



Income Generation with Options in 2016

December 8, 2015

Gareth Ryan
Founder & Managing Director

Risk Disclosure

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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 in 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 its clients on the Interactive Brokers TWS Advisor Platform.
- Specialising in options strategies for client portfolios
- Regular guest on Bloomberg/FOX TV

Market Update

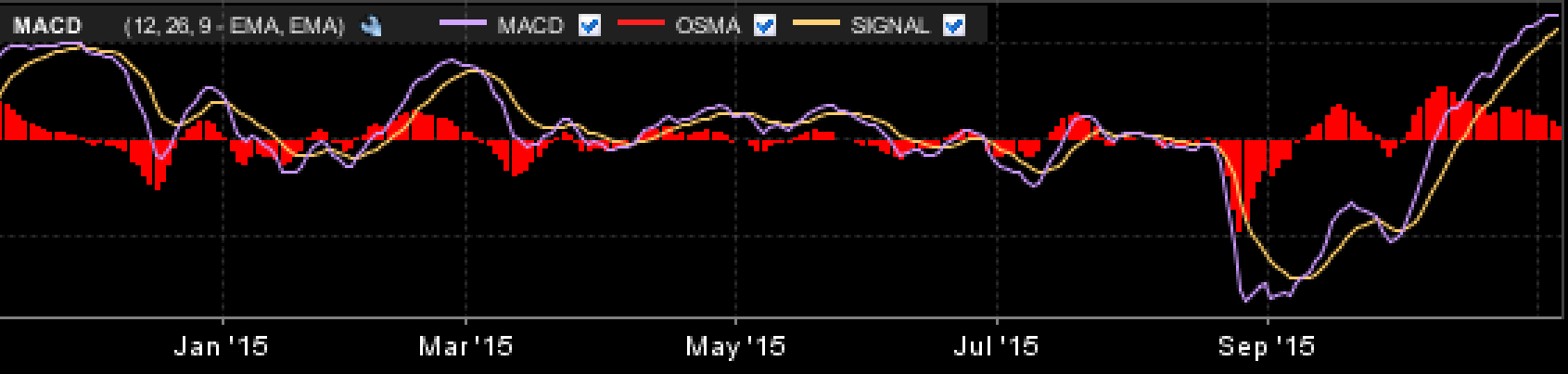
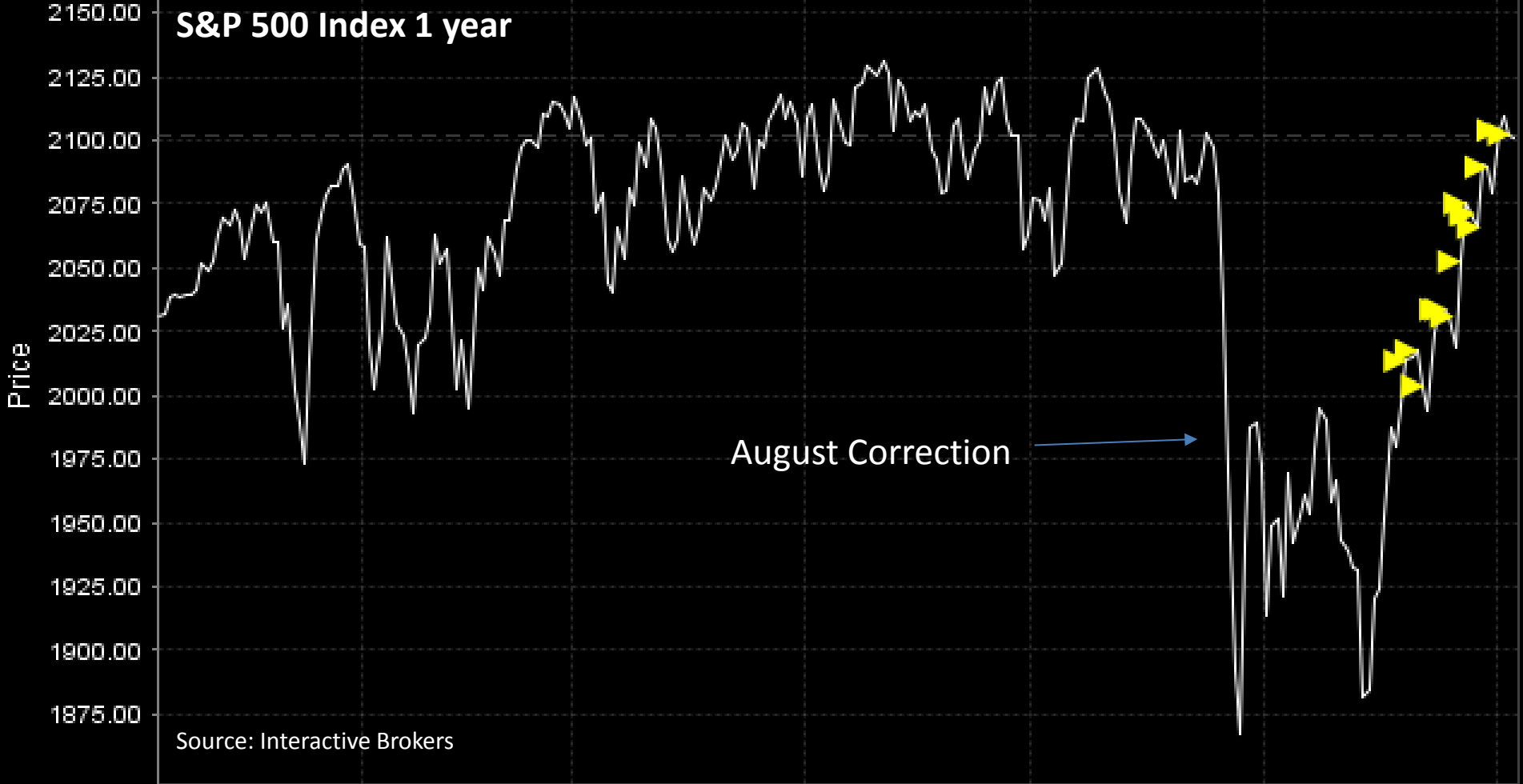
December 8th

