

Never Trade Stocks Again!

Jay Soloff

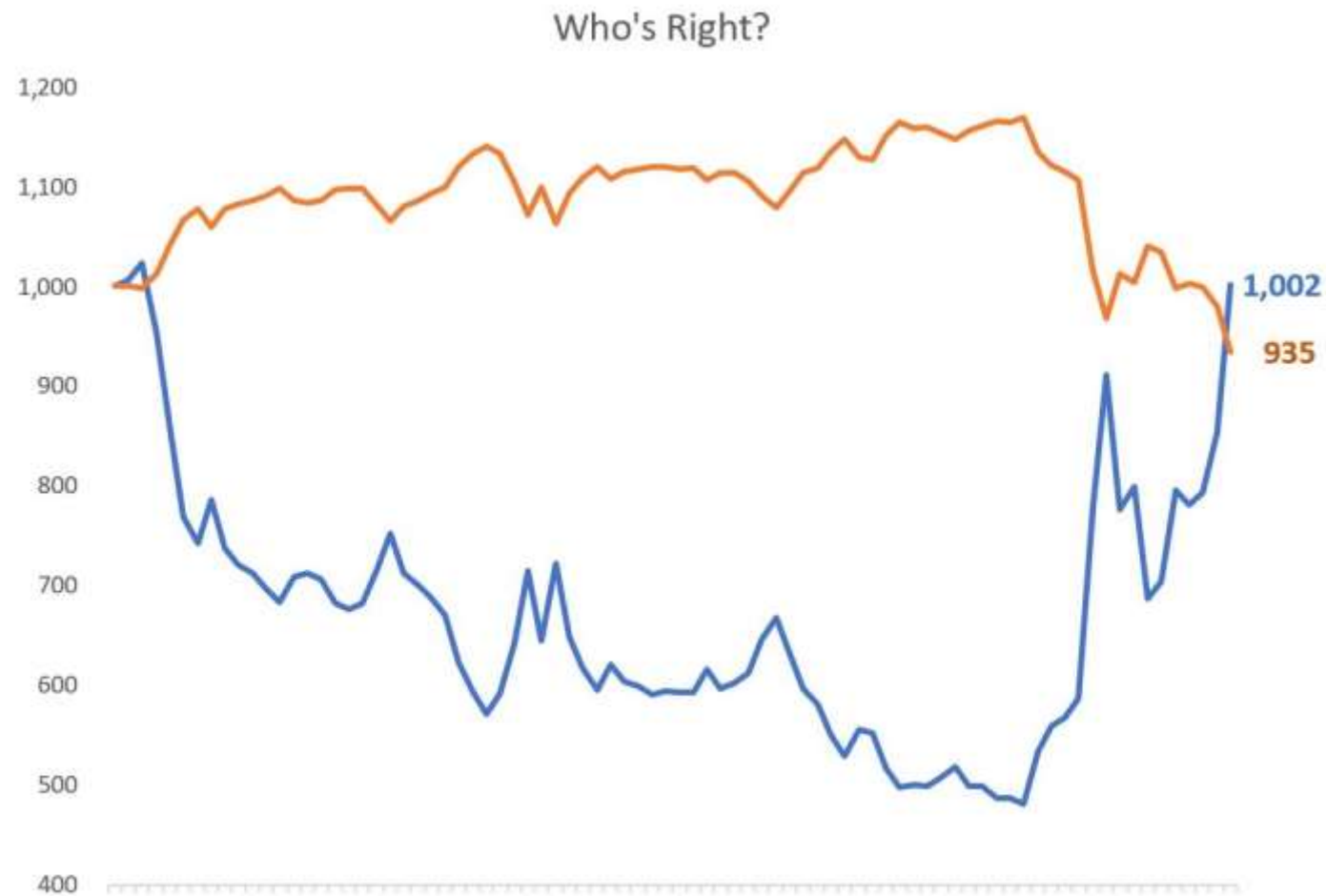
Options Portfolio Manager

Editor – Options Floor Trader Pro, Options Profit Engine

Investors Alley



Which Portfolio Do You Prefer?



