Income Generation with Options 2017

Tradingfloor "Trade Views"

Description

***Investment Objectives*:**

- ✓ To generate consistent **profits** (premium) to the portfolio through sale of OTM credit spreads (verticals and iron condors) on below mentioned instruments
- ✓ The objective of the portfolio further seeks to outperform the benchmark S&P 500 on annual basis, using more *directional* trades (vertical spreads)

Market Outlook:

- ✓ Market conditions will be reviewed ongoing basis and taken into account when trading - *dynamic management of Greeks,* depending on the market assumption *Neutral/Bullish/Bearish*

Time Horizon:

- ✓ Use of short/ mid-term options (min 20 days) in expiration. Weekly options could be employed

***System*:**

- ✓ Income generating strategies
- ✓ Occasional directional strategies for capital growth
- ✓ Using one, two and four-leg options strategies with ITM/OTM/ATM strikes

Options Strategies	
Long Call Spreads	Short Call Spreads
Long Put Spreads	Short Put Spreads
Long Callendar Spreads	Iron Condors
Long Diagonal Spreads	Covered Calls/Collars
most actively used: vertical spreads	

Risk Management:

- ✓ Implementing a basket of eight (8) actively traded and liquid options of exchange-traded funds (ETFs) with little or no correlation, occasionally options on indices will be used SPX, VIX, RUT
- ✓ Offering distinct seven (7) distinct risk-defined options strategies
- ✓ Pre-defined risk on ALL strategies of maximum 2%
- ✓ Trades are initiated around maximum loss (2% risk) of account value
- ✓ Depending on the strategies used (credit spread) adjustments (rolling) will be made the week of expiration
- ✓ No stop losses
- ✓ No uncovered call/put positions

Portfolio and Investment Methods

Traded Instruments

Instrument	Desription	Symbol	Beta
SPDR S&P 500 ETF	*Exchange-traded fund (ETF) that tracks the S&P 500 Index.*	SPY	1
CurrencyShares Euro Trust	*The trust is designed to track the pirce of the euro*	FXE	0.26
SPDR Gold Shares	*The trust reflects the perfomarmance of the price of gold bullion*	GLD	-0.05
United States Oil Fund	*tracks the price of WTI Crude in percentage terms*	USO	1.05
IPATH S&P 500 VIX	*Based on performance of VIX Futures*	VXX	-4.7
Ishares China Large-Cap	*The fund tracks FTSE China 50 Index*	FXI	1.28
Ishares Russell 2000	*Tracking the performance of the mid and small-cap stocks of the RUT*	IWM	1.28
Ishares 20+ Year Treasuries	*Tracking the US treasuries 20+*	TLT	-0.58

- In certain market conditions, volatility is low; options on cash indices will be preferred and mid/large cap stocks. All US-listed.

Portfolio Manager:

- ✓ *Georgio Stoev*, Futures and Options Product Manager at Saxo Bank A/S
- ✓ Previously with equities/options broker in the US with focus on retail and institutional client trading

Strategy Parameters:

- ✓ Trade ideas on exchange-traded options products for retail and institutional clients
- ✓ These include – Index ETF’s, Commodity ETF’s and Fixed Income ETF’s and Currency ETF’s
- ✓ Income-seeking strategies
- ✓ Leave the directional bias
- ✓ Credit spreads with probability of short leg expiring OTM of at least 70%-80% or a contract that has a delta of 0.20-0.30
- ✓ Allowing for more volatility with strike price selections

Methods of Analysis:

Methods of analysis are charting, fundamental, technical, cyclical and probability

- ✓ Charting Analysis – gathering and processing of price and volume information for a particular underlying.
  Risk: Chart may not accurate predict future price movements
- ✓ Fundamental Analysis – using top down approach of analysis in market, industry group and the particular individual company or ETF
  Risk: The information obtained may be incorrect
- ✓ Technical Analysis – involves studying price patterns and trends in the financial markets
  Risk: The risk of market timing based on technical analysis is that charts may not accurately predict the futures price movements.
- ✓ Cyclical – economic/business cycles
  Risk: The economic cycle may be difficult to predict with accuracy
- ✓ Probability Analysis – determining through calculations and analysis the statistical likelihood of an options exceeding, falling or below upper and lower boundary prices. Probabilities can be computed for a certain time frame or specific point, we use third party analytical platforms to calculate "Probability of Expiring" (specific date) and "Probabilities of Touching." These probabilities are used in construction of our "trade views" using options in equities, ETFs or Index. We look for favorable probabilities based on volatility, price and time to expiration.
  Risk: Probability Analysis may not accurately predict future price movements.

Investment Strategies:

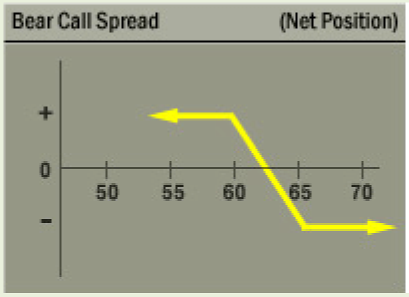
- ✓ Vertical Spreads – the strategy is a defined-risk option strategy that looks to take advantage of slight market moves in one particular direction. The "Trade Views" will use both vertical call spreads and vertical put spreads on individual stocks, ETFs and Indices with high liquidity and generally with moderate volatility. The spreads are "vertical" because the options are on the same underlying in the same expiration month but different strike prices.

