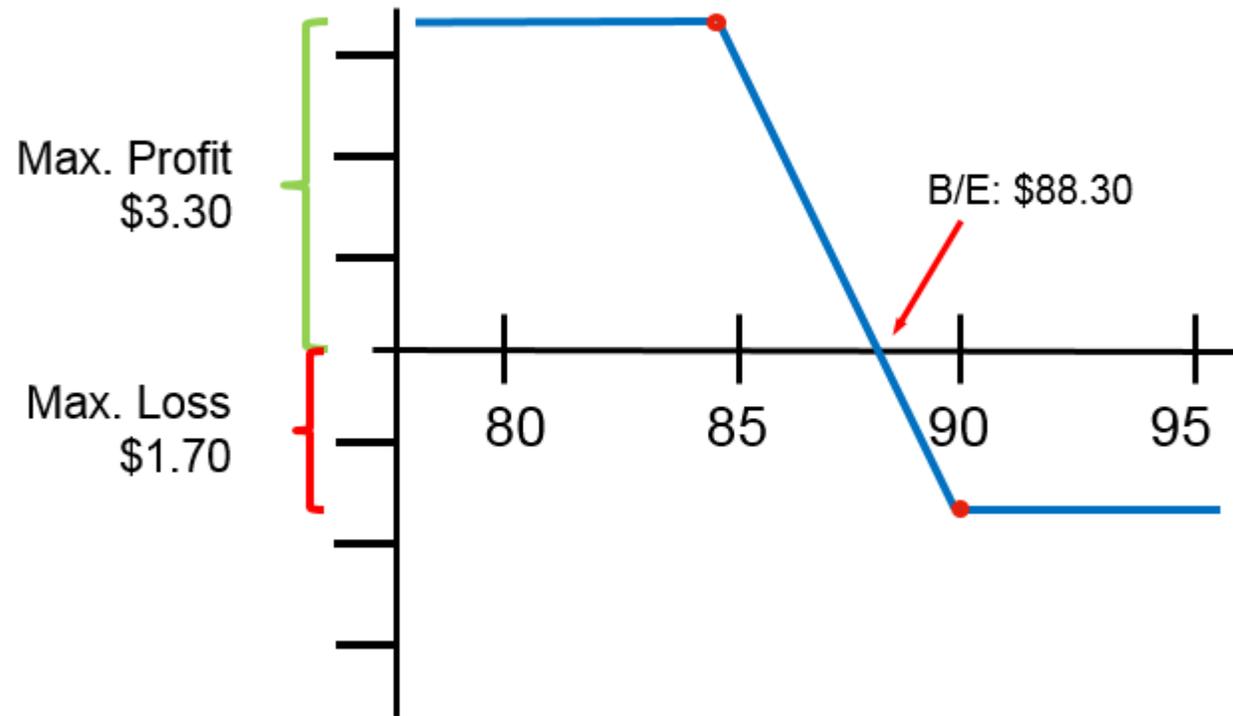
*MINIMUM margin requirement.

Excludes transaction costs

Bear Put Spread

Buy a higher strike put and **sell** a lower strike put

- Buy 1 90 put \$3.50
- Sell 1 85 put \$1.80
Net Debit \$1.70



Why trade options with us?

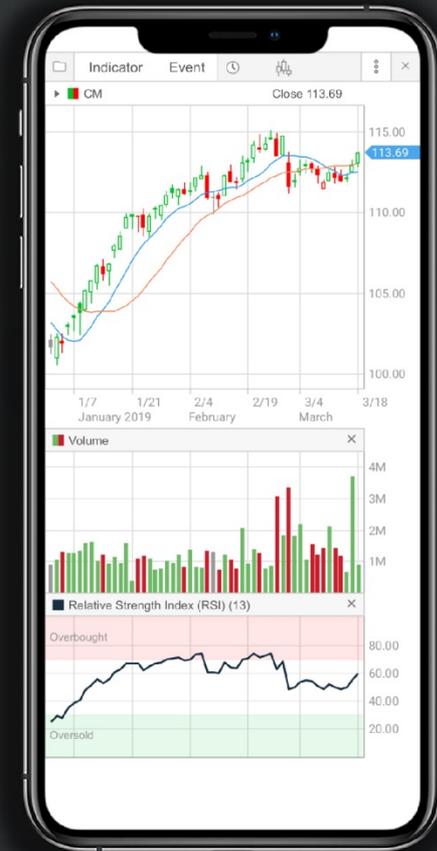
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100 free trades.

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The Protective Put



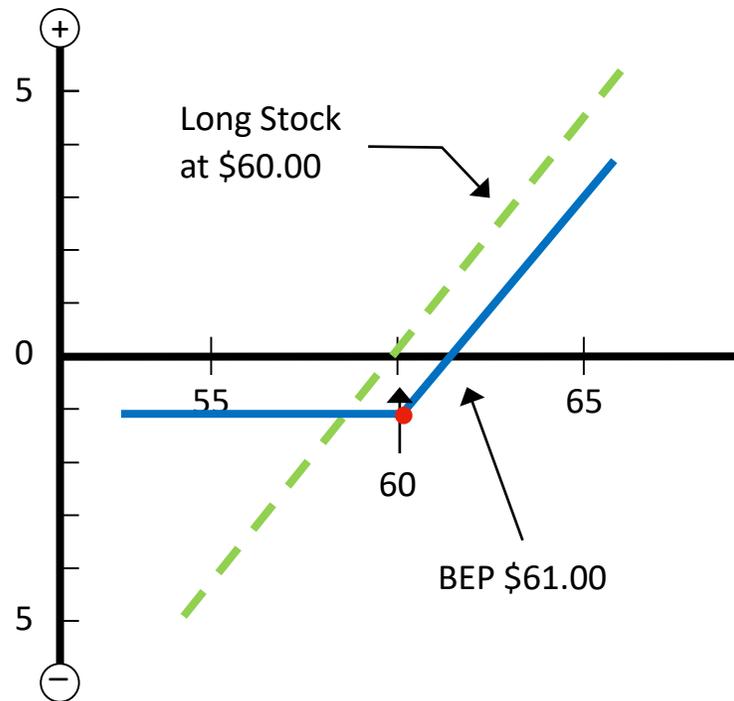
Why a Protective Put Is This Position Bullish or Bearish?

- Investor is bullish on a stock in portfolio but looking for protection against a downside move
- Establish a floor price at which can sell shares, if needed
- Can act like insurance on a stock that represents a large % of investor portfolio

Protective Put Example #1

Long Stock at \$60

Buy 60.00 strike put at \$1.00



Break-even at Expiration:
Initial Share Price + Put Premium
Paid

$$\$60.00 + \$1.00 = \$61.00$$

Maximum Loss:
\$1.00 Call Premium Paid
\$100.00 Total

Protective Put Example #2

Calculations/Inputs:

Portfolio value:	\$100,000
Desired Protection:	10% downside (\$90,000)
Underlying Index/ETF:	\$250
10% Out-of-money put:	225 ($250 - 10\% = 225$)
Price of 90-day 225 put:	\$3.00 (\$300 per contract)

Protective Put Example #2

Calculations/Inputs:

$$\frac{\text{Portfolio $$$ to hedge}}{\text{Notional Value of Strike Price}} \quad \text{or} \quad \frac{\$90,000}{225 \times 100} = 4 \text{ puts}$$

- Investor purchases 4 90-day 225 puts to hedge \$90,000 worth of risk
- \$1,200 premium (\$3.00/contract x 4 puts x \$100) is cost of insurance
- Can also buy fewer puts to hedge less of the position
- Assumes 1-to-1 correlation between portfolio and hedge

Protective Put Example #2

At Expiration:

Long 4 90-day 225 puts for \$1,200:

Index/ ETF	% Gain	Expected Portfolio \$ Gain/Loss	Hedging Cost	225 Put Value	Total	Expected Portfolio % Gain/Loss
300.00	+20%	\$20,000	\$1,200	\$0	\$18,800	18.80%
275.00	+10%	\$10,000	\$1,200	\$0	\$8,800	8.80%
250.00	+0%	\$0	\$1,200	\$0	\$1,200	-1.20%
225.00	-10%	-\$10,000	\$1,200	\$0	\$11,200	-11.20%
200.00	-20%	-\$20,000	\$1,200	\$10,000	\$11,200	-11.20%
175.00	-30%	-\$30,000	\$1,200	\$20,000	\$11,200	-11.20%

Not including commissions

Put protection kicks in

Options Trading

With over 40 years' experience in options trading, IB Group¹ has a robust set of tools to evaluate and execute sophisticated trading strategies.

Create Sophisticated Trading Strategies

OptionTrader is our proprietary trading tool for executing speculative trades or building complex, multi-leg orders to hedge a position. From a single screen, users can:

- Trade a full range of options contracts – including equity, index and currency – on the major exchanges in North America, Europe and Asia.
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 - Time decay
 - Volatility
 - Profit potential / Loss potential

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Our comprehensive product suite of tools and algorithms help investors design option strategies that manage risk, produce income and generate capital appreciation.

Option Analytics: Manipulate key option pricing criteria – including price, time and implied volatility – and visualize the impact on premiums.

Options Portfolio: Our algorithm analyzes the risk/return profile of multiple options trading strategies to deliver low-cost trading solutions.

Option Strategy Lab: Generate potentially profitable stock and option combinations, based on your forecast for stock and ETF prices, market volatility and other market variables.

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- A robust suite of Order Types and Algos provides advanced trading functionality to help you speed execution, limit risk and improve overall costs.
- SmartRoutingSM software continually scans competing markets and automatically routes orders directly to the best ECN or market center.
- Our Option Labs offers support to help you discover and implement optimal options trading strategies.

Bear Put Spread as a Hedge



Bear Put Spread Example

- Stock XYZ is trading at \$100.00
 - Investor is bullish on the stock and long 300 shares from \$95 and wants to limit downside risk

Strike (Put)	Bid	Ask
80.00	\$2.74	\$2.83
85.00	\$3.80	\$3.95
90.00	\$5.25	\$5.40
95.00	\$7.10	\$7.25
100.00	\$9.35	\$9.50

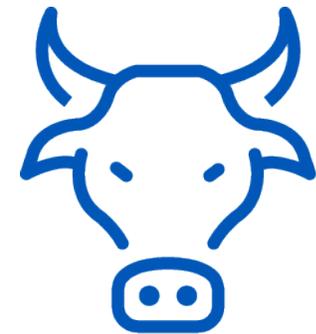
Bear Put Spread Example

- Investor: buys three 90 strike puts at \$5.35/ea & sells three 80 strike puts at \$2.75/ea
 - total premium paid = $\$2.60 \times 3 \times \$100 = \$780$

Resulting position:

Long 300 shares from \$95.00

Long three 80/90 put spreads @\$2.60

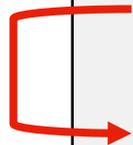


Bear Put Spread Example

Long 300 shares from \$95

Long 80/90 put spread for \$2.60 (x3)

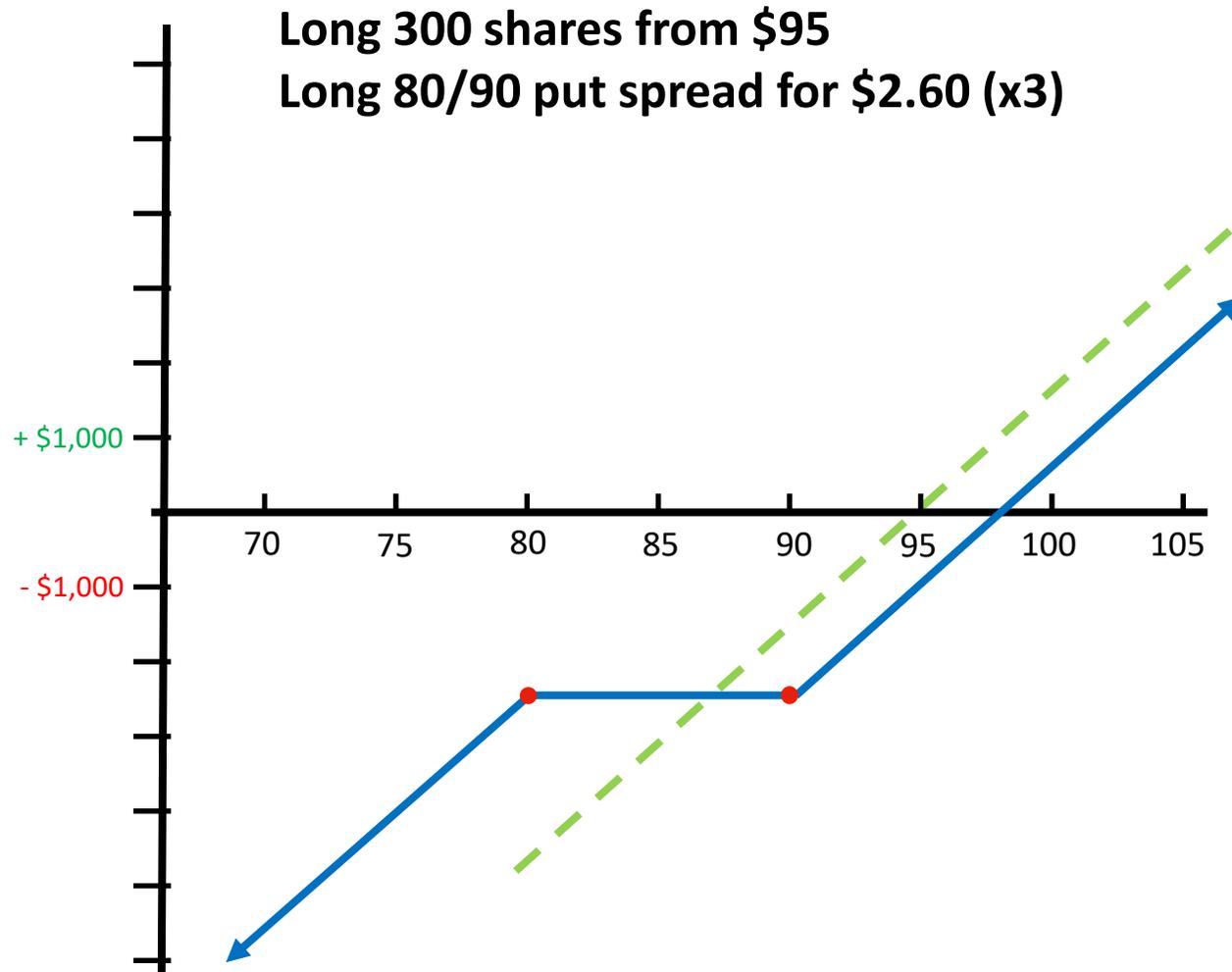
Stock price at Expiration	Long 80/90 Put Spread P&L at Expiration	Long \$95 Stock Profit/Loss	Total Net Profit/Loss
\$100.00	-\$780	\$1,500	\$720
\$95.00	-\$780	\$0	-\$780
\$90.00	-\$780	-\$1,500	-\$2,280
\$85.00	\$720	-\$3,000	-\$2,280
\$80.00	\$2,220	-\$4,500	-\$2,280
\$75.00	\$2,220	-\$6,000	-\$3,780
\$70.00	\$2,220	-\$7,500	-\$5,280



Put protection kicks in but is LIMITED by spread

Not including commissions

Bear Put Spread

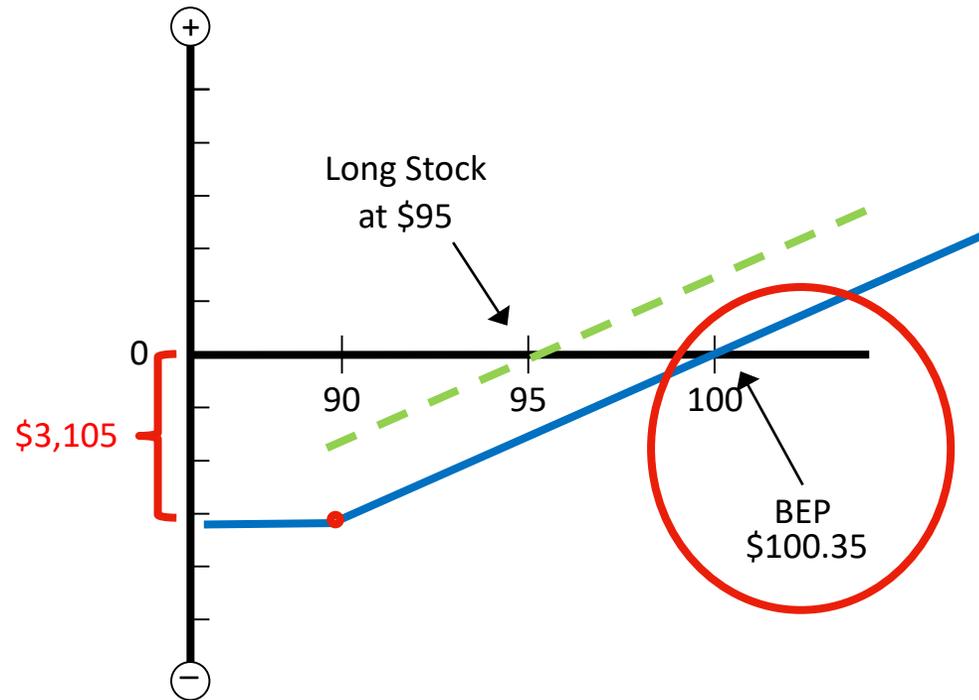


Break-even @ Expiration: **\$97.60**

Maximum Loss: **SUBSTANTIAL**

Protective Put

Long 300 shares of stock at \$95.00
Buy 3 Sep 90 strike put at \$5.35



Break-even @ Expiration: \$100.35

Maximum Loss: \$3,105

Bear Put Spread vs. Protective Put

Long 300 shares from \$95.00
 Long three 80/90 put spreads for \$2.60

Long 300 shares from \$95.00
 Long three 90 puts for \$5.35

Bear Put Spread		Protective Put
Down to 80	Protection	Down to ZERO
Sooner	Protection Begins	Later
Less expensive	Cost	More expensive
Lower	Breakeven	Higher
Substantially greater (stock can go to zero)	Maximum Loss	Less (protected from 90 on down)
*Greater (less premium)	Profit Potential	*Less (more premium)

