

## TRANSCRIPT

# Important factors for managing your option trades

*Presenters: Michael McCrary and Ed Modla*

**Michael McCrary:** Good afternoon, everyone, and welcome back. We're in to our second session of the afternoon, important factors to consider for managing your option trades. My name is Michael McCrary. I'm a regional brokerage consultant here at Fidelity, and I cover a number of the branches here in the Southeast. I work with a lot of the advisors and their self-directed clients. I'm happy to be joined by our guest Ed Modla. He's with Options Industry Council and also the OCC, So I'd like to just welcome Ed.

**Ed Modla:** Sure. Thanks, Michael. Good to be here. As Michael said, my name is Ed Modla. And welcome to those of you coming back for session 2 in person and online. My background goes back to 1997, so 25 years in the business, the last eight years teaching market participants and options users all the ins and outs of options. I'm going to leave my bio right there. That's all I'm going to say because I got a lot to get to here in session 2.

First, our disclaimers, and this will be the outline for session 2. As we set it earlier today, there's something in here for everybody. If you're new to options, you're going to learn an awful lot. If you are a sophisticated options user, I'm pretty confident you're going to learn something today. And in this session, there's a good pieces of the outline that serve as candidates for when

we'll get into concepts and a discussion that may require a bit more concentration. And we'll see how we do when we get there.

So we'll start with monitoring and managing positions, the importance of that. And then in a general sense, what types of things can you do once you've opened the trade? Now you've got an open options position, now what are the types of things options users are looking at and then what are they thinking about as far as managing that position?

Implied volatility. It's critical to understand implied volatility, what it means, how it's defined, and at least be aware of implied volatility, whether you're forming an opinion on whether it's high or low is one thing, but at least know when I buy or sell an option, what level of volatility have I just bought or sold? Often, knowing that and tracking it over time can help explain why options prices change the way they do when otherwise that might be puzzling.

Now we'll have a good segment on dividends and early exercise. I'm going to approach this segment in a bit of a different way than maybe most others would explain it. There's a number of ways to walk through the analysis done prior to a dividend payment and whether or not an investor should exercise a call option early. And I'm going to do it in one particular way that I think should be interesting and a good educational lesson.

Options are different from stocks. When you buy or sell shares, they do not expire. That trade can go on indefinitely. You can hold a long stock position as long as you would like to and exit when you've lost confidence. You can exit when you want to take profits or you can just hold long-term.

Options are different because they expire, and they have pricing components that are unique. The element of time decay, the element of volatility, all of these things are going to be monitored over time, which lends options to a bit more active investor who's going to possibly manage the position as they look at their account and match it against what's going on in the market day after day, week after week.

So options don't trade themselves. One question I get from investors might be, what's the best option strategy, which one works the most? And if you're interested in making money, which is what you're all here for, you're interested in the bottom line in your account balance, you might be immediately thinking, hey, just tell me which one works the best?

And I don't have an answer to that question. Options work as advertised.

There are bullish strategies, bearish strategies, neutral strategies. If you're bullish or bearish and you're using options, you can choose to be net long options or net short options, either way. The idea is to have a market forecast first and then select the strategy that best fits that forecast. You need a toolbox

of strategies in your arsenal. You don't understand them before you use them in your account.

Now where does that forecast come from? Well, Fidelity has a lot of tools where you can scan the market and look for criteria that you're most interested in. Broadly speaking, fundamental analysis and/or technical analysis can help you form an opinion on market direction. When we're talking fundamentals, of course, we're discussing things like PE ratios, margins, price to book, price to sale, these types of studies.

If you become bullish on a stock because you are doing a fundamental analysis, you think it's cheap, you think it's forward multiple, is lower than it should be, maybe you can set a price target for where you think shares can get to. But fundamental analysis is a bit more difficult to select a time frame. We need a time frame if we're going to be trading options.

So if you're strictly using fundamentals, it tends to lean to longer term options.

So you can give the market time for your market direction to play itself out.

Technical analysis, reading the charts, support resistance, moving averages, Fibonacci, Bollinger Bands, these are technical studies. You might be using those isolated by themselves or just had a combination of fundamentals and technicals to form your opinion.

However, that opinion comes from? You then have to take it and determine what strategy best fits what I expect the market to do. But then once that strategy is on, the market is constantly changing. Every single day the market has a different dynamic, whether something is occurring on a micro or macroeconomic level, things are always changing.

