TRADING EDUCATORS SEMINARS PRESENTS

INSTANT INCOME GUARANTEED™

NEW DEVELOPMENTS AND MODIFICATIONS OF THE ORIGINAL METHOD

IMPORTANT MONEY MANAGEMENT ASPECTS TO TRADE THIS TECHNIQUE

TRADING EDUCATORS Joe Ross

MODIFICATIONS OF OUR INITIAL RULES

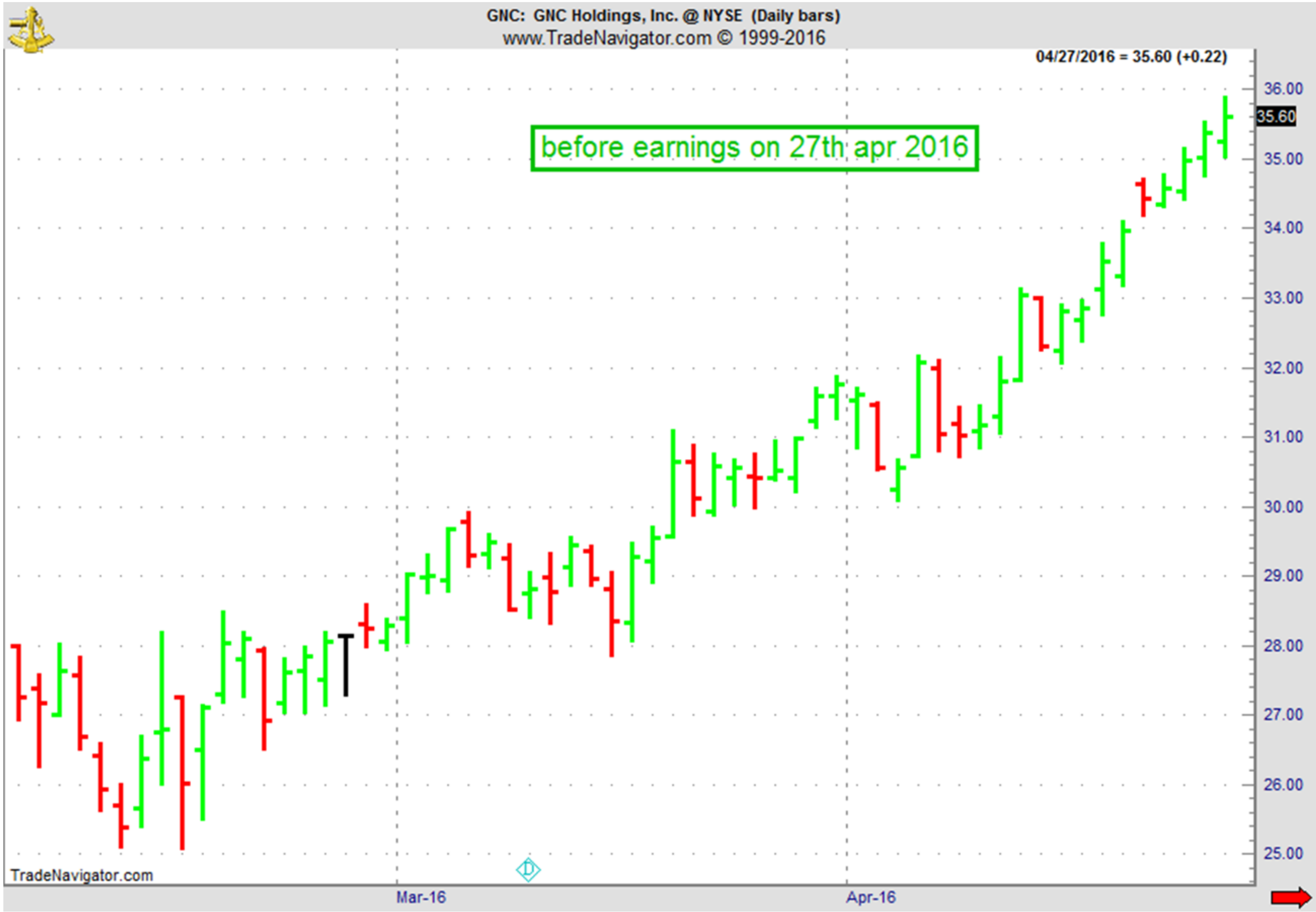
EARNINGS

We systematically avoid having earnings for the underlying stock before the expiry date of the put option we sell:

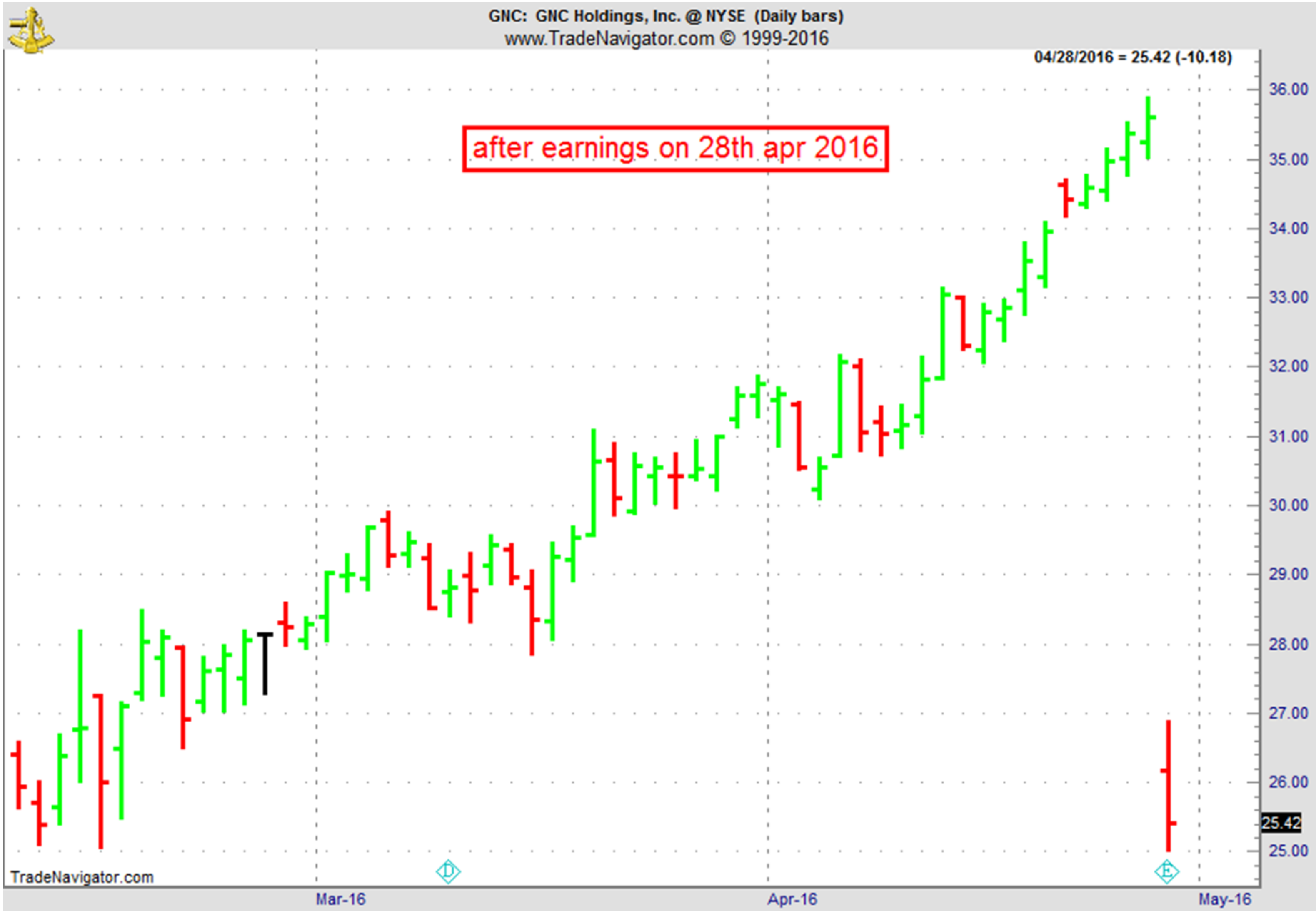
- Implied volatility is rising ahead of earnings, i.e. premium levels, therefore going against our positions, stock movement apart
- Moves can be pretty wild on earnings (see GNC example on next slides)

There is an exception to this rule however: when our short strike is well below price action, which means using further dated options. This is the case for our synthetic long positions, which will be presented later.