**Unlimited profit potential from long shares*

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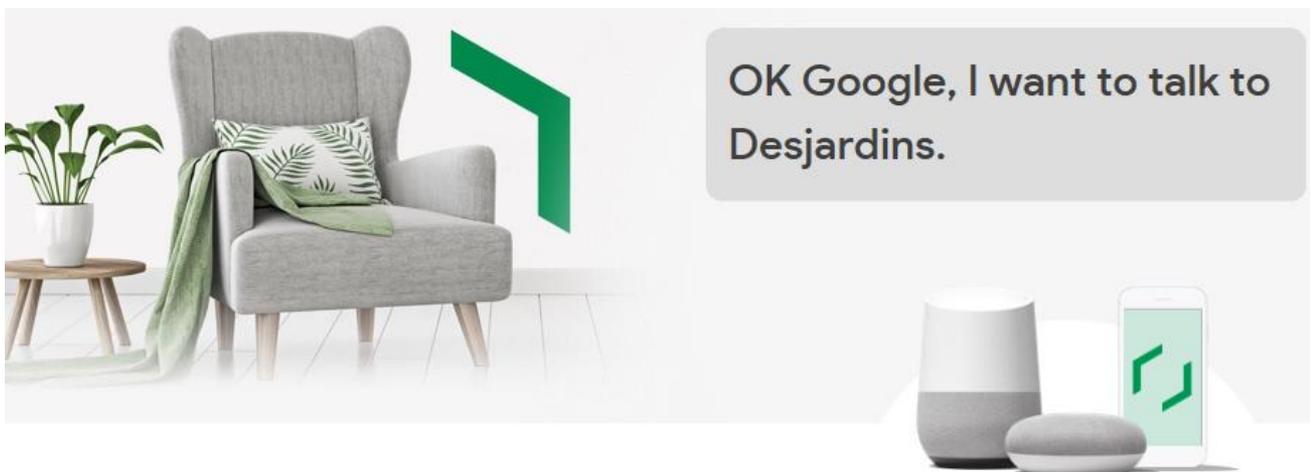
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What's Next

Break:

10:30 a.m. to 11:00 a.m.

(Sponsored by: Desjardins Online Brokerage)

Next Topic:

11:00 a.m. Options Unchained: OptionsPlay a Revolutionary Way to Trade Options

Speaker: Tony Zhang



MX

Using Options for Managing a Portfolio of Stocks

Patrick Ceresna CMT CIM DMS

Founder and Chief Derivative Market Strategist
Big Picture Trading / MacroVoices / Market Huddle



Toronto September 14, 2019

Disclaimer

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Agenda

Investor psychology

Options as a strategic tool

Risk reversals

Strategies for RRSPs /TFSA's

Psychology and Investor Behavior

**Who knows what
FOMO stands for?**

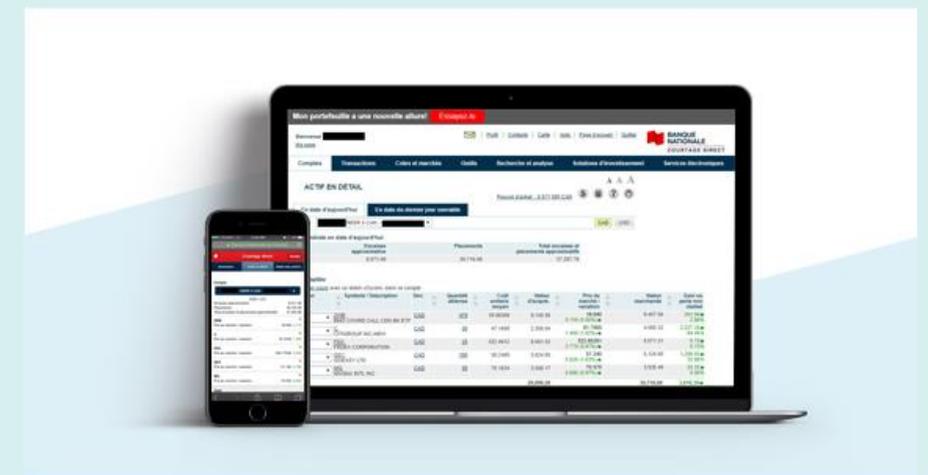
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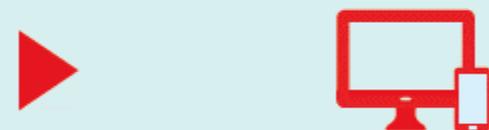
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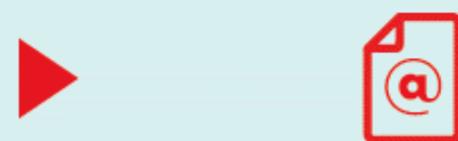
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FOMO Fear Of Missing Out

Performance chasing

Feeling of regret

Social anxiety

MOMO
excitement in the
“mystery of missing out”

FOMO



**Who knows what
FOJI stands for?**

FOJI Fear Of Joining In

Opposite of
FOMO

Driven by worry:

- What if I am late and buying at the top?
- What if the price falls and I could have bought at a better price?
- What if I won't know when to sell after I get in?

**Who knows what
JOMO stands for?**

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JOMO Joy Of Missing Out

Being intentional with your investing

Long-term plan vs. short-term results

Having a plan and being confident in it

Successful Investors

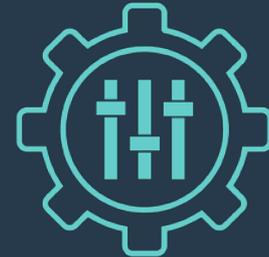
Develop:



Methodologies



Rules



Discipline

Reference Point Dependence



Purchase price



High watermark



Performance

Giffen Good

Defying traditional microeconomics

The higher the price, **the higher the demand**

The lower the price, **the lower the demand**

Options as a Strategic Tool for Managing Portfolio of Stocks

Options to Secure Purchase

**Investor suffering
from FOJI**

Alimentation Couche-Tard
(ATD.B) has risen over
50% over the last year
(May 2018 – April 2019)

Fear is that our investor
is buying too late

Strategy:

Buying short-term call
option to secure purchase

Gives time to see how
the stock develops
before buying

Price Trend



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Volatility Premium



Options to Secure Purchase

May 10, 2019	ATD.B trading at	\$80.91
May 31, 2019	\$80.00 call is Intrinsic Time	\$1.85 \$0.91 \$0.94
Investor has 21 days to decide if he wants to own the shares at an average cost of		\$81.85
Gives a defined max risk of \$185.00 a contract over those 21 days		\$185.00

Options as an Overlay

The **combination of options** on existing equity positions

Covered calls

Protective puts

Collars (Risk Reversals)

Hedging a Portfolio Using Protective Puts

Protective Put as a Hedging Strategy

Options are risk management tools

A **protective put** is a strategy used to hedge against the loss of unrealized profits

A **put option** will act as an insurance policy against a downturn in a specific stock or the overall market

Protective Put as a Hedging Strategy

Your client wishes to **buy** or **already owns shares** of a specific stock

A premium is paid to acquire a put option which gives your client the right to sell the shares

At a **specific price**

Over a **specific period of time**

Protective Put Example



Investor
owns
1,000
shares
of XIU
(iShares S&P/TSX
60 Index Fund)

2017

Originally purchased at **\$22.50**

May 12,
2019

XIU is currently trading at **\$24.67**

Investor has an unrealized profit of **\$2.17**

Perceived risk of a sharp drop in the
market causes you to seek protection

Protective Put Example



Investor buys

Dec 2019

\$22.00 put options

\$0.45

The protective put acts as insurance against a catastrophic loss as investor can exercise the right to sell at

\$22.00

Profit potential remains unlimited, although reduced by the cost of the premium paid

(\$0.45)

Hedging a Portfolio Using an Options Collar (Risk Reversal)

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- 50% deregistration fees
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- Free securities transfers within BMO



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Diamond rates

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- Preferred interest rates for balances in Margin accounts
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- No deregistration fees
- No additional RIF payments
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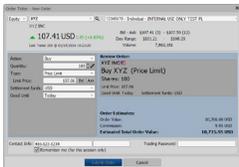
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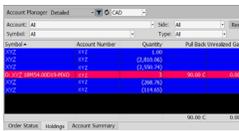
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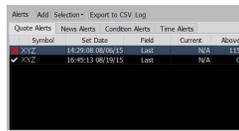
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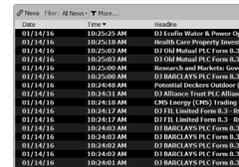
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Collar (Risk Reversal)

Combination of the **covered call** and **protective put**

The credit of the covered call used to **reduce the cost of the put**

Often the **skew** and the **discounting of future dividends** precludes the ability to do this at zero cost

Traditional Collar



Scenario



Investor behaviour

Proclivity to cut winners short, while averaging losers

Example:

Investor purchased Suncor in January at **\$38.00**

Traded at (new reference point) **\$46.00**

SU breaks down below a technical trigger at \$43.00 and investor fears that if they don't sell the stock they will give back gains and/or watch it turn into a loser **\$43.00**

Suncor Collar

Original purchase	\$38.00
--------------------------	----------------

Psychological reference point March 2019	(\$46.45)
--	------------------

Current price (May 10, 2019)	\$42.76
--	----------------

Suncor Collar

June 21 call

\$0.25 bid (credit)

\$46

June 21 put

\$0.50 ask (debit)

\$40

June 3 ex-dividend for a
dividend

\$0.42

Psychological Impact of Collar

Investor has
100% certainty
of a profit
by June 21

Has **five weeks**
to see how
price develops

Was able
to apply the
strategy with a
smaller cost

Considerations for Registered Accounts



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The **exercise** of the **options** inside a registered account **is not a taxable event**

Conclusions

Why trade options with us?

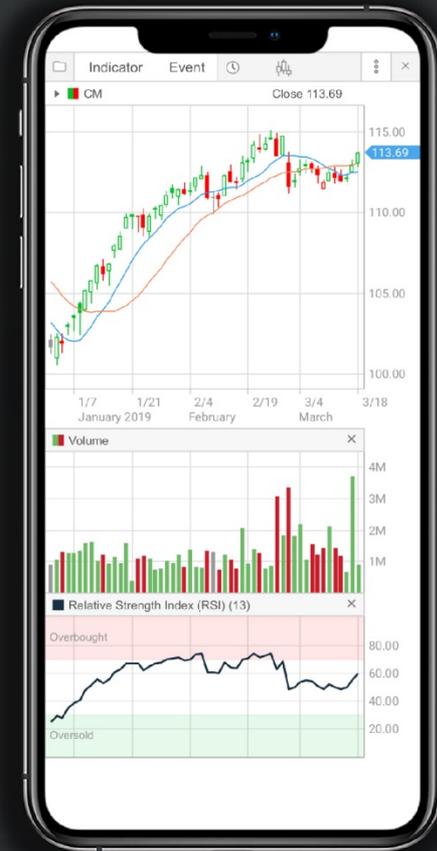
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Option Acrobats: Strategies for Margin Accounts

Patrick Ceresna CMT CIM DMS

Founder and Chief Derivative Market Strategist
Big Picture Trading / MacroVoices / Market Huddle



Toronto September 14, 2019

Agenda

Covered calls vs. short puts

Converting a covered call into a **bear call spread**

Diagonal spreads for premium harvesting

Rolling equity into high delta options

**Which strategy
and why?**

Understanding the Math

Going beyond the basic textbook definitions

Options as a derivative of the stock have a specific mathematical relationship measured by the Greeks

Example:

Long a call and **short a put** at the same strike offers a perfect delta 1 synthetic of being long the shares

Covered Calls

Covered Calls



Buy / own a stock

Premium collected upfront for selling the right for a speculator to buy the stock from you:

At a **specific price**

Over a **specific period of time**

**Covered Calls
vs.
Put Writing**

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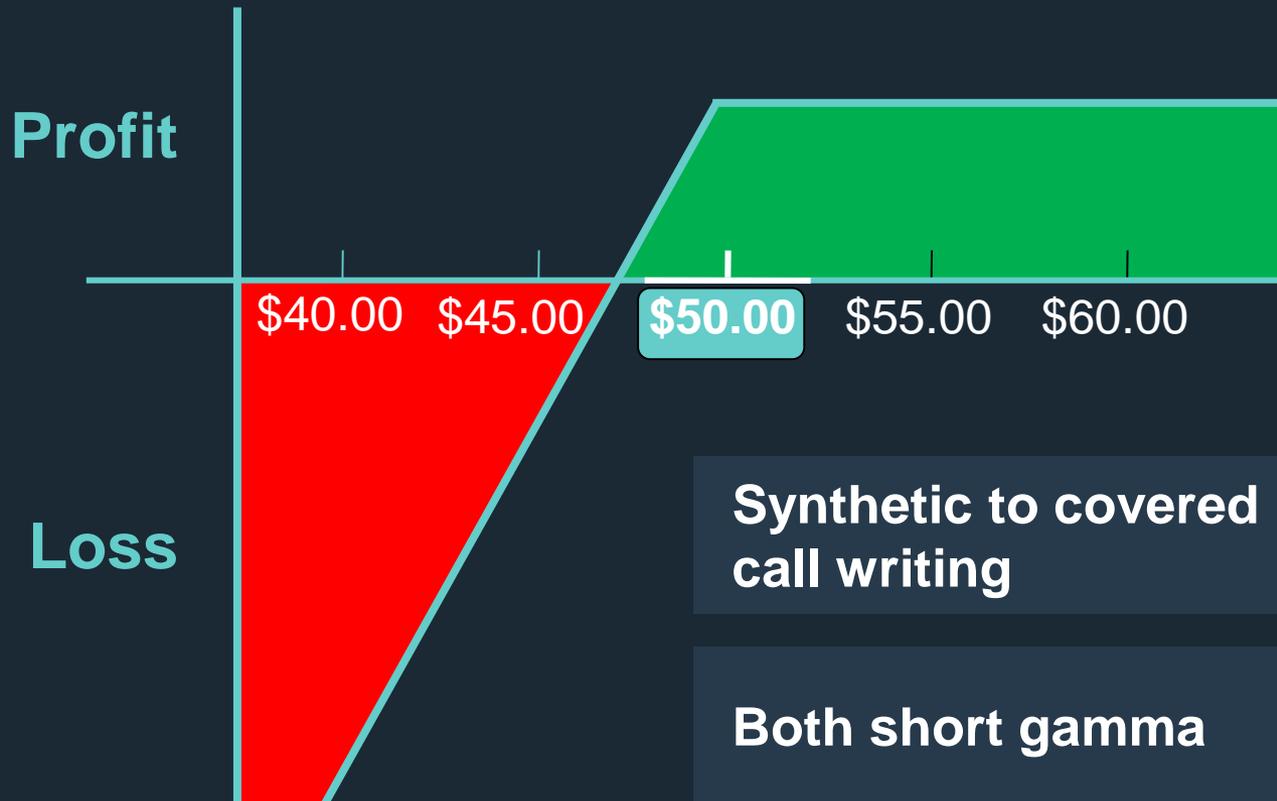
Stereotypes for Put Selling

Common for investors to **view as risky**

Brokerages require **additional approvals**

No shortage of **stories**

Put Selling



Comparison

Stock trading at \$10.00 (with no scheduled dividend)

Position	Strike	Premium	IV	Delta	Theta
Stock+ 3-month covered call	\$10.00	\$0.70	38.00%	0.50 (1.00 – 0.50)	0.005
3-month put write	\$10.00	\$0.70	38.00%	0.50	0.005

Synthetic, really?

Argument:

But the covered call gets the dividend?

The option pricing model discounts the probability adjusted dividend into the premium to **remove the arbitrage**

Synthetic, really?

Argument:

But a covered call writer can get the upside for an out-of-the-money option write

Comparison

Stock trading at \$10.00 (with no scheduled dividend)

Position	Strike	Premium	IV	Delta	Upside	Break-even
Stock+ 3-month covered call	\$11.00	\$0.30	35.00%	0.70 (1.00 – 0.30)	\$1.00	\$9.70
3-month put write	\$11.00	\$1.30	35.00%	0.70	\$1.00	\$9.70

Rolling Covered Call into Bear Call Spread

Magna Covered Call Position

1000 shares of Magna International (MG)

Bought shares at **\$74.50**

Sold 10 \$76.00 calls **\$4.25**
to January 2020 for

Stock Breaks Down

May 9: Magna breaks lower on an earnings disappointment

Stock drops to **\$64.50**

Investor is down **\$10.00**
per share (\$10,000)

Investor does his due diligence and decides that he needs to **sell and take the loss on the stock**

Rolling Covered Call into Bear Call Spread

Investor feels comfortable with the idea that the January 2020 \$76.00 call will **profitably expire at expiration**

Sells the 1000 shares of Magna

Buys to open 10 January 2020 \$86.00 calls for \$0.25

Outcome:

Is out of the stock

New position is the January 2020 **\$76.00/\$86.00 bear call credit spread**

Diagonal Spreads

(Calendared Option Writing)



Take control of your assets Transfer your assets and get up to \$ 1,150 back

Transfer today!

