Managing Option Positions and Post Trade Evaluation

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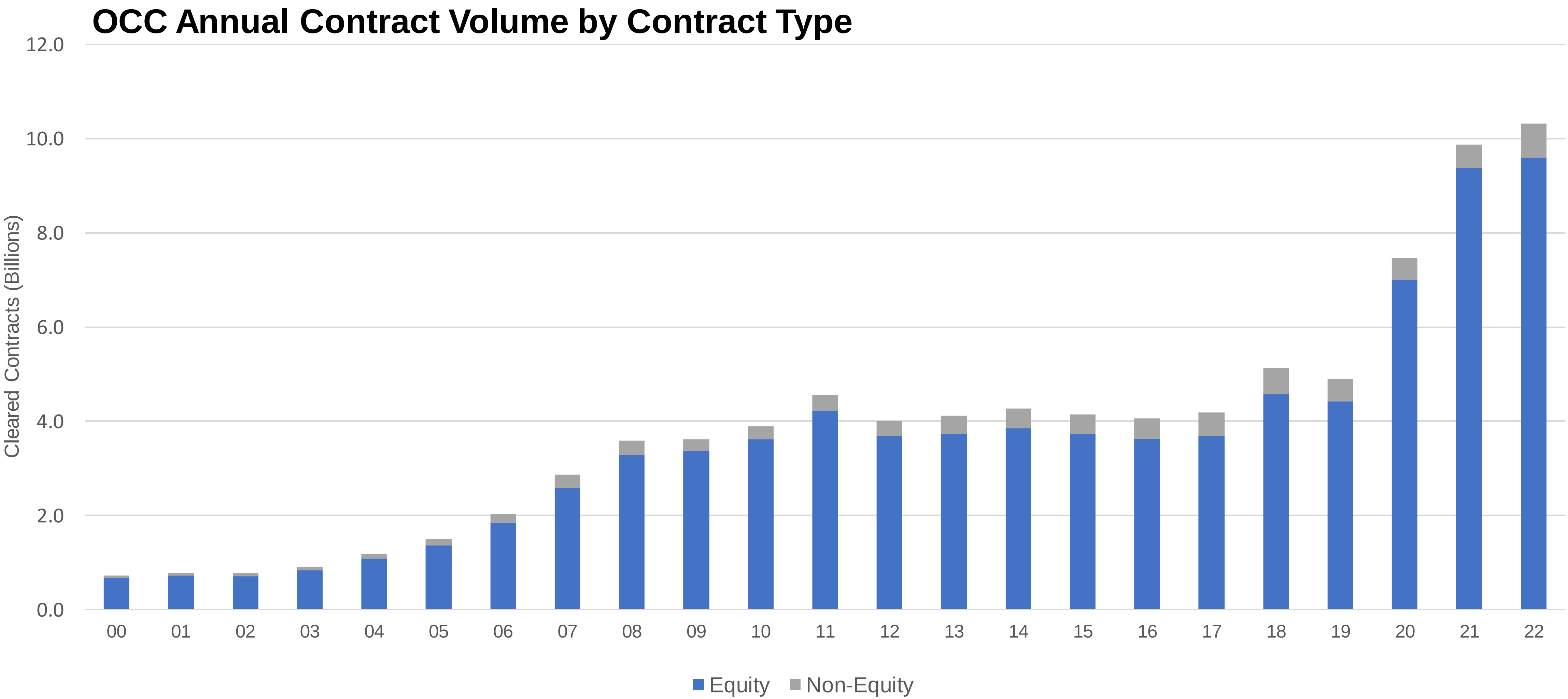
Presentation Outline

- Monitoring and Managing
  - Dynamic nature of marketplace
- Strategies (Calls)
  - Covered Calls
  - Stock Repair