EARNINGS


GNC: GNC Holdings, Inc. @ NYSE (Daily bars)
www.TradeNavigator.com © 1999-2016
04/27/2016 = 35.60 (+0.22)
before earnings on 27th apr 2016
36.00
35.60
35.00
34.00
33.00
32.00
31.00
30.00
29.00
28.00
27.00
26.00
25.00
TradeNavigator.com
Mar-16
Apr-16

EARNINGS



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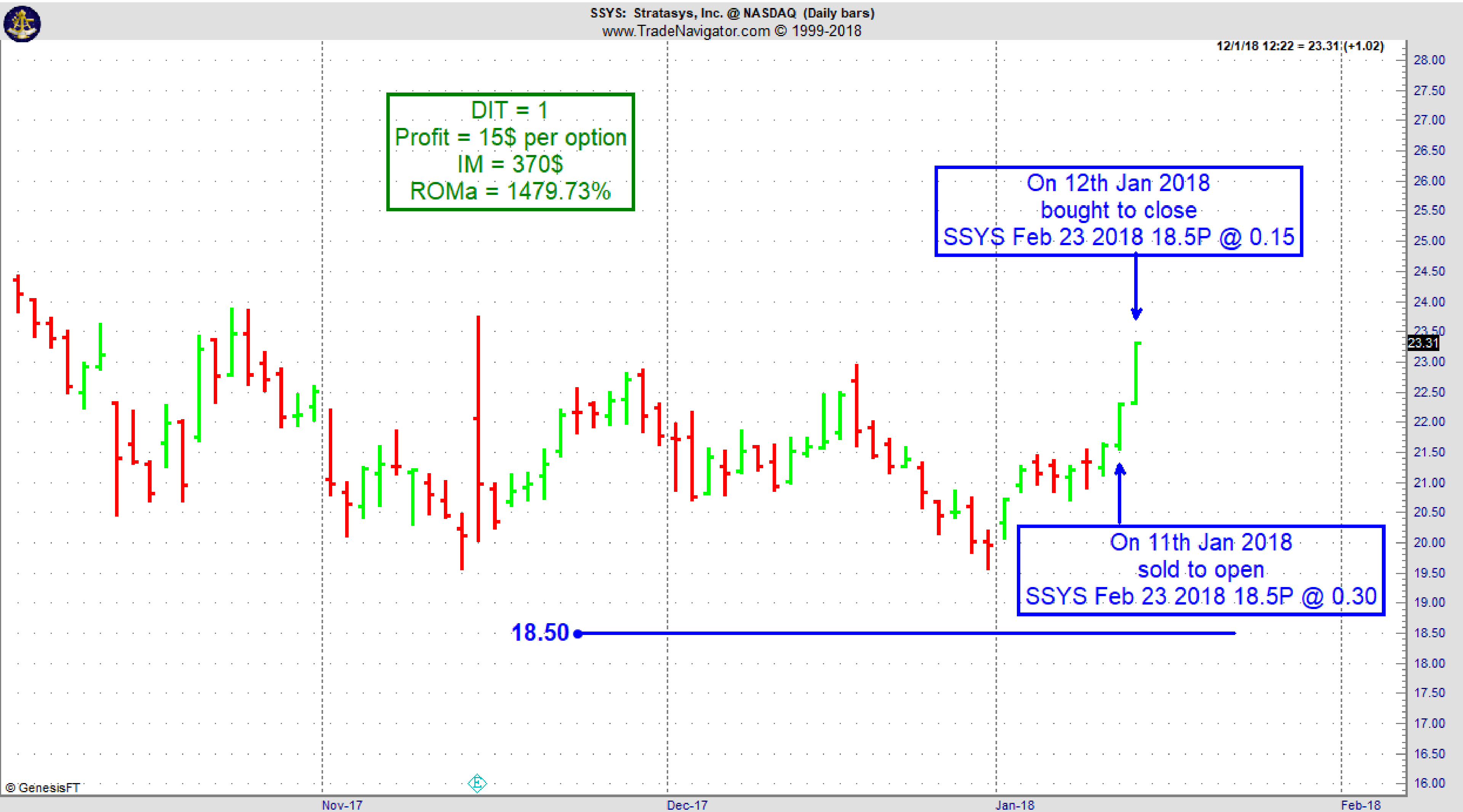
EXTENDED UNIVERSE OF STOCKS

We have **widened** our universe of stocks, including stocks (or ETFs) with monthly options only, and stocks without dividends at times.

The original list was far too limited in some cases.

Some of our nicest trades happened with stocks without dividends. In the next slides are a few examples (SSYS, LITE, QRVO, MU), with extremely high annualized returns on margin (ROMa), and very quick exits. Some of them are “growth stocks” that show strong momentum. To make the trades safer, we sell further out of the money than usual, and avoid earnings of course as always. We also recommend taking smaller position sizes for stocks with no dividends.