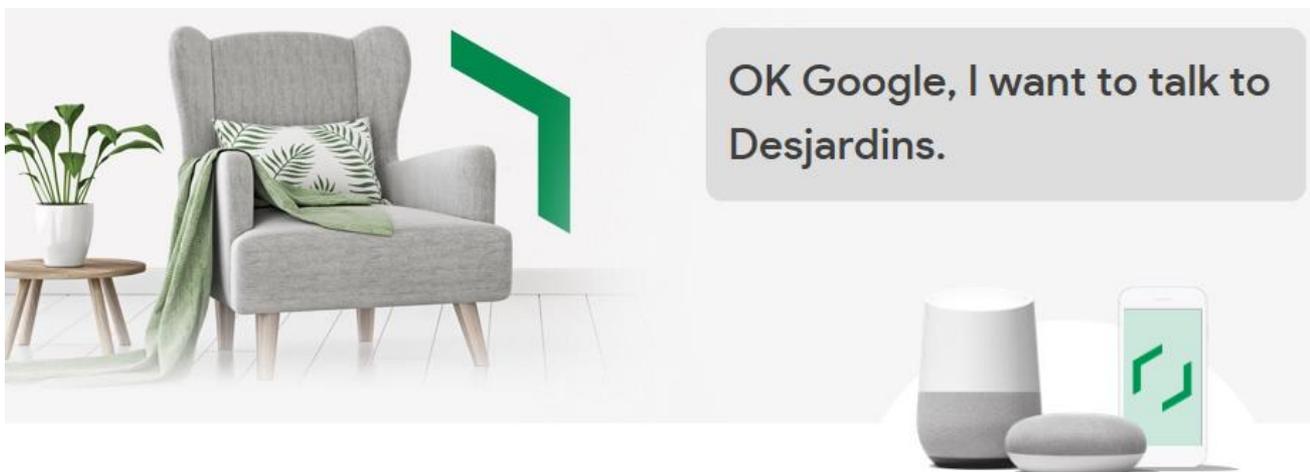
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Diagonal Spreads



Spread
trade



Different
strikes



Different
expirations

Diagonal Spreads for Income

Owning a longer-term call option

Selling short-term call for income against it

Though not a perfect synthetic, many **similar characteristics** and **objectives** to covered call writing

Objective is to continue to sell short-term calls over the remainder of the year that leave you with credit income

Covered Call vs. Diagonal Spread

Barrick (ABX) trading at \$16.00 (May 10, 2019)

A

100 shares of ABX at \$16.00

Sell to open June \$17.00 call \$0.30 (1.87%)

Net debit \$15.70 (\$16.00-\$0.30)

Covered Call vs. Diagonal Spread

Barrick (ABX) trading at \$16.00 (May 10, 2019)

A

100 shares of ABX at \$16.00

Sell to open June \$17.00 call \$0.30 (1.87%)

Net debit \$15.70 (\$16.00-\$0.30)

B

Buy to open Jan 2020 \$16.00 call \$1.50

Sell to open June \$17.00 call \$0.30

Net debit \$1.20 (\$1.50 - \$0.30)

Why Diagonal Spreads?

Defined **worst case scenario**

Considerable leverage can be used with a quantifiable worst case

No additional margin required beyond original debit

Using our example, the perfect scenario would be the investor **achieving 8 monthly option writes**

Plus **potential capital gains** on the upside

Understanding Delta

Delta and Gamma

Delta is the sensitivity of the option to a relative change in the stock price

Delta is the slope

Gamma is the rate of change of the delta

Delta and Gamma



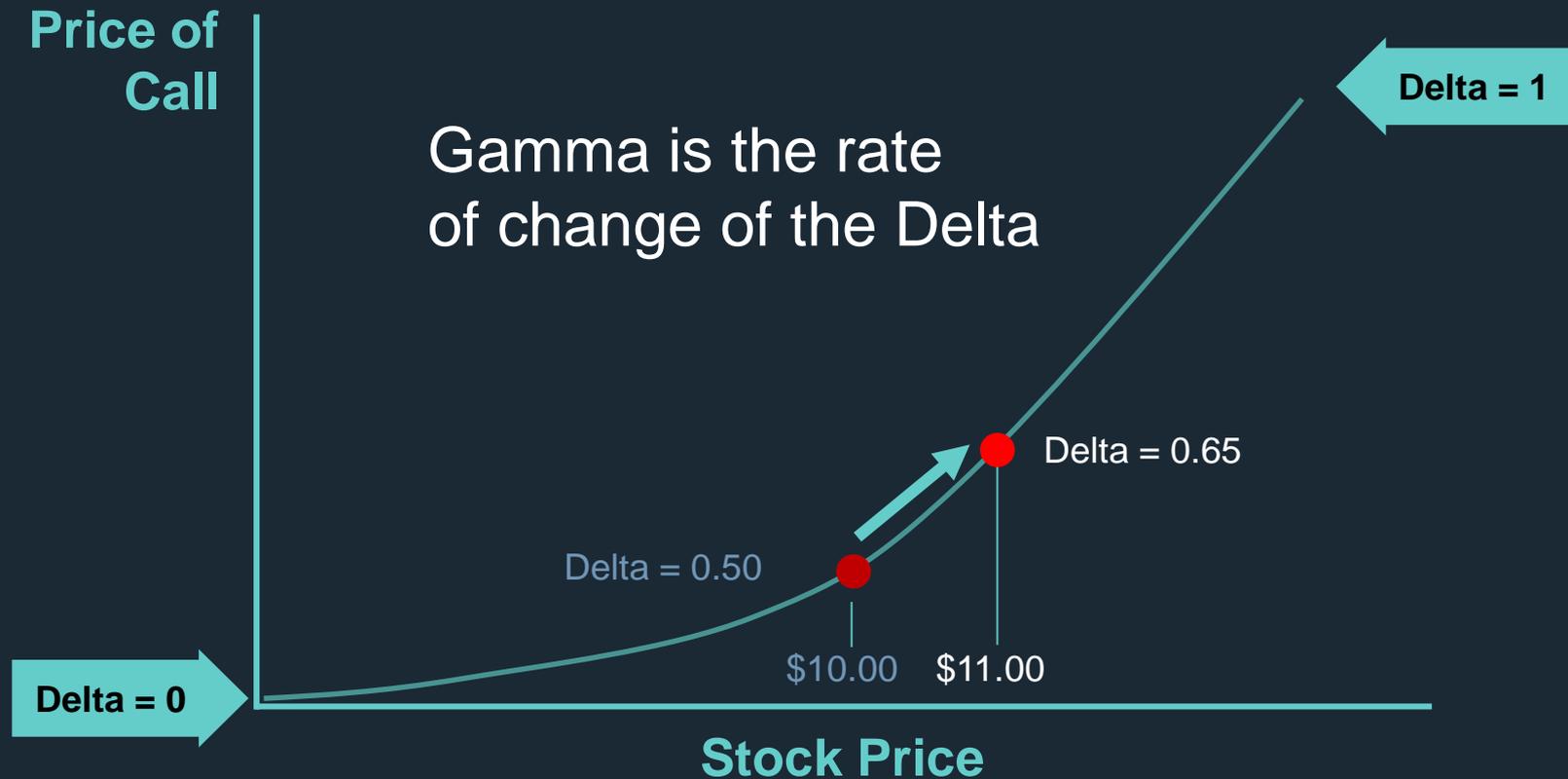
Delta and Gamma



Delta and Gamma



Delta and Gamma



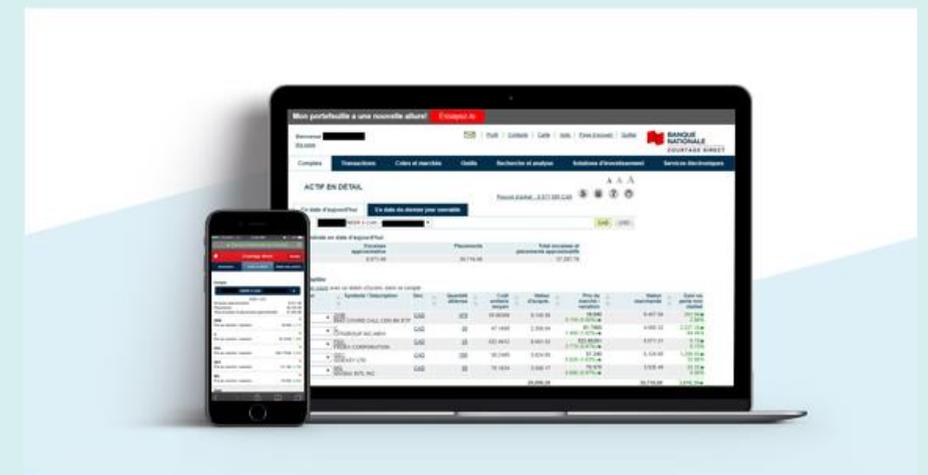
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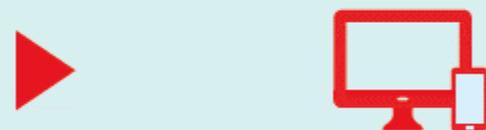
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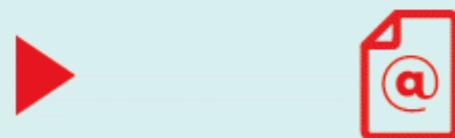
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Trends in Volatility

Trends in Volatility

Implied Volatility

Is a measure of what probabilities traders are currently pricing into options

Generalization:

Lower volume, lower cost options
Higher volume, higher cost options

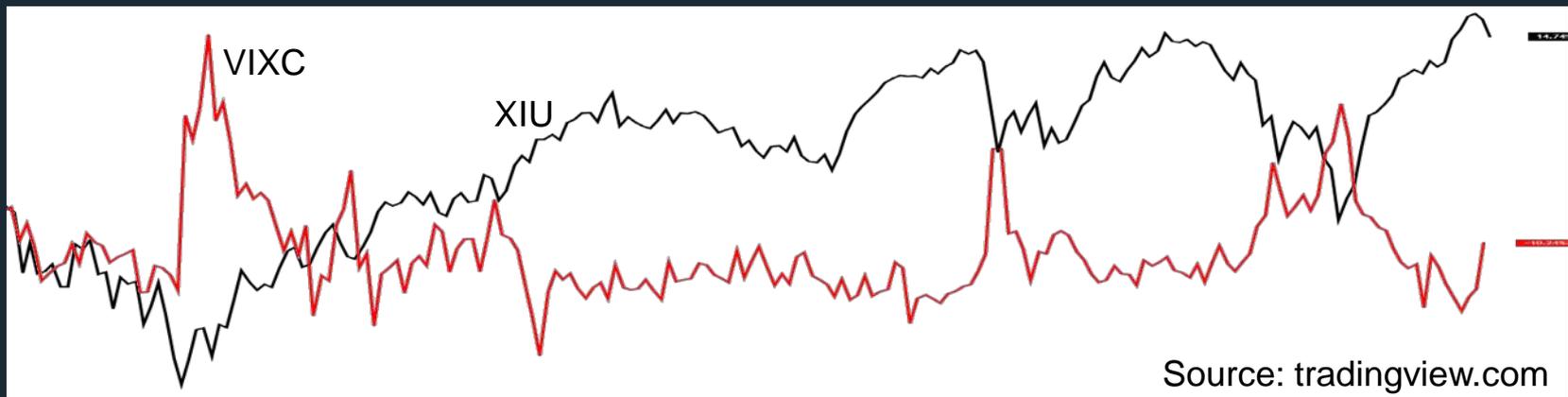
Higher or **lower cost options** do not mean they are not priced right for current conditions

Trends in Volatility

**Tendency
is that
options:**

Become cheaper
through market rallies

Become expensive
during market drops



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Rolling Stock into a High Delta Call

Investors Position in TRI

Investor bought **1000 shares** of Thomson Reuters (TRI)

Purchased shares at **\$55.00** in 2018

Stock proceed to rise over **50%** in the subsequent year to **\$85.90**

Investor loves the beautiful uptrend but wants to **monetize the paper profits**

Investors Position in TRI



Investors Position in TRI

Original
purchase was
\$55,000
(1000 x \$55.00)

Shares worth
\$85,900
(1000 x \$85.90)

Investor
sitting on
\$30,900
in paper profits

Investors Psychological State

Incredibly **happy with result**

Fear there is a **heightened risk** of a recession and bear market

Suffering FOMO, fear of missing out on further gains if they sell and go to cash

But investors **also fear looking foolish** for not having taken the gains after such a run

Rolling Stocks into High Delta Calls

Investor sells the **1000 shares** of TRI for **\$85,900**

TRI June **\$82.00** call trading at **\$4.25 (40 days)**

Buys **10 calls** for **\$4,250**

Remaining cash of **\$81,650** is put into money market

Rolling Stocks into High Delta Calls

TRI June **\$82.00** call trading at **\$4.25**

The call has **\$3.90** intrinsic value, **\$0.35** time value

The delta on the call is **0.847**

Even though the investor outlaid **\$4,250**

The delta dollars is **\$73,604** (position behaving like **847** shares or **\$73,604** investment)

TRI Delta and Gamma



Asymmetry in Risk

Profit / Loss change from \$85.90 start point

Stock Price at Expiration	1000 Shares of TRI	10 June \$82.00 Calls
\$100.00	\$14,100.00	\$13,750.00
\$90.00	\$ 4,100.00	\$ 3,750.00
\$85.90	\$ 0.00	-\$ 250.00
\$80.00	-\$ 5,900.00	-\$4,250.00
\$70.00	-\$15,900.00	-\$4,250.00

Investors New Psychological State

Satisfaction in having taken most of the profits

Have defined max risk while **maintaining core position**

Not suffering from fear of missing out on further gains

Why not use a stop loss instead?

Stop losses are vulnerable to being stopped out by short-term volatility

Stops have the risk of overnight gap slippage

The option trader has certainties in outcome

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OIC

Conclusions

What's Next

10:30 - 11:00 am

**Break to visit
the exhibitors**

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11:00 am

Next Topic:
Options Unchained:
OptionsPlay a
Revolutionary Way
to Trade Options

Speaker:
Tony Zhang

TMX

**THE FUTURE
IS YOURS TO SEE.**



Options Unchained: OptionsPlay Introduction

Sept 14th, 2019 @ 11:00 AM EST

Tony Zhang, Chief Strategist @ OptionsPlay

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Bi-Weekly Options Education Webinars



Free On-Demand Options Video Library



Weekly Covered Call/Short Put Reports

Register: <https://www.optionsplay.com/tmx>

Overview



- Introduction to MX & OptionsPlay Partnership
- Ongoing Options Education
- Weekly Optimized Covered Call & Short Put Reports
- Options Video Library
- **Platform Walkthrough of OptionsPlay**

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 - Interest rate derivatives
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• **Partnership started 2017**

- Free OptionsPlay Canada to all Canadian residents

• **Sept 2019 Update**

- Bi-weekly Options Education Webinars
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- 4 Annual Options Education Days
- Weekly Covered Call & Short Put Reports
- 14+ Webinar Recordings, Blog Posts & Infographics

Ongoing Options Education



Webinars – Tuesdays @ 4:15PM EST

Ongoing Options Education

Recorded with Presentation Slides



- **Sept 24th 2019** – Options 101: Trade Bullish, Bearish and Neutral Markets
- **Oct 8th 2019** – Entering Option Orders & Managing Positions
- **Oct 22nd 2019** - Replacing Stock Positions w/ Longer Dated Option

Register: <https://rebrand.ly/OPCAWebinars>

Covered Call & Short Put Report



OptionsPlay's Optimal Covered Call Report														
LOG IN SIGN UP		Report Generated 8/19/19 Next Report Gener 8/26/19		Optimized Short Puts										
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Ticker	Action	Expiry Date	Strike Price	Bid Price	Mid Price	Ask Price	Open Int.	Implied Vol	Stock Price	Days to Expiry	Raw Return	Annualized Return	Distance to Strike	
BTO	Sell to Open	9/20/19	5	0.15	0.2	0.25	782	62.03%	4.61	30	4.34%	67.65%	8.46%	
HEXO	Sell to Open	9/20/19	7	0.2	0.25	0.3	153	84.61%	5.95	30	4.20%	65.00%	17.65%	
FR	Sell to Open	9/20/19	14	0.48	0.51	0.53	201	65%	12.61	30	4.04%	61.99%	11.02%	
ECA	Sell to Open	9/20/19	6	0.2	0.22	0.23	1118	48.89%	5.7	30	3.86%	58.53%	5.26%	
K	Sell to Open	9/20/19	6.5	0.18	0.21	0.24	557	46.97%	6.1	30	3.44%	50.95%	6.56%	
MEG	Sell to Open	9/20/19	5	0.15	0.16	0.17	5192	50.09%	4.66	30	3.43%	50.79%	7.30%	
HGU	Sell to Open	9/20/19	22	0.3	0.53	0.75	7	79.89%	17.88	30	2.96%	42.68%	23.04%	
ZZZ	Sell to Open	9/20/19	21	0.45	0.57	0.7	126	30.15%	20.29	30	2.81%	40.09%	3.50%	
CRON	Sell to Open	9/20/19	19	0.35	0.43	0.5	129	67.99%	15.8	30	2.72%	38.64%	20.25%	
REAL	Sell to Open	9/20/19	10	0.2	0.25	0.3	10	37.90%	9.6	30	2.60%	36.72%	4.17%	
ACB	Sell to Open	9/20/19	9.5	0.15	0.2	0.25	348	68%	7.93	30	2.52%	35.40%	19.80%	
FM	Sell to Open	9/20/19	10	0.2	0.22	0.23	79	54.27%	8.86	30	2.48%	34.77%	12.87%	
ELD	Sell to Open	9/20/19	13	0.2	0.27	0.33	197	65%	10.96	30	2.46%	34.46%	18.61%	
APHA	Sell to Open	9/20/19	10	0.15	0.2	0.25	404	71.44%	8.2	30	2.44%	34.07%	21.95%	
IFP	Sell to Open	9/20/19	14	0.25	0.3	0.35	110	48%	12.77	30	2.35%	32.65%	9.63%	
TOU	Sell to Open	9/20/19	14	0.27	0.3	0.32	138	42%	12.99	30	2.31%	32.02%	7.78%	

