

Interactive Brokers Webcast

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# The Stock Repair Strategy

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Presented by Russell Rhoads, CFA



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# The Stock Repair Strategy

## Outline

- Introduction
- Basic Example
- AAPL Example
- Alternatives
- Questions / Contact

# The Stock Repair Strategy

## Introduction

- **Strategy begins with a loss in a stock**
- **The motivation is to lower the break-even price on the stock**
- **The strategy is a viable alternative to doubling down**

# The Stock Repair Strategy

## Basic Example

- **Purchase XYZ at 70.00**
- **Bad news hits XYZ and stock drops to 60.00**
- **The idea is that the stock may rebound a bit over the near term**
- **Want to recover some losses, maybe break even**
- **Concerned about continued downside and worried about taking on extra risk**

# The Stock Repair Strategy

## Basic Example

- Long 100 XYZ at 70.00 (now down 10.00)
- March expiration in 60 days

**Buy 1 XYZ Mar 60.00 Call at 3.50**  
**Sell 2 XYZ Mar 65.00 Calls at 1.75 each**

**Net Cost = 0.00**

# The Stock Repair Strategy

## Basic Example

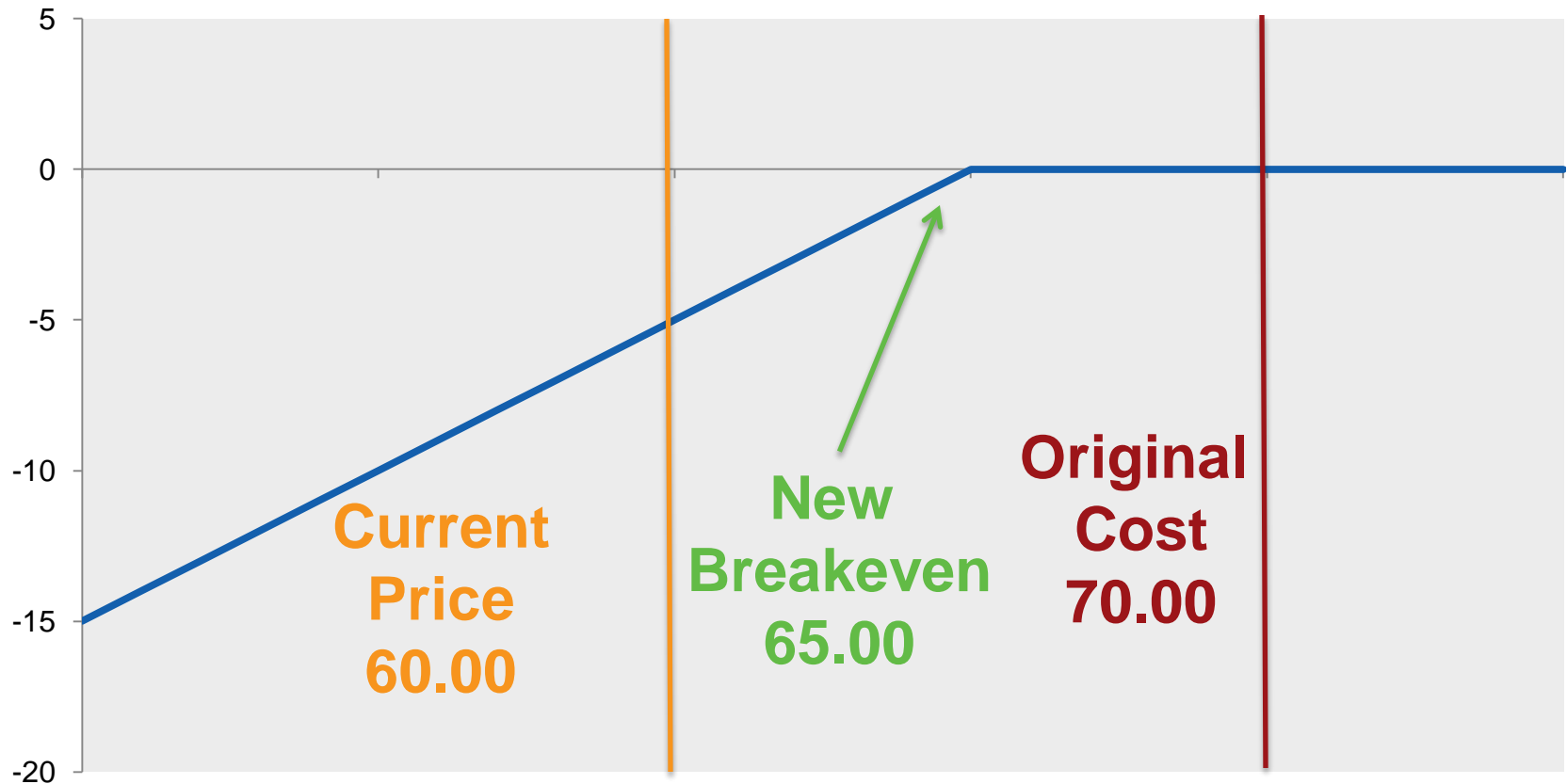
### Payoff Table –

XYZ	Stock P/L	Long 1 XYZ Mar 60 Call	Short 2 XYZ Mar 65 Calls	Credit / Debit	Total Profit / Loss
55	(15.00)	0.00	0.00	0.00	(15.00)
60	(10.00)	0.00	0.00	0.00	(10.00)
65	(5.00)	5.00	0.00	0.00	0.00
70	0.00	10.00	(10.00)	0.00	0.00
75	5.00	15.00	(20.00)	0.00	0.00

# The Stock Repair Strategy

## Basic Example

### Payoff Diagram –





# The Stock Repair Strategy

## Basic Example

- Down 10.00 points on a stock
- Were able to improve the break-even level without taking on more risk
- Goal – get our money back!
- In the real world...this works too

**Let's take a look at AAPL...**

# AAPL Example

## AAPL Stock Repair

### AAPL Price Chart –



Source: Bloomberg

# AAPL Example

## AAPL Stock Repair

- 12/03/2012 – Bought 100 shares of AAPL at 580.00
- 12/24/2012 – Stock trading at 520.00 – 60.00 points lower
- 12/24/2012 – decide to put on a stock repair trade