Now, investors have lives. You have jobs. You have families have things going on. So I'm not saying you need to watch the market every hour of every day, but there is a certain element of staying on top of your account, monitoring your account often enough so that you can continue to be confident in the market outlook that you have. And you also know the position you have on is consistent with that market outlook.

Also be aware of announcements, company specific, earnings reports, maybe major announcements about sales or changes of board of directors, broad market dynamics, political situations, military situations. Be aware of what can move my stock, its industry or the overall market. And be aware of what those headlines might be and when those announcements are coming out.

If you have made a determination that you need to take action, what are some of those actions? And let's just discuss, again, broadly speaking, not drilling down on a specific trade example, but what types of things are options users

doing. Well, certainly holding the position. That sounds rather obvious, but it's actually a decision you're making.

If you hold a position open day after day, week after week, it's because you are continuing to determine that your market thesis is the same and this position you have is still consistent with that market thesis. Whether you're an option buyer or seller different from trading shares of stock, you have to think about time decay.

Time decay accelerates as expiration approaches. If you're an option buyer, you will want to know how much time value is in the option I own. And I know by the time we get to expiration, that value is going to be zero. A seller also wants to know. That seller is trying to capture time value. So a seller is going to look at how much time value is left in the option that I'm short.

I know that value is going to zero at expiration and as it moves along that time continuum, you'll make a decision. Do I want to continue holding this trade and either suffer time decay from the option buyer's perspective because they think the market's moving in their direction. Or for the option seller, is there enough time decay in here to make it worthwhile holding these obligations open?

If you sell an option for \$2 and now it's trading for \$0.10 and there's two weeks to go until expiration and you're the option seller, one thing is have two weeks

and all you can make is that last \$0.10. Ask yourself, is it worth it? And that's where position management might come in. You have holding the option, you have closing the option or you can also say scaling down if you're trading multiple size, 5 lots, 10 lots or more. You could scale down here.

I would say risk reward tolerance. I'm going to be a little more specific than that. I've said a few times already. You're constantly evaluating your opinion on the market, what direction do you think the market's headed, what market thesis do you have, and you're matching your trade against that. But you're also managing money. You're managing your account, your account balance, your return, each month, each quarter, each year.

And to a large extent that's where risk tolerance comes from. Do I need to take a winning trade here? Do I need to close out a winning trade, or can I let this one go further? It's a combination of, is my market thesis the same, is the position consistent with that thesis? And then the element of managing money, should I close this out, should I scale down, should I hold it, can I hold it. You're managing money while you're managing the market thesis against your position.

And if I may, that bid ask spread piece, I think that's really important to take into consideration. Ultimately, it's a function of open interest and volume. So think of it this way that more open interest and more volume that's traded on

an individual option. the tighter their spreads are going to be, the more efficient you're going to be able to get in and out of that option at very reasonable prices.

I remember having a conversation with a client. He had 50 contracts that he was trying to get out of, and he would keep placing his day orders every day, every day to get out. And he called and he was just like, hey, why can't I get out of this? And I looked in open interest, open interest was 50 contracts. And I just said, sir, you're the only one on the planet that has these options. And you are betting against yourself. You're trying to get out of a position against yourself. So you might not like the price that you're going to get, but you can get out of it.

**Michael McCrary:** So just keep in mind the bid ask spread. That's something to pay attention. You don't want to be trading illiquid options that have very low open interest and very low volume because the spreads are going to be so wide. You could drive a truck through. And that's not going to be good whenever you need to get out.

**Ed Modla:** Thanks for picking that up. I glossed over it, but absolutely whether you're entering the trade or exiting, what it says or crossing the bid ask spread and what it takes out of comes to the concept of liquidity. And when there are options who's bid ask is very wide because no one's trading them, and if you



do open a position, you're the only one in the world who's done so. So to get out of it, you're going to have to hit the bid or take the offer.

Before you open that position you're thinking, should I trade these options at all? And believe me, I've had many customer complaints about the bid ask spread. This is too wide. What are you going to do about it? Well, it's wide because no one is interested in these options. Market participants in the world are not interested. The only bid and offer you're seeing is coming from a market maker who's obligated to provide the bid and offer.