EXTENDED UNIVERSE OF STOCKS



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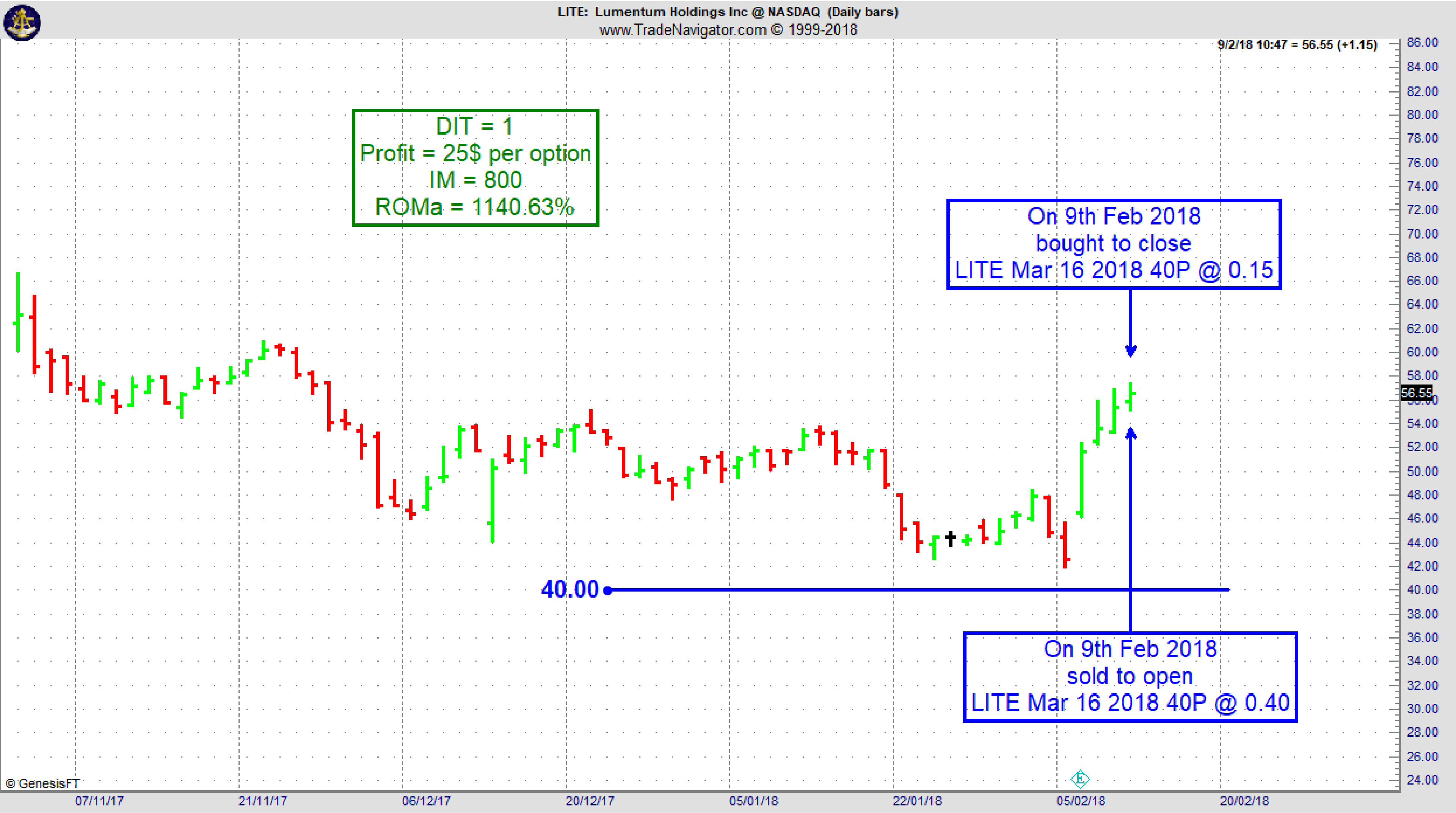
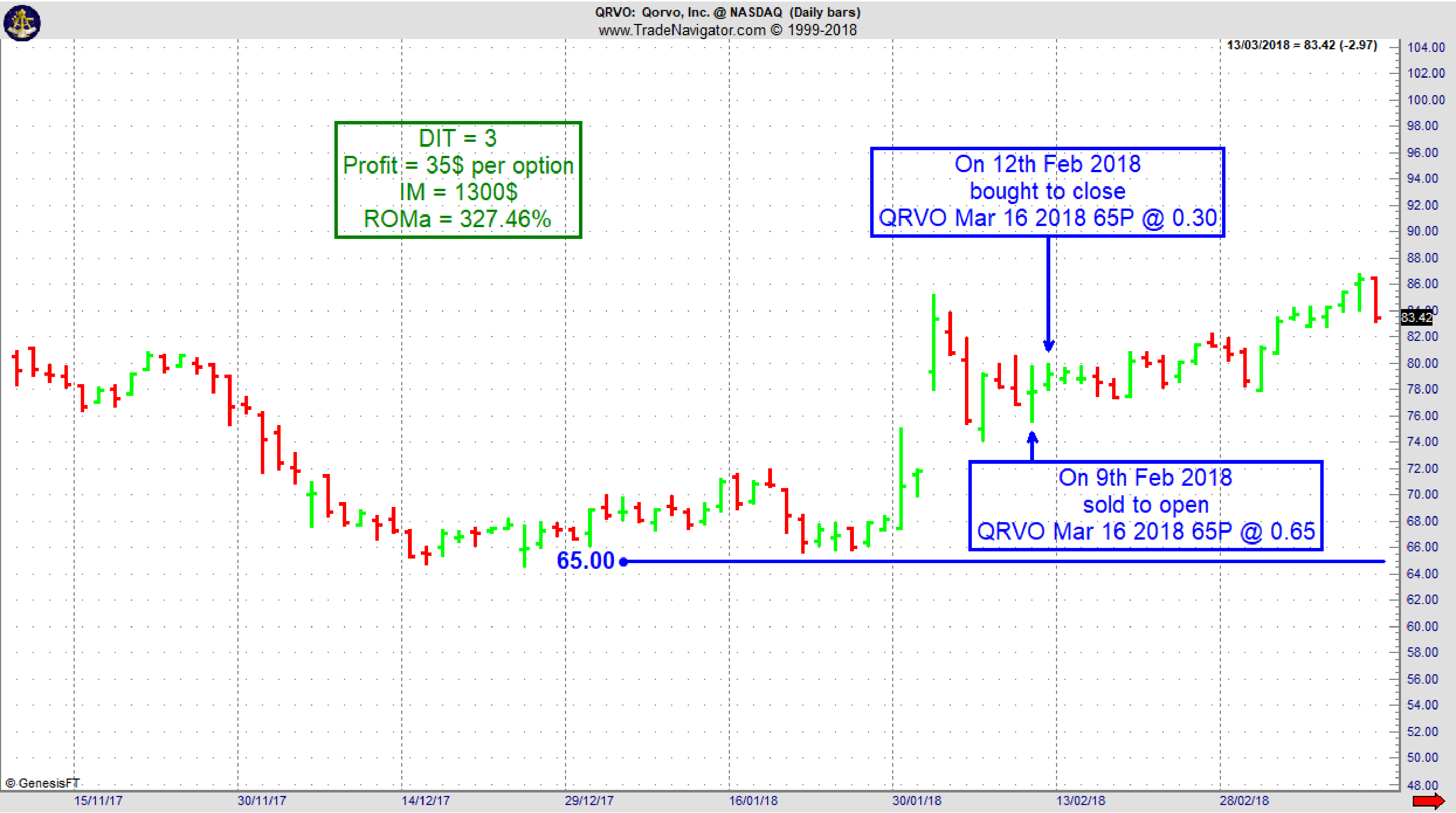
EXTENDED UNIVERSE OF STOCKS



EXTENDED UNIVERSE OF STOCKS



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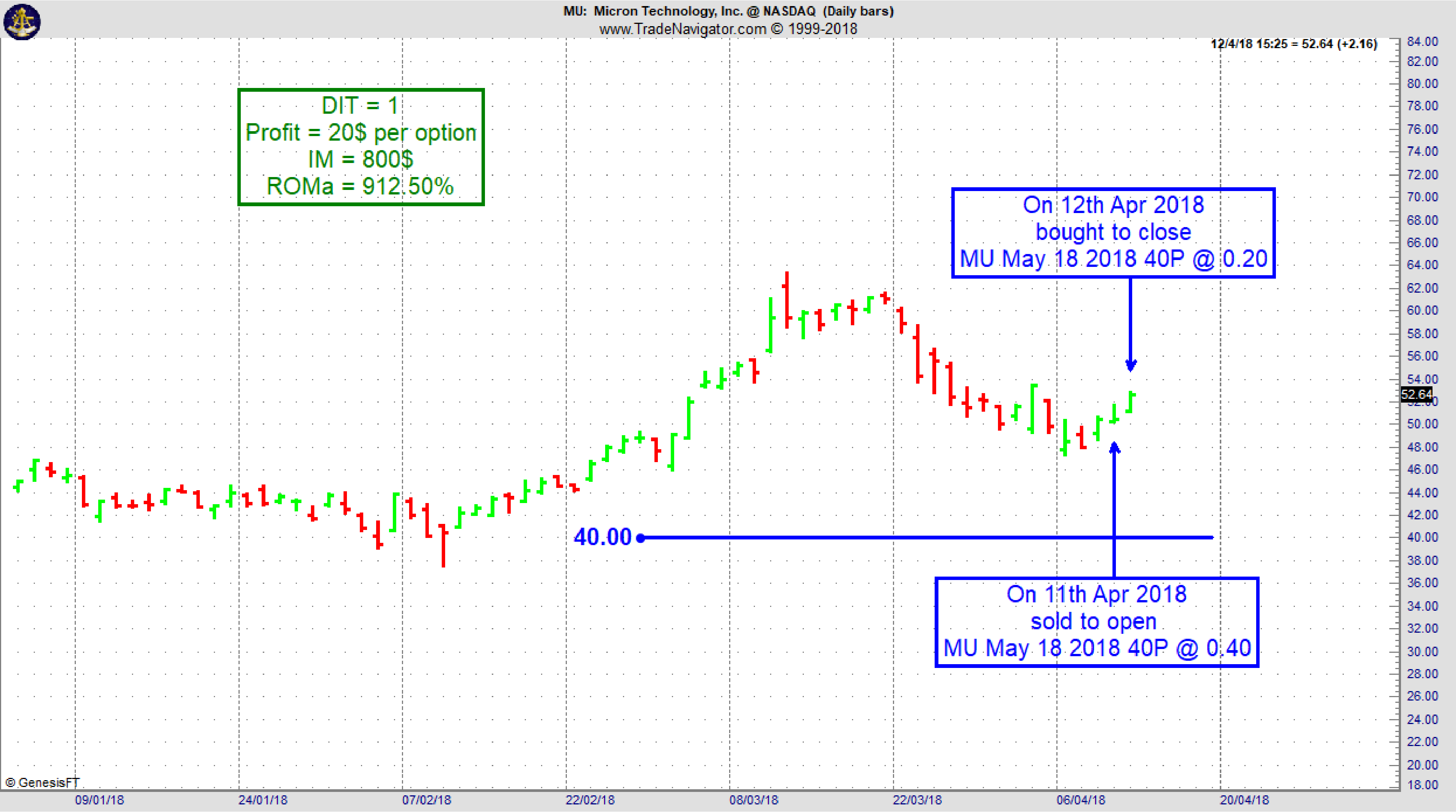
EXTENDED UNIVERSE OF STOCKS



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LIQUIDITY OF OPTIONS

It is quite frequent that we enter trades with pretty illiquid options, i.e. with very low or non-existent open interest.

This is not an issue:

- For entries, in these cases, we often manage to get “our price”
- For exits, there is always the market maker(s) to take the other side of our trade

On options with very low open interest however, it is advised not to take too big of a position size.