- SPX +2% YTD....VIX back to summer 2014 levels
- August / September global correction was sharp and painful
- October rally was the best in 4 years
- Central banks globally continue to provide support to financial markets via stimulus
- European markets continue to see inflows on ECB stimulus + weaker euro. DAX index is 11% YTD
- Manage your Risk! Avoiding the storm by raising cash levels and/or making the necessary adjustments to options strategies in your portfolio.
- Most obvious adjustment during Aug/Sep correction for bullish options positions was to roll down strikes; i.e., bull put spreads to recover premium.

S&P 500 Index 1 year

12:37:15

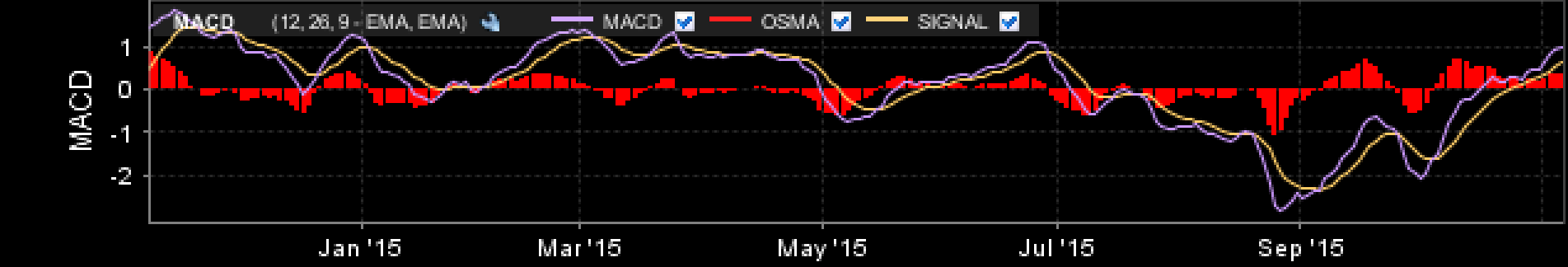
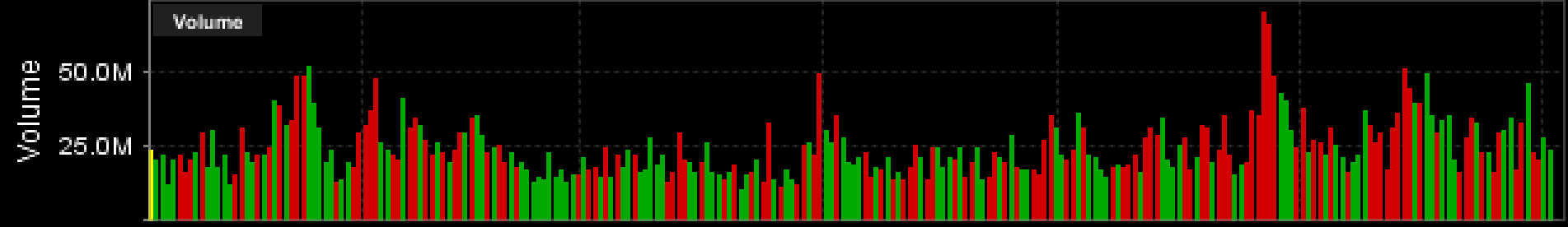
L: 2100.90 CH: -1.41 CH%: -0.07%



