

# Lyons Wealth Management

*Specializing in Hedged & Income Strategies for Concentrated Positions  
and Other Marginable Assets*



**MARGIN OF OPTIONS TRADING  
EXPLAINED, AND TAKING OPTION  
TRADES FROM ALGORITHMIC  
SYSTEMS.**

**Lyons Wealth Management**

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# Lyons Wealth Management

Serving investors with an aptitude for options trading



- **Client Centric Focus**
- **Income and Hedging Strategies**
- **Long History of Developing Solutions**
- **Forward Thinking Approach**

[www.LyonsWealth.com](http://www.LyonsWealth.com)

# Lyons Wealth Management

## Margin of Option Trading

### EQUITY OPTIONS: SPREAD EXAMPLES

#### CALCULATION, REQUIREMENT AND EXPLANATION

Long 1 Nov 125 call at 3-3/4  
Short 1 Nov 120 call at 8-3/8  
(Long expires with short)  
Underlying security at 128-1/2

*Margin Calculation:*  $100 \times (125 - 120) =$  \$500.00

*Margin Requirement:* \$500.00

*SMA Debit or Margin Call:*  $\$500.00 - (\$837.50 - \$375.00) = \$37.50$

*Explanation:* For the same underlying instrument, the margin requirement is the amount by which the long put (short call) strike price is below the short put (long call) strike price. The long side must be paid for in full. The proceeds from the short option sale may be applied.

Long 1 Nov 250 put at 3  
Short 1 Nov 240 put at 15/16  
(Long expires with short)  
Underlying security at 255

*Margin Calculation:*  $300.00 - 93.75 =$  \$206.25

*Margin Requirement:* \$206.25

*SMA Debit or Margin Call:*  $\$300.00 - \$93.75 =$  \$206.25

*Explanation:* For the same underlying security, the margin requirement is the amount by which the long put (short call) strike price is below the short put (long call) strike price. If this condition is not met, as in this example (the long put exercise price exceeds the short put exercise price), the margin requirement is to fully pay for the net debit of the spread.

Long 1 Mar 70 call at 5  
Short 1 Jun 70 call at 8  
(Long expires before short)  
Underlying security at 75

*Margin Calculation:*  $5 \times 100 =$  \$ 500.00  
 $8 \times 100 =$  800.00  
 $20\% \times 100 \times 75 =$  1,500.00  
\$2,800.00

*Margin Requirement:* \$2,800.00

*SMA Debit or Margin Call:*  $\$2,800.00 - \$800.00 =$  \$2,000.00

*Explanation:* In order to qualify for spread treatment under Exchange Rules, the long side must expire with or after the short. If not, both sides must be treated as separate positions. The proceeds from the short option sale may be applied to the initial margin requirement.

# Lyons Wealth Management

Funded with the borrowing power of your stock position

Unlike covered call programs, the Lyons Algo Overlay does not involve trading of your underlying stock portfolio—either directly or through options. Instead, we use the margin borrowing capacity of your concentrated stock holding to fund the construction of the Overlay, which is built entirely from listed index options.

### Based on Market Indexes

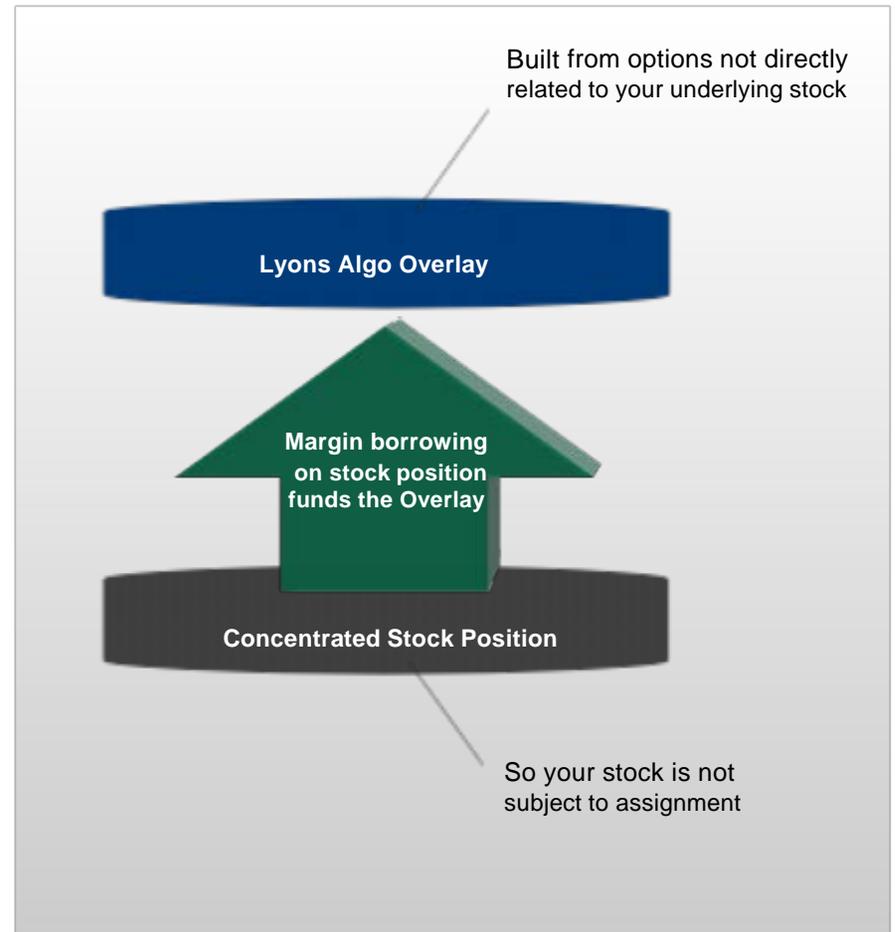
To build the Overlay we typically use options on indexes, such as SPY, QQQ, and IWM to keep individual company risk to a minimum.