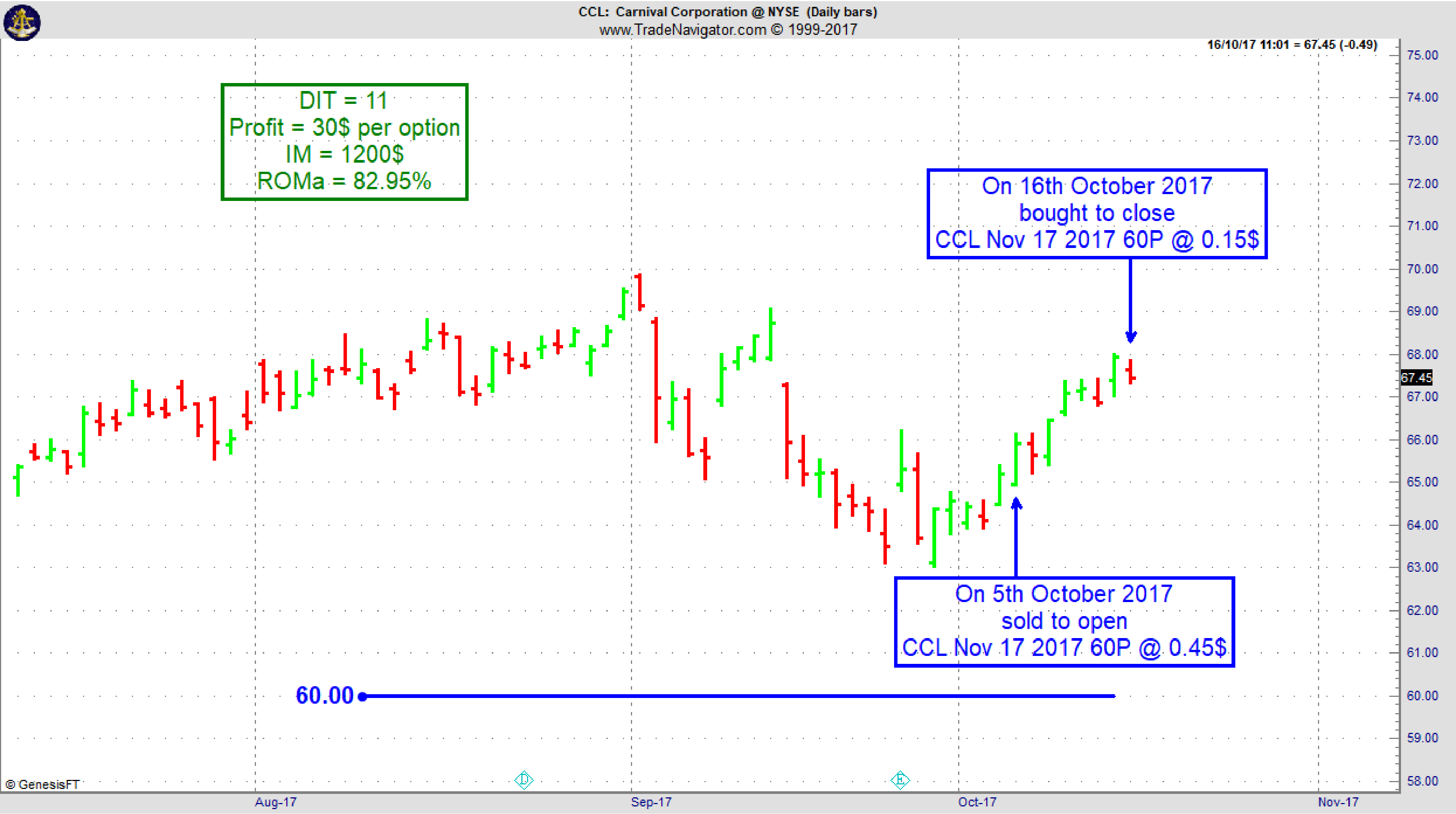
CAPITAL EFFICIENCY

Our initial rule was not to take any trade with a capital efficiency (ratio of net premium in $/short strike in $) lower than one, with our short strike at a safe distance from price action. We do try to get this minimum capital efficiency each time we can (with a buy to close price at 50% of the initial premium sold).

But in low volatility environments, this is not always the case, far from it. So we accept a capital efficiency of 0.50 minimum with a buy to close price of about 30% of the premium sold.

CCL, LUV, WY examples in the next slides with capital efficiencies lower than 1.

CAPITAL EFFICIENCY: CCL



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CAPITAL EFFICIENCY: LUV

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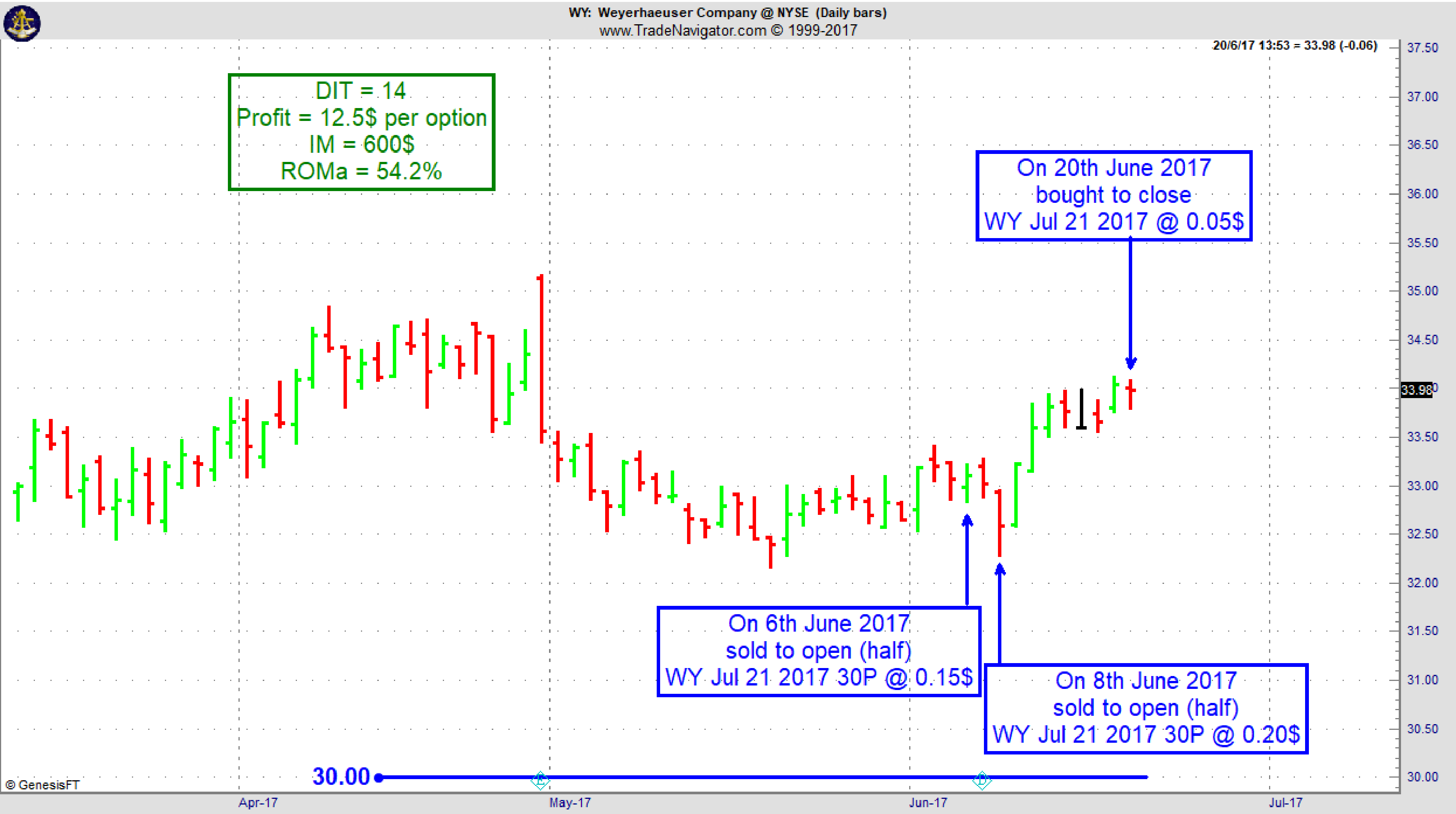
CAPITAL EFFICIENCY: WY



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OPTIONS EXPIRATION DATE

Our original rule was to sell put option with ideally about 40 to 45 days until expiration, with a maximum of 60 days.
However, in some cases, we can sell puts with more than 65 days until expiration, at very safe strikes, with higher capital efficiencies.
SBLK example on next slide.