So you might decide that's not an option I'm going to get into. It's a part of the analysis. Some stocks don't have any options at all. On the other end of the scale, some stocks have options that are very liquid with very tight bid ask spreads, but there is a certain number of equities that have options that market participants are not participating in, and that's when you get your wide bid ask spreads. Certainly, something to consider.

When it comes to rolling, this is not as complicated. In fact, a number of the concepts we'll get to in this session are not quite as complicated as they might on the surface seem to be. Rolling involves closing the position you have and then establishing a brand new position. That's all rolling is.

If you're long a call option, it's coming up on expiration, stock hasn't moved the way you thought it was going to move, you want more time. You can roll

out your call option, roll out. That just means sell the option you have and buy a new one, establish a new call position at a later expiration date. It's called rolling out.

I want to say very carefully here that many investors seem to think that when you do things like rolling or position management, there are ways to always avoid losses. That question has come to me from a long call holder who paid \$2 and now it's worth a nickel. They'll say, how do I fix this? What do I do? I need to manage this position. How do I fix it?

And the answer is, you can't. There is not magical position management techniques that can bring back money that has already been lost. If you roll out a long call position that is not working out the way you expected, you are taking a realized loss on the original position and establishing a new position at a further cost with the intention that this new position is going to work out and you're going to make back the money you already lost.

You can roll out in time, you can roll up in strike price, sell the strike base you have, buy a higher one. You can roll down in strike. You can do a combination of both. There's different ways to roll positions, but whether you're buying or selling options, they'll add to your debit.

They'll add to your credit, but this position management technique don't think of it as fixing positions that have gone bad. This is just a way to reestablish a

new position to make money back that has already been lost, also so you can roll winning positions as well.

Sticking with this long call example, if you buy a call option thinking the stock's going higher and it moves much higher, much faster than you ever thought it would, and you're still bullish and you've made a lot of money on this call option, you're sitting on this unrealized gain, you're thinking I still think the stock's going up. I don't want to cash out, but I don't want to risk loss if I'm wrong.

That can be a situation where you roll up in strikes. Sell the strike you have, pocket all of that for a realized gain and use some of that gain to buy a higher strike call option at a lower price. So now you maintain a long call position, the upward bullish thesis is still there, upside exposure is still there. But you've already taken in a profit on the trade. That's rolling up a winning position. So you can roll no matter what the situation is a profit or a loss.

Now we're going to shift gears and talk implied volatility. It's one of the most important concepts and definitions that you'll need to know and understand when you're trading options, this idea of implied volatility. There is another volatility measure called historical volatility, which is specific to stock prices. Implied volatility is specific to option prices.

Historical volatility looks backwards in time and observes stock price fluctuations, maybe over the last 10 days or last 30 days or last 90 days, whichever measurement you want to look at is up to you. You decide that time frame that you're most interested in. And historical volatility will take that time frame, analyze the stock price fluctuations and calculate an annualized historical volatility number. It's factual. It's backward looking, and it's observed.

Implied volatility is an attempt by the options market to forecast what type of volatility might we observe in the stock moving forward. Obviously, this is an uncertain number. Everybody here is going to have a different opinion on what volatility level might we see looking forward. But you have to have some kind of volatility assumption if you're going to price an options contract that expires two weeks from now or two months from now, some assumption on what volatility is going to look like over that time frame.

Analyzing historical volatility can help guide an investor towards what implied volatility should be. But by no means is that always the case and by no means do those numbers always match, and think of the classic example of earnings. And we'll see earnings in a couple of slides here. So I won't get too far into that, but we'll see it when it comes up in our example.

There's a few different definitions of implied volatility. I'll start with this one.

Implied volatility is the volatility assumption which justifies a given options price. If you're with us in session 1, think back to those pricing inputs and the pricing model, stock price, strike price, days to expiration, interest rates, dividends. Implied volatility is one of those inputs.

You could leave it unsolved and insert an option price that you're observing on your options chain or if you buy an option or sell an option take your executed options price, insert that into the formula, and back solve for implied volatility. That should make it clear.

It's the volatility level that justifies a given option's price and that's often how volatility is calculated. Give me the option price and I'll back solve for implied volatility. You can also say, as I said earlier, this is a volatility level that reflects the market's assumption or prediction on what type of volatility we might experience in share prices from today moving forward.

As I said, historical might not match implied for various reasons. There could be earnings coming out. There could be different things going on in the past than what we're going to see in the future. At the end of the day, implied volatility is trying to gauge the market, looking forward between today and expiration date.