### Built with Moderate Borrowing

In implementing the Overlay, we typically use less than half of a client's margin borrowing capacity. This may vary depending on each individual client's margin balance.

### Directional Strategy

We seek to generate income regardless of market direction.



# Lyons Wealth Management

## Put Spread Explained – an example of one of the many trades we can implement in Overlay

### Put Spread

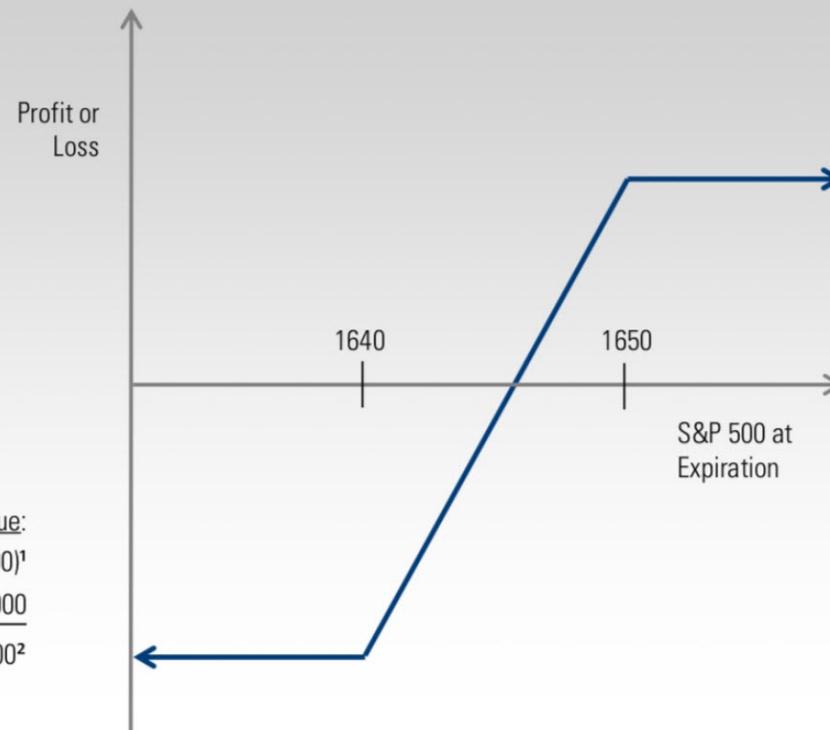
Hypothetical example; numbers do not represent actual trading, quotes, prices or gains

**100 Contracts**  
**10,000 Shares**  
**(1 contract = 100 shares)**

**100 x \$1.40 x 100 = \$14,000 Credit to Cash**

#### How a Trade May Appear in Your Account:

	Option:	Quantity:	Market value:
Sold	SPX Dec 21 2013 1650 Put	(100)	\$(125,000) <sup>1</sup>
Bought	SPX Dec 21 2013 1640 Put	100	\$111,000
			<u>\$14,000<sup>2</sup></u>



