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
- Any pricing or potential profitability shown does not take into account your trade size, brokerage commissions or taxes which will affect actual investment returns.
- 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

IO

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

10

NASDAQ

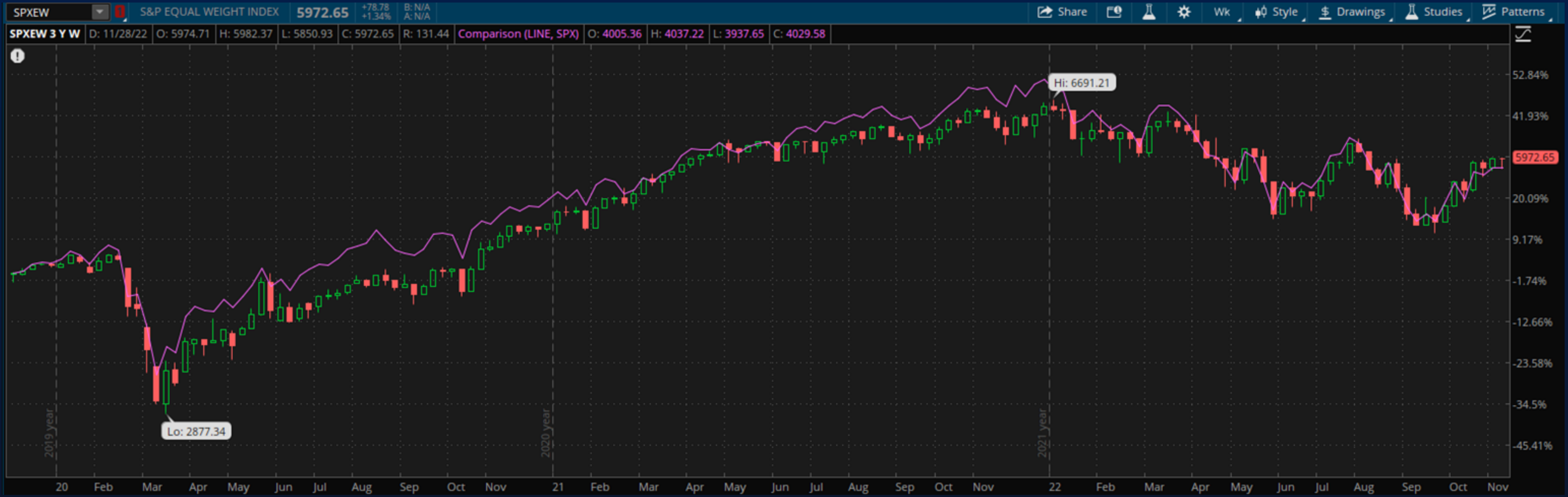
Nasdaq
One Year

Russell 2000

Russell 2000
One Year

S&P 500 vs. Equal Weight

Three Years, Weekly Candles



S&P 500 vs. Equal Weight

One Year, Daily Candles

IO

Growth vs. Value

VTV vs. VUG Three Years Weekly Candles

10

Growth vs. Value

on year

Hot Right Now

- Energy
  - Thermal Coal
  - Oil & Gas Drilling
  - Oil & Gas Midstream
- Utilities
  - Regulated Gas
  - Regulated Water
  - Independent power Producers
- Consumer Defensive
  - Confectioners
  - Food Distribution
  - Tobacco
- Industrials
  - Infrastructure Operations
  - Airports & Air Services
  - Conglomerates
- Basic Materials
  - Coking Coal
  - Lumber & Wood Products
  - Copper

What Else is Going On?

- Federal Reserve Still in the Driver's Seat
  - Really it's what the market thinks the Fed thinks
  - Inflation seems to be slowing
  - Fed hinting that the big rate increases are (likely) done.
  - Probably several more hikes to come, but 50 bps or 25
- Economic Data Generally Pretty Good
  - Employment and PCE at the end of this week
  - Lots of measurables remain pretty strong
  - Survey-based reports tend to be noisier and less reliable (consumer sentiment)
  - Housing market is broken, but homebuilders are generally OK
- Earnings largely better than expected
  - Lots of low estimates
- Holiday shopping seems strong, if not lights out.
- Developments in China will be interesting
  - More reopening could push some commodity prices higher
  - Might help push down the cost of some finished goods

Questions?

