

The background of the slide is a high-angle, wide shot of the Chicago skyline at sunset. The sky is a mix of orange, pink, and light blue. The city's skyscrapers are densely packed, with many windows glowing with interior lights. The Lake Michigan is visible in the distance. A large, white, semi-transparent triangle is overlaid on the left side of the image, pointing towards the right, which contains the text.

Option Strategies for a Long-Term Outlook

Interactive Brokers Webcast

June 20, 2018

Russell Rhoads, CFA

Options involve risk and are not suitable for all investors. Prior to buying or selling an option, a person must receive a copy of Characteristics and Risks of Standardized Options. Copies are available from your broker or from The Options Clearing Corporation at www.theocc.com. The information in these materials are provided for general education and information purposes only. No statement within these materials should be construed as a recommendation to buy or sell a security or to provide investment advice. Supporting documentation for any claims, comparisons, statistics or other technical data in these materials is available by contacting Cboe at www.cboe.com/Contact. Multiple leg strategies involve multiple commission charges. Cboe® and VIX® are registered trademarks, and Cboe Global MarketsSM and RUTSM are service marks of Cboe Exchange, Inc. Russell 2000® is a registered trademark of Frank Russell Company, used under license. All other trademarks and service marks are the property of their respective owners.

© 2018 Cboe Exchange, Inc. All rights reserved.



- ❖ Long-term Equity Anticipation SecuritiesSM (LEAPS[®])
- ❖ Long Term Directional Trade
- ❖ Hedged Trade
- ❖ Summary / Q&A



- ❖ Equity and Index LEAPs have option like qualities, but expire more than nine months in the future
- ❖ At less than nine months to expiration LEAPs are reclassified as options
- ❖ LEAPs allow investors an opportunity to engage in an option like payoff with a much longer time horizon
- ❖ They also create unique longer term hedging opportunities



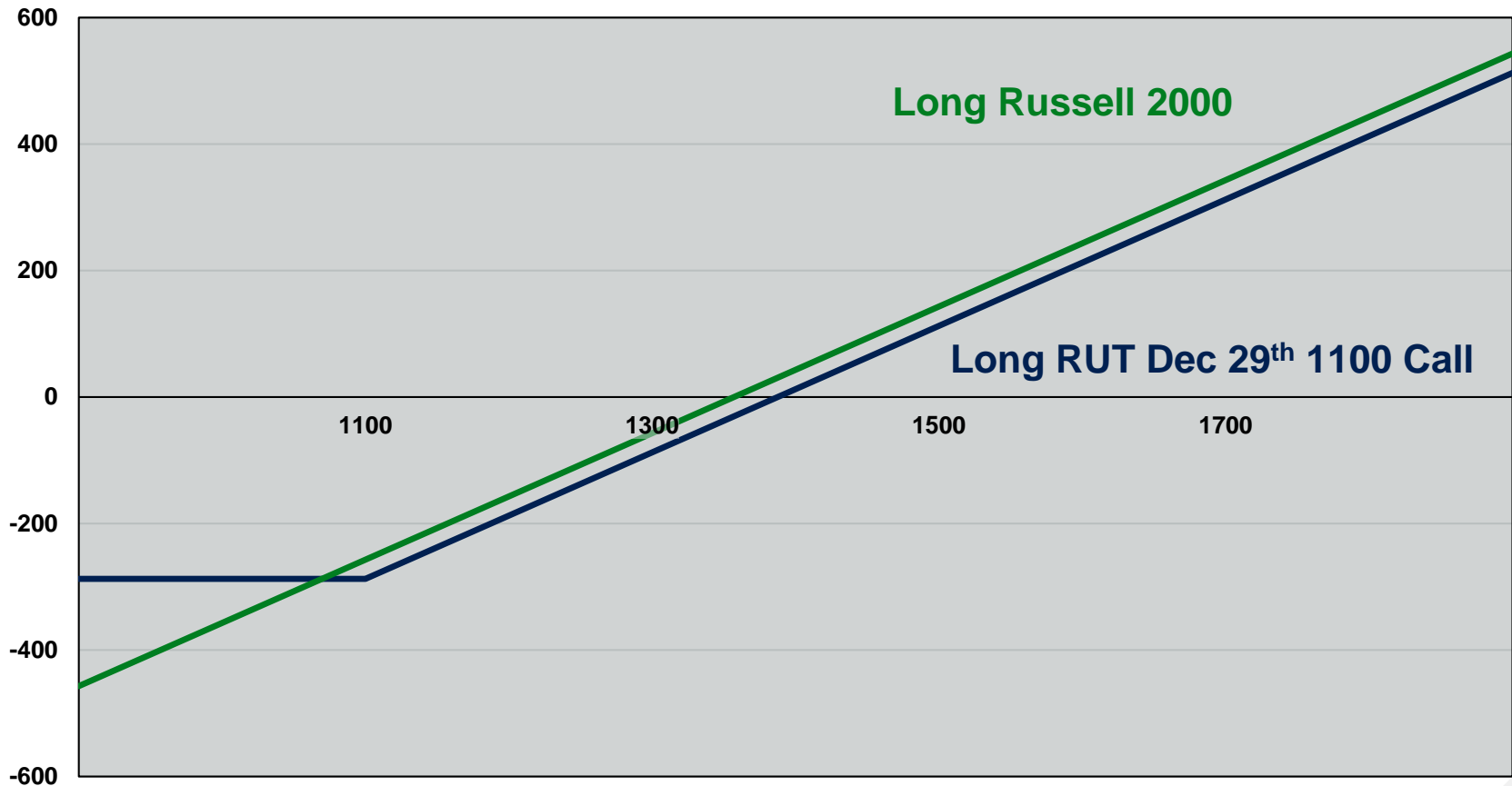
- ❖ December 30, 2016 – RUT at 1357
- ❖ Believe 2017 will be moderately bullish for small cap stocks
- ❖ Decided to buy a 1-year RUT LEAPs

