Disclaimer

- Today's webinar is for educational purposes only.
- Nothing in today's presentation should be considered a recommendation to buy or sell any security.
- All stocks and options shown are examples only
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- Stocks and options involve risk and are not suitable for all investors and investing in options carries substantial risk.
- Past stock or option performance is no guarantee of future price appreciation or depreciation.
- Prior to buying or selling options, a person must receive a copy of Characteristics and Risks of Standardized Options available at:http://www.cboe.com/Resources/Intro.aspx.

InvestorsObserver

Workshop

InvestorsObserver Workshop

- Charts
- What Else is Happening?
- Hot Right Now
- Member-driven content: Questions, site demonstrations, etc.
    - Can prepare slides for questions submitted ahead of time: Mention “workshop”

S&P 500

S&P 500
One Year

NASDAQ

Nasdaq
One Year

Russell 2000

Russell 2000
One Year

S&P 500 vs. Equal Weight

One Year

Growth vs. Value

VTV vs. VUG One year

Hot Right Now

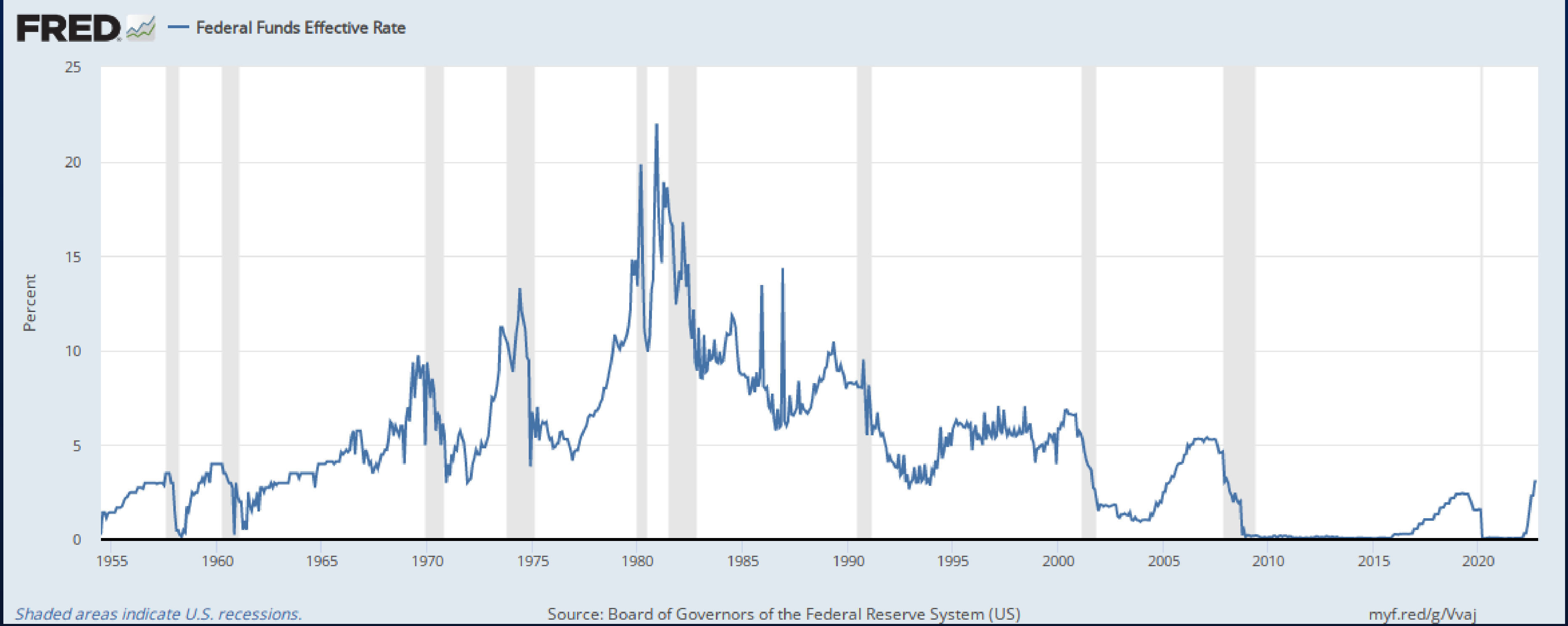
- Energy
  - Thermal Coal
  - Oil & Gas Drilling
  - Oil & Gas E&P
- Utilities
  - Independent Power Producers
  - Regulated Gas
  - Diversified
- Basic Materials
  - Paper & Paper Products
  - Coking Coal
  - Steel
- Consumer Defensive
  - Confectioners
  - Food Distribution
  - Tobacco
- Industrials
  - Infrastructure Operations
  - Airports & Air Services
  - Conglomerates

What the Fed Said

"The Committee anticipates that ongoing increases in the target range will be appropriate in order to attain a stance of monetary policy that is sufficiently restrictive to return inflation to 2 percent over time. In determining the pace of future increases in the target range, the Committee will take into account the cumulative tightening of monetary policy, the lags with which monetary policy affects economic activity and inflation, and economic and financial developments."