With this variation, we stay longer in the trade (sometimes not much longer like in SBLK case), and accept going through earnings if we have to, owing to the much greater distance between price action and our short strike which can cope with wild post earnings moves.

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OPTIONS EXPIRATION DATE

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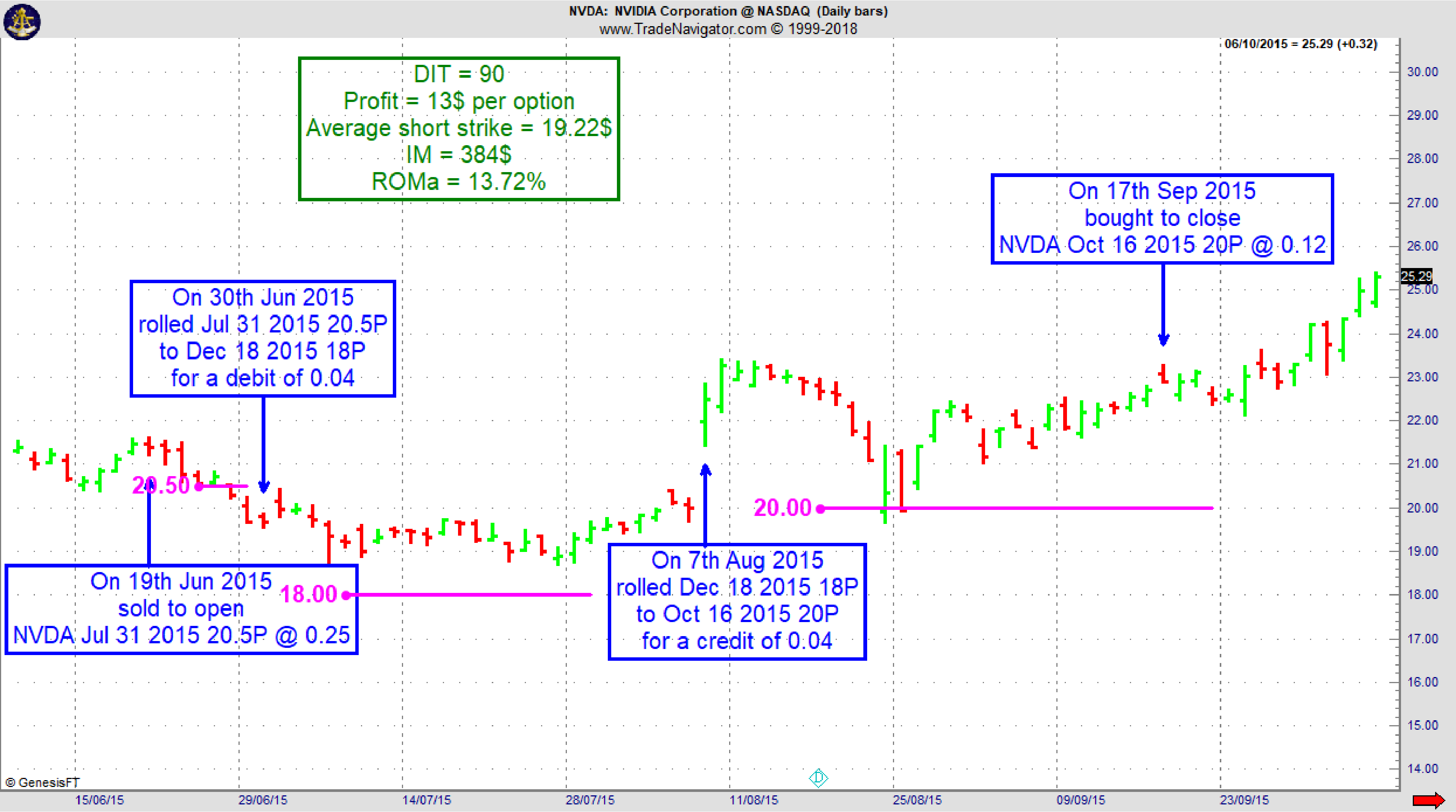
ROLLING

When we had a close of the underlying stock below our short strike, and the stock opened below it the following day, we used to roll out and down (and subsequently roll up when we could).
At times this went well (ex NVDA on next slide).
In other cases it took numerous rolls before closing the trade for a profit (ex DG).
In both cases our annualized returns were on the low side.
These days we prefer to roll into a short put for a stronger underlying stock, increasing our credit and getting much more downside protection right away. See TAP rolled into RIO example. In this case the annualized return on margin was much more attractive (39.53%).
These rolls tend to be more secure, with very low maintenance, even if they involve much more research initially.

ROLLING: NVDIA



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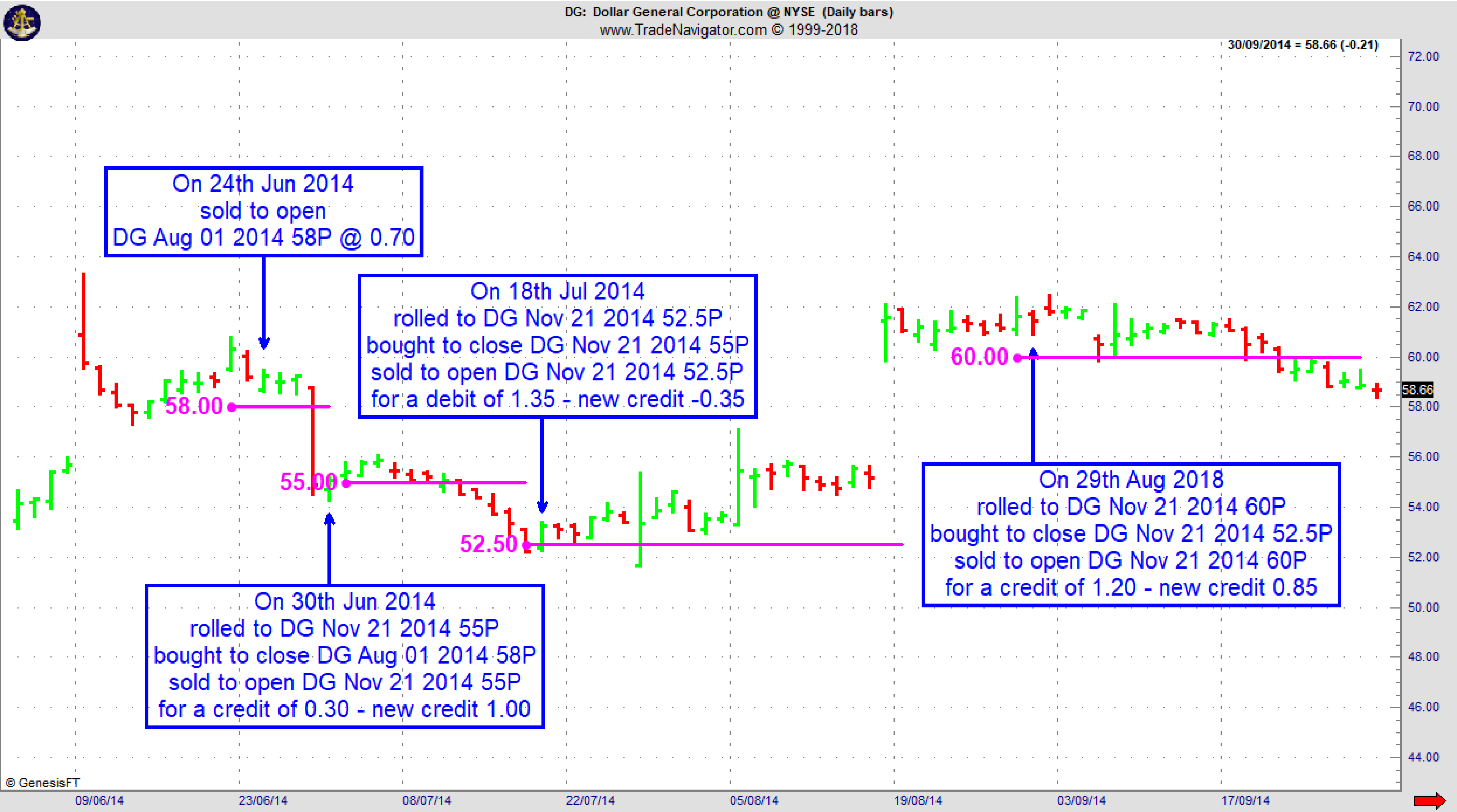
ROLLING: DG