Buy 1 RUT Dec 29th 1100 Call for 287.50

$$\text{Time Value} = (1100 + 287.50) - 1357 = 30.50$$



Long RUT Dec 29th 1100 Call Payoff at Expiration



- ❖ There's a year to expiration and 30.50 of time value
- ❖ Decide to sell an ATM call to offset some of the time value of the RUT Dec 29th 1100 Call
- ❖ Take a look at expirations and settle on the January month end call

Sell 1 RUT Jan 31st 1360 Call at 26.90

Combined Position

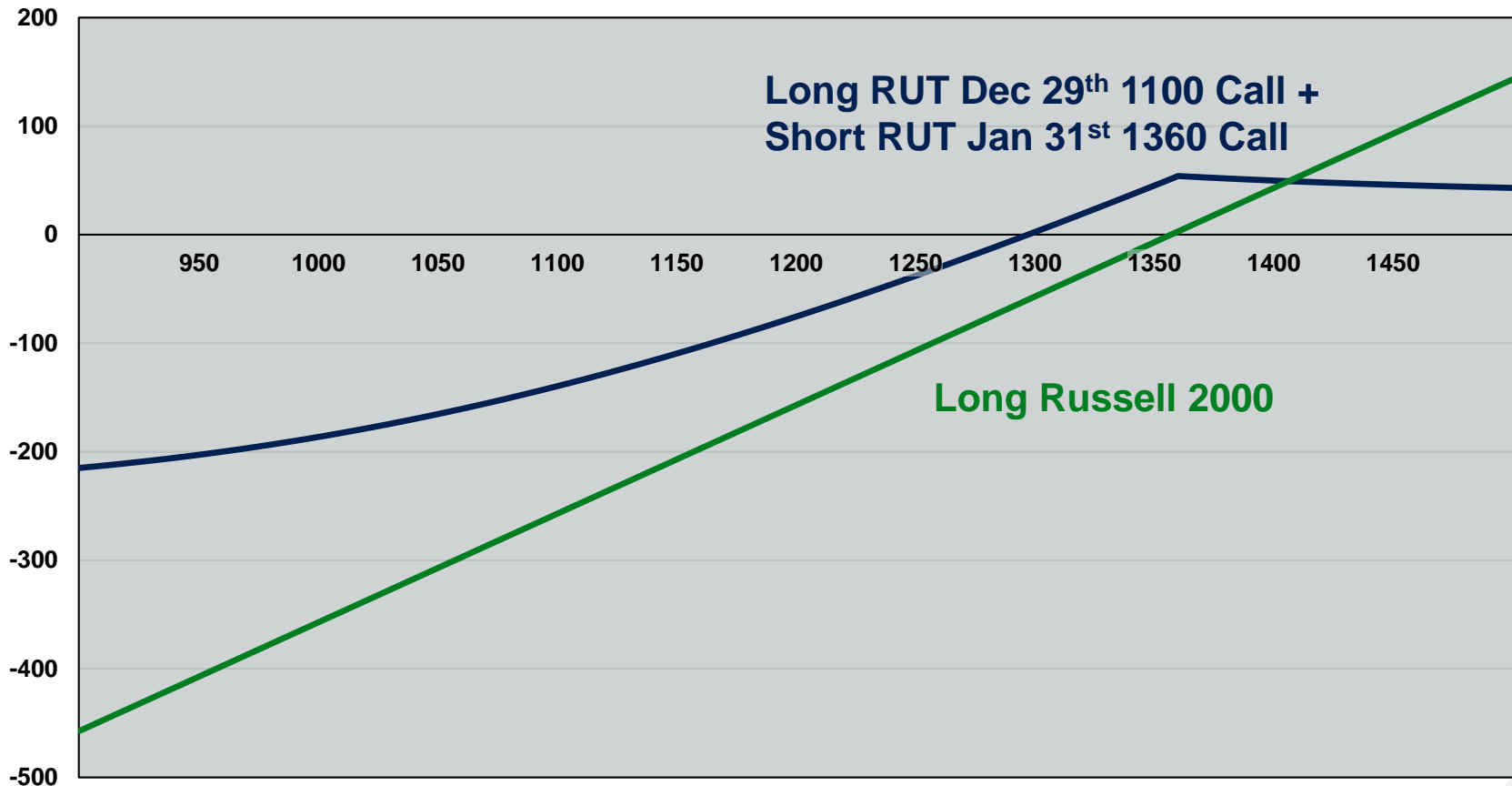
Long 1 RUT Dec 29th 1100 Call

Short 1 RUT Jan 31st 1360 Call

Net Running Cost = 260.60



Long RUT Dec 29th 1100 Call + Short RUT Jan 31st 1360 Call Payoff on Jan 31st



January 31st – RUT closed at 1361.82

RUT Jan 31st 1360 Call is 1.82 in the Money

Profit for Short 1360 Call is $26.90 - 1.82 = 25.08$

RUT Dec 29th 1100 Call closed at 280.00

Unrealized loss on Long 1100 Call = $280.00 - 287.50 = -7.50$

Current P/L = $25.08 - 7.50 = 17.58$



- ❖ January 31st – RUT at 1361.82
- ❖ Decide to sell an at the money February month end option

