

TRADING EDUCATORS SEMINARS PRESENTS

INSTANT INCOME GUARANTEED™

NEW DEVELOPMENTS AND MODIFICATIONS OF
THE ORIGINAL METHOD

IMPORTANT MONEY MANAGEMENT ASPECTS TO
TRADE THIS TECHNIQUE

MODIFICATIONS OF OUR INITIAL RULES

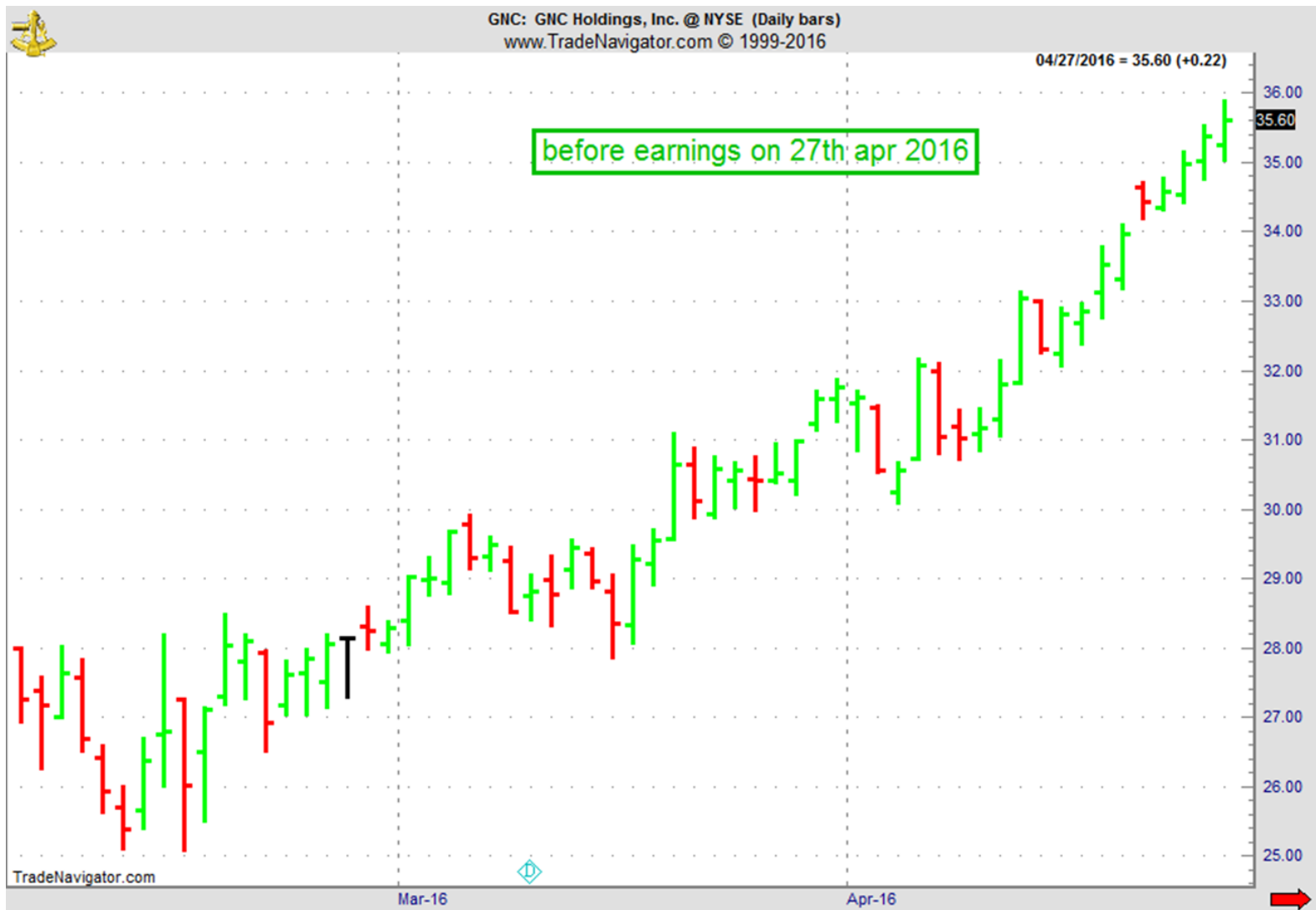
EARNINGS

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



EARNINGS



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



SSYS: Stratasys, Inc. @ NASDAQ (Daily bars)
www.TradeNavigator.com © 1999-2018

12/1/18 12:22 = 23.31(+1.02)