And while we say all of that, I just have to remind everyone that ultimately prices are simply a function of supply and demand in the market. If there are buyers of options, prices are going up. If there are sellers, prices are coming down. Volatility levels will settle wherever there is equilibrium between buyers and sellers. That's where it's going to settle. And that becomes the market's interpretation of where volatility should be.

So we're going to get into a hypothetical example here about earnings, so we can see a little bit of this in action. Here we have a fictitious stock, pre-earnings. Stock's trading \$100 a couple of weeks of expiration. The implied volatility level of the 105 strike call is 50%. And the value of the call is \$1.85.

And we got the Greeks there as well. We're not talking Greeks today. They're just there for reference. So the value of this call is \$1.85. Let's say you're a buyer of this call option for \$1.85 thinking earnings are going to be good, stock's going to rally I want to buy call option to make money off of that. So a week later, earnings come out, stock rallies 5% off of earnings, but you see your call value dropped about a third of its value and you lost \$0.65 on your \$1.85 investment.

You can see that one week of time came out of this option and that volatility is significantly lower than where it started. The stock moving higher was a positive influence on your call option. But the other pricing factors, the

reduction in time and the reduction in implied volatility, which again just means there's more sellers than buyers of options, that had a greater effect. And this investor lost money.

Now you can forecast this. You can maybe look back to an options calculator and see if I do take out a week and I drop implied volatility to various levels, what does that do to the price of the call? And then from there you can determine where do I need this stock to get to be profitable. Maybe it's 107, 108, 109, and you still might decide to buy this call option.

So this isn't an explanation to say you should shy away from buying options prior to earnings, just know where you need the stock to get to. It reminds me of a conversation I had, I think, it was last year, with an investor. I remember it because it was probably six conversations.

But they bought a call option. Stock was trading around \$30 a share. They bought it right before earnings. Earnings come out, stock pops 10% and they lost most of their money in the call. And they're calling complaining. This is wrong. Who's taking my money? Who's stealing my money?

Well, of course, that's not the case. It didn't take long to look back at previous earnings announcements and see this stock was moving 18, 20, 22% after every earnings announcement. Options were pricing in that kind of movement

prior to earnings. And this investor bought into that without knowing what they were buying into.

In this case, a 10% move after earnings was mostly a non-event for this stock. And the option price adjusted accordingly. Again, that's not to scare people away from buying options before earnings. But know what volatility level you're paying, you can quickly look at historic levels to see where might volatility be after earnings. Use a calculator and see where do I need the stock to go to make money.

And if you're comfortable with the stock going to that magnitude after earnings, you could still be a buyer of options. Just know what you're getting into before you do that.

**Michael McCrary:** That's an expensive lesson to learn. You do that a few times.

**Ed Modla:** Sometimes you do have to learn the hard way. I've done it many times myself, but that's sometimes the best way to remember and learn. And you asked in the first session, what are the common pitfalls? Trade too early, but maybe trade size too early. When you do feel comfortable enough to go in a live account, maybe it does make sense to start with just one contract at a time just to discover what is out there that I don't know.



And for this investor, I don't know how many contracts they bought, but they were not grasping the idea that options are going to price in an expected move in the stock. And then further, well, what expected move might there be? And it didn't take long to look back at previous earnings announcements and see very large moves. 10% was not a large move in this stock at all.

Now let's talk dividends. In this section here, I'm going to explain it in maybe a different way than you've heard it before. So it might take a little bit of extra concentration, absorb what you can here. And we'll see how it goes. But we'll start just with what dividends are broadly speaking, in general.

Dividends are cash payments made by companies to shareholders. And often they are made on a quarterly basis. And often they can be forecasted or predicted. Most of the time they are done on some regularly scheduled basis. And the amount of the dividend is more or less known.

A side note here. There are such things as special dividends, which come out which are unannounced, which the market cannot foresee and the options market cannot predict or use in its pricing models. Those are unique circumstances. The options market might actually decide to adjust the contracts to account for special dividends. We're not talking about that here. I'm at your standard regularly scheduled dividend payment, cash payments to investors.

An important distinction is that dividends are paid to shareholders of record. Call holders are not shareholders. If you own a call, you do not have the same privileges as shareholders do. You don't have voting rights, for example. You also don't have eligibility for a dividend payment.