Sell 1 Feb 28th 1365 Call at 22.00

Current Position

Long 1 Dec 29th 1100 Call

Short 1 Feb 28th 1365 Call

Net Running Cost

240.42

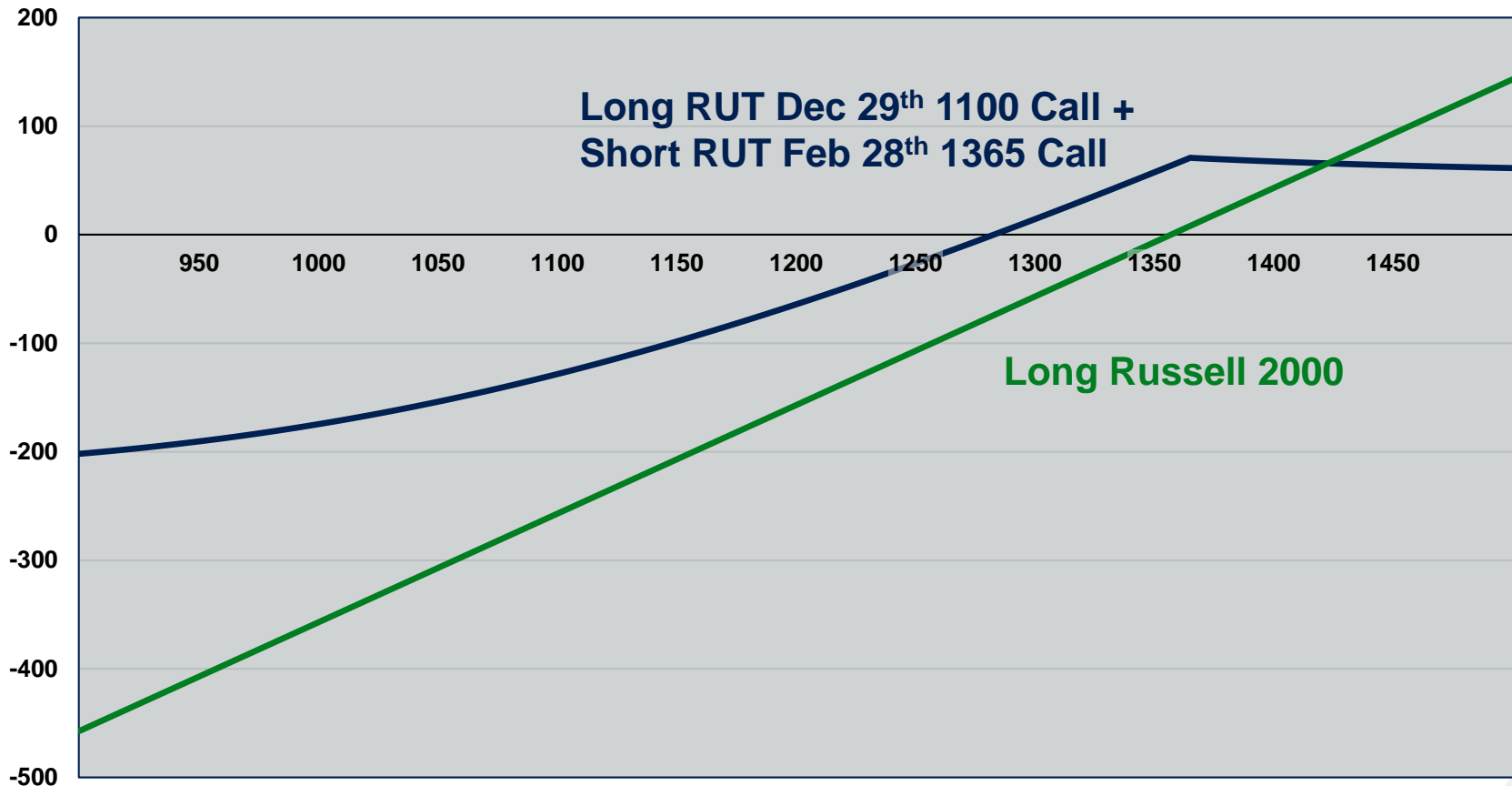


Summary of Transactions

Buy 1 Dec 29 th 1100 Call	-287.50
Sell 1 Jan 31 st 1360 Call	26.90
Sell 1 Feb 28 th 1365 Call	22.00
Settlement Debit - Jan 31 st Call	-1.82
Net Running Cost	-240.42



