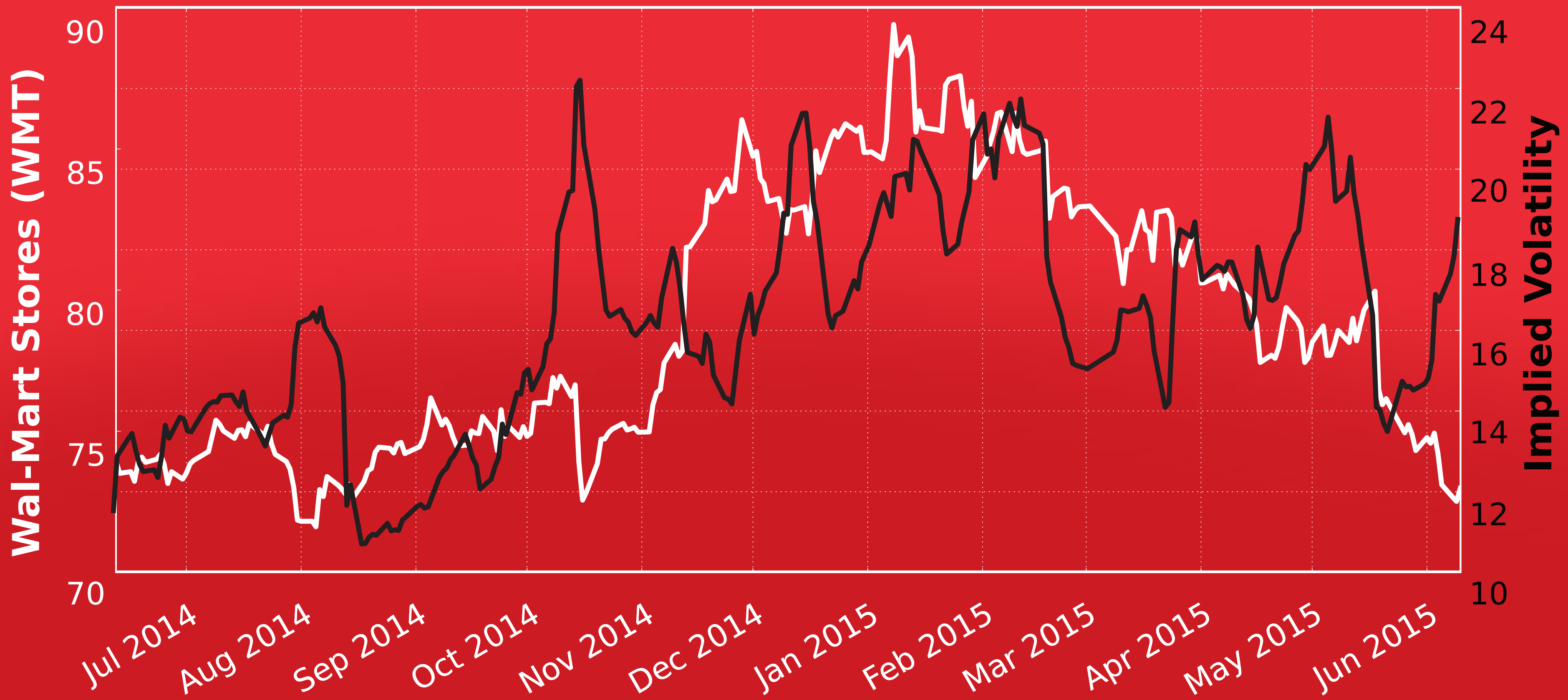
Wal-Mart (WMT) reached all time highs in January, since then it has seen a 20% decline over the past five months. This is a sizeable down move for a blue chip stock.

As a contrarian play, we are seeking some long deltas in Wal-Mart.



Wal-Mart Stores (WMT)
Implied Volatility
90
85
80
75
70
24
22
20
18
16
14
12
10
Jul 2014
Aug 2014
Sep 2014
Oct 2014
Nov 2014
Dec 2014
Jan 2015
Feb 2015
Mar 2015
Apr 2015
May 2015
Jun 2015

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Currently, the WMT Implied Volatility Rank is 71%. This allows us to execute a short premium strategy with a high probability of profit.

With a bullish assumption in WMT, we will look to enter a Laddered Calendarized Super Bull Strategy.

The Trade:

WMT is trading for $72.20

Buy Jul 70/72.5 Call spread & Sell Aug 67.5/70 laddered puts

Position	Quantity	Expiration	Price
70/72.5 Call Spread	+1	July	$1.58 db.
67.5 Put	-1	Aug	$0.69 cr.
70 Put	-1	Aug	$1.34 cr.
		Total	$0.45 cr.

Buy July 70/72.5 call spread & Sell Aug 67.5/70 laddered puts	
Directional bias	Bullish
Max profit	$295
Buying power reduction (BPR)	$2,355
Days to expiration (DTE)	30/65
Breakeven prices	n/a
Probability of profit (POP)	n/a
Max return on capital (ROC)	13%

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June 17, 2015

FOMC: Bet on Volatility, not Direction

With the FOMC meeting concluding later today, there have been a number market pundits that have been making their predictions.

While many believe that you should be paying attention to whether the Fed increases the Federal Funds Rate or not, does this really matter?

FOMC: Bet on Volatility, not Direction

Over the past five years, how has the market reacted around these meetings? Why are these mostly *non-events*?

FOMC: Bet on Volatility, not Direction

Deciphering how Fed policy will impact the market's direction can prove challenging. The mean reverting nature of implied volatility however, can give us an edge in a binary type event such as a Fed announcement.

To illustrate this, we sold a strangle in TLT and SPY (the day before the release of FOMC minutes) with roughly 1 week-until-expiration and also 45 days-until-expiration and examined the results.

FOMC: Bet on Volatility, not Direction

	Sold a 1 SD strangle in **TLT** (with less than 1 week-until-expiration) and held until expiration	Sold a 1 SD strangle in **TLT** (with 45 days-until-expiration) and held until expiration
Average profit/loss	$12.8	$33.5
Probability of profitable trade	85.4%	82.9%
Sum of profit/loss	$586	$1579

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* all FOMC meetings 2009 to present (47 observations)

FOMC: Bet on Volatility, not Direction

	Sold a 1 SD strangle in **SPY** (with less than 1 week-until-expiration) and held until expiration	Sold a 1 SD strangle in **SPY** (with 45 days-until-expiration) and held until expiration
Average profit/loss	$1.5	$35.7
Probability of profitable trade	82.3%	74.5%
Sum of profit/loss	$72	$1692

* all FOMC meetings 2009 to present (47 observations)

FOMC: Bet on Volatility, not Direction

Takeaways:

- Even if we were to know the outcome of the meeting, it would be difficult to predict the direction of the market – instead as premium sellers, we make money off of a retraction of implied volatility

- As with many binary events, implied volatility tends to overstate actual volatility (IV retracted after 63% of FOMC meeting with an average drop of 7% after the meeting)

FOMC: Bet on Volatility, not Direction