Options Video Library

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- Beginner & Advanced Topics
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Options 101: Getting Started with Options Trading & Generating Income with Covered Calls



Technical Analysis & Trading



Options 201: Vertical Spreads & Advanced Trading Topics



How to Trade Earnings



Understanding Debit vs. Credit Vertical Spreads

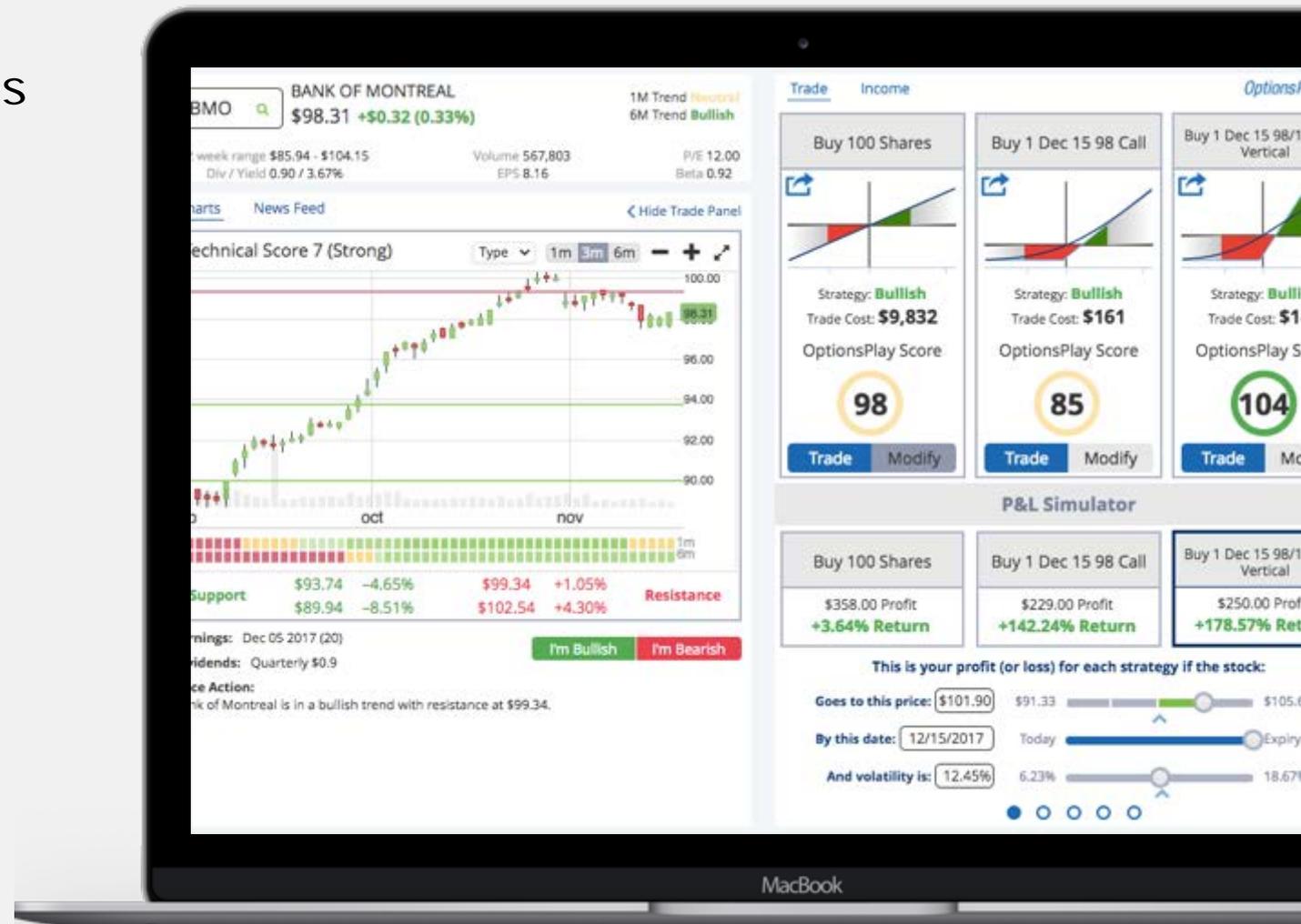


Minimizing Risk w/ Debit Vertical Spreads

OptionsPlay Live Examples



- Instant Bullish & Bearish Strategies
- P&L Simulator for what-if Analysis
- Breakeven Analysis of Strategies
- Covered Call Ideas & Analysis
- Trading Checklists for Beginners



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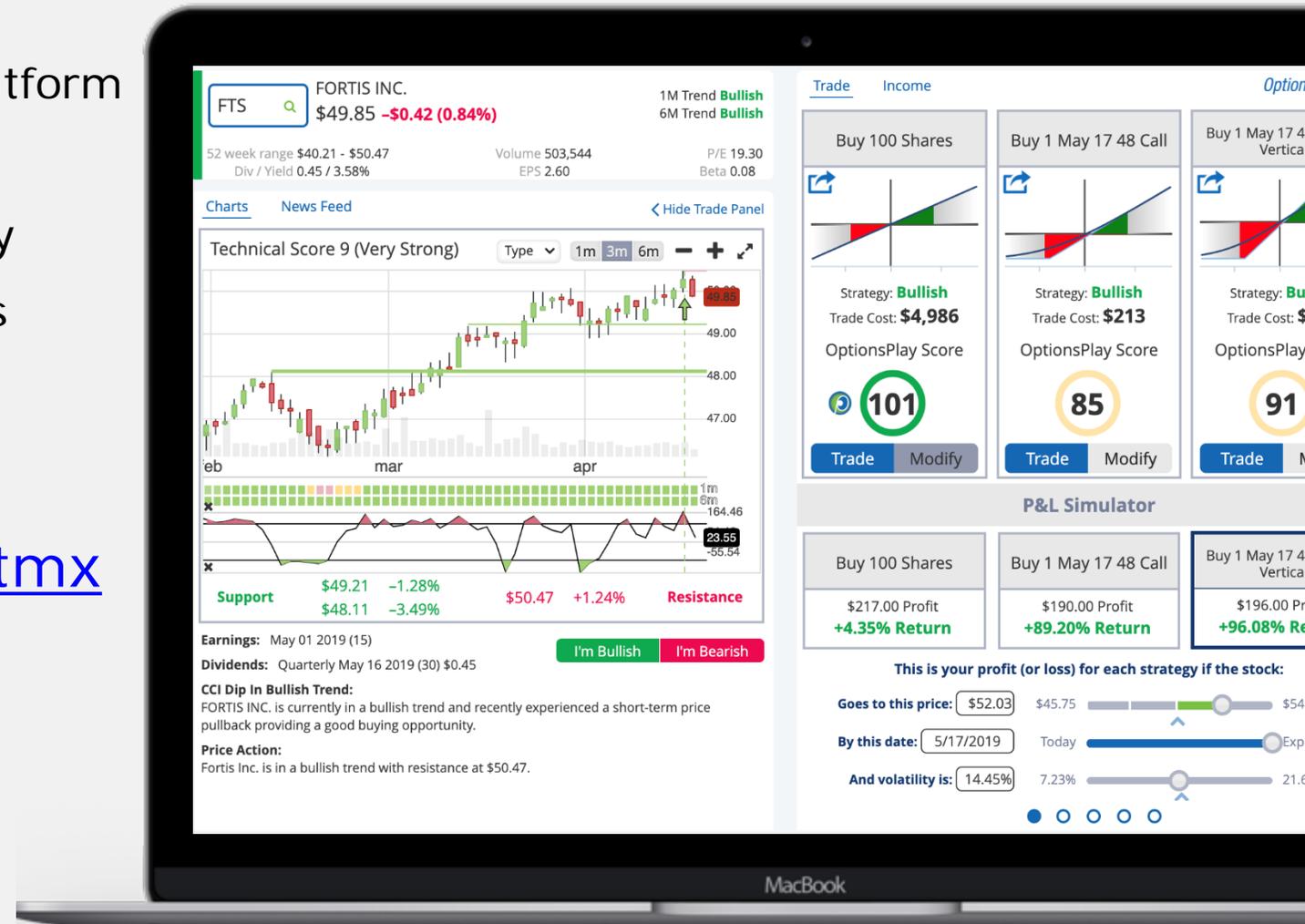
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What's Next



Next Topic:

11:30 a.m.

Every Penny Counts! – Managing Your Currency Exposure with USX options

Speaker: Jason Ayres

MX

Every Penny Counts!

Managing Your Currency
Exposure with USX Options

Jason Ayres DMS

CEO and Director of Business Development
R N Croft Financial Group



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Agenda

Currency Market Refresher

Key Factors Affecting Foreign Exchange Rates

What is a Currency Option?

Trading Specifications

Strategies

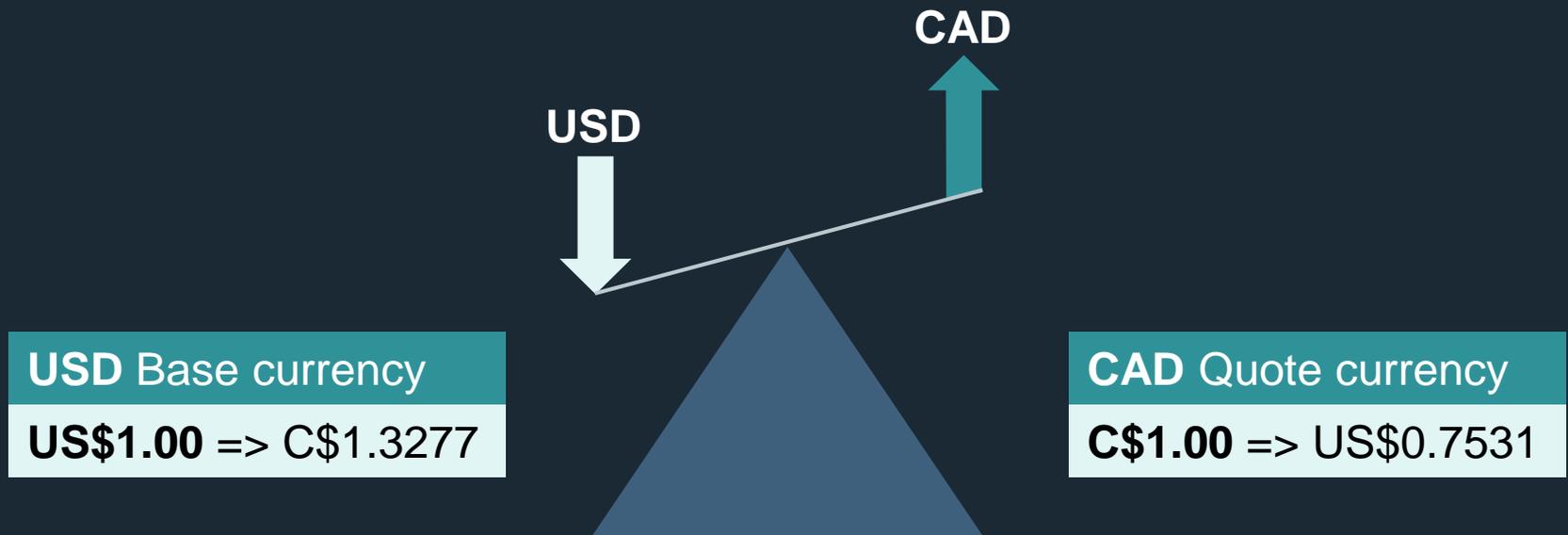
Directional Trading

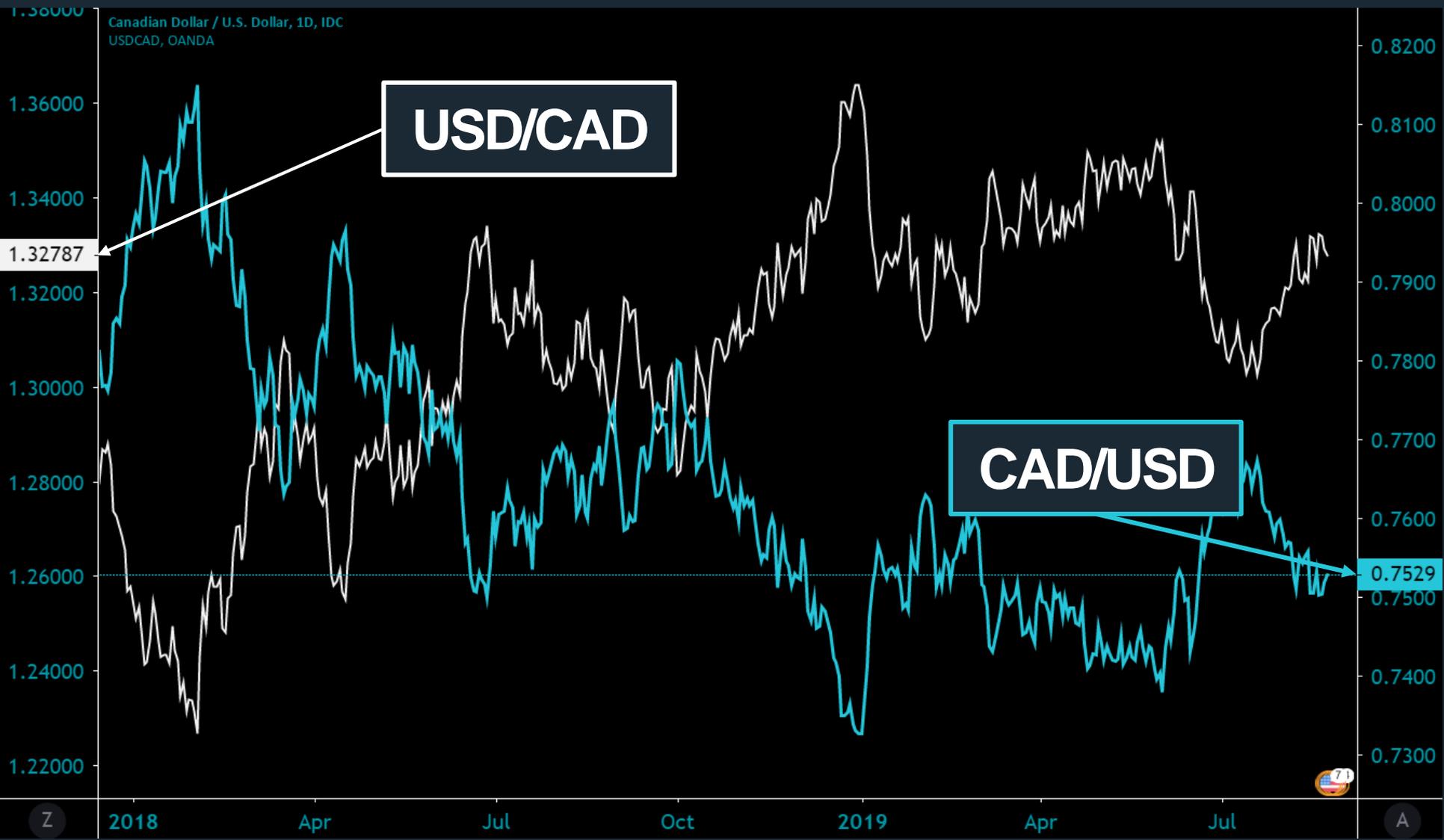
Hedging Currency Risk

Currency Market Refresher

Reading a currency quote

Pair	Bid	Ask	Last
USD/CAD	1.3276	1.3278	1.3277





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Platinum rates

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- 50% deregistration fees
- 50% additional RIF payments
- Free securities transfers within BMO



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Place **180 trades or more**
per quarter or invest \$5 million

First priority 5 Star service
puts you at the front of the line

Premium research

- Top-tier research from BMO Capital Markets
- in addition to 5 Star Thomson Reuters, Morningstar and S&P research

Diamond rates

- 4 free inbound account transfers (up to \$600)
- Preferred offers from BMO Private Banking
- Preferred interest rates for balances in Margin accounts
- Preferred IPO Allocation
- No deregistration fees
- No additional RIF payments
- Free securities transfers within BMO



BMO Market Pro professional-level platform for active traders. Updated for 2019 (see next page).

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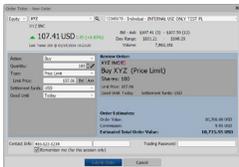
BMO Market Pro

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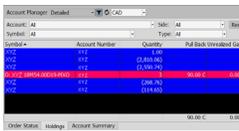
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See price movements by minute, hours, days, weeks and months. Choose from over 100 technical studies to draw comparisons between stocks or indices.



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Point-and-click trading
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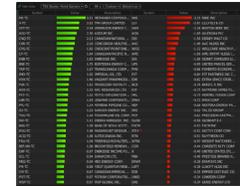
Account Manager

Your holdings, balances and order status info.
See account and order information, including real time streaming gain or loss values of your investment holdings.