❖ Trade P/L on Feb 28th



February 28th – RUT Closed at 1386.68

RUT Feb 28th 1365 Call is 31.68 in the Money

Profit for Short 1365 Call is $22.00 - 21.68 = 0.32$

RUT Dec 29th 1100 Call closed at 297.10

Unrealized gain on Long 1100 Call = $297.10 - 287.50 = 9.60$

Current P/L = $25.08 + 0.32 + 9.60 = 35.00$



Repeating Selling ATM Monthly Calls + Long Dec 29th 1100 Call

Option Sold	Option Premium	Option Settlement	Individual Short Trade P/L	Short Option Running P/L	Running 1100 Call P/L	Net Running P/L
Jan 31st 1360 Call	26.90	1.82	25.08	25.08	(7.50)	17.58
Feb 28th 1365 Call	22.00	21.68	0.32	25.39	9.60	34.99
Mar 31st 1390 Call	22.20	0.00	22.20	47.59	2.00	49.59
Apr 28th 1390 Call	19.30	10.43	8.87	56.46	16.50	72.96
May 31st 1405 Call	18.30	0.00	18.30	74.76	(9.60)	65.16
Jun 30th 1375 Call	19.70	40.36	(20.66)	54.10	27.00	81.10
Jul 31st 1420 Call	16.70	5.14	11.56	65.66	37.20	102.86
Aug 31st 1430 Call	17.30	0.00	17.30	82.96	14.40	97.36
Sep 29th 1410 Call	15.70	80.86	(65.16)	17.80	102.60	120.40
Oct 31st 1495 Call	19.00	7.77	11.23	29.03	112.80	141.83
Nov 30th 1505 Call	14.60	39.14	(24.54)	4.49	146.30	150.79
Dec 29th 1545 Call	21.30	0.00	21.30	25.79	148.01	173.80



- ❖ December 29, 2017 (Last trading day of 2017)
- ❖ Long the SPY ETF at 267.00
- ❖ Concerned about the first half of 2018
- ❖ Decide to explore SPY options expiring at the end of the second quarter to hedge position



