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Getting started with options: Strategies and ideas

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Case Study #1

- I have an opinion on the direction the stock is heading. How can I capitalize on the move without trading the shares?
- Strategies you might consider:
  1. **Buy a Call or Put**
     - With consideration to time decay, profitability will generally require the market thesis to be correct on direction, magnitude, and timing
  2. **Buy a Vertical Spread**
     - Purchase a call (or put) and simultaneously sell a lower priced call (or put) to reduce cost and manage risk

Case Study #1 Example

- After analyzing the chart on airline stock JETX, you determine that shares have reached a strong support level and might be due for a rally
- If support does not hold, shares could collapse
- Due to this downside risk, alternatives to buying shares would include:
    - **Buy Call** – Lower cost than buying stock but with time decay concern
    - **Buy Vertical Call Spread** – Even lower cost than buying a call, but with capped upside potential

Case Study #2

- I own shares that have recently rallied and are now sitting in a profitable position. How do I protect my gains?
- Strategies you might consider:
  1. **Protective Put = Long stock + Long Put**
     - Purchase the right to sell shares at the strike price of the put option which protects from a share price decline below that level
  2. **Collar = Long stock + Long Put + Short Call**
     - Purchase a put option and simultaneously sell a call option to offset the cost while accepting that shares might get called away at the strike price of the call

Case Study #2 Example

- You have owned shares of soft drink company BUBL for many months and the shares have performed well
- Your thesis remains bullish, but you are concerned about giving up the healthy gains that are currently unrealized
- An alternative to entering a sell stop order on the shares could be:
    - **Protective Put** – Select strike price by evaluating how much of a share decline you can tolerate while also considering the price of the option
    - **Collar** – Finance the cost of the protective put by selling a call option, while accepting the potential for having shares called away at the strike price of the call

Case Study #3

- I own various stock positions in my portfolio. How can I add alpha by writing Covered Calls?
- Techniques you might consider:

  1. **Sell slightly out-of-the money (OTM) calls**
     - Sell call options with a strike price that is consistent with a level that you have determined to be resistance for the shares (select strike as low as possible)
  2. **Stagger strike selection and sell fewer calls than shares owned**
     - Allows the investor to scale out of the position as the stock rallies and realize healthy gains on a small portion of their position should the stock price rise dramatically

Case Study #3 Example

- You have owned shares of financial services company DOLR for many months and the shares have performed well
- The amount of capital allocated to this position is now higher than your comfort level
- An alternative to selling shares at their current level is to sell covered calls:
  - **Sell slightly OTM calls** – Generate potential income through call premium, and commit to delivering a portion of your shares at the strike price
  - **Sell calls at various strikes** – Selling calls at different strike prices above the current level of the share price, receiving option premium for each one sold

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