MMDD	Bid	Size	TimeMMDD
XYZ	107.65	1	10:18:55 XYZ
XYZ	107.65	2	10:18:51 XYZ
XYZ	107.65	1	10:18:56 XYZ
XYZ	107.63	1	10:18:56 XYZ
XYZ	107.54	1	10:18:54 XYZ
XYZ	107.51	1	10:18:55 XYZ
XYZ	105.70	7	10:18:56 XYZ
XYZ	105.00	1	10:18:55 XYZ
XYZ	103.82	1	10:18:56 XYZ
XYZ	103.41	1	10:19:44 XYZ
XYZ	103.34	1	10:19:43 XYZ
XYZ	103.34	1	10:19:43 XYZ
XYZ	101.49	1	10:17:42 XYZ
XYZ	101.48	1	10:17:51 XYZ

Market Depth

Real time Level 2 stock quotes for the North American markets
Streaming Level 2 information helps you see the market forces behind price support and resistance for better-informed decisions.



Hot Lists

Pre-set screens show which stocks are moving the markets
Identify trade opportunities from over 200 pre-set watch lists, including biggest gainers, losers and highest volume moving the North American markets.

Symbol	Strike	Expiry	Delta	Gamma	Theta	Vega	Rho
XYZ	105.00	11/15	0.50	0.02	-0.05	0.10	0.01
XYZ	107.50	11/15	0.35	0.01	-0.03	0.08	0.01
XYZ	110.00	11/15	0.20	0.00	-0.02	0.05	0.01

Options

Real time streaming quotes
View strike prices, expiry dates, bid and ask prices, volume and more refined options for the level of detail you want.

Date	Time	Symbol	Alert Type
03/14/16	10:25:25 AM	DJ Ecolife Water & Power Open	News
03/14/16	10:25:18 AM	Health Care Property Investments	News
03/14/16	10:25:09 AM	DJ Old Mutual PLC Form B.3 - H	News
03/14/16	10:25:00 AM	DJ Old Mutual PLC Form B.3 - H	News
03/14/16	10:25:00 AM	Research and Markets Corporate	News
03/14/16	10:24:58 AM	DJ BARCLAYS PLC Form B.3 - H	News
03/14/16	10:24:48 AM	Personal Investors Outlook Q4	News
03/14/16	10:24:41 AM	DJ Alliance Trust PLC Alliance T	News
03/14/16	10:24:41 AM	CSIS Energy LCMX Trading Plan	News
03/14/16	10:24:17 AM	DJ FHL Limited Form B.3 - R0VA	News
03/14/16	10:24:17 AM	DJ FHL Limited Form B.3 - R0VA	News
03/14/16	10:24:03 AM	DJ BARCLAYS PLC Form B.3 - H	News
03/14/16	10:24:02 AM	DJ BARCLAYS PLC Form B.3 - H	News
03/14/16	10:24:02 AM	DJ BARCLAYS PLC Form B.3 - H	News
03/14/16	10:24:01 AM	DJ BARCLAYS PLC Form B.3 - H	News

Alerts

Notifications that arrive at the right time
Create custom stock, news and trade fill alerts, and be notified when your criteria is met.

Symbol	Price	Change	Open	High	Low	Close
XYZ	107.65	+0.10	107.55	107.70	107.50	107.60
ABC	120.00	-0.50	120.50	120.00	119.50	119.50
DEF	80.00	+1.00	79.00	80.00	78.00	79.00
GHI	150.00	-2.00	151.00	150.00	149.00	149.00
JKL	200.00	+3.00	197.00	200.00	196.00	197.00
MNO	50.00	-0.50	50.50	50.00	49.50	49.50
PQR	75.00	+0.25	74.75	75.00	74.50	74.75
STU	100.00	+1.50	98.50	100.00	97.50	98.50
VWX	125.00	-1.00	126.00	125.00	124.00	124.00
YZA	150.00	+0.75	149.25	150.00	148.50	149.25
BCD	175.00	-0.25	175.25	175.00	174.75	174.75

News

Real time streaming news
See news for stocks and market events. Track major volume moves and analyst upgrades for an investment advantage.

Watch Lists

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Create custom watch lists of up to 500 securities to track your trades, and opportunities you are following.

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Find the U.S. stocks you want based on your criteria. Compact view helps make the most of your screen.

Watch List Heat Maps & Colouring

Add heat maps to your watch lists to highlight changes in price or more nuanced factors.

Options Chain Strategies

Choose Vertical, Diagonal and Calendar Spreads, Calls & Puts, Buy/Writes, Straddles and Strangles. Chart the option chain for strike/price/volatility curve.

Charts

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Key Factors Affecting Foreign Exchange Rates

Monetary policy



Central bank policy on interest rates

Quantitative easing and intervention

Influence of American economy and monetary policy on Canada

Macro drivers



Politics

Economic data

Capital flows and foreign investment

Inflation

Political stability

What Is a Currency Option?

What is a currency option?

Based on a **currency pair value**

Reflects an “**exchange rate**”

USX reflects **USD/CAD**

U.S. dollar is considered the **base currency**

How much **US\$1.00** is worth **in Canadian dollars**

Trading Specifications

Trading specifications

Same trading parameters as an equity option

Both **calls & puts** can be traded
Strike prices are expressed as an **exchange rate in cents**
Expiration is the **third Friday of the month**

Expect USD to strengthen

Buy a call / Sell a put

Expect USD to weaken

Buy a put / Sell a call

Contract size

Refers to how many units of the underlying are controlled by 1 contract

Contract size =
US\$10,000.00

Option holder has the right to buy or sell **10,000 units** of U.S. currency

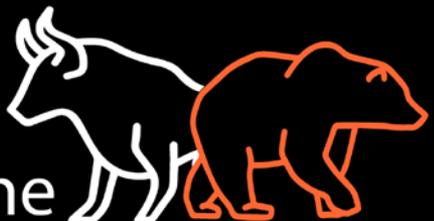
Settlement

European-style exercise = exercised only **at expiration**

Cash settled in **Canadian dollars**

Settlement based on **the difference between the strike price and the exchange rate**

Fixed by **Bloomberg FX Fixings (BFIX) at 12:30 p.m. New York time on the expiration date**



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Learn the Option Strategy Patrick used to Catch the Last Two MARKET TOPS



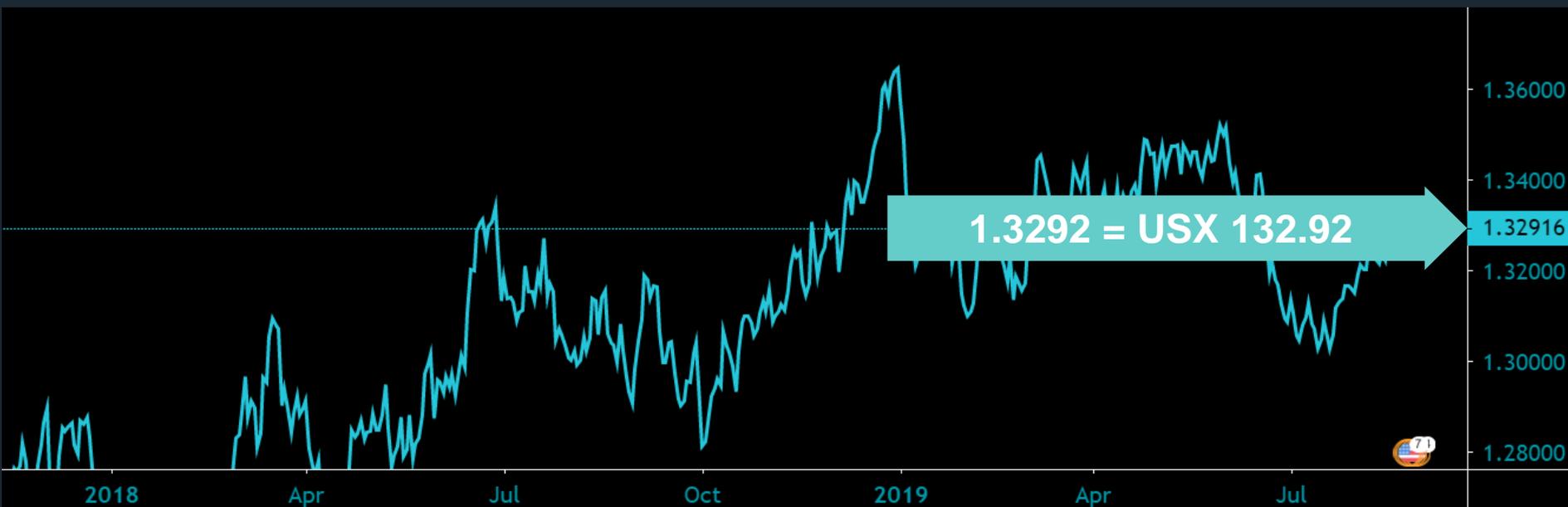
FREE! LIVE WEBINAR JUNE 6th 12:00pm
sign up at the booth or email contact@bigpicturetrading.com

USD/CAD daily chart, August 22, 2019

USX is expressed in **cents per units** of foreign currency

100 cents U.S.
132.92 cents CAD

Strike prices are expressed in the same way



www.tradingview.com

USD/CAD daily chart, August 22, 2019

USX – Options on the US Dollar (132.87 USD/CAD)

Last update: August 22, 2019 at 9:43 a.m. [Data 15 minutes delayed]

Call	Bid price	Ask price	Last price	Impl. vol.	Open int.	Vol.	Strike	Put	Bid price	Ask price	Last price	Impl. vol.	Open int.	Vol.
Sep 20, 2019	0.73	0.86	0.88	--	15	0	133.00	Sep 20, 2019	0.90	1.03	1.03	--	0	0
Sep 20, 2019	0.53	0.66	0.68	--	22	0	133.50	Sep 20, 2019	1.17	1.32	1.32	--	0	0
Sep 20, 2019	0.37	0.50	0.52	--	1	0	134.00	Sep 20, 2019	1.53	1.67	1.66	--	0	0
Sep 20, 2019	0.25	0.38	0.39	--	0	0	134.50	Sep 20, 2019	1.91	2.04	2.04	--	0	0
Sep 20, 2019	0.16	0.29	0.30	--	0	0	135.00	Sep 20, 2019	2.32	2.45	2.44	--	0	0
Sep 20, 2019	0.09	0.22	0.23	--	0	0	135.50	Sep 20, 2019	2.75	2.88	2.87	--	0	0

USX Strike Price

133.000 = 133.000 cents
 133.500 = 133.500 cents
 134.000 = 134.000 cents

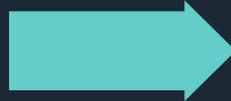
Strike vs. SPOT

133.000 = 1.3300
 133.500 = 1.3350
 134.500 = 1.3400

Expressed in **half-cent** increments

Call option strike prices

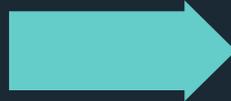
Call option with a
133.500 strike



Call option buyer has the right to buy
1 USD at **1.3350 CAD**

Put option strike prices

Put option with a
133.500 strike



Put option buyer has the right to sell
1 USD at **1.3350 CAD**

Calculating costs

$$\textit{Premium} \times \left\{ \textit{US\$10,000} \times \frac{\textit{C\$1}}{100 \textit{ cents CAN}} \right\}$$

December 2019 call, 134 strike = ASK 1.29

$$1.29 \times (10,000 \times .01) = 1.29 \times 100$$

Premium will cost C\$129.00

Calculating costs

Some brokers may express premium as 0.0129

In that case, simply multiply quote by 10,000

$$0.0129 \times 10,000 = \text{C}\$129.00$$

Strategies

Applicable strategies

Speculation



Take a decisive position with a directional bias

Buy or sell puts and calls based on your outlook

Hedging



Offset currency exposure in a portfolio invested in US securities

Why trade options with us?

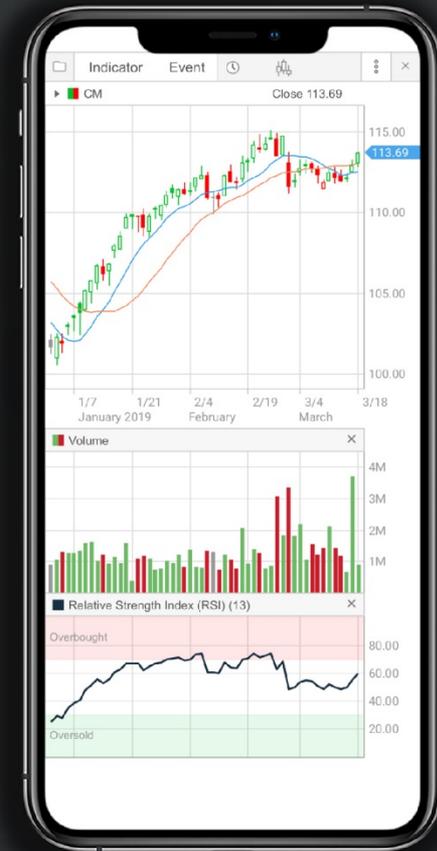
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LET'S TALK!

Stop by our booth to find out more.



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Directional Trading

Outlook:

Investor is bullish on the U.S. dollar



Targets a move to 136.00 (\$1.36)

Believes it will happen in 60 days

Seeks an exposure of US\$50,000



Bullish example



August 22, 2019

USX

\$132.92



Bullish
USD/CAD

Buy calls

November 133.00 call

1.41

1 contract

C\$141.00

5 contracts control

US\$50,000.00

Total cost

C\$705.00

USD rallies



USX = 136.00

Spot market value would reflect **1.3600**

$136.00 - 133.00 =$ **On expiration 3.00**

Premium value at purchase **1.41**

Premium value at expiration **3.00**

Net profit per contract **1.59**

$1.59 \times 100 \times 5 =$ **Profit C\$795.00**



Outlook:

Investor is bearish on the U.S. dollar

Targets a move to 130.00 (\$1.30)

Believes it will happen in 60 days

Seeks an exposure of US\$50,000



Bearish example



August 22, 2019

USX

\$132.92



Bearish
USD/CAD

Buy puts

November 133.00 call

1.57

1 contract

C\$157.00

5 contracts control

US\$50,000.00

Total cost

C\$785.00

If the USD drops



USX = 130.00

Spot market value would reflect **1.3000**

$133.00 - 130.00 =$ **On expiration 3.00**

Premium value at purchase **1.57**

Premium value at expiration **3.00**

Net profit per contract **1.43**

$1.43 \times 100 \times 5 =$ **Profit C\$715.00**

Hedging Currency Risk

Options Trading

With over 40 years' experience in options trading, IB Group¹ has a robust set of tools to evaluate and execute sophisticated trading strategies.

Create Sophisticated Trading Strategies

OptionTrader is our proprietary trading tool for executing speculative trades or building complex, multi-leg orders to hedge a position. From a single screen, users can:

- Trade a full range of options contracts – including equity, index and currency – on the major exchanges in North America, Europe and Asia.
- Create combinations that pair options with stocks, financial futures, foreign exchange contracts and bonds to express views on:
 - Market direction
 - Time decay
 - Volatility
 - Profit potential / Loss potential

Customizable fee schedules are available for low and high frequency traders:

Fixed: Infrequent traders pay a low, flat rate per contract, inclusive of all fees.

Tiered: Active traders pay less per transaction, and may earn exchange rebates for higher volumes.

A Robust Set of Tools for Evaluating and Trading Options

Our comprehensive product suite of tools and algorithms help investors design option strategies that manage risk, produce income and generate capital appreciation.

Option Analytics: Manipulate key option pricing criteria – including price, time and implied volatility – and visualize the impact on premiums.

Options Portfolio: Our algorithm analyzes the risk/return profile of multiple options trading strategies to deliver low-cost trading solutions.

Option Strategy Lab: Generate potentially profitable stock and option combinations, based on your forecast for stock and ETF prices, market volatility and other market variables.

Probability Lab: Use this tool to redefine the price and volatility outlook for an underlying stock or ETF, and identify potentially profitable options strategies based on that view.

Stock Trading

Powerful stock trading tools with global access to expand your investment choices.

Actively trade or hold stocks. Invest for capital appreciation or dividend income. Focus on large-cap, mid-cap or small-cap company shares. Target domestic or international opportunities. Buy and sell stocks and other securities in 120 markets in 31 countries, all from a single account.

Pay Less, Trade More

Put more of your investment capital to work and less to paying brokerage fees with our industry-low equity commission structure¹ and revenue sharing programs. The result is potentially higher returns.



MULTIPLE TRADING PLATFORMS

Trader Workstation (TWS) is our flagship platform for active traders and investors. IBKR Mobile offers on-the-go trading from your iOS or Android device and IB WebTrader offers powerful trading functionality in a simpler interface.



INDUSTRY-LEADING TRADING TOOLS

Our suite of trading tools provide investors with a wide variety of solutions to improve efficiency and lower transaction costs¹, including:

- A robust suite of Order Types and Algos provides advanced trading functionality to help you speed execution, limit risk and improve overall costs.
- SmartRoutingSM software continually scans competing markets and automatically routes orders directly to the best ECN or market center.
- Our Option Labs offers support to help you discover and implement optimal options trading strategies.

Who would use a USD hedge?

