



IUR CAPITAL

Seeking Income with Credit Spreads

August 2015

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A copy is also available at: <http://www.optionsclearing.com/publications/risks/riskstoc.pdf>

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Host Profile (Gareth Ryan)

- Began his trading career at 19 years old in London
- Proprietary Spot FX Trader – EUR/USD, GBP/USD
- Went to work for a Wall Street Broker in Equities & Options
- Founded IUR at 2007 – registered with the Securities & Exchange Commission as an investment advisor firm and regulated by the UK Financial Conduct Authority.
- IUR Capital is an investment advisor for it's clients on the Interactive Brokers TWS Advisor Platform.
- Specialising in options strategies for client portfolios
- Regular guest Bloomberg/FOX TV

Market Update

- SPX +3% YTD....VIX back to summer 2014 levels.
- January weakness saw outflows from US equity markets into Europe.
- February was the best month for the S&P 500 index since 2011.
- Treasuries had their worst month since October 2011.
- Nasdaq touching 15 year highs.
- US markets stuck in tight trading range of 3% since April
- European markets continue to see inflows on ECB stimulus + weaker euro. DAX index is 15% YTD.
- Manage Risk! Avoiding the storm by raising cash levels and/or making the necessary adjustments to options strategies in your portfolio.
- Most obvious adjustment during early-to-mid October correction for bullish options positions was to roll down strikes, ie; bull put spreads to recover premium.

08:31:06

L: 2129.04 CH: -0.16 CH%: -0.01%

SPX 1 YEAR



This is the area where we position our strikes on put spreads sold for income

SPX@CBOE 
Prior Close 

Source: Interactive Brokers

06:56:26

L: 13.26 CH: 0.00 CH%: 0.00%

VIX 1 YEAR

Price

33.00
32.00
31.00
30.00
29.00
28.00
27.00
26.00
25.00
24.00
23.00
22.00
21.00
20.00
19.00
18.00
17.00
16.00
15.00
14.00
13.00
12.00
11.00
10.00

Source: Interactive Brokers

VIX@CBOE 
- - Prior Close

Aug '14 Sep '14 Oct '14 Nov '14 Dec '14 Jan '15 Feb '15 Mar '15 Apr '15 May '15 Jun '15



Using SPY ETF options as a vehicle for income

- Vertical Spreads
- Creates defined-risk, defined-reward scenario
- Buy one option, sell another
- Same underlying
- Same expiration
- Different strike prices
- Established as a credit spread
(premium received on opening transaction)

The SPY ETF Iron Condor month-to month

- Sell to open an OTM Put Spread
- Sell to open an OTM Call Spread
- Creates a net credit to the portfolio
- Maximum premium retained where both spreads expire OTM...all 4 legs have zero value...you keep all of the premium.
- Time decay is your friend...every day matters between opening transaction date and expiry.
- Establish both spreads at similar strike distances on 1:1 ratio. (Sell 1 call spread for every 1 put spread).
- Remember: you are SELLING TO OPEN with this strategy.

How do I position myself with strike selection on SPY ETF?

- Strike selection ultimately depends on what my monthly income target will be and how sensitive I am to daily price moves on the S&P 500 index.
- If I want to set a monthly target of 5% on capital, I look at where I can position strikes for the OTM put spread below the market, and with the OTM call spread above the market.
- This is about **STAYING AWAY** from ATM on the SPY. I focus on what premiums are available between 5 – 10% OTM strikes on SPY (below and above the current market).

Targeting 5% monthly income... the specifics

- I sell 5% SPY OTM Put Spread + Sell 5% OTM Call Spread
- The maximum risk is the \$2 maximum spread value on both the put and call spread at expiry.
- With a net credit above \$0.20c, my premium received equates to 5% of maximum value of both spreads.
- My price range will be a maximum 5% decline in the SPY, or a 5% rally in the SPY.
- I am neither bearish nor bullish.

What is my risk/return profile?

- Receiving a credit of \$0.20 means I have significant risk if the S&P 500 index moves more than 5% in either direction during the period for which I hold the position.
- I am accepting a lower return on risk in exchange for higher probability of retaining the premium of \$0.20 per contract.
- If the S&P 500 index moves significantly in one direction, I will need to look at buying back to close either my OTM put spread or OTM call spread, and then letting the other position expire OTM.
- My maximum risk is \$2.00 per contract plus commissions, as this is the maximum value at expiry if both legs of the spread are ITM.