When trading, especially short term, it always makes sense to establish stop losses and risk/reward limits. Aside from studying Q reports and doing other homework, are there similar guidelines or risk/reward limits that would apply to long-term investing?
–Scott

Stop losses and position limits are both ways to manage risk.
In the short term, risk is caused by volatility, the short-term fluctuations in price that happen from day to day, or even minute to minute. Things can move around a lot in the short term, and short-term traders are trying to catch one side of that, while limiting exposure to the other side.
Since all of these things are designed to be held for a short period of time, stop losses and risk/reward limits make a lot of sense, you're trying to be on which way the stock will move, and you want to limit the damage when you're wrong.

Long-term investors also need to manage risk, but they're playing a different game. They're not worried about if a stock goes up on any particular day. They just want a stock that goes up more than it goes down, over some longer time frame. They're not really betting on the moves of a stock, they're betting on the performance of a company.
Things like stop-losses don't make sense here. Long-term investors often do the opposite, buy more when something goes down. This is called dollar-cost averaging.
You do want to limit risk here, but you do it in a different way. Things like position sizing and asset allocation.

- Position sizing: Keep your riskier bets relatively smaller than your safer ones.
- Asset Allocation: Keep track of how much of your portfolio is made up of those smaller bets.
  - A lot of small bets tends to be safer than one large bet
  - A portfolio of lottery numbers has a higher chance of winning than a single number, but that doesn't make it a sound investment

Questions?

How and where on your site, do I find most profitable and probable short term option trades? – Dinkar

- Personalized trades:
  - Right on the Options Dashboard
  - Up to three trades per day
    - Three strategies: Covered calls and short puts, Diagonal Spreads, Vertical Credit Spreads
    - Three Styles: Conservative, Balanced, Aggressive
- Screener:
  - Can dial in exactly the trades you want.
  - Key Ratings: Safety/Defensibility of the option trade
  - Overall Rank: Evaluation of the Stock
    - For short-term trades you may want to look at Sentiment, or Short-Term Technical
  - Days to Expiration
  - Downside protection
  - Moniness
  - Probability of Assignment.

Questions?

I often trade options based on many of your daily Featured recommendations (i.e Conservative Covered Calls, Verticals, Diagonals etc). In addition, your Personalized option recommendations. Sometimes when the market opens there is a significant rise or drop to the overall market, or to one or more of the recommendations before I have a chance to make the trade. Would you recommend adjusting the recommendation accordingly (based on the market direction or individual stock direction) or just not place the trade? –Jeff

- In MOST cases, adjusting is fine.
  - Typically we say, find an option with the same expiration that has either the same relationship to the stock price (3% OTM…) or the same premium (these should be roughly the same option)
- The exception to this if there's something specific to that stock, or the stock is doing something different from the market.
  - If the stock is down because of bad news specific to the stock
  - The stock is down and the rest of the market is up

Questions?

When you make a trade and either some, or all of the position begins to go sideways, do you have a preset exit strategy? If so, is it based on percentage lost, dollar amount lost, time remaining until expiration. I'd just like to get a better understanding on what factors to use in assisting me to get out of a position that is not behaving, versus giving it more time to possibly recover. –Jeff

- Don't have a rules-based approach.
    - Time remaining to expiration certainly dictates more actions than anything else.
        - In covered calls or diagonal spreads, we can roll calls, especially short-dated ones
        - For longer trades, take a more wait-and-see approach.
- For a big move:
    - Consider buying back the sold option for Covered Calls and Diagonals
        - These trades are short the value of those options, if the underlying falls, the option price will go down to.
        - This leaves you with more options if the stock starts to rise.
- What we do consider:
    - Why is the stock down?
        - Something specific to the stock, industry or sector?
        - Generally bad market?
    - How likely is it to come back fairly soon?
        - Hard to predict a bear market, but do you still like the stock?

Questions?