Annual Options Volume 2000-2022



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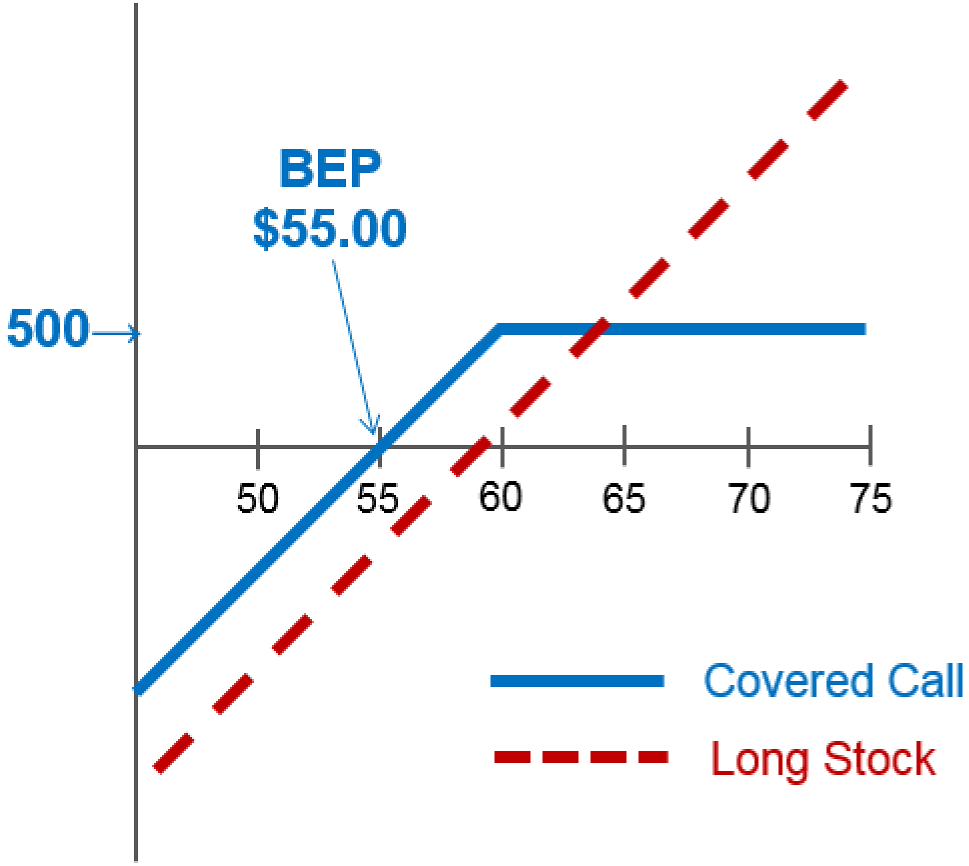
Monitoring and Management

Importance of Monitoring Positions

- **Plan the Trade**
  - The first step is developing a market forecast
  - Select a strategy to fit this forecast while considering risk tolerance and efficiency of capital allocation
  - Adding new strategies may help keep an investor prepared for an evolving market landscape
- **Monitoring and Position Management**
  - Market dynamics are constantly changing
  - Tracking positions is critical, active management may be necessary, especially in times of excessive volatility
  - Be aware of announcements (company specific or broad market dynamics such as shifts in the geo-political landscape)

Managing Covered Calls

Initial Covered Call Position



March 60.00 Covered Call

Long 100 XYZ @ $59

Short 1 March 60 call @ $4.00

Total investment = $5,500

Break-even point (BEP) = $55.00

Not including trading costs

Basic Management Tools

- Getting out – always a consideration
- Accepting assignment / early exercise for dividend
    - Expect when little or no time value remaining
- Rolling (up, down and/or out)
    - Close existing contracts & open new ones
    - Adjust break-even points and/or leverage
    - Pay or receive additional premium
    - Buy or sell more time
- Avoid selling stock and leaving a naked short call
    - Large margin requirements possible

Rolling with Spread Orders

- Covered call roll involves two transactions
  - Buying to close an existing short call
  - Selling to open (writing) a new call
- Spread order
  - Both transactions are executed simultaneously
  - Netting the two prices at a specific net debit or credit
- “Legging” into a roll
  - Making these two transactions separately
  - Market risk between buy and sell
  - Market can move against (or for) you in between

Short Call at Parity

- XYZ has risen
- March 60.00 call in-the-money – trading at parity
  - maximum profit of $5.00 ($500) is unrealized
  - no longer generating return – only risk remains
- Decision
  - close the entire position and move on to another
  - if positive on the stock, retain shares at a reduced break-even point and roll

Not including trading costs

Stock Repair

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Stock Repair Strategy

What is it?

- Ratio spread using calls to lower the breakeven point of a losing long stock position

Who might benefit?

- Investors that are willing to forego potential long-term profits and/or investors unwilling to commit more funds to an already losing position

What else might an investor do?