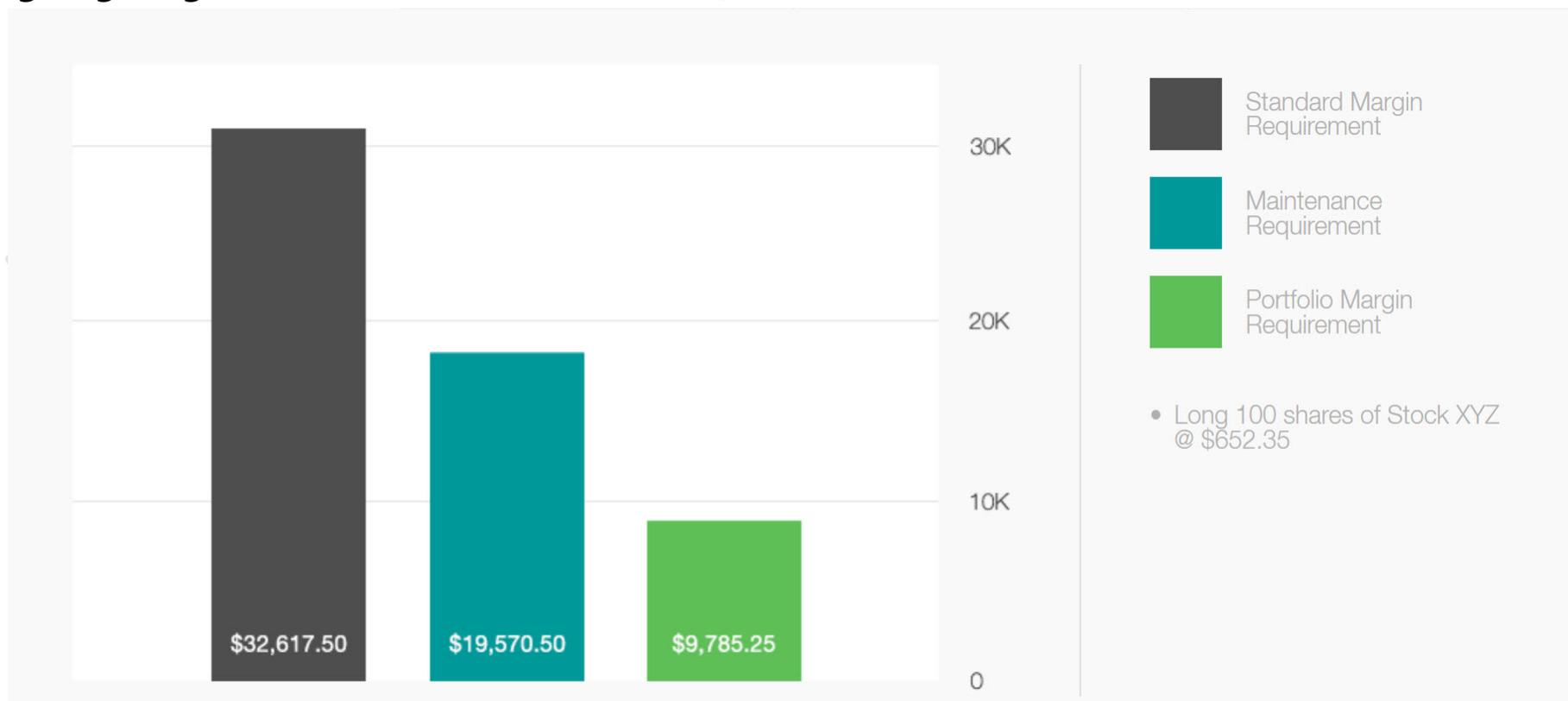
<sup>1</sup> Short option positions are displayed as negative values until positions are closed or expire.

<sup>2</sup> Represents net initial credit from option positions. Option values may fluctuate and possibly become negative, and net initial credit may diminish and possibly become a debit. There is no guarantee against loss in options trading.

# Lyons Wealth Management

## Portfolio Margining

Get more trading leverage, diversify your account, hedge risk, and potentially seize market opportunities with portfolio margin. Designed to offer lower margin requirements and increased account leverage, portfolio margin may potentially lead to greater returns. Of course, greater loss is also possible. But the goal is to align margin requirements with your portfolio's overall risk, based on the net exposure of all positions, and not just on individual positions. **(example based on going long 100 shares on XYZ @ \$652.35)**



# Lyons Wealth Management

## Algorithmic Trading?



An algorithm is a specific set of clearly defined instructions aimed to carry out a task or process.

Algorithmic trading is the process of using computers programmed to follow a defined set of instructions for placing a trade in order to attempt to generate profits at a speed and frequency that is impossible for a human trader. The defined sets of rules are based on timing, price and our mathematical model. Algorithmic trading makes trading more systematic by ruling out emotional human impacts on trading activities.