Notes on the SPY condor strategy

- 5% is my monthly target... but in some months I may have to accept less than this if either side of the condor (OTM put or call spread) have to be bought back for more premium than I received.)
- To achieve a 5% monthly target, it may be possible to establish the condor that is >6% OTM on both sides.
- An increase in Implied Volatility (IV) in SPY ETF options will work to my benefit as higher IV means higher premiums.
- It is not always best to establish both sides of the condor on the same day... I look at price swings in the S&P 500 index over 2-3 days and I try to open my credit spreads on a dip or a rally.
- The maximum risk is \$2.00 per contract plus commissions, as this is the maximum value at expiry if both legs of the spread are ITM.

Alternative vehicle to SPY... IWM ETF

- IWM ETF – Russell 2000 index ETF, represents the small-cap index.
- Similar structure to SPY ETF
- 2015 range on IWM is currently \$114 – \$128
- Can I run a 5% monthly condor strategy with this price range? I think about strike selection on both sides and whether I could move further out than 5% with my strike selection to achieve my monthly income target.

Notes on Credit Spreads

- The credit spread strategy is profitable if the underlying security price is above the higher strike of an OTM Put Spread and conversely below the lower strike of an OTM Call Spread at expiry.
- Can be established in one transaction, but always at a credit (net cash inflow).
- Maximum loss generally occurs where underlying security price moves the direction that makes both strikes of the credit spread ITM at expiry.
- If both options expire out-of-the-money with no value, the entire premium received on the opening transaction is retained (minus the commissions).

Key points to consider for risk/return in 2015

- I don't allow one specific event or price move to seriously affect my options portfolio!
- I avoid company-specific risk particularly on earnings reports.
- I evaluate my monthly objectives for returns. Is my strike selection and strategy still going to allow me to achieve that?
- I keep a small basket of underlying securities in my portfolio... I am not here to be a stock-picker.
- There is an advantage to working with a professional, particularly on managing risk.