**Buy 1 AAPL Feb 520 Call @ 31.00**  
**Sell 2 AAPL Feb 550 Calls @ 18.50 ea. (37.00)**

**Net Credit = 6.00**

# AAPL Example

## AAPL Stock Repair

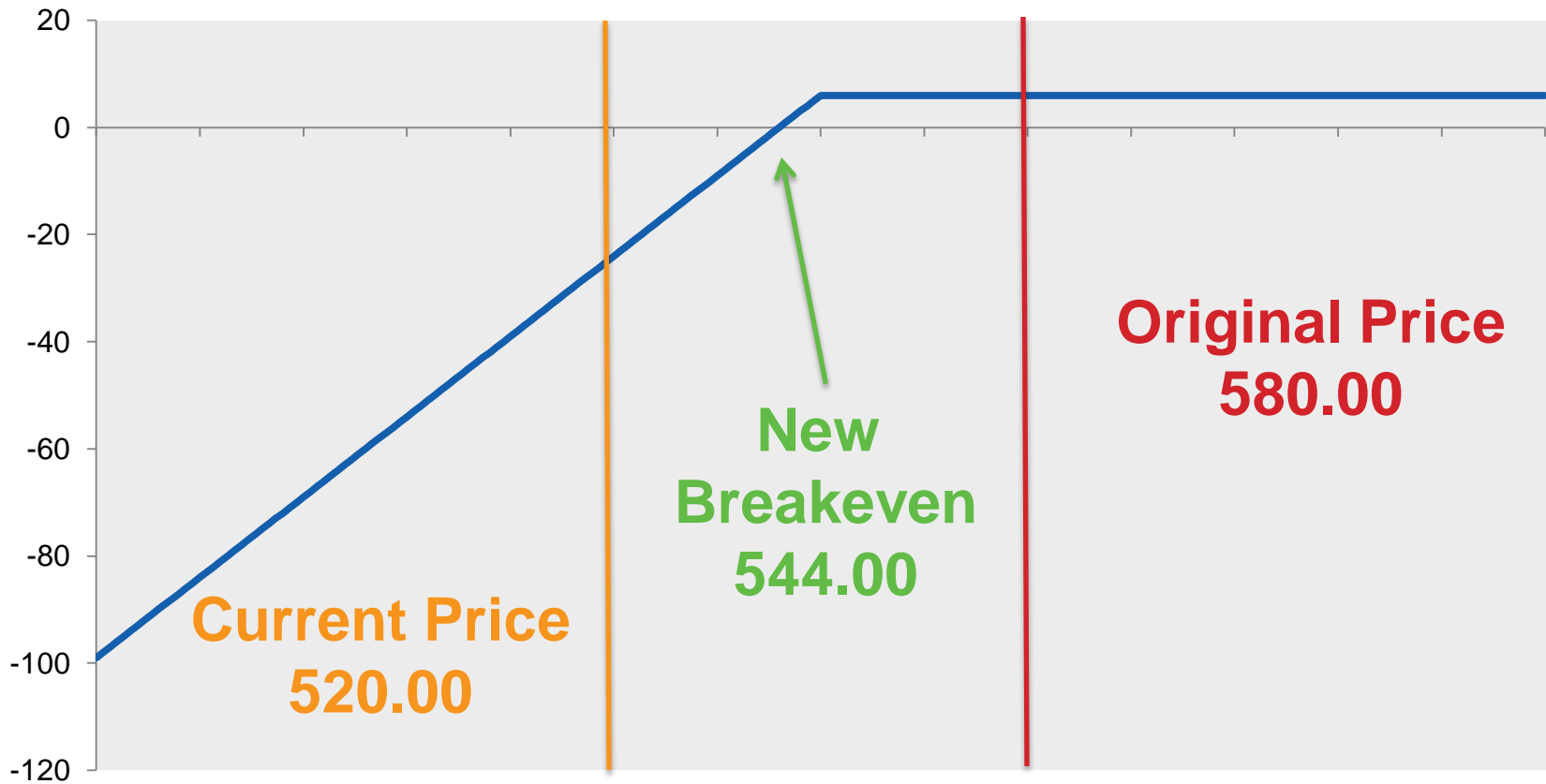
### Payoff Table –

AAPL	Stock P/L	Long 1 AAPL Feb 520 Call	Short 2 AAPL Feb 550 Calls	Credit	Total P/L
460	(120.00)	0.00	0.00	6.00	(114.00)
490	(90.00)	0.00	0.00	6.00	(84.00)
520	(60.00)	0.00	0.00	6.00	(54.00)
550	(30.00)	30.00	0.00	6.00	6.00
580	0.00	60.00	(60.00)	6.00	6.00
610	30.00	90.00	(120.00)	6.00	6.00
640	60.00	120.00	(180.00)	6.00	6.00

# AAPL Example

## AAPL Stock Repair

Payoff Diagram –



# AAPL Example

## AAPL Stock Repair

- **Big loss in AAPL**
- **The belief was that AAPL stock would rebound**
- **The goal of the trade was to break even (plus a little) and get out of the stock**