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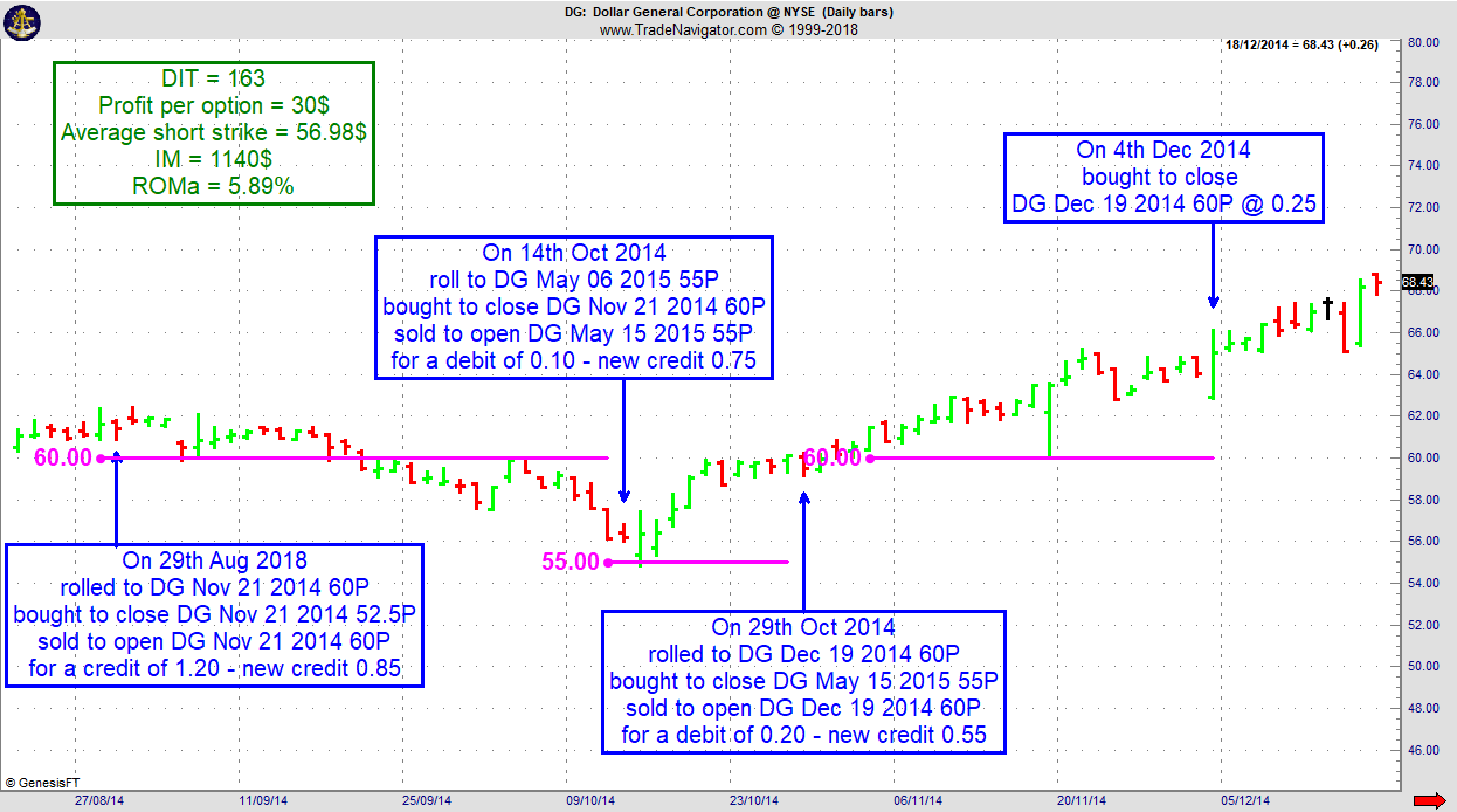
ROLLING: DG



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ROLLING: TAP

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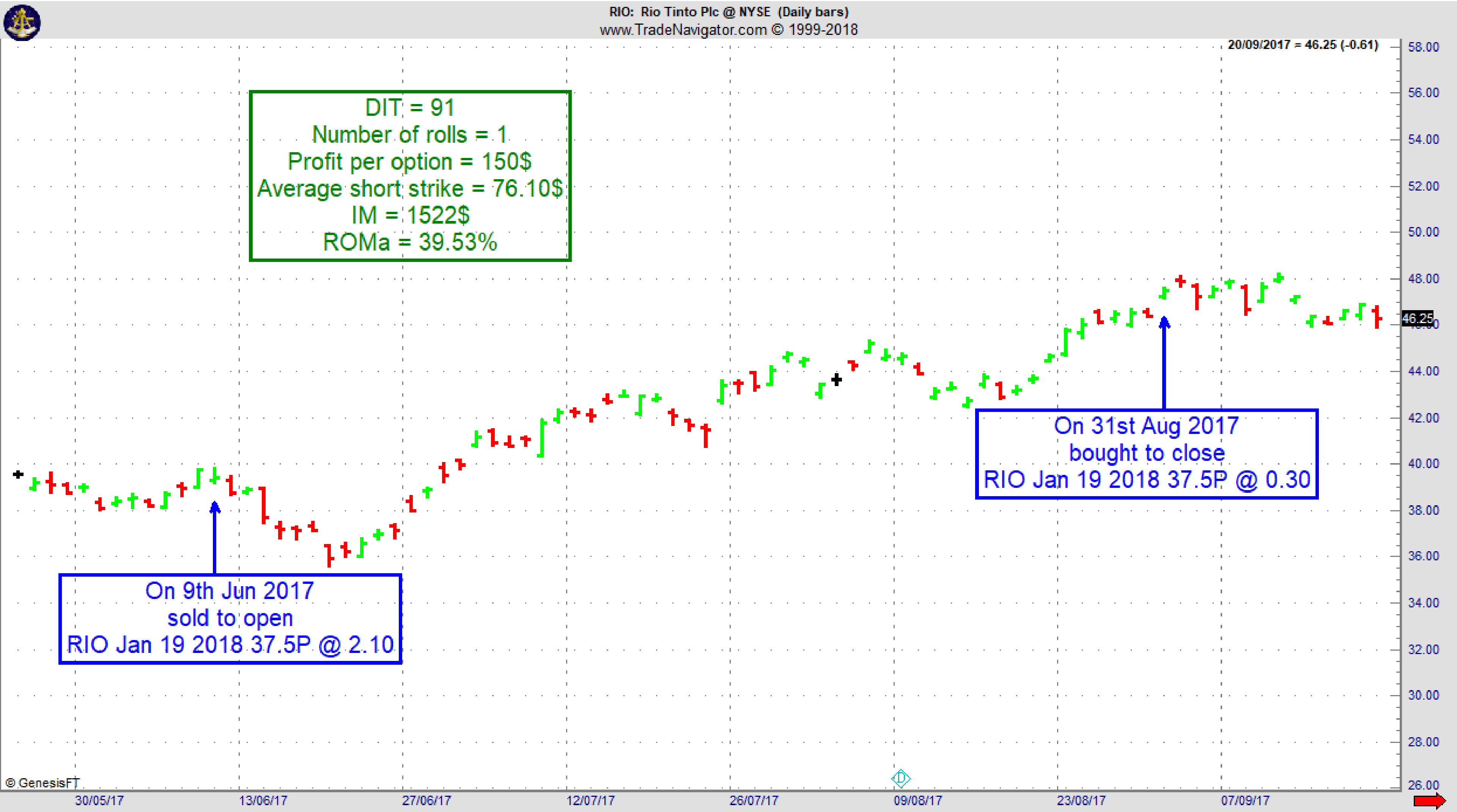
ROLLING: TAP



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ROLLING

Important!

We only roll if the underlying stock closes below our short strike, and subsequently opens below our short strike. At times when we expect a rebound, we wait for two closes below our short strike. This way we can avoid rolling in some instances and have a better use of our capital.

See BHF and IR examples on the next slides. For IR, we never had a close below our short strike, so we knew we had nothing to do.