Options Advisor Account

2015

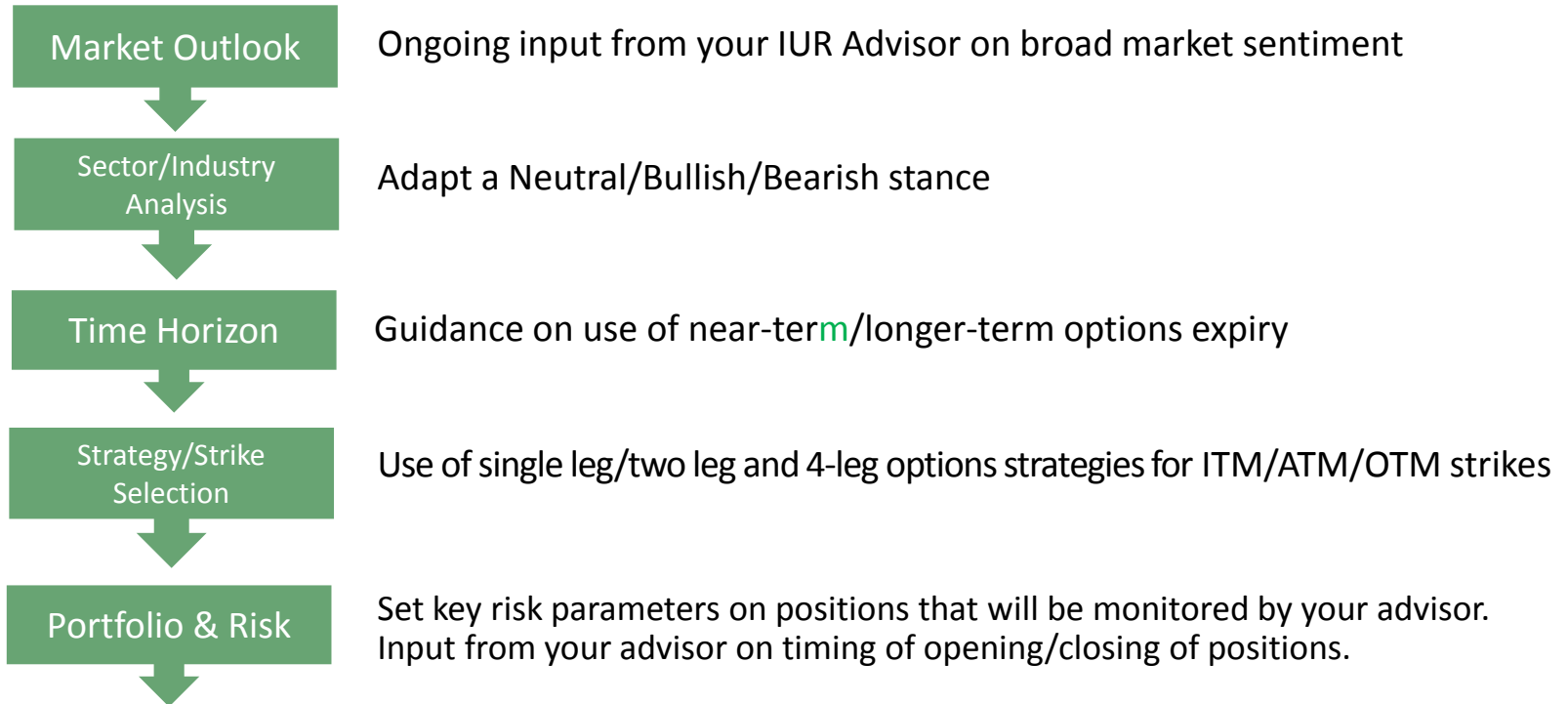
Highlights of IUR Capital

- Dedicated IUR Options Advisor allocated to your portfolio from day one.
- Work with your advisor 1-to-1. Discuss your objectives, risk tolerance and time horizon.
- Direct Advisor input on option strategy setup for the underlying security, strike selection, position sizing. Strong emphasis on risk management.
- Your Advisor will advise, undertake and monitor all positions
- Focus on consistent P&L for your options account

Options Advisor Account

2015

Our Options Advisory Process

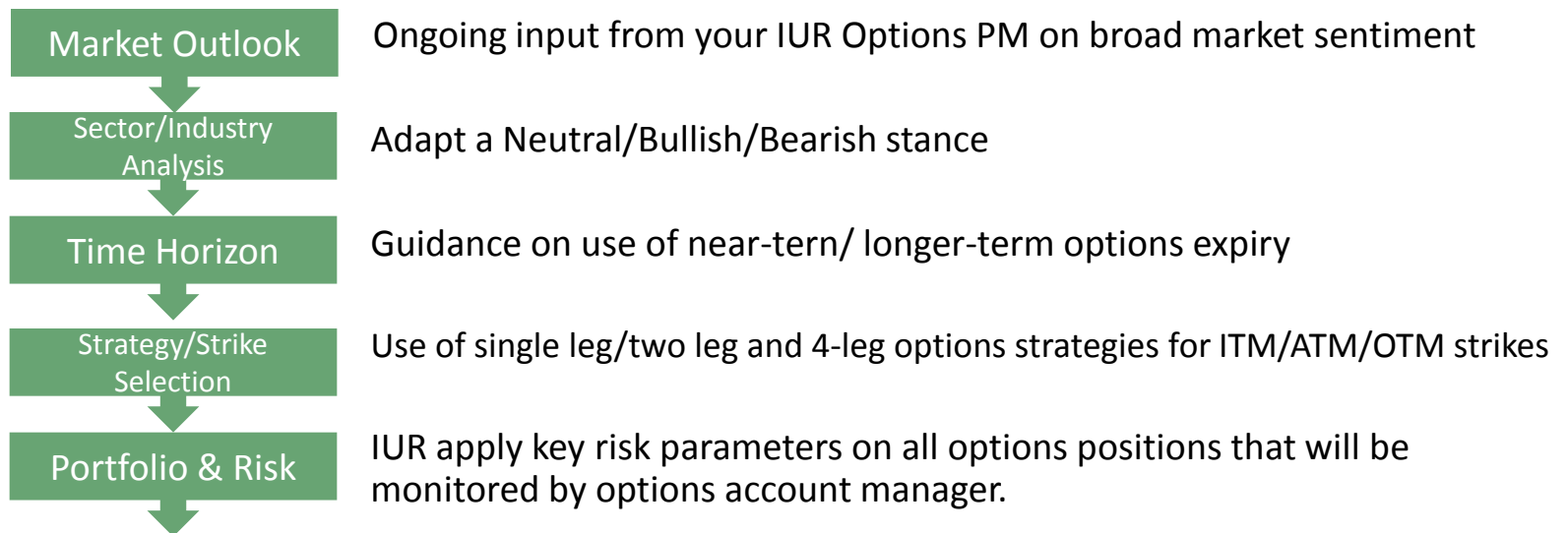


Managed Options Account

2015

- Highlights
 - Dedicated IUR Options Portfolio Manager allocated to your options account.
 - Work with your advisor 1-to-1. Discuss your objectives, risk tolerance and time horizon.
 - Direct input on option strategy setup for the underlying security, strike selection, position sizing. Strong emphasis on risk management.
 - Your options portfolio manager will undertake and monitor option positions.
 - Option account updates available daily via account management
 - Focus on consistent growth for your options account

Our Options Advisory Process



Let's talk.....

Email us – gryan@iurcapital.com to arrange a one-to-one call and to request the slides for this webinar.

To watch Gareth live - tune into Bloomberg TV every week