	RISK		HEDGE
Investor Long U.S. assets	USD/CAD		Buy puts
Canadian exporter	USD/CAD		Buy puts
U.S. property purchase	USD/CAD		Buy calls
Canadian importer	USD/CAD		Buy calls

Canadian investor



Canadian investor

Canadian investor may hold US\$50,000.00 in U.S. securities

Loses money if the USD weakens against the CAD

Can use a put option to hedge the currency risk

Note that an exporter has the same risk exposure as the investor

How many options to buy?

$$\frac{\text{Amount in USD to hedge}}{\text{Contract size of the option}} \div \text{DELTA of the option}$$

USD/CAD may be trading at 1.3292

Investor wishes to hedge \$50,000.00

November, 133.00 strike put 1.57

Put has a delta of .50

How many options to buy?

$$\frac{\$50,000.00}{\$10,000.00} \div .50$$

$$5 / 0.50 = 10 \text{ put contracts}$$

Investor would buy 10 November, 133.00 put contracts

Cost per contract is 1.57 or C\$157.00

Investor pays C\$157.00 X 10 = C\$1570.00

Portfolio value

US\$50,000.00 = C\$66,460.00 @ 1.3292

USD/CAD	Portfolio P/L	Put settlement	Net result CAD
1.2800	-\$2,460.00 \$64,000.00CAD	\$3,430.00 \$5,000.00 - \$1,570.00	\$67,430.00
1.3292	\$0.00 \$66,460.00CAD	-\$1,570.00 option cost	\$64,890.00
1.3800	\$2,540.00 \$69,000.00CAD	-\$1,570.00 option cost	\$67,430.00

\$1,570.00 = cost of puts

Summary

Find USX quotes & option chains at www.m-x.ca/USX

Use any USD/CAD FX chart

Trade currency views with a limited risk exposure

Hedge your portfolio against currency risk

Multiply the spot market value by 100 to help with USX strike price selection

Accessible through most standard online brokers and registered accounts are eligible

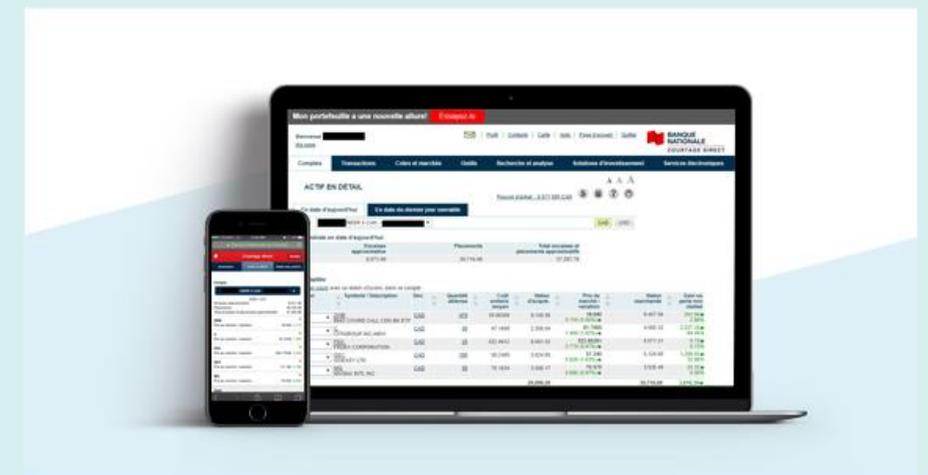
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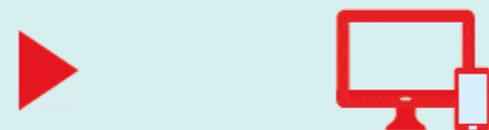
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WHAT YOU NEED TO KNOW:

▶ **100+**

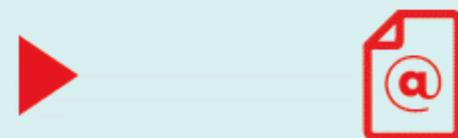
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The Montréal
Exchange provides



e-learning
tools

Blog (optionmatters.ca)

Videos and webinars

Trading guides

Covered call screener

Options calculator

Options simulator

OptionsPlay[®]

For more information, visit www.m-x.ca and www.m-x.ca/USX

What's Next

Lunch: 12:30 p.m. to 1:30 p.m.

Sponsored by:



Next session at 1:30 p.m.

Top 2 Strategies to Generate Income for any Portfolio

Speaker: Tony Zhang

TMX

**THE FUTURE
IS YOURS TO SEE.**



Top 2 Strategies to Generate Income on any Portfolio

Sept 14th, 2019 @ 1:30 PM EST

Tony Zhang, Chief Strategist @ OptionsPlay

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Register: <https://www.optionsplay.com/tmx>

Overview

- **What:** Income Option Strategies
- **Why:** Equity Investments Provide Opportunities
- **How:** Optimal Income Strategies
- **Automate Income with OptionsPlay**
- Exit Strategies

What is a Short Put?

• **Sell Put @ purchase price to acquire stock**

- Obligation to buy stock @ Strike Price upon expiration
- Each contract delivers 100 Shares
- Requires Cash or Margin to sell puts
- Strategy to acquire shares at discount (50-100bps per expiration)

• **Outcomes**

1. Stock above Strike Price: Rinse & Repeat for additional income
2. Stock moves below strike: Own stock @ Strike Price – Premium

What is a Covered Call?

• **Sell Call @ target price on existing stock position**

- Obligation to sell stock @ Strike Price upon expiration
- Requires at least 100 Shares
- Strategy to take profit as stock rallies significantly* *

• **Outcomes**

1. Stock above Strike Price: Sell stock for profit @ Strike price
2. Stock below Strike Price: Rinse & Repeat for additional income

Maximizing Risk/Reward: Buy Low, Sell High

• Enter Stock positions with Cash Secured Puts

- Dollar cost average & purchase stocks at discount
- Compares to placing a limit order to buy at **lower price**
- Strategy for stocks you wish to purchase

• Exit Stock positions with Covered Calls

- Takes profit on stocks after sharp rallies
- Compares to placing a limit order to sell at **higher price**
- Strategy for stocks in your portfolio

Short Puts Example & Outcomes

- 🕒 **Goal:** Purchase 1000 Shares of XYZ @ \$95 w/ Target of \$120
- 🕒 **Current Price:** XYZ = \$100 Share

	Enter Buy Limit Order @ \$95		Sell June \$95 Put @ \$2	
Risk:	\$95/share	✗	\$93/Share = \$95 - \$2	✓
Reward:	\$25 per share (\$120-95)	✗	\$27 per share (\$120 - \$93)	✓
Profitable:	Above \$95	✗	Above \$93 = \$95 - \$2	✓
Time:	No Exposure until XYZ declines to \$95	✗	Rinse & Repeat income until XYZ declines to \$95	✓

- 🕒 **Result:** Acquire shares at least \$2/share cheaper

Covered Call Example & Outcomes

- Goal: Sell 1000 Shares of XYZ @ \$120 Target Price

	Enter Sell Limit Order @ \$120		Sell June \$120 Covered Call @ \$2.00	
Risk:	\$95/share	✗	\$91/share (\$95 - \$2 - \$2)	✓
Reward:	\$25 per share (\$120-95)	✗	\$29 per share (\$120-\$93-\$2)	✓
Profitable:	Above \$95	✗	Above \$91 = \$95 - \$2 - \$2	✓
Time:	Exposure until XYZ rises to \$120	✗	Rinse & Repeat income until XYZ rises to \$120	✓

- Result: Lower breakeven price on stock and at least \$4/share more profits

Benefits & Limitations

• **Benefits**

- Acquire shares on dips with discount
- Take profit on shares during strong rallies
- Generate income stream while waiting for trades to execute

• **Limitations**

- Require patience, trades generally only execute @ expiration
- Potentially miss out on some opportunities
- Requires trading in 100 share increments

Time Frame: Expiration Selection



Short Term
21-49 Days



Medium Term
50-89 Days



Long Term
90-180 Days



Less Income
More Certainty



More Income
Less Certainty

Historical Performance



Short Term
21-49 Days



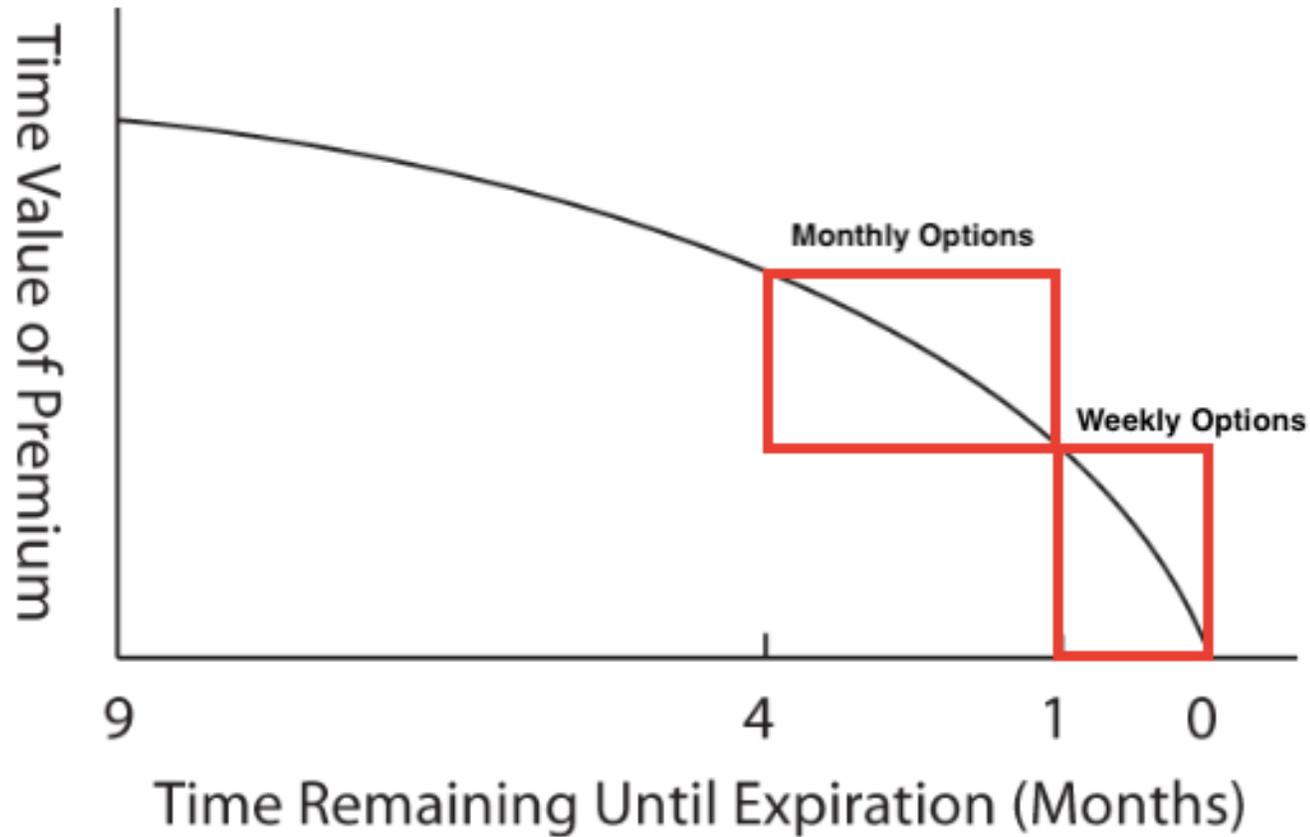
Medium Term
50-89 Days



Long Term
90-180 Days

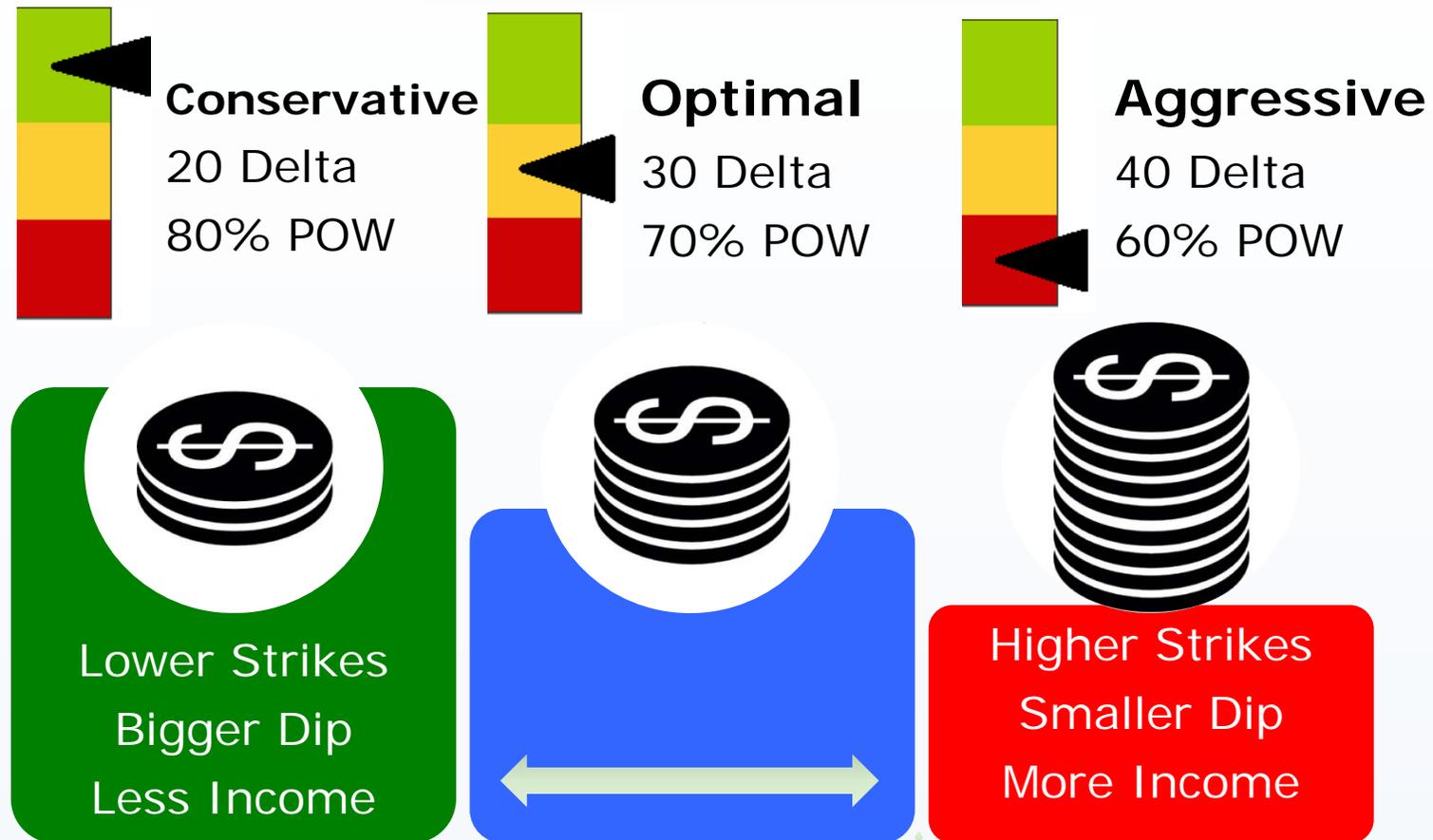
- **Avoid Selling During Earnings**
 - 1 Month Calls = 12 Per Year (25%)
 - 3 Month Calls = 4 Per Year (100%)
- Premium is **NOT** linear to time
 - 1 Month Call = X Premium
 - 3 Month Call = 2X Premium

Expiration Date

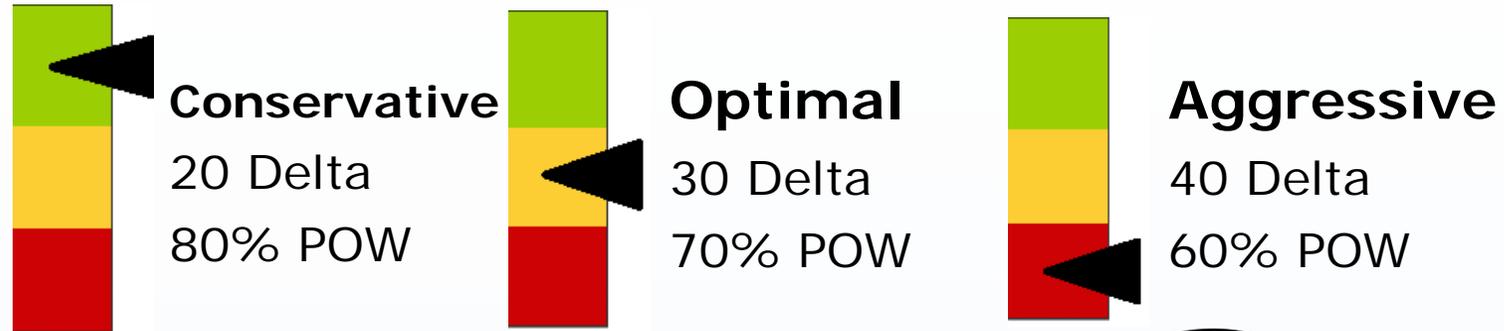


- Weekly Options decay faster than Monthly Options
- Maximize Time Decay (Theta)
- Last Month = Previous 2 Months