DIT = 1
Profit = 15\$ per option
IM = 370\$
ROMa = 1479.73%

On 12th Jan 2018
bought to close
SSYS Feb 23 2018 18.5P @ 0.15

On 11th Jan 2018
sold to open
SSYS Feb 23 2018 18.5P @ 0.30

18.50

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Nov-17

Dec-17

Jan-18

Feb-18

EXTENDED UNIVERSE OF STOCKS



LITE: Lumentum Holdings Inc @ NASDAQ (Daily bars)
www.TradeNavigator.com © 1999-2018

9/2/18 10:47 = 56.55 (+1.15)

DIT = 1
Profit = 25\$ per option
IM = 800
ROMa = 1140.63%

On 9th Feb 2018
bought to close
LITE Mar 16 2018 40P @ 0.15

On 9th Feb 2018
sold to open
LITE Mar 16 2018 40P @ 0.40

40.00

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07/11/17 21/11/17 06/12/17 20/12/17 05/01/18 22/01/18 05/02/18 20/02/18

EXTENDED UNIVERSE OF STOCKS



QRVO: Qorvo, Inc. @ NASDAQ (Daily bars)
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EXTENDED UNIVERSE OF STOCKS



MU: Micron Technology, Inc. @ NASDAQ (Daily bars)
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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



CCL: Carnival Corporation @ NYSE (Daily bars)
www.TradeNavigator.com © 1999-2017

16/10/17 11:01 = 67.45 (-0.49)

DIT = 11
Profit = 30\$ per option
IM = 1200\$
ROMa = 82.95%

On 16th October 2017
bought to close
CCL Nov 17 2017 60P @ 0.15\$

On 5th October 2017
sold to open
CCL Nov 17 2017 60P @ 0.45\$

60.00

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Aug-17

Sep-17

Oct-17

Nov-17

CAPITAL EFFICIENCY: LUV



LUV: Southwest Airlines Company @ NYSE (Daily bars)
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2/10/17 14:21 = 55.94 (-0.04)

DIT = 14
Profit = 25\$ per option
IM = 1000\$
ROMa = 65.18%

On 2d October 2017
bought to close
LUV Oct 20 2017 50P @ 0.05\$

On 18th September 2017
sold to open
LUV Oct 20 2017 50P @ 0.30\$

50.00

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Jul-17

Aug-17

Sep-17

Oct-17

CAPITAL EFFICIENCY: WY



WY: Weyerhaeuser Company @ NYSE (Daily bars)
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20/6/17 13:53 = 33.98 (-0.06)

DIT = 14
Profit = 12.5\$ per option
IM = 600\$
ROMa = 54.2%

On 20th June 2017
bought to close
WY Jul 21 2017 @ 0.05\$

On 6th June 2017
sold to open (half)
WY Jul 21 2017 30P @ 0.15\$

On 8th June 2017
sold to open (half)
WY Jul 21 2017 30P @ 0.20\$

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Apr-17 May-17 Jun-17 Jul-17

30.00

33.98

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.