You also know on the ex-dividend date the stock is going to drop by the amount of the dividend naturally aside from your market forces of supply and demand on that particular day. But naturally since it's a cash payment off of the balance sheet of the company, the stock price is going to drop by that dividend amount.

And since stock prices and options prices are so closely tied together, you might need to know if you are a call holder, particularly, is there something I need to do here to avoid suffering a loss? And that's what we're about to get into.

I'll first we'll look at the dates and set the timeline. For dates here to look at a declaration date, which is the date upon which a company will announce its dividend. It will also announce the amount of the dividend, when shareholders of record are going to be extracted or when it will literally record its shareholders for eligibility for the dividend payments, and then the payable date, which is when the actual cash is sent. All of those details are provided by the company.

The ex-dividend date is not determined by the company. It's set by the exchanges per exchange rules. The ex date is when the stock starts to trade post dividend. When that dividend amount is taken out of the share price, that happens on the ex date. If you buy shares on the ex-dividend date, you are not entitled to a dividend payment. And I already defined record and payable. But here's your timeline.

As a call holder, what we're about to get into is a call holder determining should I exercise my option early to capture the dividend and avoid a financial loss? On the timeline, you can see for a call holder to do that, they must exercise their option one day prior to the ex-dividend date.

If a call holder does that, the resulting stock transaction is considered to have occurred on the day of exercise. So again one day prior to ex-div, that's when the call holder is looking at this situation.

And when it comes to early exercise, it's fairly rare. The circumstance of dividends when it comes to call options is generally the only circumstance that might lead an investor to want to exercise early for put options that's even more rare where deep in the money put options that are very valuable might be subject to early exercise. Well, for calls it's the situation of dividends. So I'm to throw up the analysis, and then I'll break it apart and we'll talk about it.

So there's three pieces in this analysis that I have here. First of all, for-in-the-money call option, strike price is below where the stock is currently trading.

Well, that makes sense. That's the first checkbox. You're not going to exercise an option and buy stock at a price above or shares are currently trading in the open market.

Of course, you're not going to do that. So there's your first look. Is my option in the money or not? If it is, you've checked that first box. The second criteria that I'm going to say here is, you cannot execute a closing transaction that would capture any time value at all above intrinsic value.

So putting numbers on that. Stocks at 75. You're along the 70 strike call. It's going ex-div tomorrow. Is it in the money? Yes, 70 strike in the money. Stock at 75. Can I capture any time value? You can look at your options chain. Well, the option is in the money. It's also in the money by \$5. That's its intrinsic value.

If you can sell the option for anything greater than \$5, you are capturing some time values. That make sense. Because some time value coming in above intrinsic value. If you can do that, then this option is not a strong candidate for early exercise. Because remember when you're exercising an option, what are you doing?

You are giving away time value to capture intrinsic. If you can sell to close an options contract and actually capture it, that is financially superior. So there's checkbox number 2. It's in the money, and I can't sell it for anything greater than its current intrinsic value.

And then the third piece to this statement. This is maybe the one that's a little bit more difficult to wrap your mind around. A third criteria is if the dividend amount is greater in value than the corresponding put option or the put option at the same strike price as the call you're exercising. Now let me explain that one.

Who here is familiar with synthetic options positions? What are synthetic options? I'll say nobody in the audience. Everybody here and online is going to know something about synthetics over the next 2 minutes or 3 minutes.

Removing ourselves from this example, there are three instruments in the options world, stock, calls, and puts. You can buy or sell any of those three. You can buy or sell stock, buy or sell calls, buy or sell puts. Add that together six unique outright positions that you can initiate.

If you give me any one of those six, I can recreate the payoff structure or the risk profile of that one by combining the other two instruments in some way. So for example, long stock is one of those six positions. You make money as the stock goes up. You lose money as the stock goes down. You break even

right at your entry point. I can recreate that by buying a call and selling a put at the same strike price same expiration.

It's going to look exactly the same. I make money as the stock goes up. I lose money as the stock goes down. I break even right in the center. The payoff structure is exactly the same. That's what synthetics are. Give me one position and I'm going to take the other two instruments and combine them in such a way that I've recreated the exact same risk profile and payoff structure. That is synthetics.

Back to our example here, we are long a call option. Now there's a few things you can do if you're long a call. You can sell the call option and be done with it. That means tomorrow you've got no position. Long call today versus no position tomorrow is very different. That's a totally different market outlook and open position exposure, no exposure.