- Hold and hope
- Buy additional shares at lower prices to reduce overall breakeven

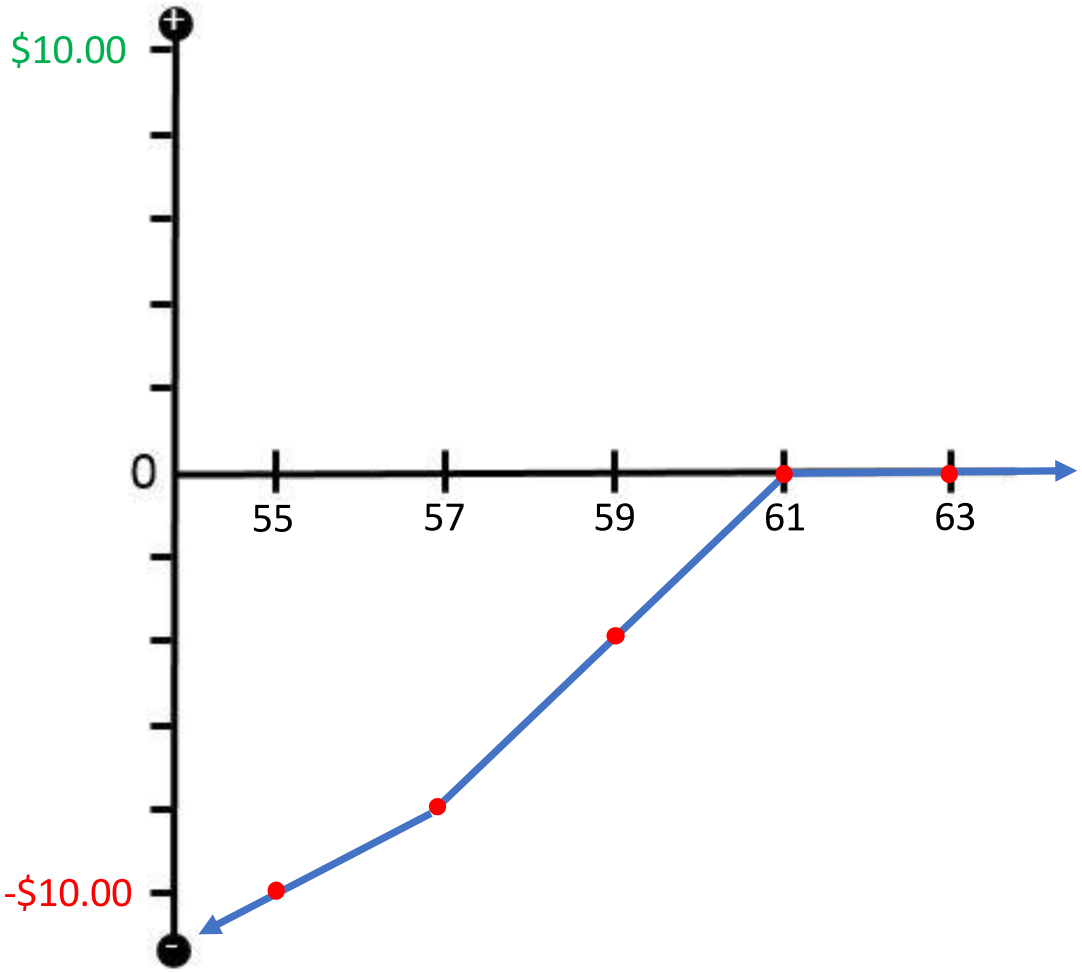
Stock Repair Strategy

Scenario: Investor is long 100 shares of a stock from $65. Due to recent market declines, the shares are currently trading $57 and the investor is looking to recoup some of his/her losses.

Possible remedies:

- Investor can 'stay the course' and hope that the stock rallies
- Investor can purchase an additional 100 shares at $57, thus reducing the overall breakeven point to $61/share. This would require him/her to invest an additional $5,700 into an already losing position
- Investor can implement a Stock Repair strategy using options with little or no additional funds

Stock Repair (Example)



Long 100 shares from $65

Long 1 57 call & short 2 61 calls

EVEN MONEY

Maximum Loss: **Substantial (same as long stock position)**

Maximum Gain: **Breakeven**

Breakeven: **$61 - Down from $65 of original long stock position**

Not including trading costs

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