  The "Trade Views" will focus 90% of the time on short vertical spreads that are out-of-the-money. Upon selling the vertical spread, a credit will be collected. The goal of the trade is that the underlying will remain in a narrow range so that the credit received upon initiation is retained. There are three out of four market situations where this type of trade can be successful.

  1) If the underlying is moving sideways for a period of time,
  2) If the underlying is moving up and down within a small range but not in one direction for an extended period of time
  3) If the underlying has a relatively large move but does not move above or below the short strike price of the short vertical call or put spread. At the same time, the strategy will not be successful if the market price has a straight line up or down move in one direction.

  Benefits/Risks – Client cannot lose more than the net premium paid for a long vertical spread. Potential gains in selling verticals are derived when the price of the underlying remains in a narrow trading range. Gains from buying a long vertical spread are generated when the underlying price moves in desired direction.

Risks of losing 100% of premium paid plus any commissions.



✓ <u>Covered Call</u> – the strategy is consisted of purchasing 100 shares of a mid to large capitalization stock, ETF or index-based ETF and selling a call on the 100 shares for credit.

The Covered Call is designed to profit in two different scenarios. Upon selling a call, the credit received effectively reduces the cost of the trade, thus reducing the overall amount of money risked on the trade. If the price of the underlying moves above the strike price of the call, the client may be assigned and the client will be obligated to sell the underlying at the strike price. This may result in a profit, as the client will keep the profit realized from selling the underlying at a higher price than was initially paid, as well as the initial credit received for selling the call (less commissions and assignment fees).

If the price of the underlying trades in a relatively narrow trading range and stays below the strike price, the strategy provides an opportunity to roll the call option from month to month (buying back the call and then selling further month call). That can lead to collecting of additional premium each month and further reducing the risk on the trade.

The strategy may be utilized when an investor believes the underlying will either move up or remain in a relatively narrow trading range over the life of the call option. There's a limited upside potential for this strategy, up to the strike price of the call. If the stock moves above the strike price of the call, the client likely will not keep the underlying shares as they will be called away and the client is obligated to sell the underlying at the strike price as described above. In addition, the strategy does not provide downside protection beyond the credit received when the call was sold, should the underlying lose significant value.

Suggested allocation will be for purchase of shares for less than $50, or a minimum of $5,000. The length of the strategy will typically be 20 to 60 days.

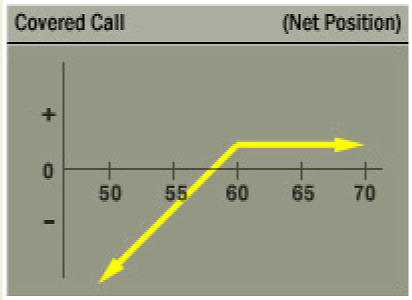
Potential Risks – The potential loss of up to 100% of the capital invested in the underlying (which could happen if the underlying stock drops to zero).

- The strategy is capital intensive since the client needs to buy a stock for cash.
- Potential gains will be reduced, or possibly eliminated, by commissions.

Potential Benefits – Client cannot lose more than allocated amount (less commissions or dividend risk)

- The possibility to receive dividend payments on the underlying stock

- Possibility to roll options to generate additional premium (income)



Covered call risk graph

✓ <u>Collar (Covered Call with Protective Put) Strategy</u>

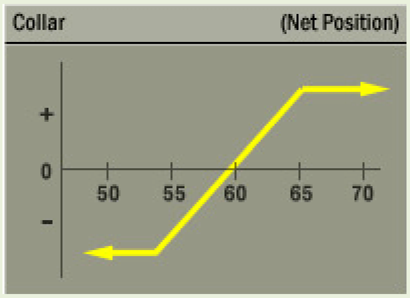
The “Collar” strategy involves three simultaneous elements:

1) Purchasing 100 shares of a mid-to-large capitalization stock, which may or may not be dividend paying, with high liquidity and medium correlation to market movements (beta); and
2) Selling a high-volatility option on those 100 shares , which results in collection of a credit; and
3) Buying a protective put on those 100 shares that defines the amount of risk in the overall position and guards against a large downward move in the price of the stock. (The protective put is typically placed about 10-15% out-of-the money. Therefore, guaranteeing that the trade will not result in 100% loss and should result in no more than 15%.

The collar will give clients the opportunity to roll option positions from month to month, thereby collecting additional premiums against the long stock and thus reducing the cost and risk of each trade.

Potential Benefits/Risk- client cannot lose more than the suggested allocation (not including commissions). Client can receive dividends and has the possibility to roll for additional premiums/income.