You could exercise your call option and buy shares of stock and do nothing else. Again, that's very different. You have long call today, upside exposure, downside protection. If you exercise into shares of stock, you have a lot of downside exposure, a lot of downside risk. Those are not comparable positions.

Let's say you have a long call today and you want a long call tomorrow, one thing you can do is nothing. You can just hold the call option from one day to

the next, but we already outlined in our check-boxes that you might suffer from the dividend going ex tomorrow if you hold the call and do nothing. So what else can you do? You have a call today, you want a long call tomorrow, and you don't want to suffer from the stock going ex-div.

If you exercise your call option to capture the dividend, you are going long stock, if you have a long stock position, what can you do to protect a long stock position using options? And its most simple form or the most easiest things and common strategies investors use to protect the long stock position using options. It's buying a put.

Everyone understands buying stock and buying a put. In fact, if you buy a put option at the same strike price as the call option you exercised, you have created the synthetic equivalent position from a risk payoff perspective as the call you started with. So the final point here as I close it up, how did I get to comparing the dividend to the corresponding put option by exercising the call, you get a financial benefit of the dividend amount.

If you want to maintain the same risk profile and payoff structure of the long call you started with, you have to take some of that dividend and buy a put option. Therefore, if the dividend amount is greater than the price of the corresponding put, you now have a very strong candidate to early exercise

your option. That was a long winded explanation there. And as we go to our demo now.

**Michael McCrary:** And I think we talked about it in the first session, but we think about American style versus European style. It's pretty safe to say this is only going to really happen on the early assignments on the American style options.

**Ed Modla:** For sure, American style, early exercise. European style is going to be priced differently. European options if it were a dividend coming up, a European pricing model would incorporate that dividend amount, assume the stock price is going to come down, but also assume you're holding this option till expiration. So European options would actually be priced lower than American style in that circumstance. But yes, it has to be American style we're going to talk about early exercise.

**Michael McCrary:** I got a lot of good questions from the live audience, a lot of good questions from those joining us online. I'm going to get this right this time. There we go. And I close that out. We'll jump into some of the tools. And we're not going to be able to get to all the questions. I'd love it if we did have time, but we need to make sure we have time for Konstantin and Jessica to join us for our last session for the afternoon.



Ultimately, if we don't get to your question, just know that you can call our trading teams at the 1800 number. They'll be able to address your questions. If you'd like to have a virtual meeting with myself, just make a note on the surveys here for the live audience and let them know that you'd like to meet locally with myself or virtually, and they'll put us in contact with one another.

So with this, I think a couple of things that are important that we're touched on by Ed in the option chain, there's just a quick way that you can add a couple of metrics here within the columns. Just mouse over some of these columns and you can just right click on that column header.

In this case, I'm going to just right click over Volume. And I'm going to go to Add Column. And then out to the right, it gives me a list of the dropdown metrics that I can add as a column within my option chain. So all I have to do if I wanted to add time value, I'll just come in here, click Time Value. That's going to be relevant. As we get closer to expiration, we'll see those go to zero.

And then we also talked about implied volatility. So if I wanted to add implied volatility, I'll just come down here we'll just say IV Mid. That's the mid of the bid and the ask. And that way I can track implied volatility on the underlying security. Now I've always said that implied volatility doesn't really tell us much unless we have something to compare it to. And that's what Ed was referencing earlier.

When you're looking at implied volatility, you always want to compare it relative to historical volatility. I've always found it to be most-- I'm a visual guy. I like the charts. I like going in and seeing what information is available here within the chart that allows me to capture that historical relationship of implied versus historical volatility.

And in this case, I'm just going to go to my chart, go to Indicators. And we're going to type in just really quick type vol. And then that way I've got here volatility. HV's and IV's. So if I click that, and I'll maximize this chart. That way it makes it a little bit easier for us to see. Then the blue line is the historical volatility. The orange line is the implied volatility. So we can see at different periods, you see these extreme peaks that are occurring in the implied volatility relative to its historical volatility.

Now I'd ask the audience what does that typically relate to. But for sake of time, I'm just going to go ahead and show you. I can go to Events. If I click on Earnings, this is typically what you'll find. Now I'm displaying earnings announcements, historical earnings announcements.