To Get A Copy Of This Presentation

Be sure to get your name and email on the clipboard being passed around. You'll get a copy of this presentation and information about my trading service, **Options Floor Trader Pro.**

In addition, you can go to www.Optionsfloortrader.com to find out more about the product.

About Me

- 21 years of experience trading options
- 9 years of online research & options services
- CBOE floor trader and market maker – provided liquidity on the largest options exchange in the world for stocks like Amazon
- Hedge fund analyst, options portfolio
- MBA, MSIM, Arizona State University
- BA Economics, University of Illinois



Trading Is Different Than Investing

- **Let's start with a few clarifications**

- If your goal is long-term dividend collection or tactical asset class allocation then you need to own stocks and ETFs, but that doesn't preclude you from using options
- Using options to enter into a stock positions is perfectly reasonable, even if you plan to hold the shares for the long-term
- For short and medium-term trading, I strongly prefer options to stocks if they are available. I consider this a very different realm than long-term investing.

Before We Get Started

- Whether you are trading or investing, what do all these products have in common?
 - Options
 - Stocks
 - Bonds
 - Commodities
 - Currencies
 - Cryptocurrencies
 - Real Estate
 - Baseball cards
- If you want to have sustained success trading, you need to have a trading plan!

Don't Buy Stocks, Use Short Puts Instead

- **Use cash-secured puts to enter into long stock positions**
 - A cash-secured put is when you sell a naked put in a stock you want to own at a lower price, and you have enough money in your account to buy the shares if you get assigned (short 1 put = long 100 shares on assignment)
 - Why not get paid to get long a stock?
 - Plus, the premium collected protects your downside some (and gives you a lower entry point for your long shares)
 - Or, just use short puts to increase yield even you don't necessarily want to own the shares but believe stock is going to be neutral or higher in the near future
 - If you want to own shares anyways, only real risk is missing a big rally
 - It may go without saying, but if you think the market is about to tank, it isn't the right time to use this strategy

Cash Secured Puts - Example



- Let's say you think **Apple** (AAPL) is going to flatten out or go higher
- You also don't mind owning the shares around \$200-205/share
- On May 1st, with the stock near \$210.50, you could sell the May 31st 205 puts for about \$2.55
- That's a 1.2% yield in 30 days (14.4% per annum)

Cash Secured Puts – Example

- If AAPL goes up or stays where it is, you simply collect the \$255 and write another put after expiration
- If AAPL drops below \$205, you get assigned on the stock at \$205 (which is the price you want), but your actual cost is at \$202.45 (205 strike - \$2.55 premium)
- You are protected down to \$202.45, that's your breakeven point
- Once you are long the shares, you can take the next step: sell a covered call (more on that in a minute)

Quick Definition: Delta

- For my upcoming trading strategies and examples, I talk a lot about delta.
- Delta tells you how much an option price will move in relation to the underlying, so for example a 50 delta option will move \$0.50 for every \$1 move in the underlying asset
- Delta gives you a very rough probability of the option finishing in the money, so a 50 delta options has about a 50% chance of ending up in the money, 30 delta/30% and so on
- 50 delta options are at the money, below 50 are out of the money, and those are the options we usually deal with.