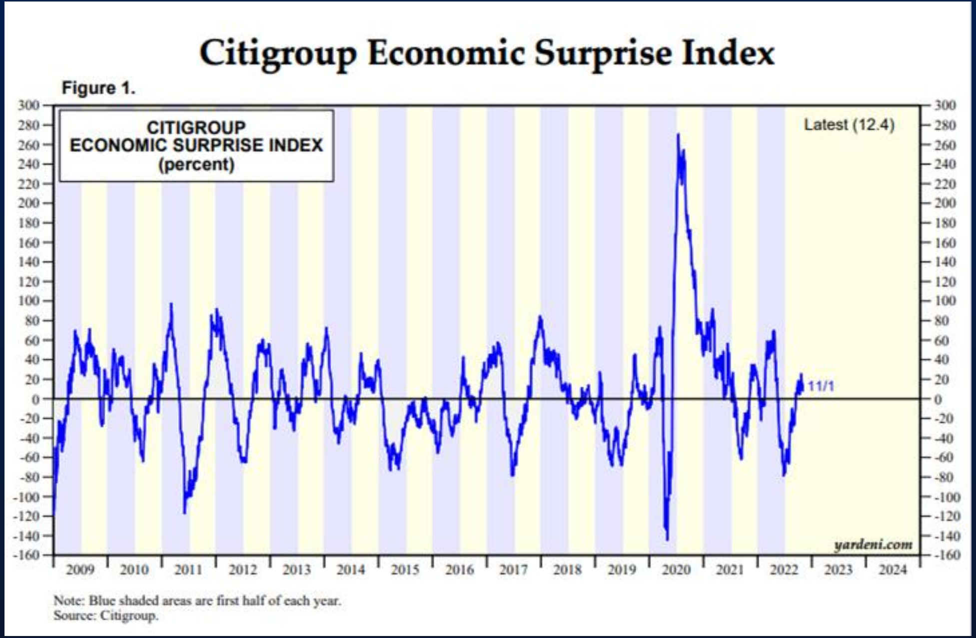
- This is the big takeaway from the statement. Market's reaction was that this was signalling some kind of "pivot".
- Seems to be setting the table for smaller hikes going forward, trying not to paint themselves into a corner.
- Powell said in press conference he'd rather miss by going too high than easing too soon.
- Also said terminal rate (ultimate peak for this cycle) to be higher than previously estimated

Interest Rates in Context



What Else is Going On?

- Economic Data Generally Pretty Good
    - JOLTS better than expected
    - Lots of other measures also edging out estimates
    - Inflation remains high, but composition is changing
- Earnings have generally been pretty good
    - Lots of low estimates
    - Advertising-driven businesses seem to be the biggest weak spot.
- Developments in China will be interesting
    - Chip controls
    - TikTok



Questions?

How are you calculating the target return on a spread. Please use today's KKR bull-put spread in an example calculation (this suggested trade was emailed today)

–Scott

The technicals for KKR are bullish with an upward trend. It has support around $45.00. The stock is trading up today at $50.45. Look at the Jan $35.00/$40.00 bull-put spread for at least a $0.25 credit. This trade has a target return of 5.26% and the stock has to fall 20.71% to cause a problem.

- Target return is profit divided by amount at risk.
- Target profit is $0.25.
- Amount at risk is the strike width, less the credit. 40 - 35 - 0.25 = 4.75
- .25/4.75 = 5.26%

Questions?

Does it ever make sense to close a BPS (or one of the legs) when the stock price greatly exceeds, i.e., 40%, the sold leg?

For instance, a CAT November 145/150 BPS set up for .46 in October. With CAT over $200 would it make sense to sell now or to wait until expiration? –Jim

- Absolutely. You can close the trade now for some negligible debit. Giving you most of your target profit with a little more than two weeks left.
- This raises the annualized return, and frees up capital that can be reinvested ahead of schedule.
- I would probably look at the debit to close the trade, as opposed to the level of the stock.
    - Another consideration would be fees on closing.
    - Getting out a day early and paying fees probably doesn’t make a ton of sense.

Questions?

What is a delta neutral strategy? Some option house seems to devout on this type option in the 1990s. Is this an outdated strategy.   –Thomas

- Delta is the amount of price change in a derivative for a change in the underlying.
  - A Delta of 1 means the derivative will gain $1 for every $1 gained by the underlying
  - A Delta of .5 means the derivative will gain $0.50 for every $1 gained by the underlying
- A Delta neutral strategy is just a strategy that has a Delta of 0
  - A long stock position has a Delta of 1, a short stock position has a Delta of -1
- This ends up being a market-neutral strategy (long and short positions canceling each other out)
- The reasons to use this kind of strategy are
  - Take advantage of time decay
  - Bet on a decline in Implied Volatility
- There are other ways to take advantage of time decay… Covered calls, spreads, etc.
- Shorting Implied Volatility is pretty esoteric (also a bet that the market is wrong)
- These strategies take a lot of management, which costs you time, and probably some fees
  - If the underlying moves, you need to adjust your position to keep it delta neutral.
    - Fine for hedge funds or someone doing automated trading
    - A real pain for individual investors

Questions?