OPTIONS EXPIRATION DATE



SBLK: Star Bulk Carriers Corp. @ NASDAQ (Daily bars)
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2/1/18 11:23 = 11.41 (+0.15)

DIT = 26
Profit = 10\$ per option
IM = 150\$
ROMa = 93.59%

On 2d Jan 2018
bought to close
SBLK Feb 16 2018 7.5P @ 0.10\$

On 7th December 2017
sold to open
SBLK Feb 16 2018 7.5P @ 0.20\$

7.50

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Oct-17

Nov-17

Dec-17

Jan-18

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: NVIDIA

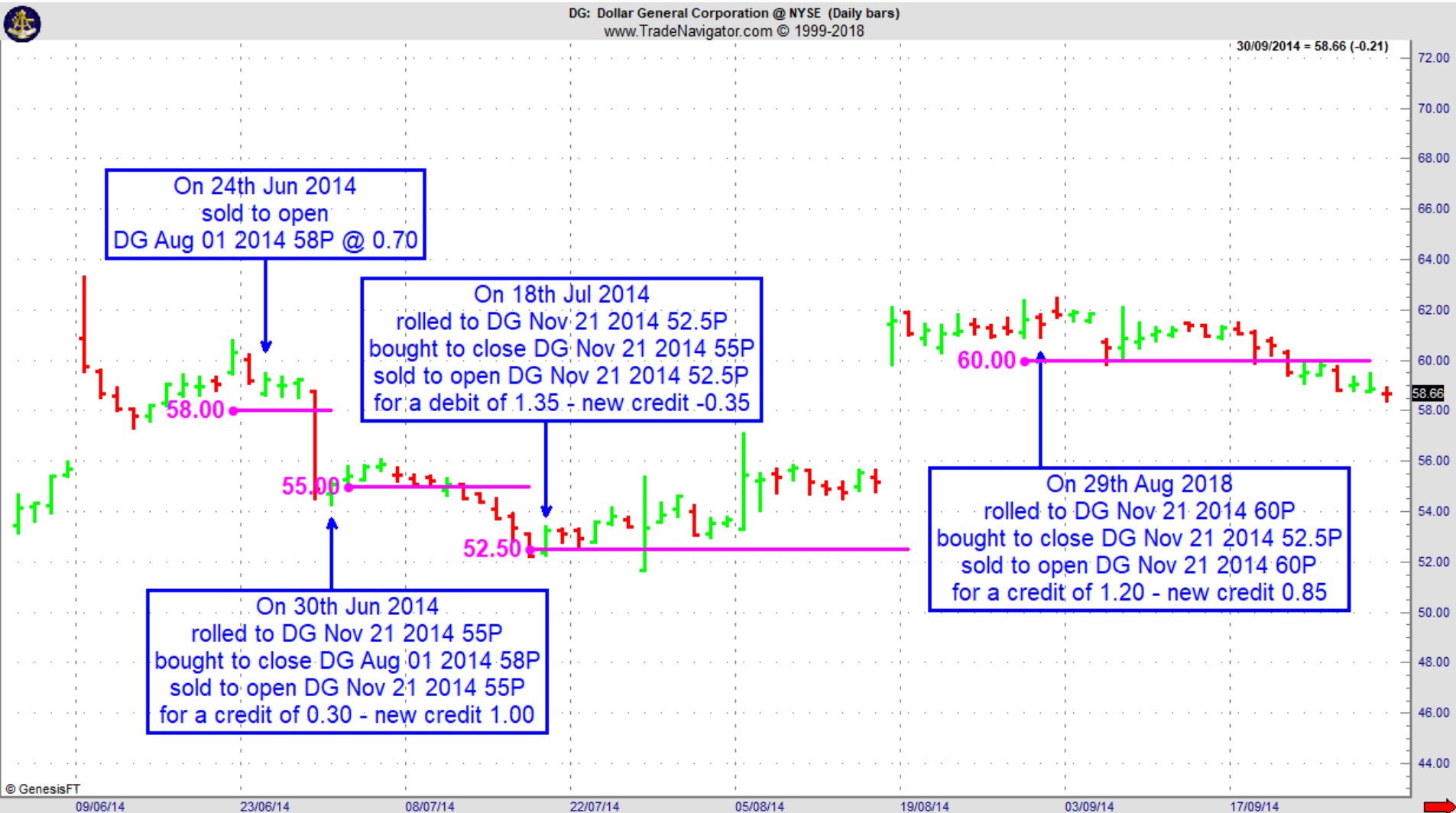
NVDA: NVIDIA Corporation @ NASDAQ (Daily bars)
www.TradeNavigator.com © 1999-2018