Short Puts: Strike Selection



Short Puts: Strike Selection



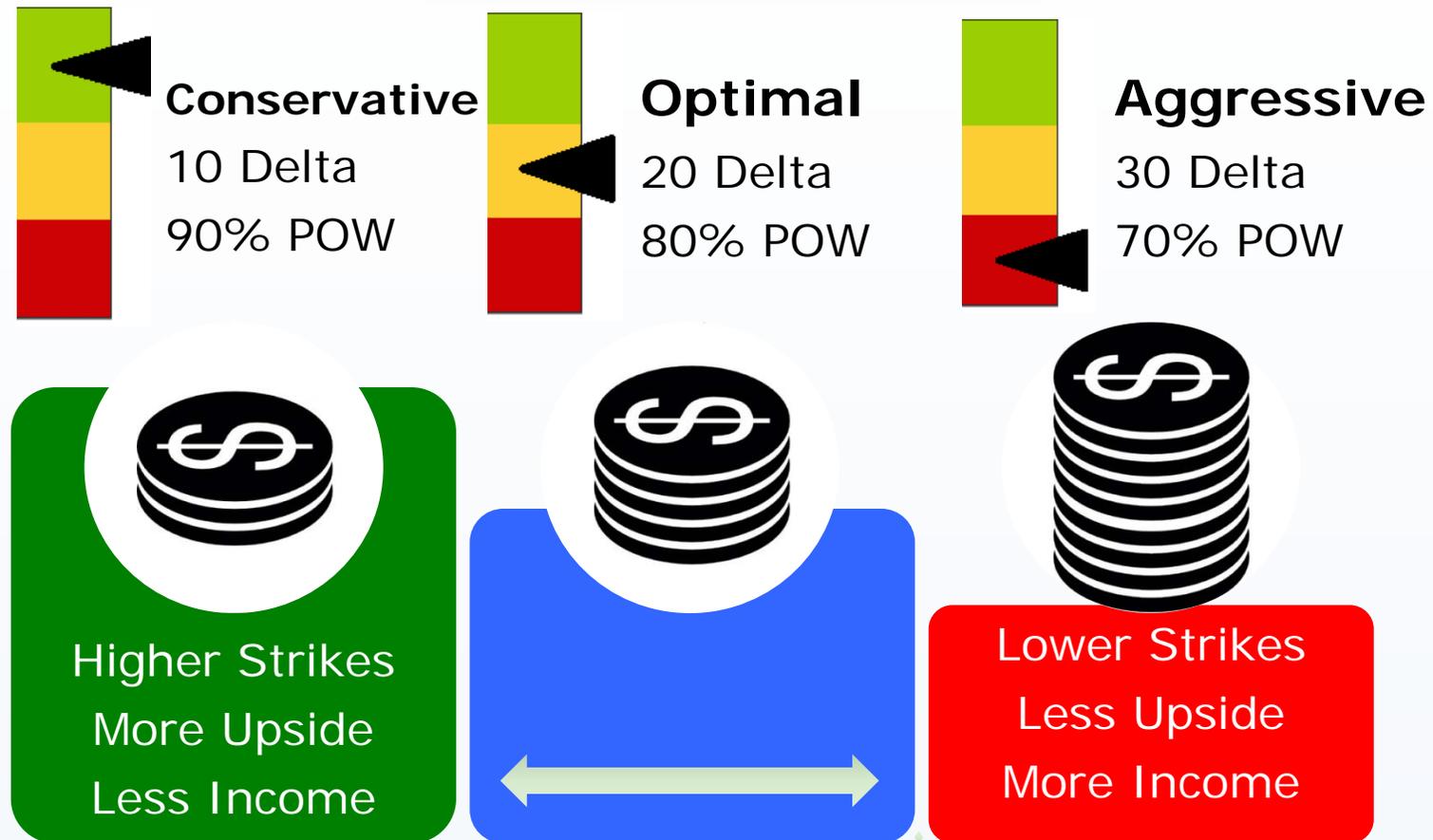
Goal: Purchase Stock

- Sell **aggressive** strikes near current price
- Prioritize **high** probability of acquiring shares
- **Higher** income = larger discount on purchase

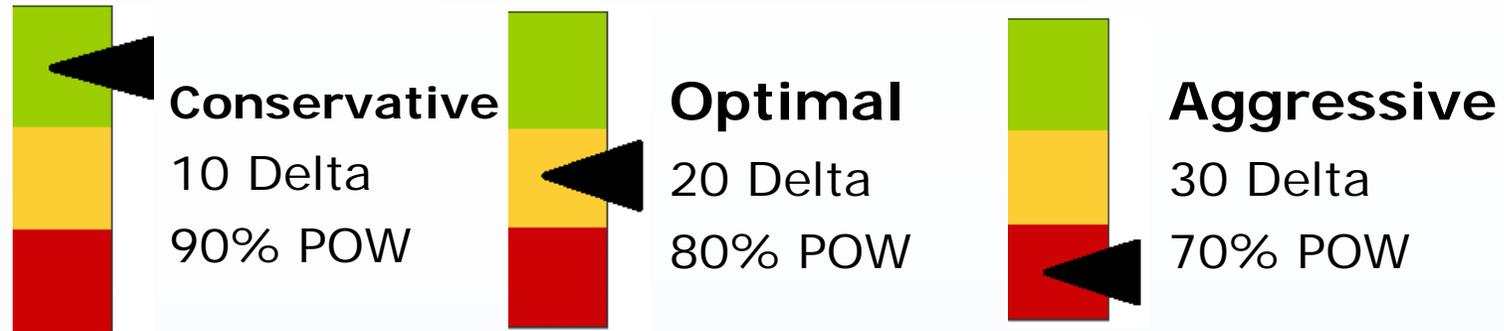


Higher Strikes
Smaller Dip
More Income

Covered Calls: Strike Selection



Covered Calls: Strike Selection

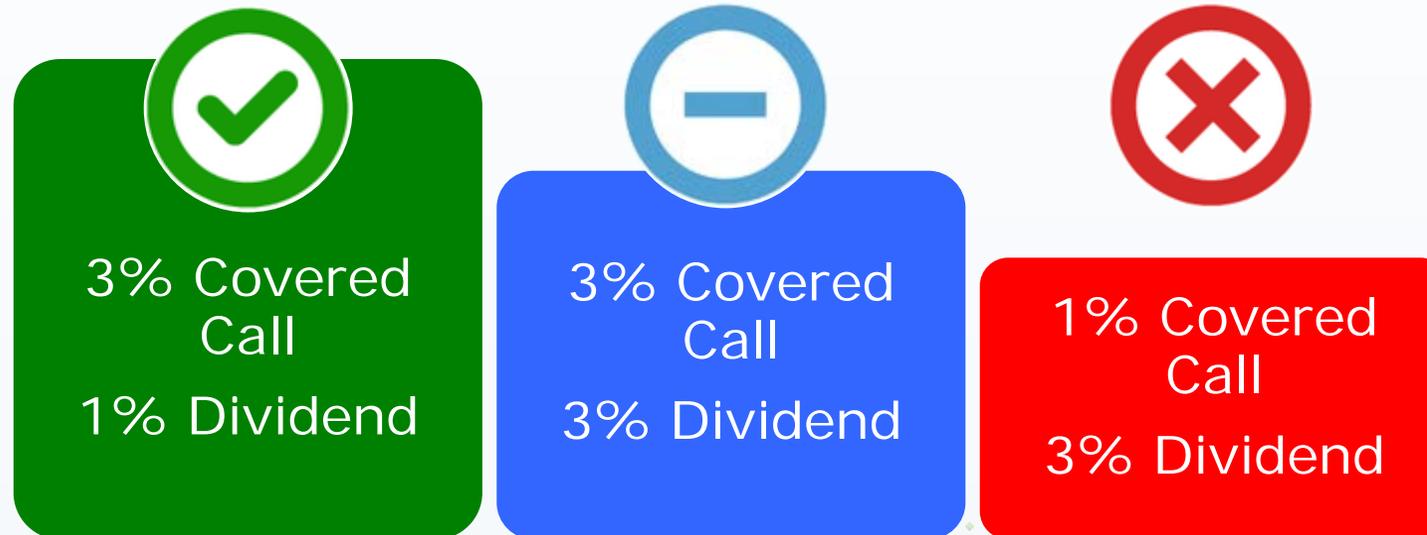


Goal: Take Profit on Strong Rallies

- Sell **conservative** strikes further away
- Prioritize **capital appreciation** of stock
- **Lower** income = larger gain on underlying stock

Enough Income?

- Compare Covered Calls Yields to Dividends
- Beat Dividend Yield with Covered Calls



Income Generating Tips

- Acquire shares at **discount** with cash secured puts
- Start Covered Calls **immediately** after acquiring shares
- **Shorter-dated** options maximize time decay
- Short Puts @ Strike Prices **near** Stock Price
- Covered Calls @ Strike prices **further away** from Stock Price
- **Avoid** selling covered calls going into earnings

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Covered Call Exit Strategy

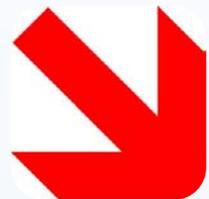
3 Stock Scenarios and what to do



Hold & Roll only in last week



Hold Position until expiry



Roll down your position early
Buy Back @ 20% of Original Premium

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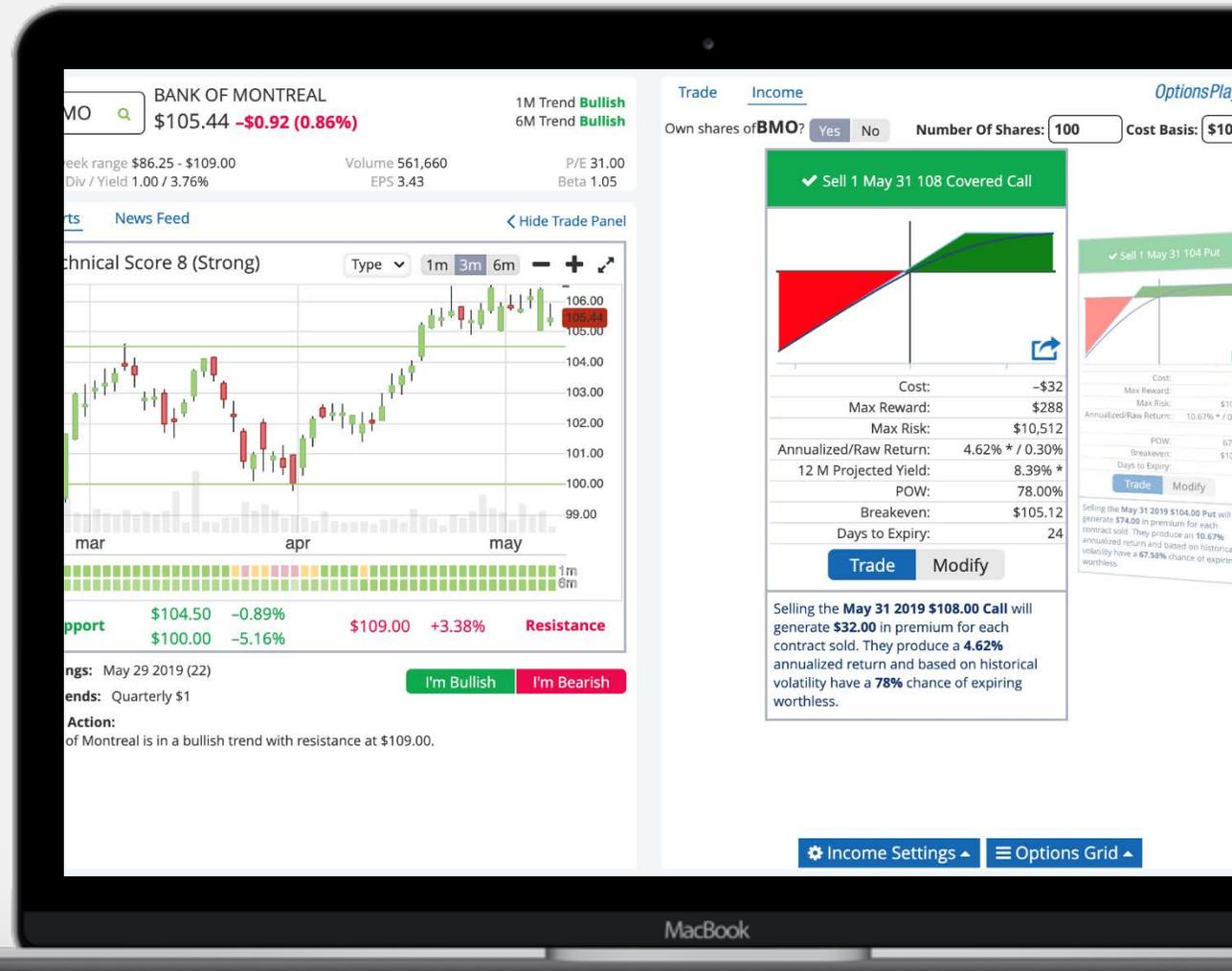
Outside of the Top 30 Names

- **Lower** Open Interest & Volumes
- **Wider** Bid/Ask Spreads
- Liquidity is a factor of the stock
- Options may not look liquid, but actually plenty of liquidity
- **Most** orders are filled within 5-10 cents around the mid point
- Don't be afraid to place orders inside the bid/ask spread

Short Puts & Covered Calls with OptionsPlay



- Custom Income Settings
- Instant Covered Call Expiration & Strikes
- Yield & Probability analysis
- Optimal vs. Alternative Opportunities



Montreal Exchange Free Offer



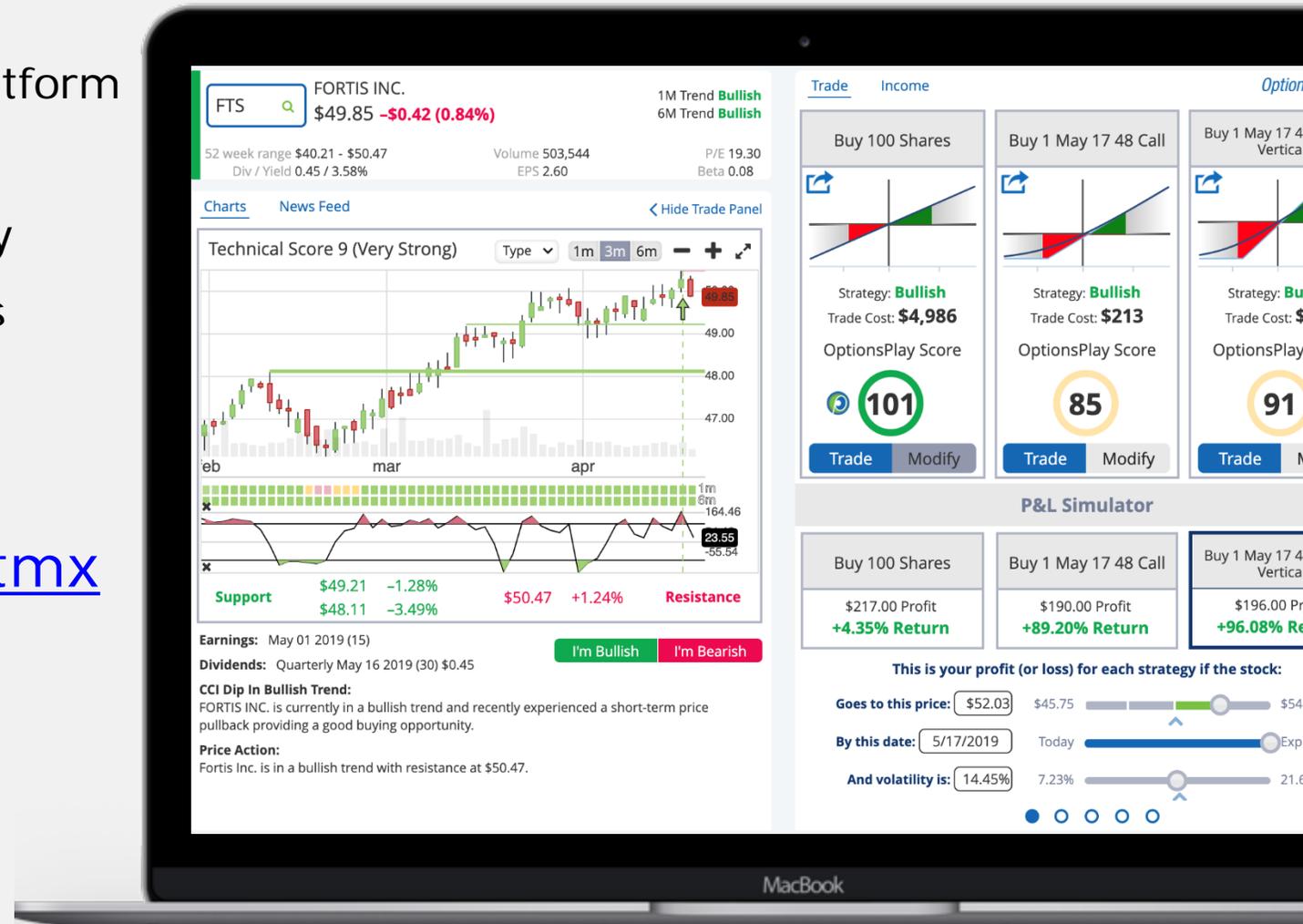
- ✓ Free Access to OptionsPlay Canada Platform
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Register:

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What's Next

Break:

2:30 p.m. to 3:00 p.m.

(Sponsored by: CIBC Investor's Edge)



During the break, visit the exhibitors and find out how you can win the prize draws today.

Next Topic:

3:00 p.m. Unique Twists on the Collar Options

Speaker: Edward J. Modla, Director, Retail Education, OIC



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Transfer today!