Cash Secured Puts Backtest Results

CMLviz.com TradeMachine

AMZN: Sell 35 Delta Put	MSFT: Sell 35 Delta Put	JPM: Sell 35 Delta Put	XOM: Sell 35 Delta Put	SPY: Sell 35 Delta Put
Expiration: 30 Days	Expiration: 30 Days	Expiration: 30 Days	Expiration: 30 Days	Expiration: 30 Days
<u>Risked:</u> \$5954	<u>Risked:</u> \$828	<u>Risked:</u> \$1057	<u>Risked:</u> \$1825	<u>Risked:</u> \$3523
Total Return: \$36193	Total Return: \$3527	Total Return: \$3927	Total Return: \$1697	Total Return: \$5426
% Return: 608%	% Return: 426%	% Return: 372%	% Return: 93%	% Return: 154%
Commission: -	Commission: -	Commission: -	Commission: -	Commission: -
% Wins: 80.3%	% Wins: 82.9%	% Wins: 85.9%	% Wins: 77.8%	% Wins: 85.9%
Wins: 53 Losses: 13	Wins: 58 Losses: 12	Wins: 55 Losses: 9	Wins: 49 Losses: 14	Wins: 55 Losses: 9
Gain: \$85892 Loss: -\$49699	Gain: \$4711 Loss: -\$1184	Gain: \$5521 Loss: -\$1594	Gain: \$4474 Loss: -\$2777	Gain: \$10918 Loss: -\$5492

5 years back
30 day holding period
Held to expiration
No stops for gains/losses
No earnings

Use Covered Calls Whenever Possible

- **Covered calls and put writing are two of the top risk-adjusted strategies on the market**
 - If you get assigned on stock from a cash secured put, then the natural next step is to sell a call against the shares
 - In most years, you are better off with covered calls versus only long stocks (plenty of data to support this, not to mention – just look at block trades)
 - Covered calls are very easy and take very little time to implement
 - Perfect complement to dividend collection
 - If the stock doesn't pay a dividend or you don't want to pay the price for long stock in 100 share increments, you can use a **synthetic covered call** (more in a minute)

Covered Calls

- A covered call is when you write a call versus every 100 shares of a stock you own to help amplify the yield
 - Example: An actual **SPDR S&P 500 ETF (SPY)** covered call trade on Oct. 31st
 - Purchased 1,125,000 shares of SPY at \$272.55
 - Sold 11,250 November 30th 279 calls for \$2.86 (collecting \$3.2 million)

Covered Calls

- Payoff scenarios

- **Scenario 1: SPY is at \$272.55 on November 30th**

- Stock gains = \$0
 - Option gains = \$3.2 million (1 month)
 - Return = 1% (premium/long stock), monthly = 1%, yearly = 12%

- **Scenario 2: SPY is at \$279 or higher on November 30th**

- Stock gains = \$7.3 million (\$6.45 move x 1,125,000 shares)
 - Option gains = \$3.2 million
 - Return = 3.4% (appreciation + premium/long stock), monthly = 3.4%, yearly = 41%

- **Scenario 3: SPY is at \$269.69 on November 30th**

- Stock loss = \$3.2 million (\$2.86 move x 1,125,000 shares)
 - Option gains = \$3.2 million
 - Return = 0%
 - Any lower price would result in a loss

Covered Calls

- **Results!**

- SPY closed on November 30th for \$275.65
 - The trade earned \$3.5 million on stock appreciation
 - The trader also collected the \$3.2 million in call premium
 - Total gains \$6.7 million
 - **That's a 2.2% in just one month or 26.4% annualized**

Synthetic Covered Calls

- Synthetically, you can make the same trade by purchasing a deep in-the-money SPY call versus the short call (the 279 strike)
 - The SPY 80 delta call (around the 259 strike at the time) costs around \$16.50, or \$1,650 for 1 contract (same as 100 shares)
 - 100 shares of SPY cost roughly \$27,000
 - You pay 6% of the cost and the call spread functions almost exactly the same as a covered call
 - Primary differences are no dividends and different tax considerations if you are dealing with long-term asset holdings

Covered Calls Results (30 Delta)