ROLLING: DG

DG: Dollar General Corporation @ NYSE (Daily bars)
www.TradeNavigator.com © 1999-2018

30/09/2014 = 58.66 (-0.21)



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ROLLING: DG

DG: Dollar General Corporation @ NYSE (Daily bars)
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DIT = 163
Profit per option = 30\$
Average short strike = 56.98\$
IM = 1140\$
ROMa = 5.89%

On 14th Oct 2014
roll to DG May 06 2015 55P
bought to close DG Nov 21 2014 60P
sold to open DG May 15 2015 55P
for a debit of 0.10 - new credit 0.75

On 4th Dec 2014
bought to close
DG Dec 19 2014 60P @ 0.25

On 29th Aug 2014
rolled to DG Nov 21 2014 60P
bought to close DG Nov 21 2014 52.5P
sold to open DG Nov 21 2014 60P
for a credit of 1.20 - new credit 0.85

On 29th Oct 2014
rolled to DG Dec 19 2014 60P
bought to close DG May 15 2015 55P
sold to open DG Dec 19 2014 60P
for a debit of 0.20 - new credit 0.55

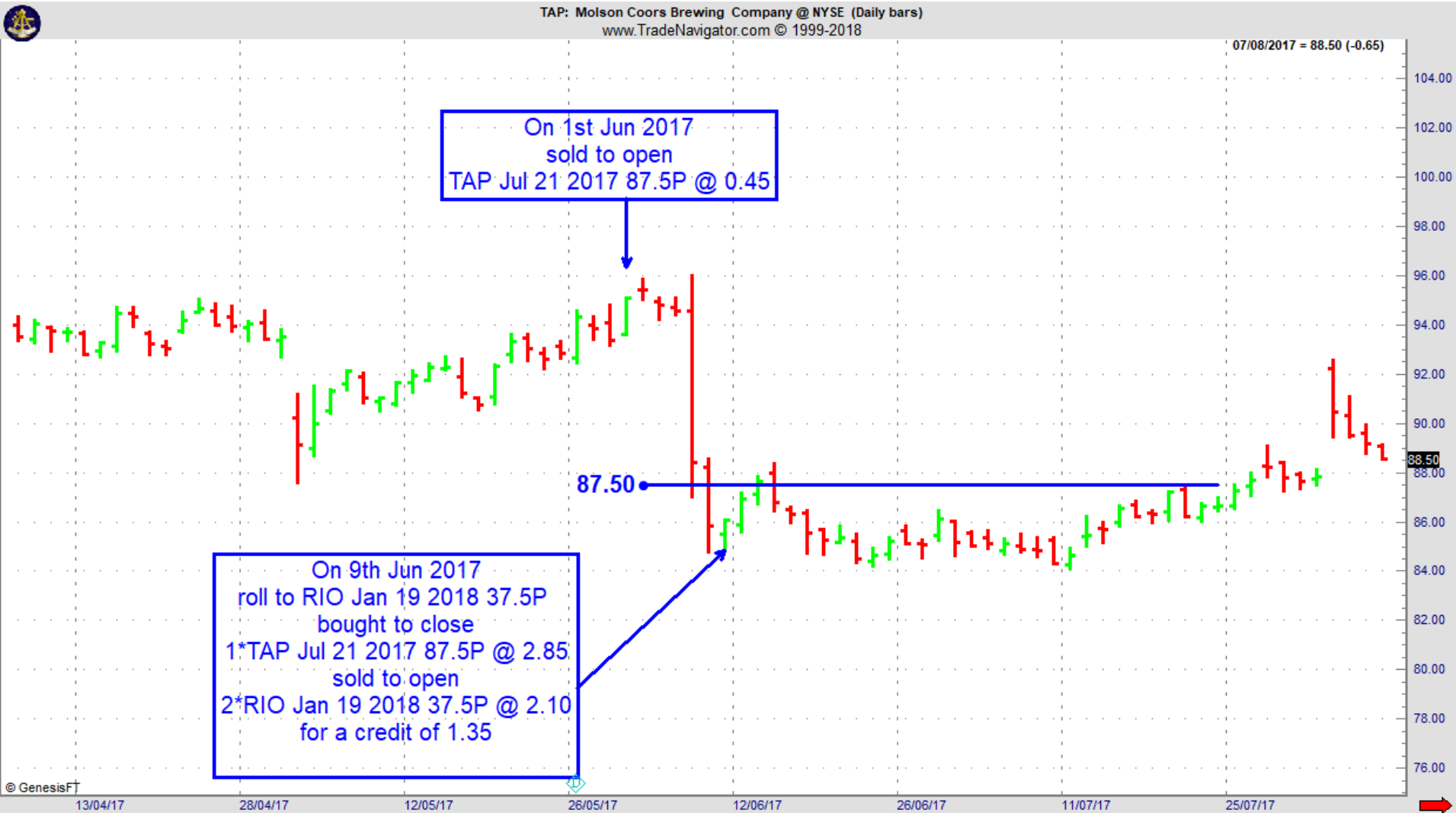


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ROLLING: TAP

TAP: Molson Coors Brewing Company @ NYSE (Daily bars)
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07/08/2017 = 88.50 (-0.65)



ROLLING: TAP



RIO: Rio Tinto Plc @ NYSE (Daily bars)
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20/09/2017 = 46.25 (-0.61)

DIT = 91
Number of rolls = 1
Profit per option = 150\$
Average short strike = 76.10\$
IM = 1522\$
ROMa = 39.53%

On 9th Jun 2017
sold to open
RIO Jan 19 2018 37.5P @ 2.10

On 31st Aug 2017
bought to close
RIO Jan 19 2018 37.5P @ 0.30

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30/05/17 13/06/17 27/06/17 12/07/17 26/07/17 09/08/17 23/08/17 07/09/17

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

BHF: Brighthouse Financial, Inc @ NASDAQ (Daily bars)
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ROLLING: IR

IR: Ingersoll-Rand plc (Ireland) @ NYSE (Daily bars)
www.TradeNavigator.com © 1999-2018