# Lyons Wealth Management

## The Algorithm

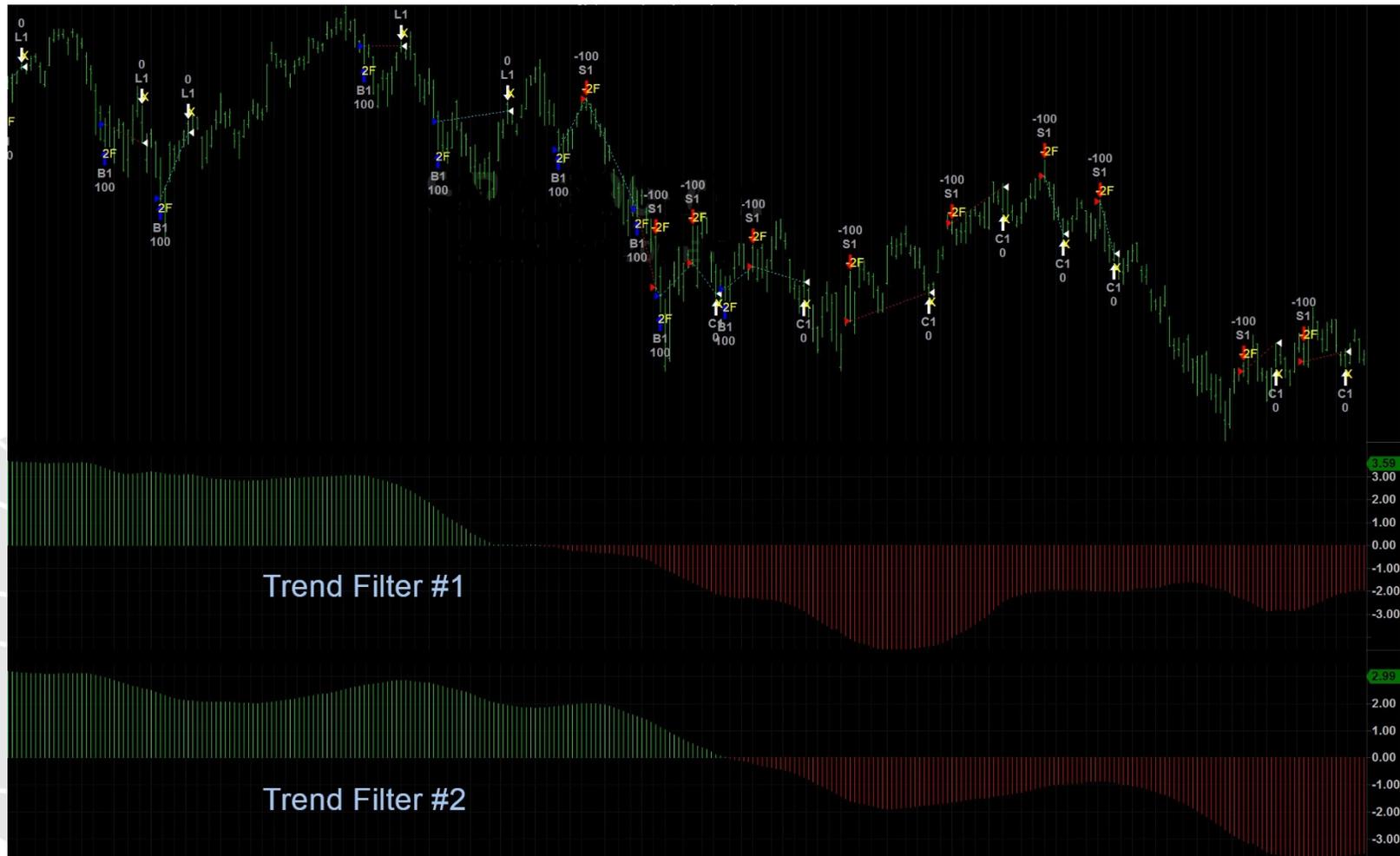


The Algo Overlay Strategy is a blend of multiple sophisticated proprietary trading algorithms which analyze price data from multiple markets. The algorithm consist of strategies in which the investment thesis is predicated on exploiting pricing anomalies which may occur as a function of expected mean reversion.

The algorithm will use the closing price at the end of each day to determine if the market is bullish, bearish or neutral according to our trend filter.

# Lyons Wealth Management

## Algorithmic Trend Detection



When both trend filters are green this indicates a bull market, only buy signals will be taken. When "Trend Filter #1" turns red this indicates a neutral market, both buy and sell signals will be taken. When "Trend Filter #2" turns red this indicates a bearish market, only sell signals will be taken.