CMLviz.com TradeMachine

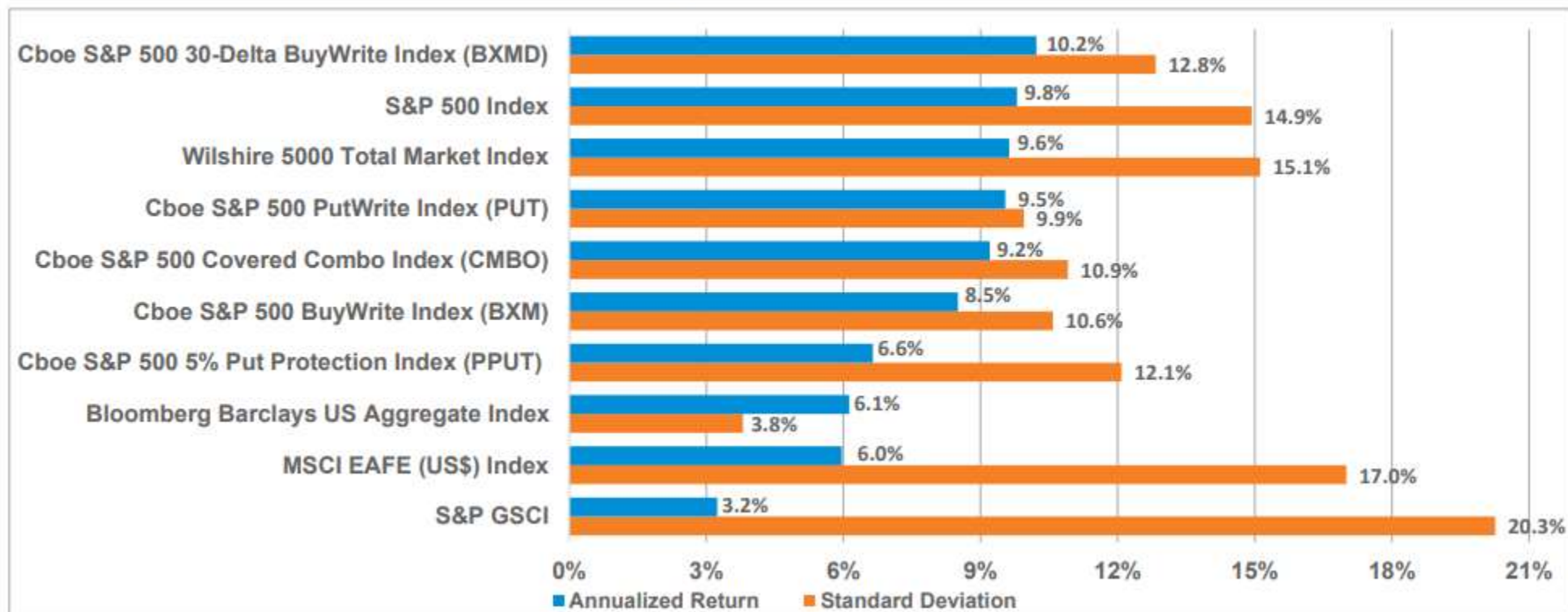
V: Buy Stock, Sell 30 Delta Call	GOOGL: Buy Stock, Sell 30 Delta Call	AAPL: Buy Stock, Sell 30 Delta Call	KO: Buy Stock, Sell 30 Delta Call	NFLX: Buy Stock, Sell 30 Delta Call
Expiration: None	Expiration: None	Expiration: None	Expiration: None	Expiration: None
<u>Risked:</u> \$26459	<u>Risked:</u> \$127K	<u>Risked:</u> \$62080	<u>Risked:</u> \$4956	<u>Risked:</u> \$66198
Total Return: \$39218	Total Return: \$137K	Total Return: \$69626	Total Return: \$3076	Total Return: \$181K
% Return: 148%	% Return: 108%	% Return: 112%	% Return: 62.1%	% Return: 273%
Commission: -	Commission: -	Commission: -	Commission: -	Commission: -
% Wins: 71.7%	% Wins: 67.3%	% Wins: 71.1%	% Wins: 68.5%	% Wins: 58.8%
Wins: 38 Losses: 15	Wins: 33 Losses: 16	Wins: 32 Losses: 13	Wins: 37 Losses: 17	Wins: 30 Losses: 21
Gain: \$50191 Loss: -\$10973	Gain: \$221K Loss: -\$83821	Gain: \$159K Loss: -\$89568	Gain: \$4559 Loss: -\$1483	Gain: \$302K Loss: -\$121K