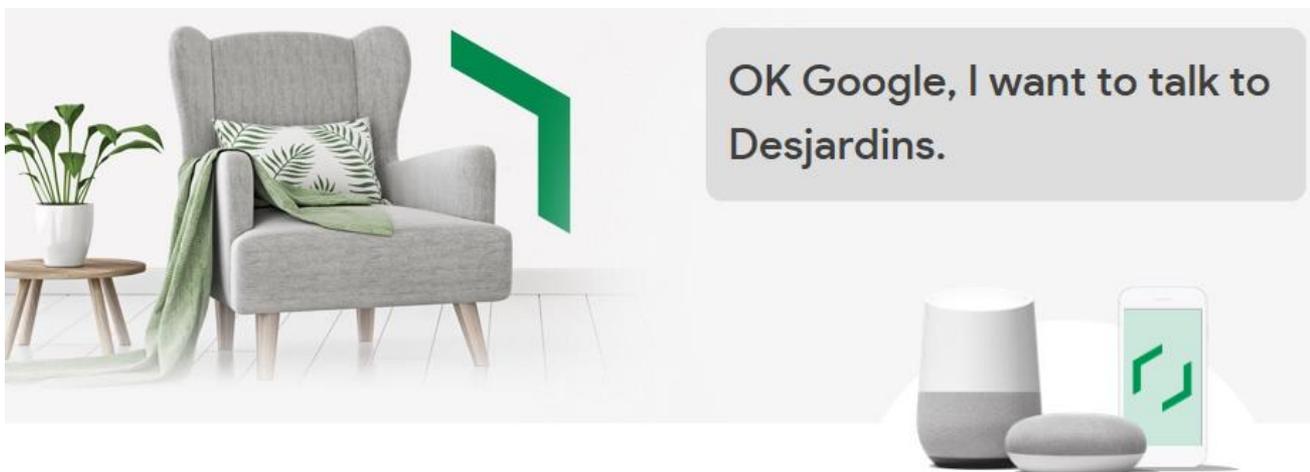
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September 14, 2019

Edward J Modla

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Presentation Outline

- Traditional Options Collar
- Choosing Strikes/Expiry
- Staggered Collar
- Put Spread Collar
- Laddered Collar



Traditional Options Collar

A Collar can be considered to be two strategies in one:

On the downside, it's a ***Protective Put***:

- Provides **protection** against a **decrease** in long stock share price
- Typically, an out of the money put is purchased
- Strike selected determines exit price
- **Profit** is in **long stock** position
- May allow investor to lock in profits
- Long option retains the **right** to exercise

Protective Put

Structure	Long 100 shares of stock and long 1 OTM put
Motivation	Protection to downside of long shares
Forecast	Bullish but cautious
Risk	Deductible + Premium paid
Reward	Unlimited
Assignment	No risk

Traditional Options Collar

A Collar can be considered to be two strategies in one:

On the upside, it's a ***Covered Call***:

- Generally used for income, can be used to offset cost of Protective Put
- Typically, an out of the money call is sold
- Strike selected determines where stock may be called away
- Upside profit limited by short call
- Short option seller may have assignment obligation

Covered Call

Structure	Long 100 shares of stock and short 1 OTM call
Motivation	Income, Increase stock returns
Forecast	Neutral to moderately bullish
Risk	Long stock minus call premium received
Reward	(Call strike + call premium) – long stock price
Assignment	Central to the strategy

Why Use a Collar?

- Stock, ETF or Index buyer with unrealized gains wants
 - Downside protection – long put
 - Some upside participation – limited by short call
- Key benefits
 - Put cost fully or partially paid by call premium received
 - Objectives met whether share price up or down
 - Receive any dividend if not assigned on short call
- Risk remains in long stock up until long put kicks in

What Does All This Cost?

Stock price = \$75, 45 day expiry

Looking for protection beyond a 10% ↓ move

$\$75 - 10\% = 67.50$

Buy 1 67.50 put for \$1.30

(Insurance Policy)

Sell 1 82.50 call at \$0.90

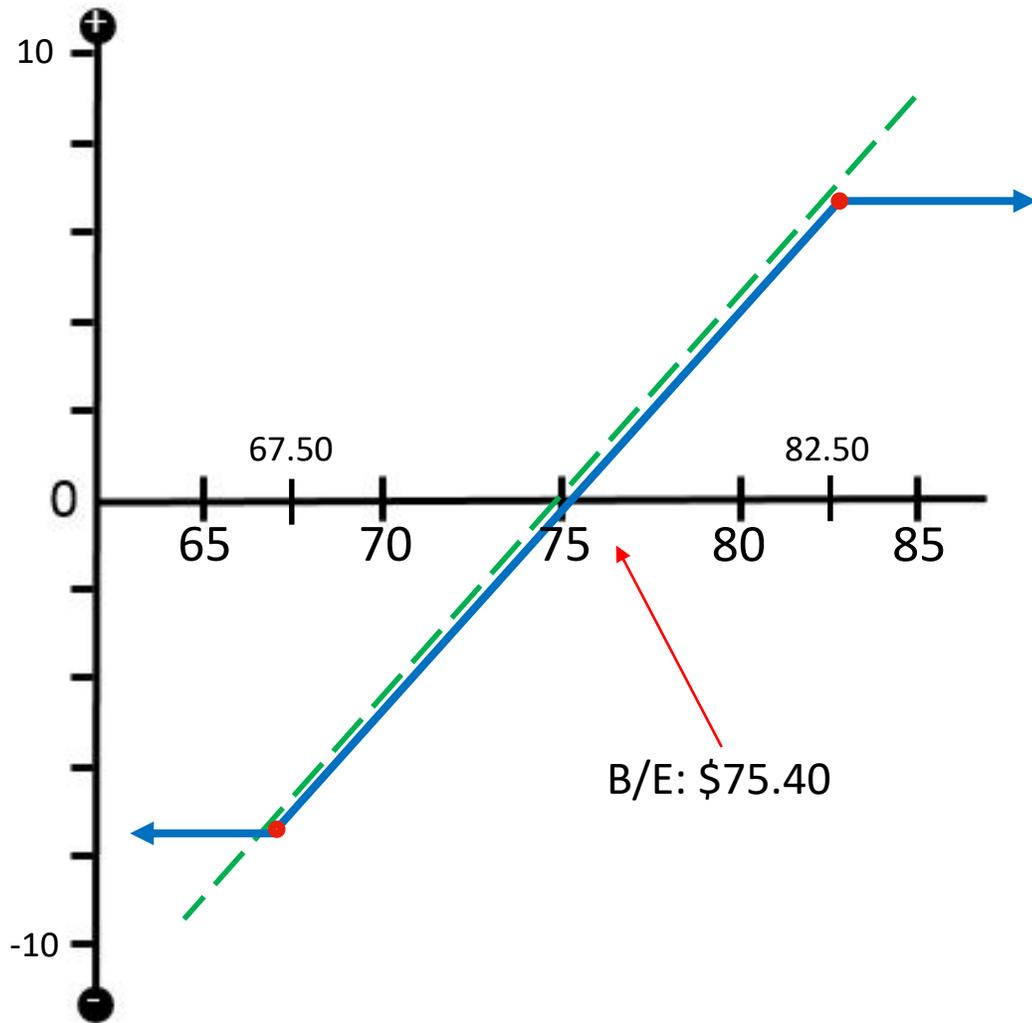
to pay for it

NET COST = \$.40 DEBIT

Calls		Strike	Puts	
Bid	Ask		Bid	Ask
\$8.75	\$8.95	67.50	\$1.25	\$1.35
\$6.10	\$6.30	70.00	\$1.50	\$1.60
\$4.40	\$4.60	72.50	\$1.90	\$2.10
\$3.05	\$3.20	75.00	\$2.95	\$3.10
\$2.05	\$2.15	77.50	\$4.55	\$4.65
\$1.30	\$1.40	80.00	\$6.25	\$6.45
\$0.87	\$0.97	82.50	\$8.20	\$8.40

Not including commissions

Traditional Collar Profit & Loss



Long 100 shares of stock at \$75.00

- **Buy 67.50 put for \$1.30**
- **Sell 82.50 call at \$0.90**

Net DEBIT: \$.40

**Max Profit: Short call – share price
+/- net debit or credit**

**Max Loss: Share price – long put
+/- net debit or credit**

Breakeven: share price +/- net debit or credit

Managing the Position

What if the stock price plummets?

- Close position and free up capital?
- Hold shares and sell back long put?

What if the stock price remains flat?

- Still cautious?
- Roll out?

What if shares rally?

- Is protection still needed?
- Roll up and out?





Cost of trade
Risk of assignment
Theta
Management

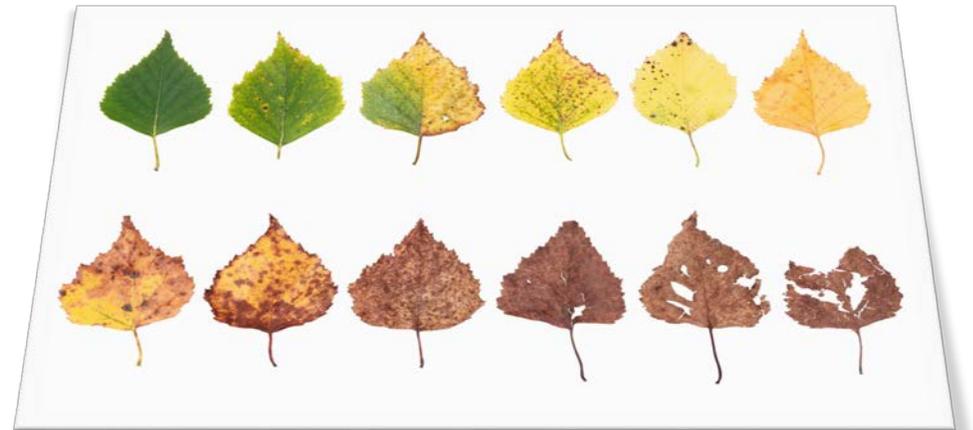
Staggered Collar

What would happen if we bought longer-term protection and sold shorter-dated calls?

Staggered Collar and Theta (Time Decay)

Advantages/Disadvantages of selling shorter dated options:

- Faster time decay: Theta accelerates roughly 30 days out
- Possibly larger pool of market participants may lead to more favorable pricing vs. longer dated calls
- Less time = less premium
- More chances to be assigned—be aware of Corporate Calendar—dividends, earnings, etc.



Staggered Expiry's

Scenario: Due to better than expected earnings, Tom has enjoyed a run-up in share price of BUBL. He's long 100 shares from \$82 and stock is currently trading \$96. To protect some of the unrealized gains against future earnings reports, his broker suggests putting on an options collar.

Expiry	Strike	Call Value	Put Value	Expiry	Strike	Call Value	Put Value
<u>April</u>	92.50	\$6.25	\$2.30	<u>Dec</u>	92.50	\$11.50	\$11.20
	95.00	\$4.90	\$3.30		95.00	\$10.30	\$12.50
	97.50	\$3.60	\$4.70		97.50	\$9.20	\$13.30
	100.00	\$2.75	\$6.25		100.00	\$8.00	\$13.80

Staggered Expiry's

To lock in some profit, Tom buys some “insurance” in the form of the Dec 92.50 put for \$11.20. In the interim, he can also take advantage of further share price increases by selling the April 100 call at \$2.75.

- Can repeat sale of short calls each month generating additional profits (assuming no assignment)
- Each sale reduces overall cost of long Dec put
- Short-term Theta often works in favor for options sellers



Staggered Collar Risks

- **What if the stock moves sharply lower?**
 - Exercise long put early or sell back to market?
 - Hold put and keep selling lower strike calls? (lowers potential assignment price)
- **What if the stock moves sharply higher?**
 - Assignment will result in lower profit due to lower premium of shorter dated calls
 - Roll up and out?

Put Spread Collar

Standard options collar provides protection (long put) down to zero

What is the likelihood of the stock plummeting to zero vs. a minor downturn—but NOT to zero?

Might be possible to save money (or increase credit) by selling a further OTM put also!

Possible position: long stock, short OTM call, long OTM put (traditional collar) **& short a further OTM put**

Put Spread Collar Example

Scenario: Two months ago, Karen bought 500 shares of JOGR, an athletic-wear company that she feels has some long term potential. She's concerned with upcoming earnings, however, and is looking for a little downside protection in the short-term. No matter what happens though, she does not anticipate a large decline.

Possible strategies:

- Buy a protective put (may be expensive)
- Place an options collar around her position (provide downside protection down to zero), **OR**
- Due to the fact that she anticipates the potential decline to be a modest one, trade a put spread collar (cheaper than traditional)

Put Spread Collar Example

Setup: Long 500 shares from \$105 with stock currently trading \$120

Buys 5 45-day 115 puts for \$3.60

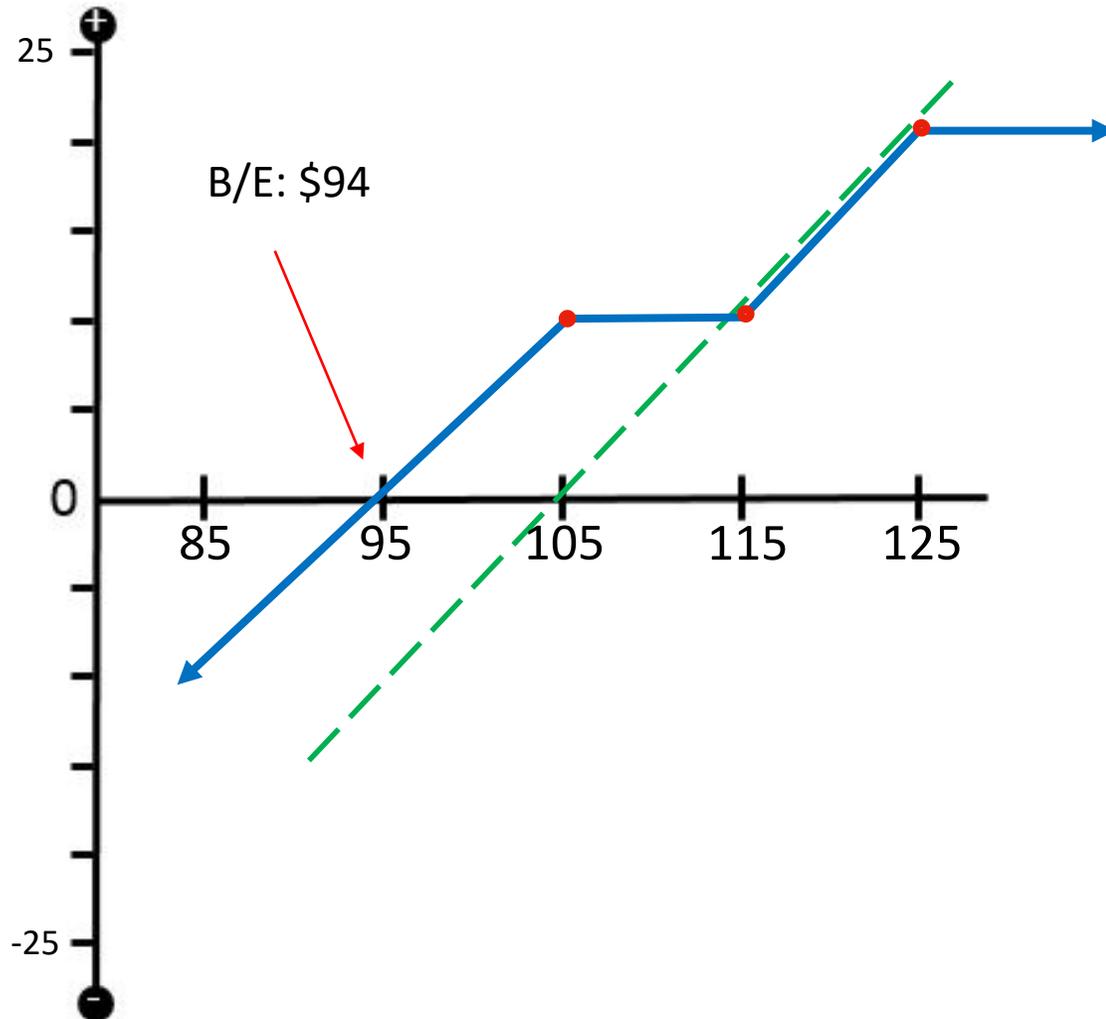
Sells 5 45-day 125 calls at \$3.00, **AND**

Sells 5 45-day 105 puts at \$1.60

} Traditional Collar

Stock Price at Expiry	115/105 Put Spread P/L at Expiry	Short 125 Call P/L at Expiry	Long \$105 Stock P/L at Expiry	Net P/L + \$1 Credit
\$95	\$8.00	\$3.00	(\$10.00)	\$1.00
\$105	\$8.00	\$3.00	-0-	\$11.00
\$115	(\$2.00)	\$3.00	\$10.00	\$11.00
\$125	(\$2.00)	\$3.00	\$20.00	\$21.00
\$135	(\$2.00)	(\$7.00)	\$30.00	\$21.00

Put Spread Collar Example



Long 500 shares of stock from \$105

- Buy 5 115 puts for \$3.60
- Sell 5 125 calls at \$3.00
- Sell 5 105 puts at \$1.60

Net CREDIT: \$1.00

Max profit: diff. between long stock and short call + net premium: **\$21**

Max loss: assignment value of short put – net premium: **-\$94**

Protection kicks in between 105 & 115

Laddered Collar (Strikes & Expiry's)

Buying a put (long or short-term depends on protection desired)
Sell calls at various strikes/expiry's

Example: Stock trading \$100, long 500 shares

- Buy 5 180 day 85 puts for \$4.00/each
- Sell 1 30 day 105 call at \$.75
- Sell 1 60 day 110 call at \$.80
- Sell 1 120 day 115 calls at \$1.80
- Sell 2 180 day 120 call at \$2.50

Net DEBIT of \$1,165



Laddered Collar (Strikes & Expiry's)

What if's?

- Stock makes a sharp move in either direction?
 - Sharp move down: Exercise put and buy to close short calls at a profit?
 - Sharp move up: Some or all short calls may be assigned and stock gets called away at various intervals

Regardless, less premium collected for shorter dated calls vs. longer results in less overall profit from a big move

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