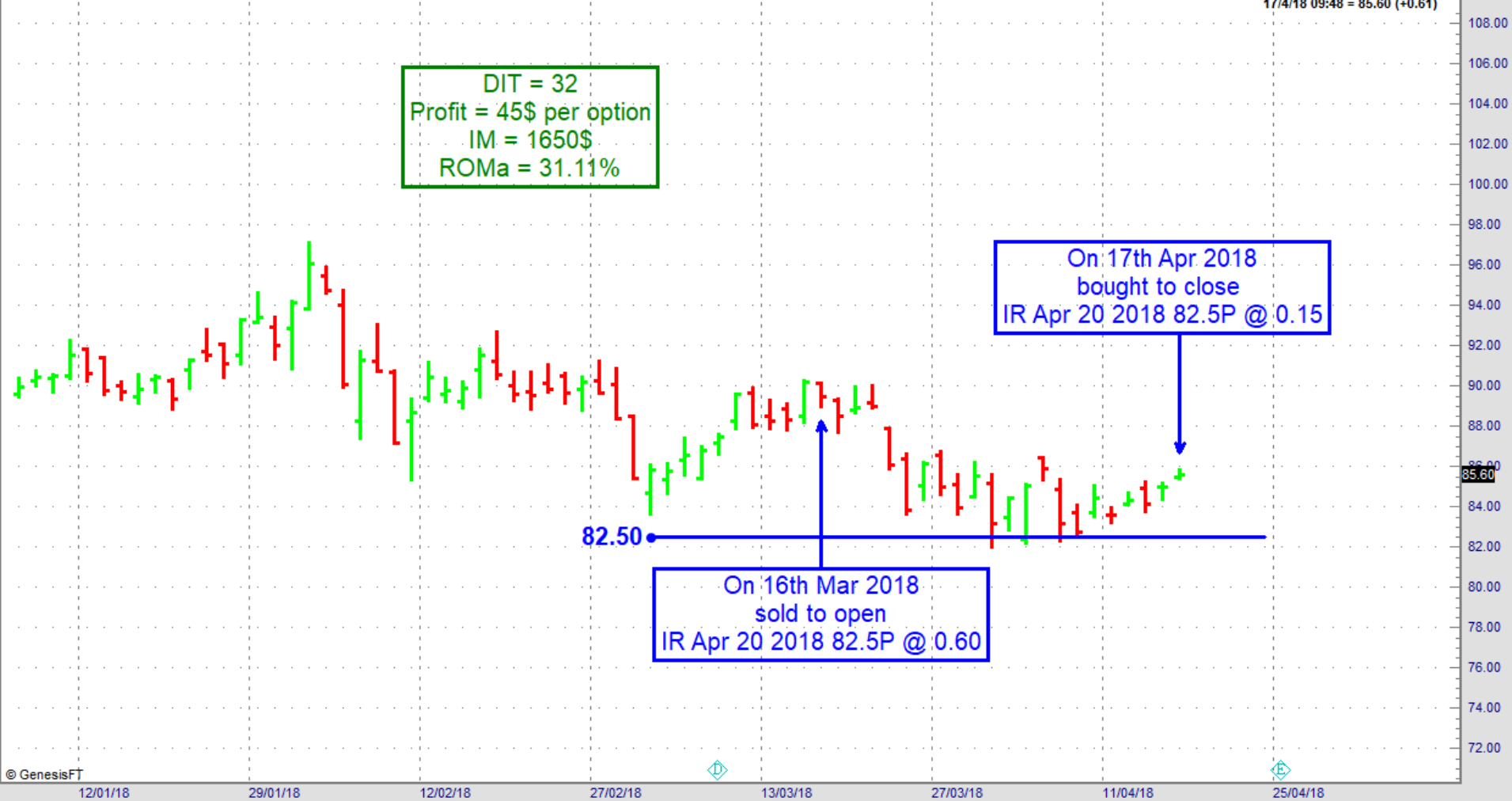
17/4/18 09:48 = 85.60 (+0.61)

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

On 16th Mar 2018
sold to open
IR Apr 20 2018 82.5P @ 0.60

82.50



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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.

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

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 $100 * 30 = 3000\$$

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

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.

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

X: United States Steel Corporatio @ NYSE (Weekly bars)
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08/09/2017 = 26.87 (-0.03)