5 years back
45 day holding period
Held to expiration
No stops for gains/losses
No earnings/No dividends

The Power Of Overwriting

Annualized Returns and Standard Deviations

June 30, 1986 - December 31, 2018

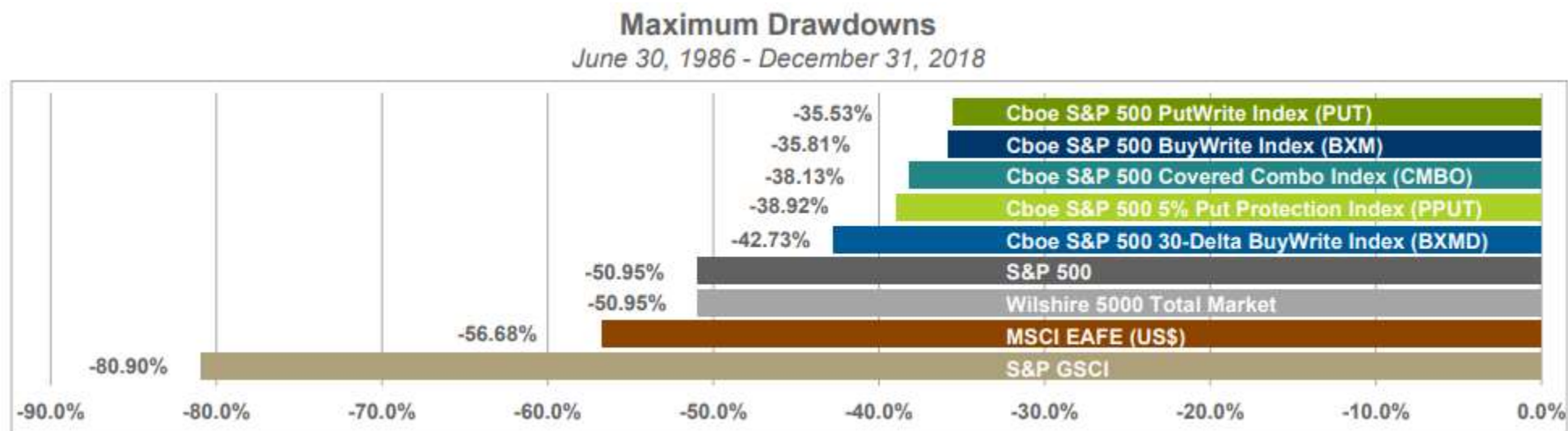


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The Power Of Overwriting



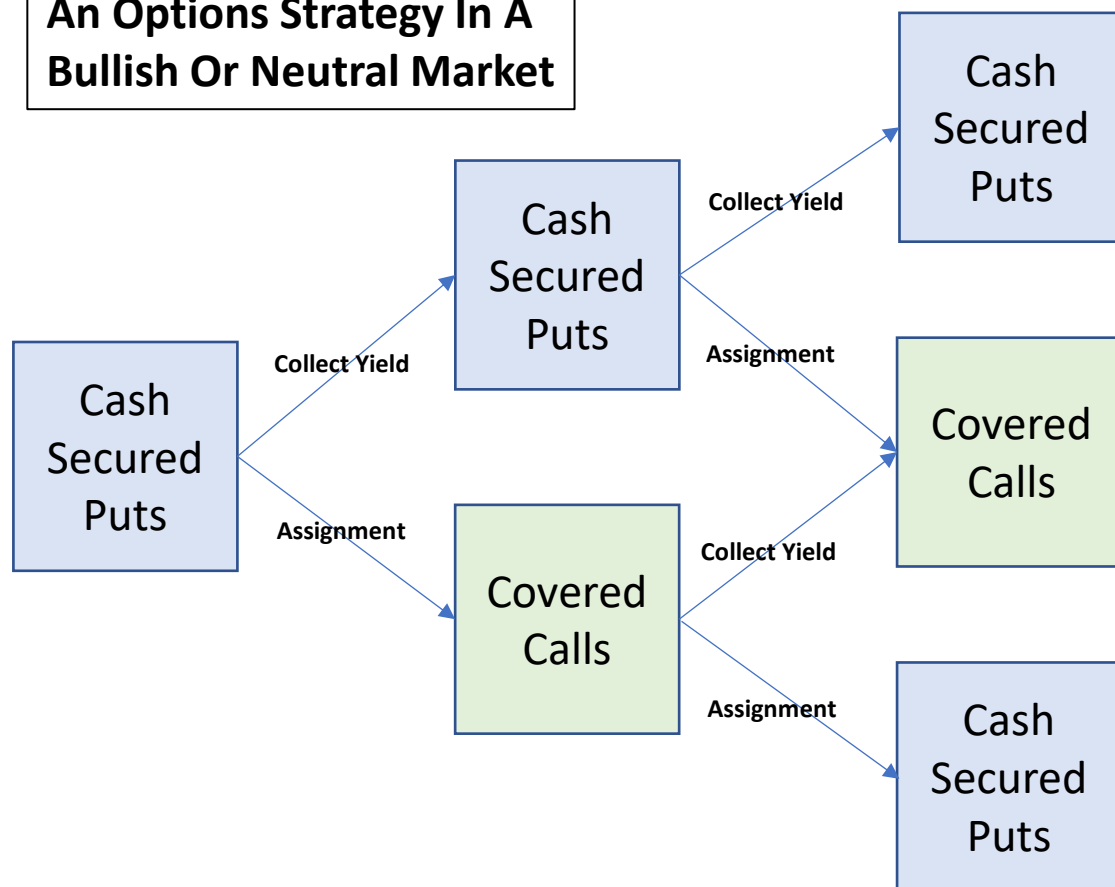
Wilshire Analytics

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An Options Trading Roadmap

An Options Strategy In A Bullish Or Neutral Market



Alternatives

No dividends/Lower
Capital Cost

Synthetic
Covered
Calls

Volatile Markets
(Directional trades
or hedges)

Vertical
Debit
Spreads
(Call or
Put)

Bonus Trading Tips!

- **Six tips to improve your success rate:**
 - Trade liquid options – bid/ask spreads are narrow
 - Look at the tape – big trades (block trades) generally come from savvy sources
 - Option Sentiment (calls versus puts) can be a useful directional indicator
 - Check out Marketchameleon.com
 - Timing a direction is always tough but sentiment can help you determine when a change may be coming
 - Don't trade "teenies"
 - If an option costs over \$1.00, use a vertical spread to reduce the cost (if you are buying)
 - Use my checklist when placing trades!

Summary

- Use cash-secured puts to enter into long stock positions
- Once you are long stock, you can use covered calls to increase your yield
- You can develop an options trading roadmap using cash secured puts and covered calls almost exclusively
- Remember the six tips for options trading success

Options Floor Trader Pro

- Long-only options service
 - Trades calls, put, straddles, and strangles
- Potential for large returns on individual trades
- Defined and limited risk
- Bi-weekly newsletter, with a new trade each issue
- Education section in every issue
- 1-year full refund period
- Very good way to get started with options
- Physical and digital trading checklist

Q&A

For more information and to get a copy of this presentation:

1. Sign up with your name and email on the clipboard being passed around
2. Come see me afterwards and get my business card
3. Don't forget, you can go to www.Optionsfloortrader.com for more information on my trading service or see one of my colleagues here today