**The other choices...**

# AAPL Example

## AAPL Stock Repair

- Alternative 1 – hold and hope
- Alternative 2 – double down

**Let's compare the alternatives...**

# AAPL Example

## AAPL Alternatives

### Payoff Comparison –

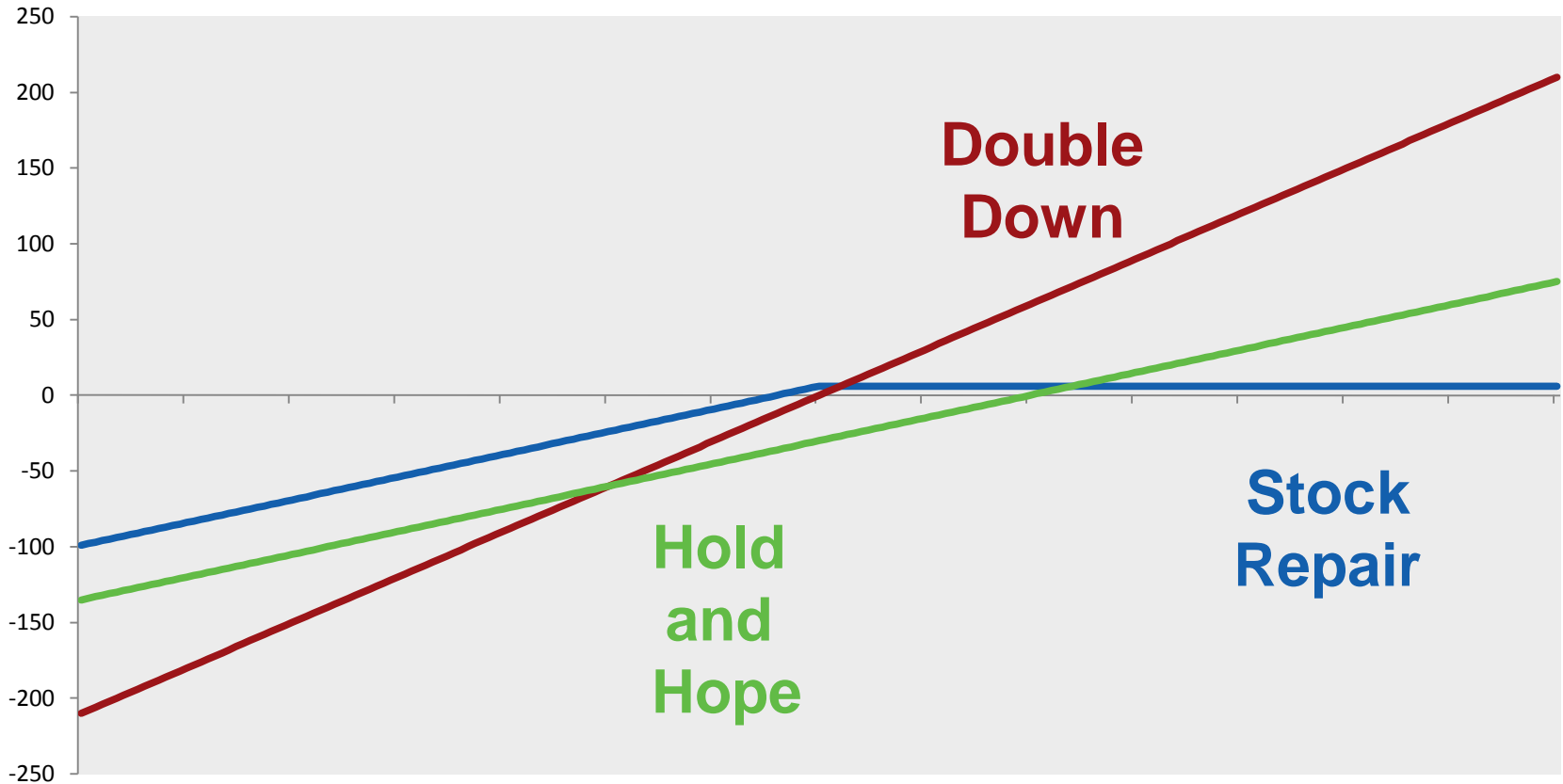
AAPL	Hold and Hope	Double Down	Stock Repair
460	(120.00)	(180.00)	(114.00)
490	(90.00)	(120.00)	(84.00)
520	(60.00)	(60.00)	(54.00)
550	(30.00)	0.00	6.00
580	0.00	60.00	6.00
610	30.00	120.00	6.00
640	60.00	180.00	6.00



# AAPL Example

## AAPL Alternatives

### Payoff Diagram –



# Stock Repair Strategy

## Summary

- **The Stock Repair Strategy begins with losing money in a stock**
- **The strategy allows a trader the ability to regain profits at a lower price but not take on extra downside risk**
- **Profits will be capped at a certain price**

**The goal of a stock repair trade –**

**Try to recover some losses without increasing risk**

# Stock Repair Strategy

## Questions / Contact

**Questions?**

**Contact –**  
**[rhoads@cboe.com](mailto:rhoads@cboe.com)**