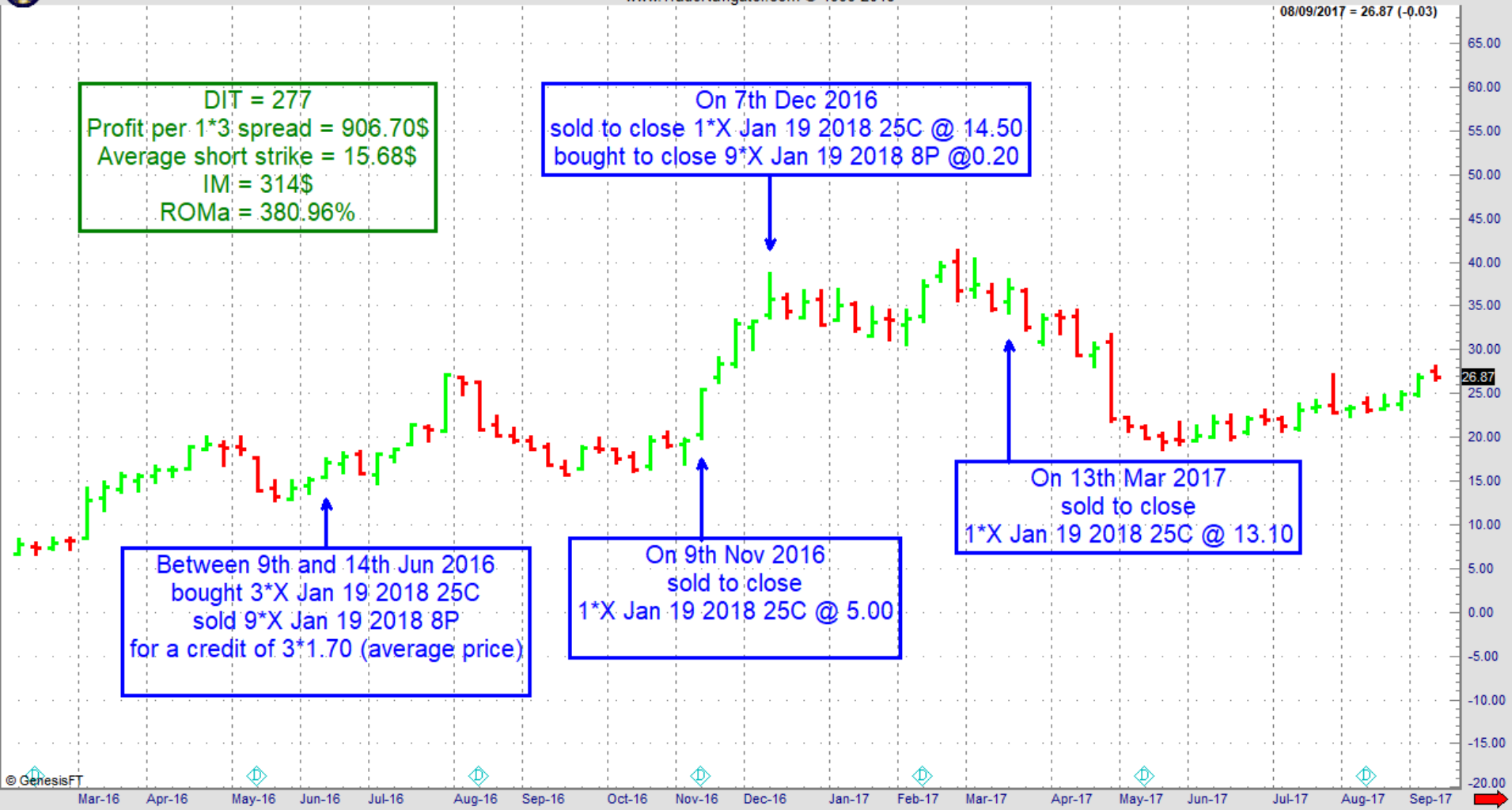
DIT = 277
Profit per 1*3 spread = 906.70\$
Average short strike = 15.68\$
IM = 314\$
ROMa = 380.96%

On 7th Dec 2016
sold to close 1*X Jan 19 2018 25C @ 14.50
bought to close 9*X Jan 19 2018 8P @ 0.20

Between 9th and 14th Jun 2016
bought 3*X Jan 19 2018 25C
sold 9*X Jan 19 2018 8P
for a credit of 3*1.70 (average price)

On 9th Nov 2016
sold to close
1*X Jan 19 2018 25C @ 5.00

On 13th Mar 2017
sold to close
1*X Jan 19 2018 25C @ 13.10



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SYNTHETIC LONG POSITIONS: BHP

BHP: BHP Billiton Limited @ NYSE (Weekly bars)
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29/12/2017 = 44.89 (+0.97)

DIT = 556
Profit per 1*3 spread = 1065\$
Average short strike = 19.45\$
IM = 389\$
ROMa = 179.73%