# Lyons Wealth Management

## Mean Reversion



Mean reversion is based on the assumption that a stock's price will tend to move to its longer term average price over time. Using mean reversion in stock price analysis involves both identifying the trading range and computing the average price using analytical and mathematical techniques.

The basic concept is when the current market price is less than the calculated average price then the market is considered attractive for purchase, with the expectation that the price will rise. When the current market price is above our calculated average price then the market price is expected to fall.

# Lyons Wealth Management

## Same Index Components, Different Margins

Converting your algorithmic signal to ETF's, options or future contracts:

SPY = \$270.40 (100 shares total value = \$27,040)  
100 Shares = 0.2 ES future contracts  
100 Shares = 0.1 SPX  
100 Shares = 2 SPY Options @ .5 Delta

ES = 2717.00 (Tick value: \$50, Total value = \$135,850)  
1 Contract = 500 SPY  
1 Contract = .5 SPX  
1 Contract = 2 ES Options @ .5 Delta

SPX = 2711.93 (Tick value: \$100, Total value = \$271,193)  
1 SPX = 1000 SPY  
1 SPX = 2 ES future contracts  
1 SPX = 2 SPX Options @ .5 Delta

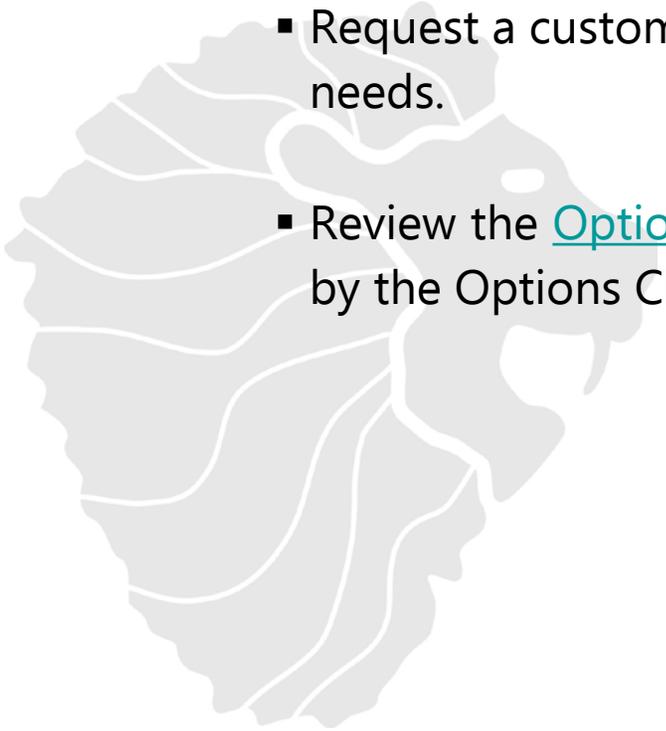


\*Prices based on close price on 3/21/2018

# Next Steps



## We invite you to...

- 
- Request a customized proposal addressing your portfolio needs.
  - Review the [Options Disclosure Document](#) (“ODD”) published by the Options Clearing Corporation.

# Disclosure



This material was prepared exclusively for information and discussion purposes and to indicate preliminarily the feasibility of a possible investment opportunity. The material is not meant to be nor shall it be construed as an attempt to define all terms and conditions of any transaction or to contain all information that is or may be material to an investor. Lyons Wealth Management is not soliciting any action based upon this material, and this material is not meant to be nor shall it be construed as an offer or solicitation of an offer for the purchase or sale of any security or advisory or other service.

No current or prospective client should assume future performance in any specific investment strategy will be profitable or equal to past performance levels. All investment strategies have the potential for profit or loss. Changes in investment strategies, contributions or withdrawals may cause performance results of your portfolio to differ materially from the reported composite return. Different types of investment involve varying degrees of risk, and there can be no assurance that any specific investment will either be suitable or profitable for a client's investment portfolio. Historical performance results for market indices and/or categories, generally do not reflect the deduction of transaction and/or custodial charges or the deduction of an investment-management fee, the incurrence of which would have the effect of decreasing historical performance results. Economic factors, market conditions, and investment strategies will affect the performance of any portfolio and there are no assurances that it will match or outperform any particular benchmark.

The Lyons Algo Overlay is intended for holders of large equity or other concentrated holdings who seek to earn option premium income over and above the dividends or interest payments generated from their existing underlying holdings. The strategy utilizes the available margin capacity of such holdings to purchase options on indices, exchange-traded funds or listed equity options that are different from the client's underlying holdings.

# Contact Information

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