Trade 1

SPY @ 267

Buy 1 SPY Jun 29th 255 Put at 5.60

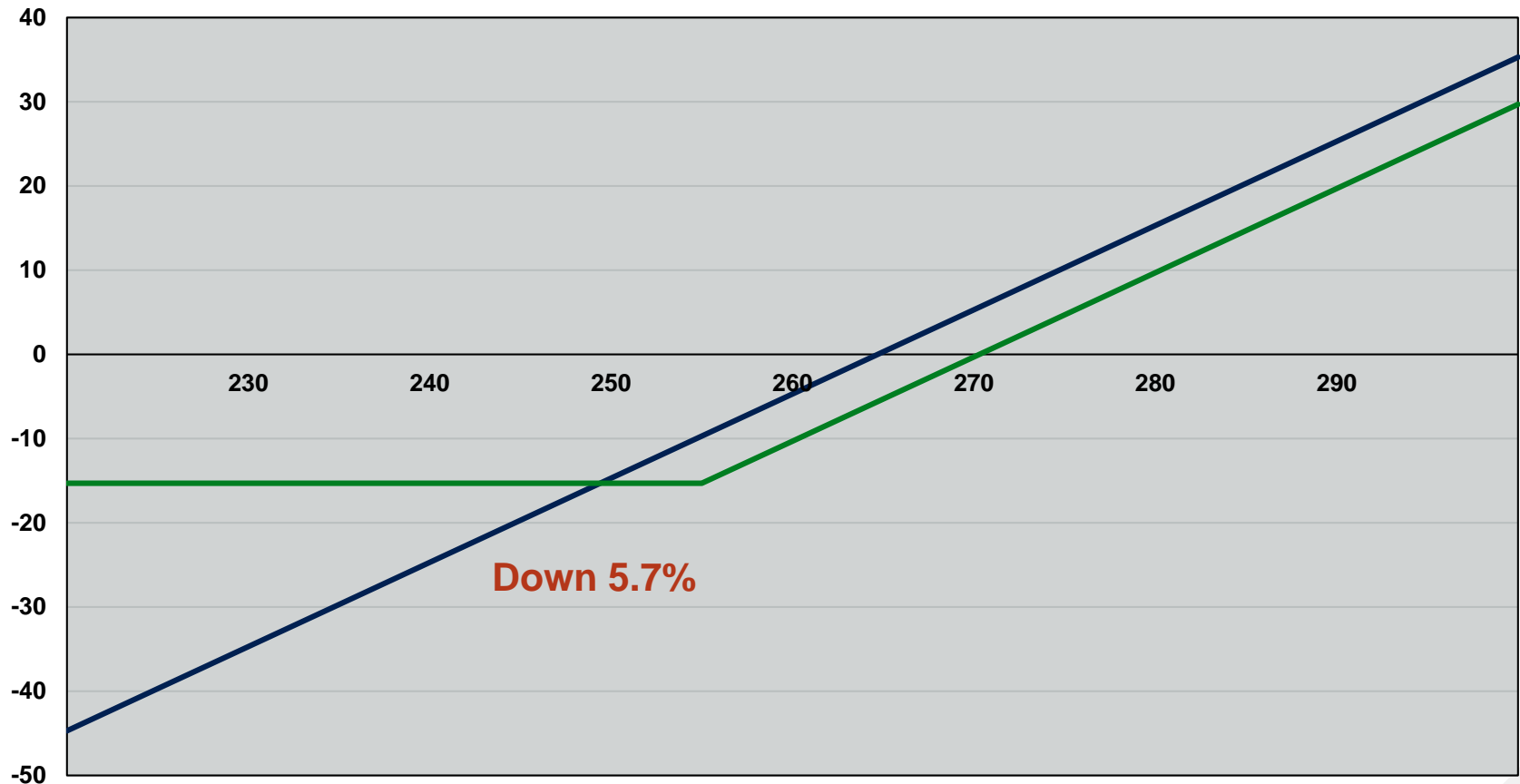
255.00 is down 4.5%

$255.00 - 5.60 = 249.40$

249.40 is down 6.6%

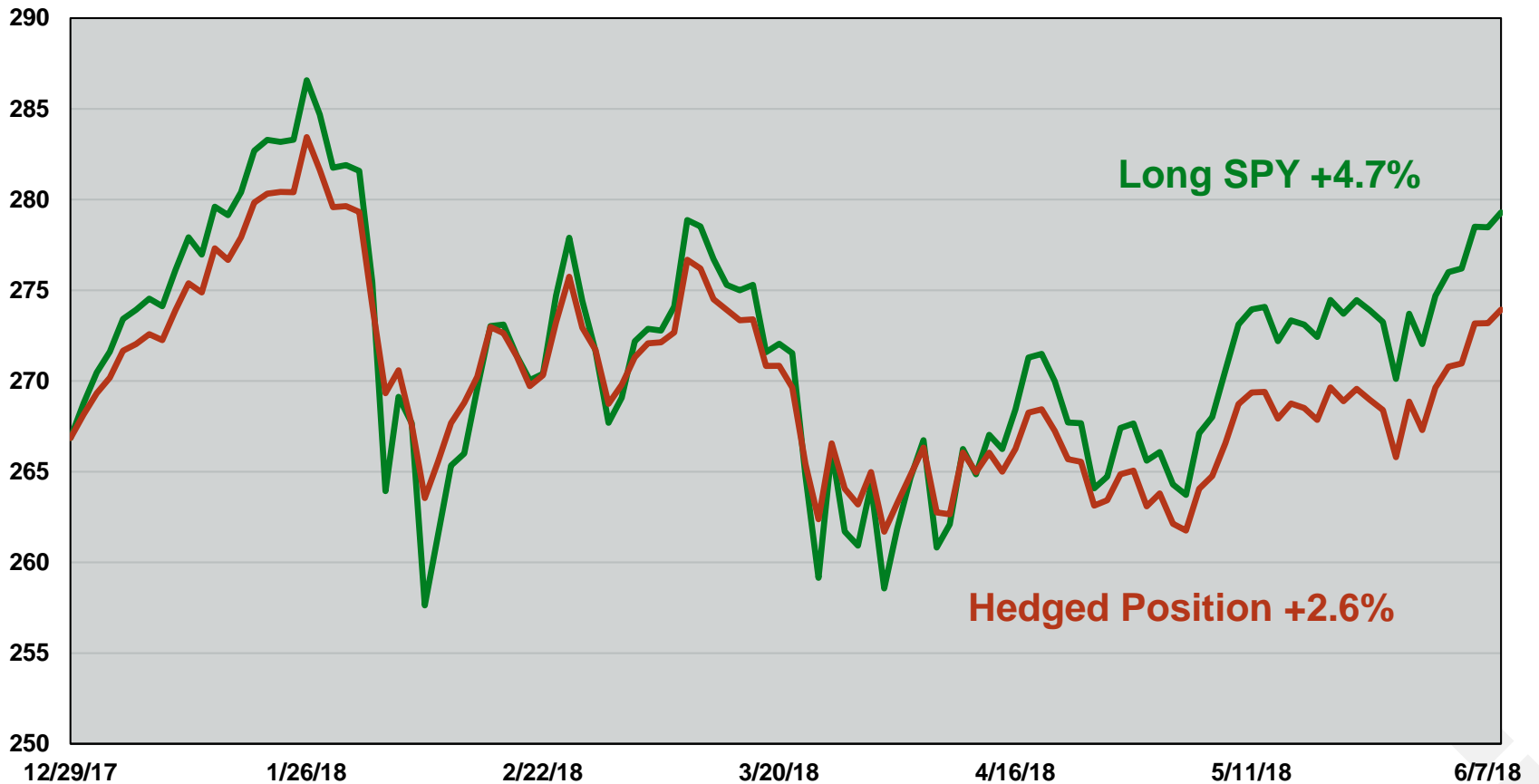


Long SPY plus Long SPY Jun 29th 255 Put Payoff at Expiration



Hedged Trades

Long SPY + SPY Jun 29th 255 Put (through 6/8/18)