ROLLING: BHF

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ROLLING: IR

IR: Ingersoll-Rand plc (Ireland) @ NYSE (Daily bars)
www.TradeNavigator.com © 1999-2018
17/4/18 09:48 = 85.60 (+0.61)
DIT = 32
Profit = 45$ per option
IM = 1650$
ROMa = 31.11%
On 17th Apr 2018
bought to close
IR Apr 20 2018 82.5P @ 0.15
82.50
On 16th Mar 2018
sold to open
IR Apr 20 2018 82.5P @ 0.60
© GenesisFT
12/01/18
29/01/18
12/02/18
27/02/18
13/03/18
27/03/18
11/04/18
25/04/18
108.00
106.00
104.00
102.00
100.00
98.00
96.00
94.00
92.00
90.00
88.00
85.60
84.00
82.00
80.00
78.00
76.00
74.00
72.00

EXECUTION

EXECUTION

Good underwriting means getting a good price for the insurance you are selling.
When selling puts, be patient and always try to sell as high a premium as possible, using our theoretical price as a guide.
Be particularly careful of the "junk" bid-ask spread for the first 10 minutes of trading or so especially for thinly traded options. By not being in a hurry for a fill, we all do much better.
Don't use our minimum price right away, preventing other subscribers to get a good price.
If you can't watch the market intraday, use a GTC order at the theoretical price or higher. If you never get filled it doesn't really matter. There are plenty of trades just ahead. Good underwriting means getting a good price for the insurance you are selling.

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EXECUTION

If you are completely new to (options) trading get to know your trading platform by using paper money trading (simulator) first. Most brokers offer a “paper money” accounts.

Live trading is not the place to learn how your broker’s platform works. You have the rest of your trading life to use this method, a few days or weeks paper trading won’t make much difference on your profits, and will avoid any costly mistakes.

Be focused when you type your orders in, and always double check.

MONEY MANAGEMENT

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MONEY MANAGEMENT

There are two main money management aspects:

- You must keep your put cover ratio to a strict minimum of 50% (see next slides for full explanations)

- You must diversify your positions. We give you plenty of trades, there is no need to go all in on the first one. Enter trades with an underlying value of stocks you would be comfortable owning for instance. This way, any temporary drawdown should be bearable emotionally.

MONEY MANAGEMENT

Simply because we suggest a trade does not mean you have to take it. Take only the trades you can afford when you can afford them. Keep ample cash reserves in the event that you might be assigned the underlying stock.

We recommend a 75% to 80% put cover ratio (ratio of cash/underlying value of puts sold). In no circumstance go below a put cover ratio of 50%. Be aware that your broker might raise margin rates at any time as well!!!

New subscribers often ask what is the put cover ratio and how to calculate it. Let us take an example:

You have a 50 000$ account for instance.

You sell one 30$ Put for stock X

1 option = 100 shares of X, or 100*30 = 3000$

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MONEY MANAGEMENT

You must keep in your account for that trade:
-A minimum 50% put coverage ratio = 50%*3000=1500$
-A recommended 80% put coverage ratio =80%*3000=2400$
And so on for your new trades, until all your cash is affected to your trades.
Keeping the same 80% put cover ratio for all your trades, the maximum stock underlying value you will be able to trade with a 50 000$ account will be 62 500$.
You must absolutely keep track of your put cover ratio in real time (in Excel, by hand…). This is a major part of the price insurance selling business and only YOU can do it (your margin rate calculated by your broker is a different thing). Choosing the right trades is only half of the equation.

SYNTHETIC LONG POSITIONS

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SYNTHETIC LONG POSITIONS

We enter synthetic long positions with long term options (leaps) when we have a strong conviction for a substantial up move. With part of the premium sold (puts) we buy long calls, in a ratio of 3 puts for 1 call usually (sometimes 2 puts for 1 call). These trades have therefore unlimited profit potential.

It is better to trade in a multiple of three 1*3 spreads to allow a profit maximizing strategy.

These trades are entered with a spread order (see the recordings on these orders in the member's area).

You can scale into these positions also at different prices; you can really take your time to enter these trades to maximize the net premium sold.

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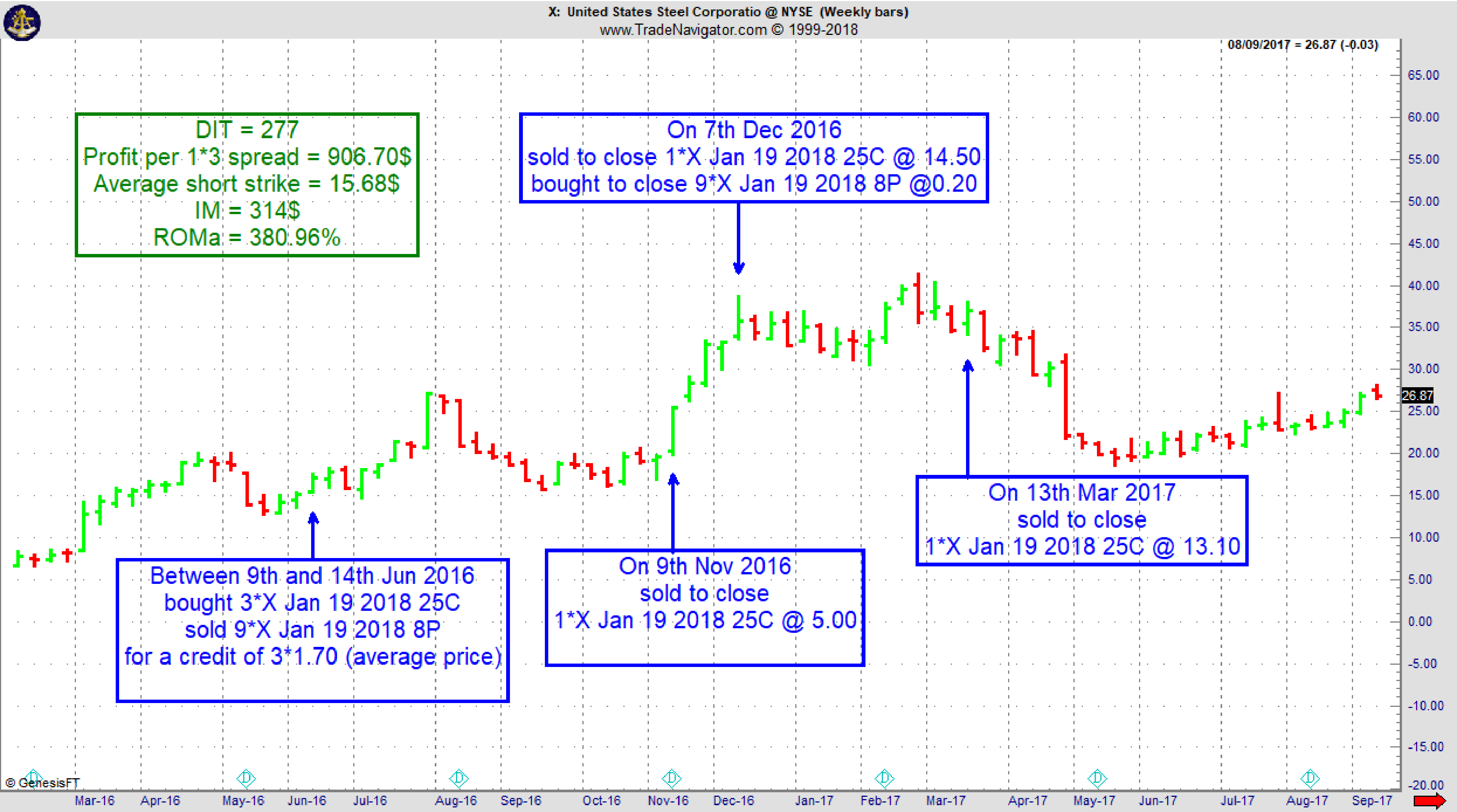
SYNTHETIC LONG POSITIONS

We usually try to have our short strikes at or below the book value of the underlying stock, making it a very attractive proposition would we be assigned the stock. We usually do not roll these trades, as we can accept temporary moves below our short strikes. Most of the time it does not happen, as our short strike is 30-40% or more below price action. Capital efficiencies are also very high.

In the next slides, we present 2 trade examples for X and BHP. Lots of patience is needed for these trades.

N.B. For short term trades, we can use a “calendarized” version of these ratioed synthetic long trades (short puts with a further dated expiry date than the long calls).