Risk- the potential of loss up to 15% if the underlying price drops down to zero. The strategy is capital intensive since the client has or needs to buy the shares for cash



The “flexible” Collar

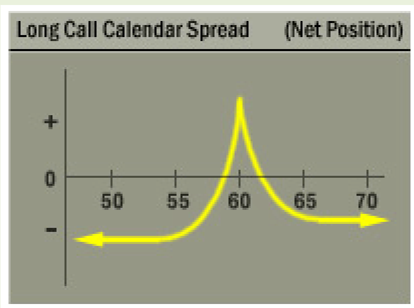
- ✓ Calendar Spread Strategy (long only) – the strategy involves simultaneous sale of front month option and the purchase of a back-month (further out month), at the same strike price, in the same underlying. It could be either a Call Calendar or a Put Calendar.

  The underlying investments will be exchange-traded funds (ETFs) based on major indices/markets (e.g. SPY, DIA, IWM, GLD, TLT) with high liquidity and medium correlation to market movements (beta).

  The position will always be initiated as a net debit whether it's a Call Calendar or Put Calendar. The short/long legs of this strategy need to be executed as one via a multi-leg order ticket (Saxo Trader).

  The strategy benefits when the underlying price trades at or near the strike price of the option position. As option expiration gets closer, the short option in the front month will decay (lose premium) faster than the long option in the far-term month. This would ideally provide an opportunity to buy the short option back for less than it was sold for and then either sell the long option back or collect additional premium by rolling the short strike to an additional expiration.

  Potential Benefits/Risks – Clients cannot lose more than the premium paid for the long calendar. Gains are possible when the underlying remains in a defined trading range and credits generated rolling the options exceeds the debit paid at inception. Risks of losing the original investment (net debit) could occur from large upside or downside movements in the underlying price.

  the Calendar spread

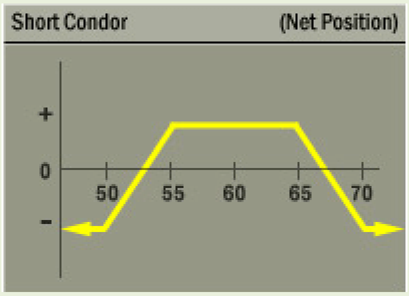
- ✓ Iron Condor Strategy – The "Iron Condor" strategy is an options strategy involving a single complex option spread. It is consisted of simultaneously selling out-of-the-money "vertical" call spread and an OTM "vertical" put spread, in the same month in the same underlying. The underlying security will be an ETF or Index such as SPY, SPX, DIA, QQQ, with high liquidity.

When setting up the Iron Condor, similar to the vertical spread execution, the strategy will seek a probability of 70-80% that the short call spread and the short put spread will not close in the money at options expiration. Only one side of the recommended trade can possibly close ITM since it is structured by means of vertical on the upside, and a vertical on the downside. The Iron Condor strategy is designed to profit when the underlying stays remains in a narrow trading range during the expiration cycle of the position.

Most of the ICs are designed to be market neutral, but depending on a number of factors there may be instances when there will be skew in one market direction or another.

Potential Benefits/Risks – Client cannot lose more that maximum loss (difference in strike prices in the vertical call or put spreads – net premium received). Gains are possible when the market remains within a defined trading range.

Risk – If the underlying does not remain in a narrow range during the options life cycle and closes above or below the strike prices of the vertical spread, the client will lose the difference described above.



Iron (Short) Condor

- ✓ Diagonal Spread and Double Diagonal Spreads – A diagonal spread is a strategy where an owner of a longer-term option (back month) sells a shorter-term option (call or put) in different expiration months, different strike prices within the same underlying instrument, e.g. stock, index, ETFs.

  Diagonal and Double Diagonal spreads are considered a complex strategy as it requires experience and more active management. An ideal market condition will be periods of short-term bearish/neutral view on the back of long-term bullish (long diagonal call spread). Double Diagonal is most effective during markets when the underlying either trades near short strike prices or experiences increase in volatility prior to options expiration.

  Double Calendar is the purchase of two Calendars, buying a call calendar above the strike priced of the underlying and buying a put calendar below the strike price of the underlying. By initiation these will be debit spreads.

  Potential Benefits/Risks –Client cannot lose more than the premium paid (net debit). Gains are possible when the trade remains in a defined range.

  Risks- Large moves either up or to the downside could potential result in a loss of 100% plus any commissions.

- ✓ Weeklys Strategy – the strategy seeks to employ use of weekly options or “Weeklys” (options expiration) with each option expiring every Friday of the month. Weekly options are listed every Thursday and expire on various Fridays outside standard monthly expiration.
  This could provide with some unique opportunities for clients to take advantage of news-driven market events, i.e. FED announcements, earnings and so on. These are also more experienced traders and will not be used actively.

Portfolio Size:

A portfolio of $20,000 will be employed in trading

Risk Disclosure

Prior to buying or selling an option, investors must read a copy of the Characteristics & Risks of Standardized Options, also known the options disclosure document (ODD). It explains the characteristics of exchange traded options. http://www.theocc.com/components/docs/riskstoc.pdf

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