Trade 2

SPY @ 267

Buy 1 SPY Jun 29th 255 Put at 5.60

Sell 1 SPY Jun 29th 240 Put at 3.20

Net Cost = 2.40

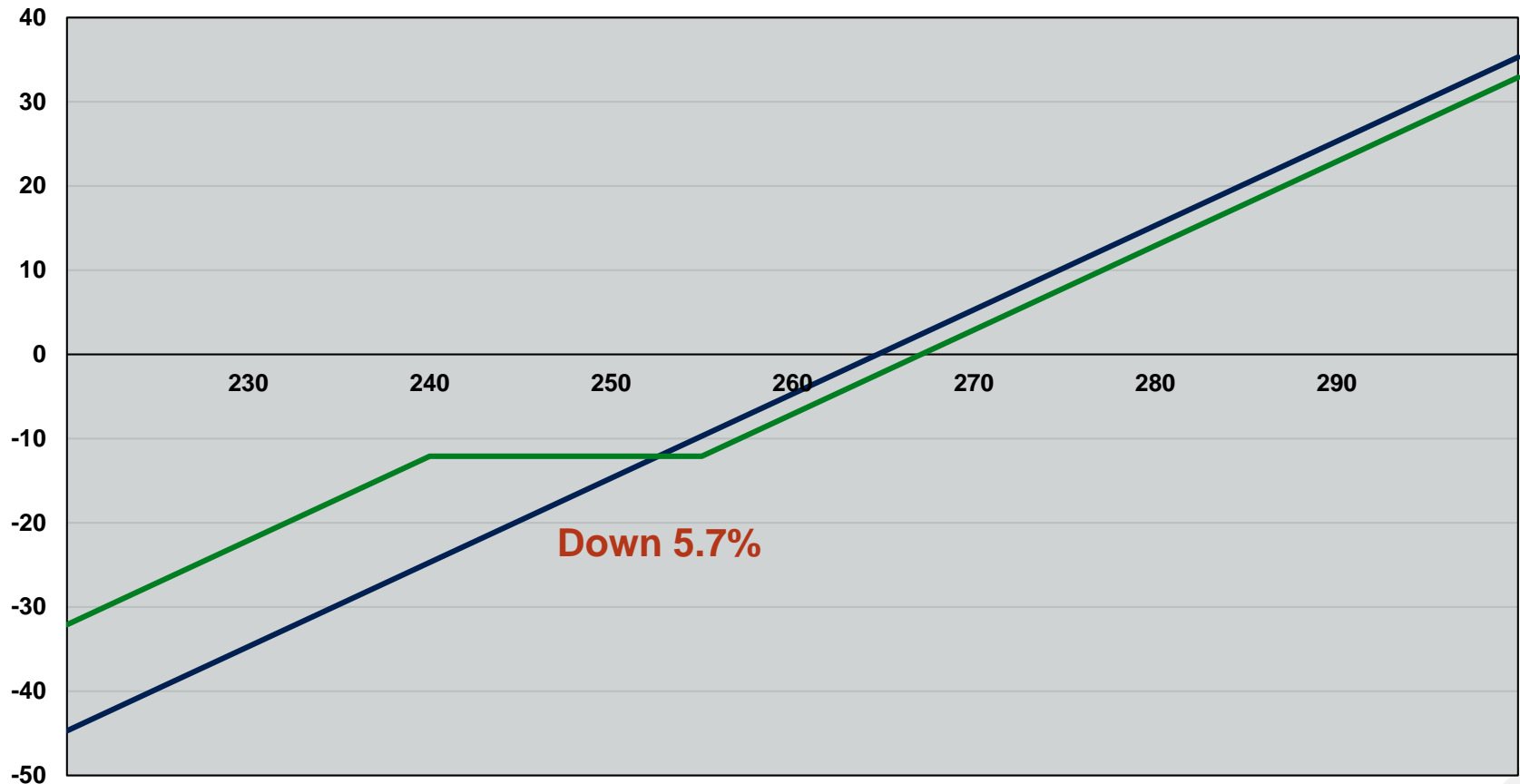
255.00 is down 4.5%

$255.00 - 2.40 = 252.60$ or down 5.4%

240.00 is down 10.1%

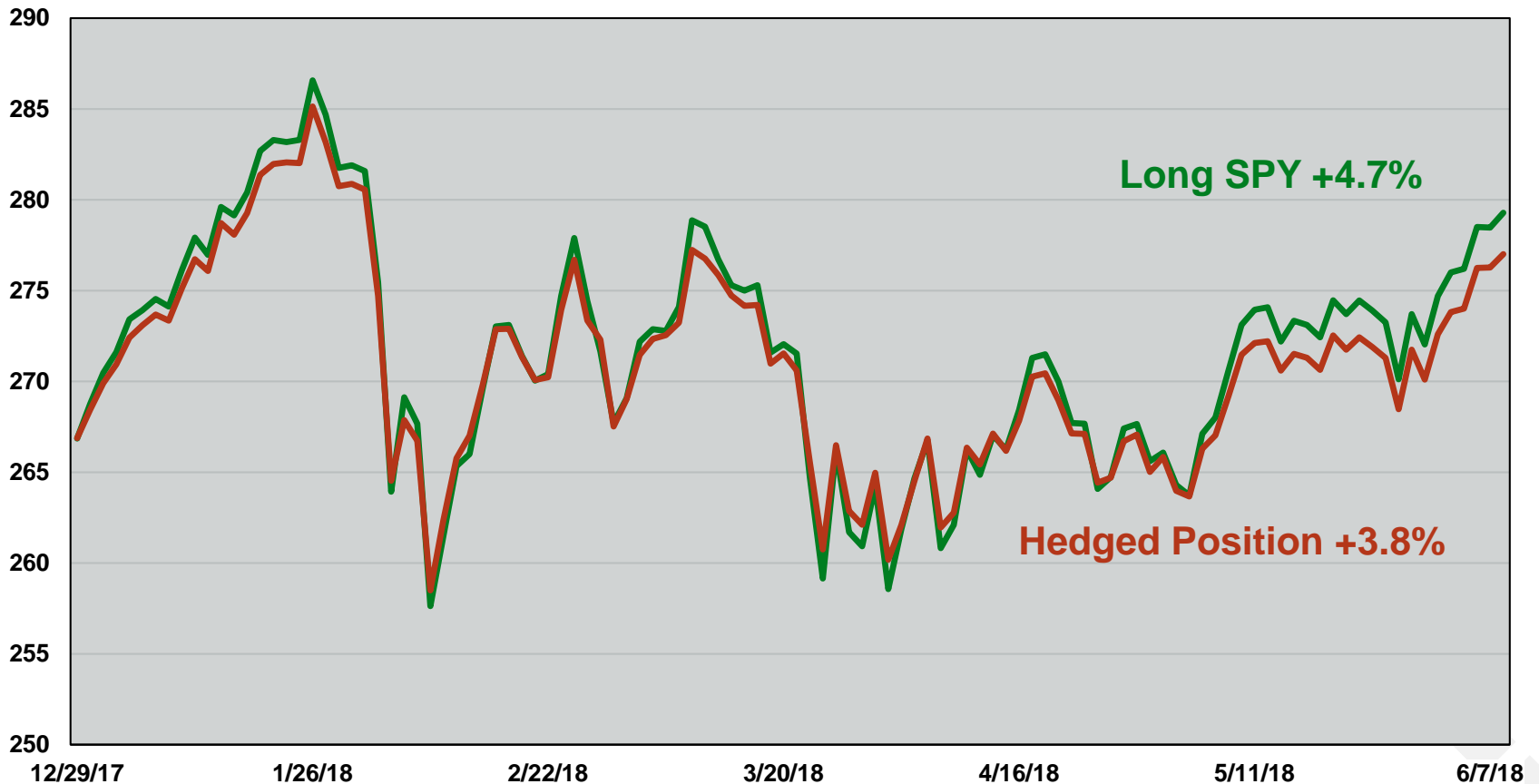


Long SPY plus SPY Jun 29th 240 / 255 Put Spread Payoff at Expiration



Hedged Trades

Long SPY + SPY Jun 29th 240 / 255 Put Spread (through 6/8/18)