And I can see here clearly that as the stock approaches an earnings announcement, I'll see that implied volatility level rise. And then once that earnings announcement is made public, then you'll see the implied volatility

collapse. And that pertains back to Ed's comments regarding the examples that he had with the client that he was working with at one point.

Now from here if I wanted to use the technical analysis to place some trades, take for example Apple. We're just going to use Apple as the example. I'm not recommending you go out and put this trade on by any means. But you see Apple we've got some clearly defined levels of resistance here using some moving averages.

So if you wanted to buy Apple and then sell a covered call against it, this is giving you some key levels that you might want to consider selling a call against. It just depends on how aggressive you want to be. Keep in mind the strike price, which you choose is the price at which you are intending or obligated to sell your stock at if it goes above that strike.

So if I'm looking at Apple and I wanted to quickly place a trade, let's just say I want to be a little bit more conservative. We'll look at the 155's. And let's go to December. So that gives us about a month. I wanted to do a buy write.

Probably the quickest way to go about this is I call this a ghost menu here on the left-hand side.

It's a ghost menu because if my mouse sit and hovered over it, I don't see it. But here if I hover over this menu, I see it. It pops up. And here. I can quickly go to Trade Strategy and select Buy Write. So that's probably the fastest way

that you can get to entering into a covered call or as we're doing right here, we're buying the stock. And then we're selling a call against it.

So I'll leave everything as is. And if I wanted to, I could just come in here and change the amount if I wanted to adjust that. But that's probably the fastest way. If you wanted to enter into a covered call, you could do so just from within the option chain. And again we're using charts. We're using technical analysis to give us an idea of maybe which strike prices might be most appropriate based on our risk reward metrics.

Now, if I'm already in a covered call, for example, if I go back to the option summary. If I go to Options by Expiration, here I've got this position. It looks like we've got 100 shares. And then they've sold a December call. If I just use this dropdown, and again that menu appears, I can close the strategy from this view.

But if I also go into-- let's see here go Options by Strategy, the covered call is displayed. And from here, I can close the strategy or trade the strategy or from here-- let me go to the positions. That's probably the faster way to go about rolling it. So I can go right here and just select Positions. Bank of America.

We've got that in here as well.

Use the call options. I just went on the call option. We're just going to switch over to Bank of America, in this case. But if I use that menu, I can go to Roll,

and then out to the right it gives some pre-configured expiration dates and strike prices that you can choose from.

And in this case, it goes out to February and March. Maybe I don't want to go out that far. I wanted to roll forward. But ultimately, you can go in and just select you're buying-- you're selling to close the existing position that you're in. And then ultimately, you're going to go in and sell to open. There we go. So we're buying to close the existing position and then we're selling to open.

If I wanted to go out to, let's just say February's expiration, and in this case, we're in the 40's. Maybe I want to roll up to the 45's. This is just a quick way for you to make that adjustment, extend yourself out, extend the position out in time, and also extend the strike price up. So not obligated to sell it at 40. Now I'm obligated to sell it at 45 if I chose to do so.

The last thing here, and then we'll get into some of these questions, I think, it's worth just highlighting is the option pricing. So if we go into Options here at the top. I can go down to the probability calculator. And these are some of the various metrics. Let me just type in Apple. We'll get Apple going, pull this up.

So some of the various metrics that we can include here, you can define different target prices. And in this case, I'm just going to say 155 because that was a strike price that we had in our example on the trade. And I'm going to

go out to the date. And we'll just pick the expiration date in December of the 16th.

And if I wanted to maybe modify the implied volatility, how does that adjust the probabilities? It'll certainly give me those calculations. But right now, it's telling me I've got a 62% chance that Apple based on what we know today that could all change within one news announcement, but based on what we know today, I've got about a 62% chance that Apple will be below 155 on the expiration date.

And that's a pretty good probability for us to put this straight on with reasonable consideration that maybe it stays below the 155 strike. I just get the pocket premium. I get to keep my stock, and I just wait till the next month and we'll do it all over again. So ultimately, I think there's a lot of tools in here that could benefit various clients. And some might be more beneficial to one versus the other based on what your trading strategy is.

But if there are questions, if you wanted to dive into the tools, there's a lot of other online educational webinars. And obviously the strategy desk is available to walk through the tools and discuss strategy as well as your local regional brokerage consultants. So thank you for your time, everyone. Have a great day.

END OF AUDIO FILE

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