SYNTHETIC LONG POSITIONS: X



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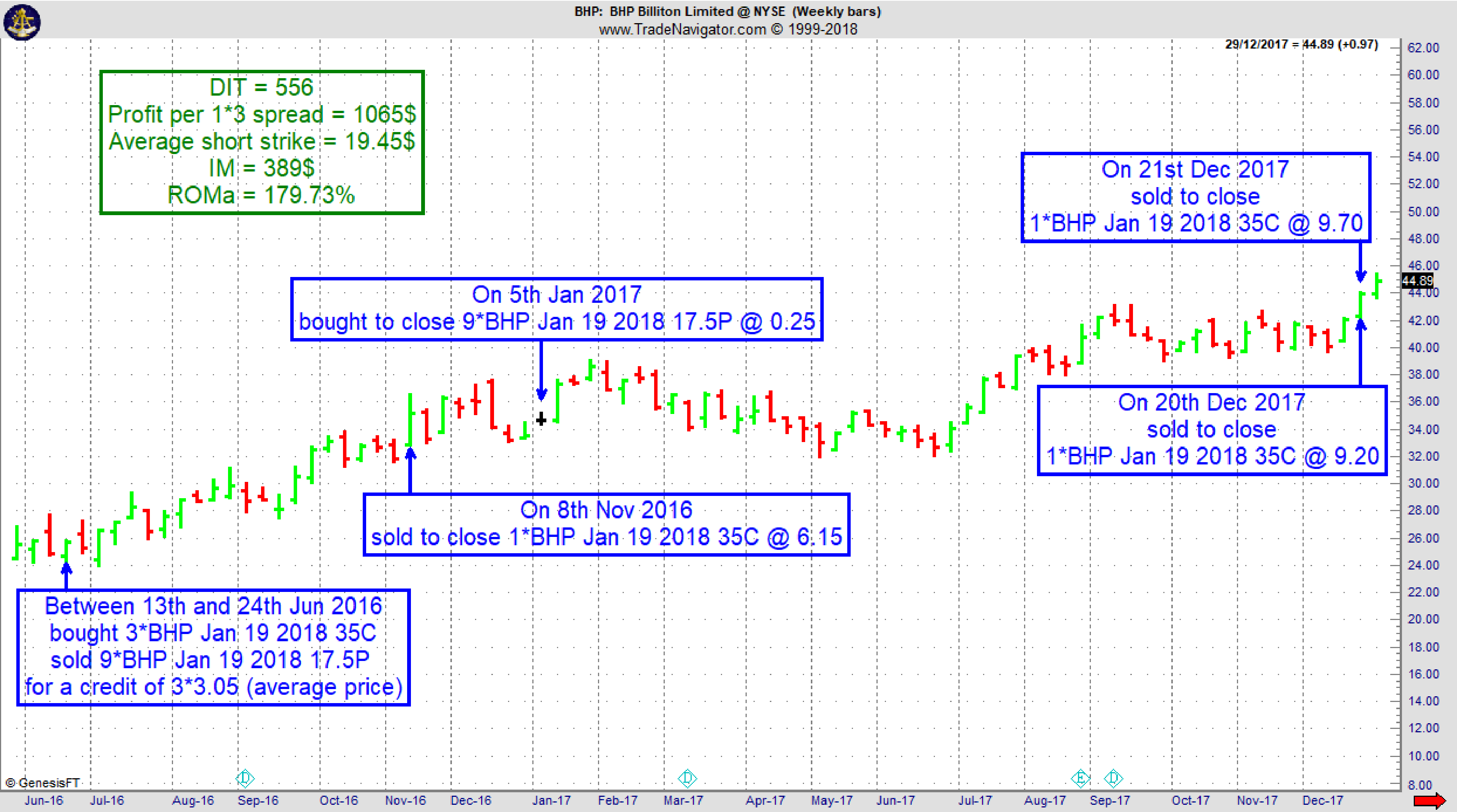
SYNTHETIC LONG POSITIONS: BHP



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SIGNALS BASED ON IMPLIED VOLATILITY INDICES OR OPTIONS

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IMPLIED VOLATILITY INDICES SIGNALS

Implied volatility levels are a key factor in our price insurance business.
Implied volatility levels can also be used as timing tools for our entries. There are many variations but, to keep it simple:
- When $VIX spikes above its upper bollinger band and subsequently closes below it, we have a buy signal for S&P500
- When $VXST is trading above all other volatility indices, a short term buy signal happens when it closes below at least one of them ($VIX, $VX3M, $VXMT)

$VXST = 9 days volatility
$VIX = 30 days volatility
$VX3M = 3 months volatility
$VXMT = 6 months volatility

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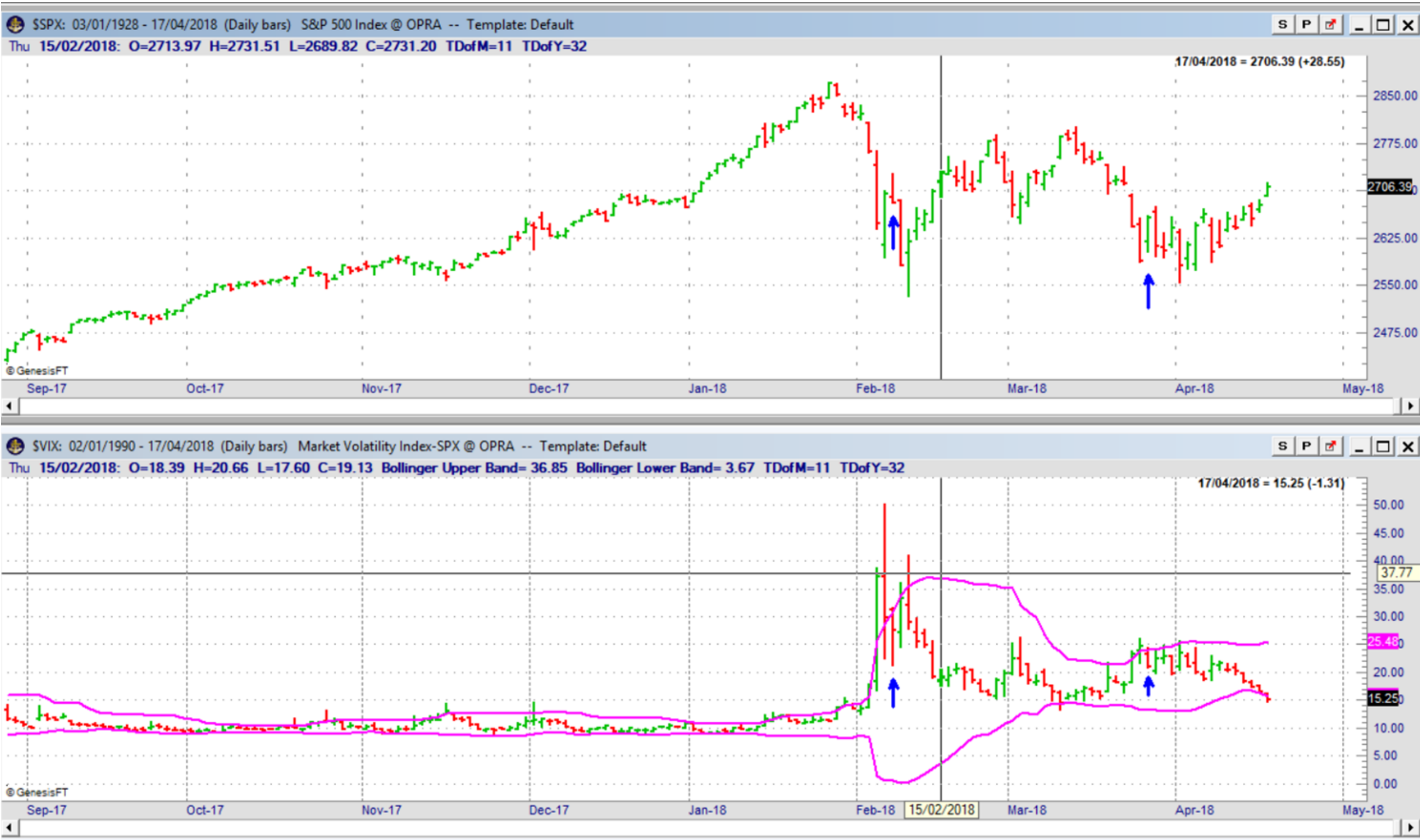
$VIX SPIKE BUY SIGNALS



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Volatility indices buy signals

Updated: 16th Apr 2018 **VXST** **VIX** **VIX3M** **VXMT**