Trade 3

SPY @ 267

Buy 1 SPY Jun 29th 255 Put at 5.60

Sell 1 SPY Jun 29th 240 Put at 3.20

Sell 1 SPY Jun 29th 280 Call at 2.60

Net Income = 0.20

280.00 is up 4.9%

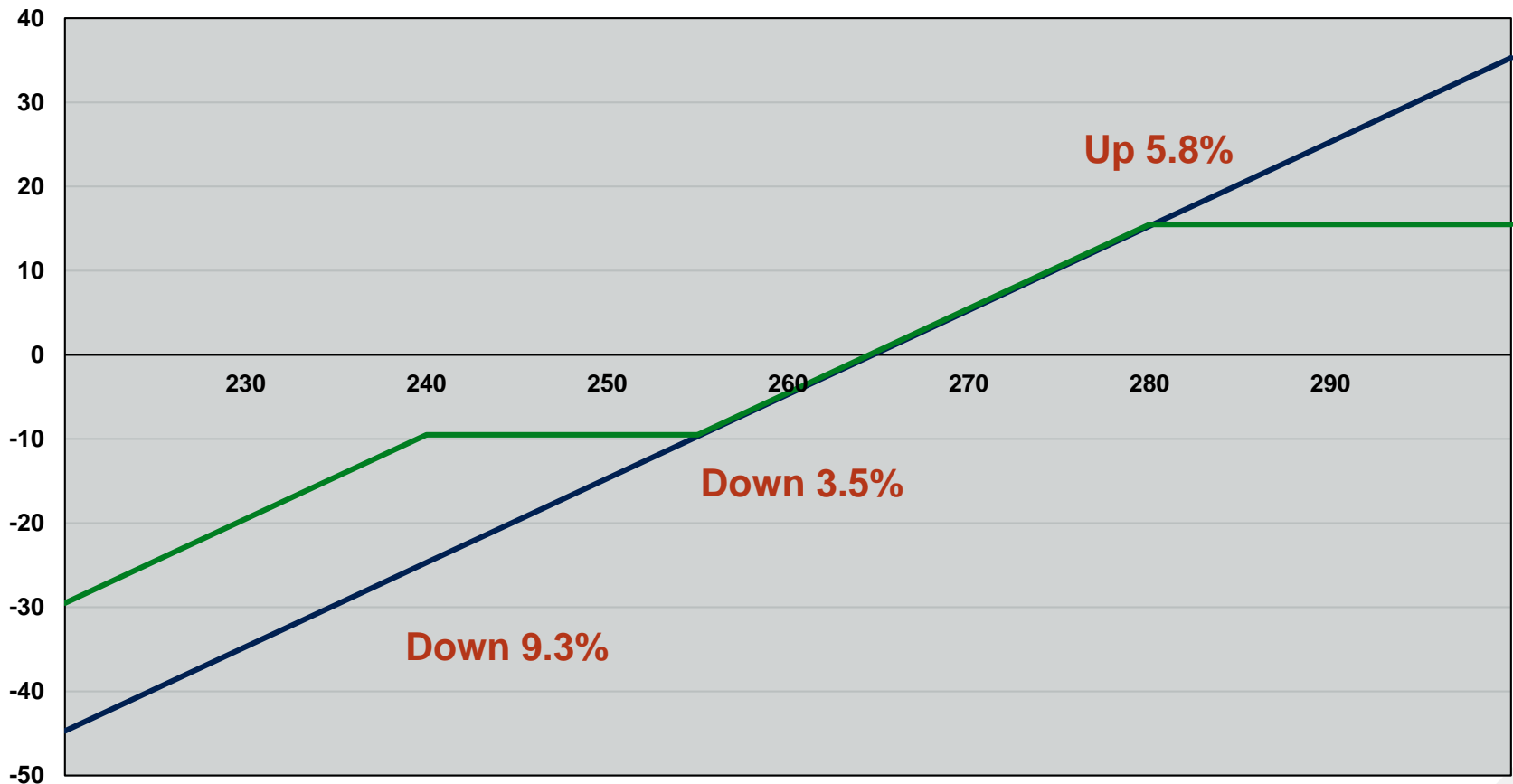
255.00 is down 4.5%

240.00 is down 10.1%



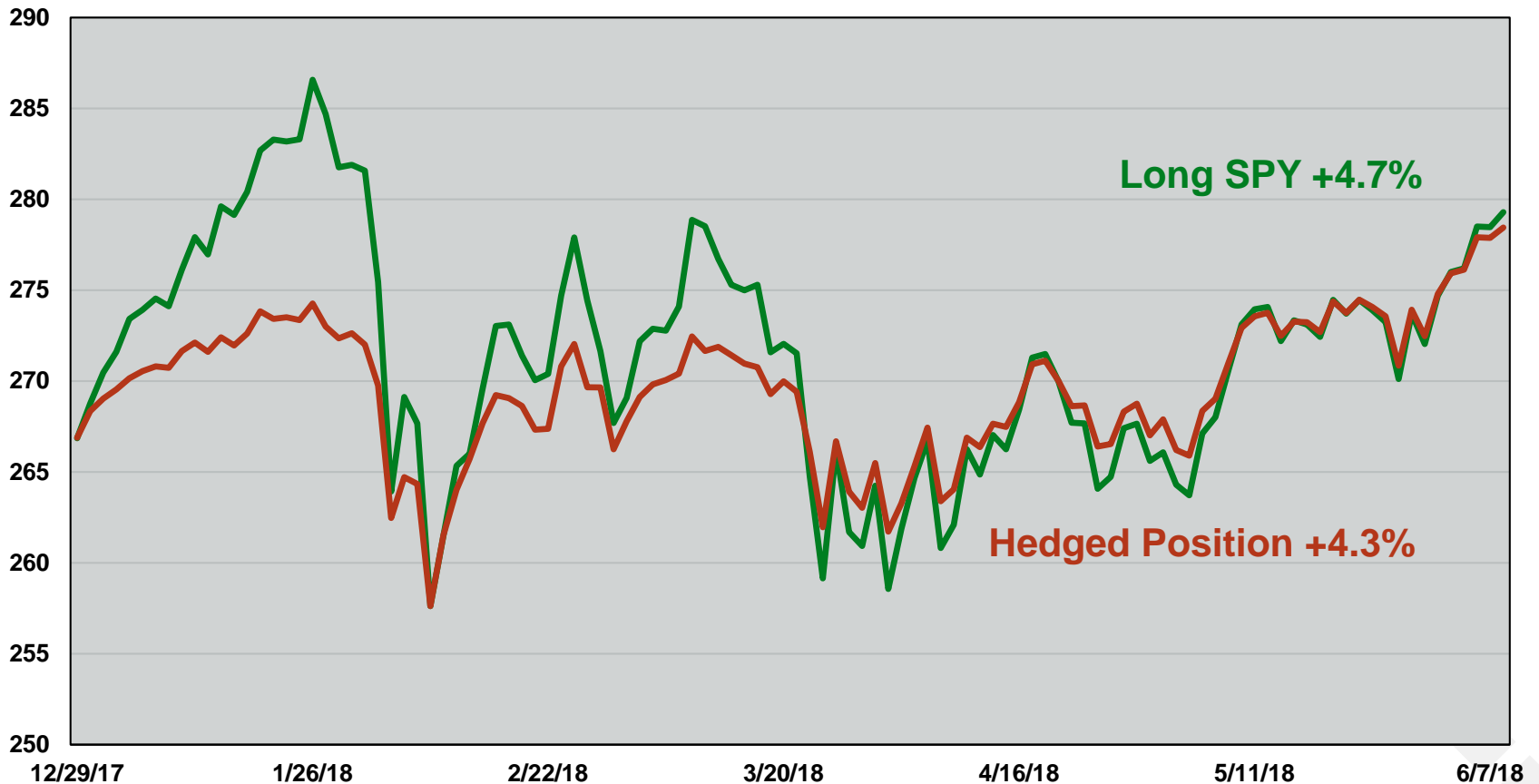
Hedged Trades

Long SPY + SPY 240 / 255 Put Spread + Short 280 Call Payoff at Expiration



Hedged Trades

Long SPY + SPY 240 / 255 Put Spread + Short SPY 280 Call (through 6/8/18)



Questions / Comments?

Cboe Resources

www.cboe.com/rut

www.cboe.com/benchmarks

www.cboe.com/blogs

Twitter - @Cboe

Contact – rhoads@cboe.com

Twitter – @RussellRhoads