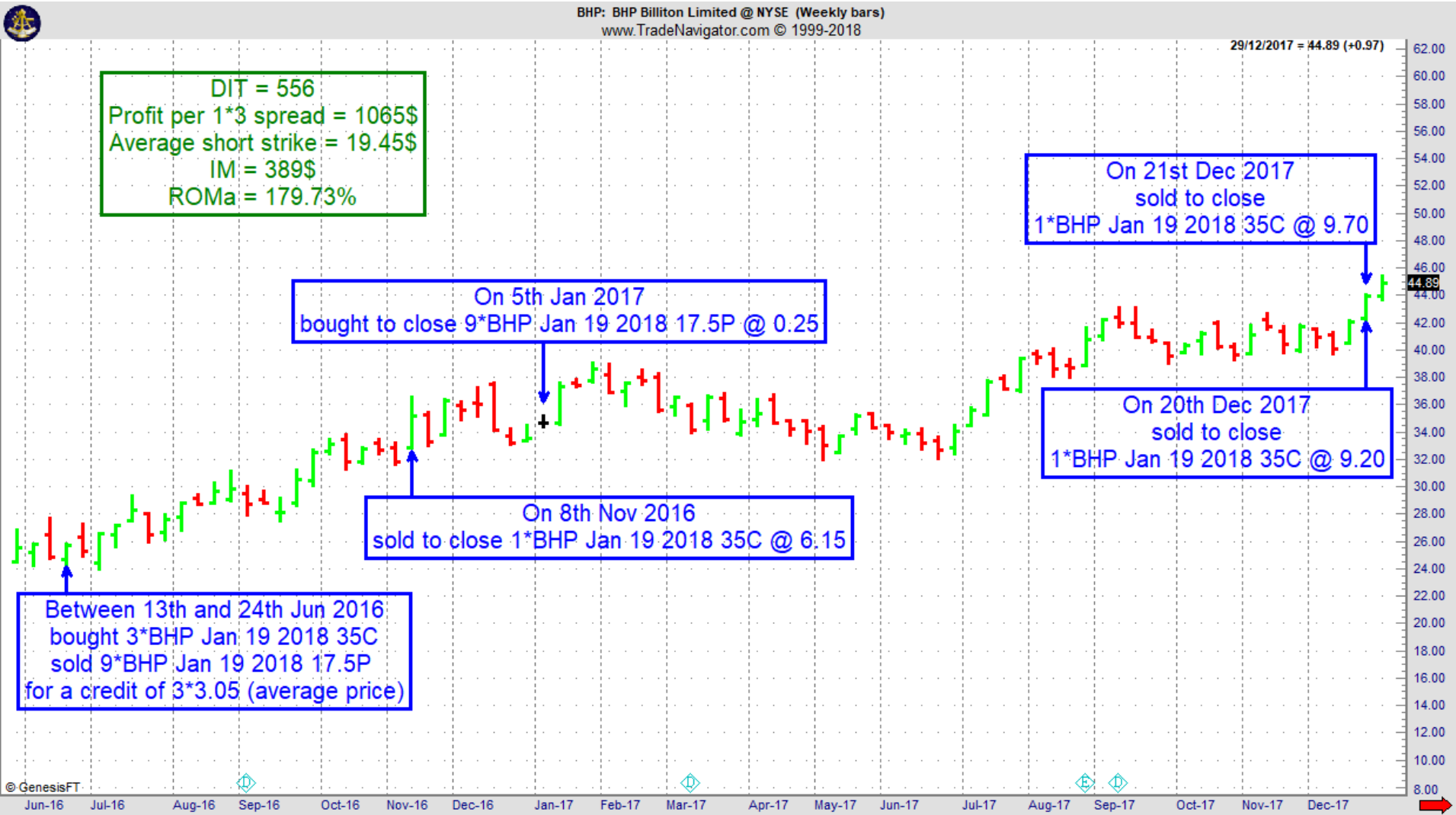
On 5th Jan 2017
bought to close 9*BHP Jan 19 2018 17.5P @ 0.25

On 21st Dec 2017
sold to close
1*BHP Jan 19 2018 35C @ 9.70

On 20th Dec 2017
sold to close
1*BHP Jan 19 2018 35C @ 9.20

On 8th Nov 2016
sold to close 1*BHP Jan 19 2018 35C @ 6.15

Between 13th and 24th Jun 2016
bought 3*BHP Jan 19 2018 35C
sold 9*BHP Jan 19 2018 17.5P
for a credit of 3*3.05 (average price)



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SIGNALS BASED ON IMPLIED VOLATILITY INDICES OR OPTIONS

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

\$VIX SPIKE BUY SIGNALS



Volatility indices buy signals



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