IWM ETF 1 year

13:37:38

L: D118.27 CH: -0.02 CH%: -0.02%



CBOE Volatility Index 1 year

12:38:00

L: 15.55 CH: +0.04 CH%: 0.26%

Price

42.50
40.00
37.50
35.00
32.50
30.00
27.50
25.00
22.50
20.00
17.50
15.00
12.50

VIX gained 3x on global sell-off

Source: Interactive Brokers

MACD (12, 26, 9 - EMA, EMA) MACD OSMA SIGNAL

MACD

2.5
0.0

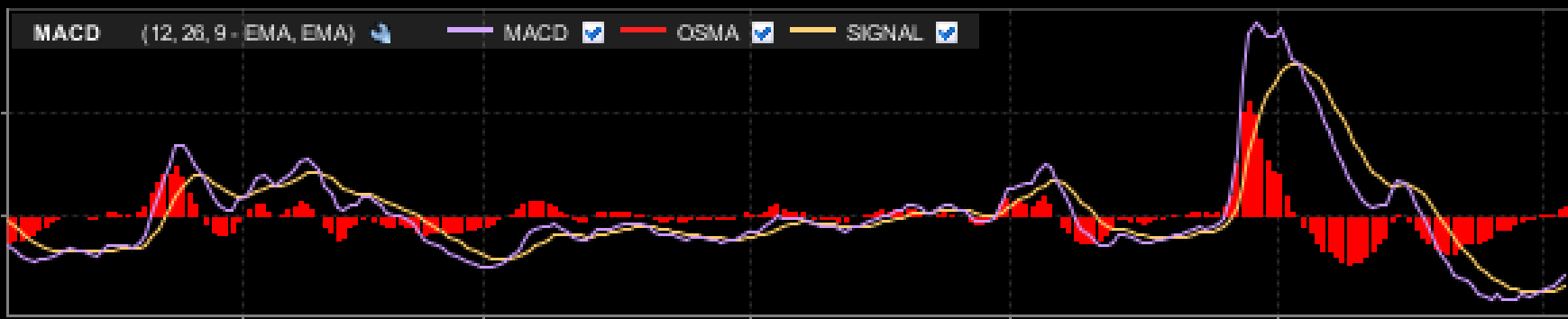
Jan '15

Mar '15

May '15

Jul '15

Sep '15



What lessons have Retail investors learned from 2015?

- Retail investors appear to have a habit of being overactive
- Income generation strategies using options should have had a solid year, unless they were sailing too close to the wind with strike selection
- What about your approach to risk? Sufficient hedging in place to protect bullish strategies?
- Call buyers in many cases saw their asset wasting in value without the upward move in the underlying... an alternative strategy may be worth considering

A Possible Recovery Strategy...

- If the August / September correction was painful for you in a stock portfolio, then you may need to devise a plan to recover through the rest of 2015 and going into 2016
- Income-seeking strategies
- Leave out directional strategies for now
- Credit spreads – far OTM put spreads being sold for premium
- Allow plenty of room for more volatility with your strike selections.

Option strategies involve risk and are not suitable for all investors.

Multiple leg strategies, including spreads, will incur multiple commission charges.

Scenario 1: \$500k portfolio

- You are in the 40-60 age range, married with 0 / 1 dependent
- You are looking to supplement income from employment through your current portfolio
- Currently invested in bonds, mutual fund, dividend-paying stocks
- You need to generate consistent income in the portfolio BUT with a focus on capital preservation
- You are willing to allocate 15-20% of the overall portfolio to a conservative options strategy to generate regular premium
- You want to achieve regular premium even if the market remains flat through the rest of 2015

Scenario 2: \$100k retirement account

- You are nearing retirement or already retired, with no dependents
- Your income has dropped, but you are wary that you will still have living costs for you and your spouse
- Mostly invested in bonds with a small element of stocks, but your dividend income is not sufficient for regular drawdowns
- Preserving your capital in your retirement accounts is a priority
- But you are willing to look at an income strategy using options that does not require a rising market
- You want to achieve regular premium even if the market remains flat through the rest of 2015

Possible Strategy 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)

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

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

Potential 5% monthly income in 2016... the specifics

- Sell 5% SPY OTM Put Spread
- \$2 maximum spread value
- With a net credit above \$0.20, your premium received generally equates to 10% of maximum value (before commissions)
- Your price range will be a maximum 5% decline in the SPY ETF
- You are neutral to modestly bullish.
- Understand that the margin required for this should be the maximum spread value of \$2

What is the risk/return profile?

- Receiving a credit of \$0.20 means you have significant risk if the S&P 500 index declines by more than 5% during the period for which you hold your position.
- HOWEVER,
We manage downside risk using protection (i.e., put debit spreads closer to ATM)
- This requires active management of the position... which is what we do everyday for clients (advisory and managed accounts)

An alternative vehicle to SPY... IWM ETF

- IWM ETF – Russell 2000 index ETF, represents the small-cap index.
- Similar structure to SPY ETF but with a smaller percentage of household names comprising the index.
- 2015 range on IWM is currently \$107 – \$126
- Can you run a 3% monthly income strategy with this price range?
- Think about strike selection to achieve your monthly income target.

Notes on credit spreads

- The credit spread strategy can generate income if the underlying security price is above the higher strike of an OTM Put 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 in the direction that makes both strikes of the credit spread ITM at expiry.
- If both legs of the put spread expire out-of-the-money with no value, the entire premium received on the opening transaction is retained.

Options involve risk and are not suitable for all investors. Multiple leg strategies, including spreads, will incur multiple commission charges.

Key points to consider for risk/return in 2016

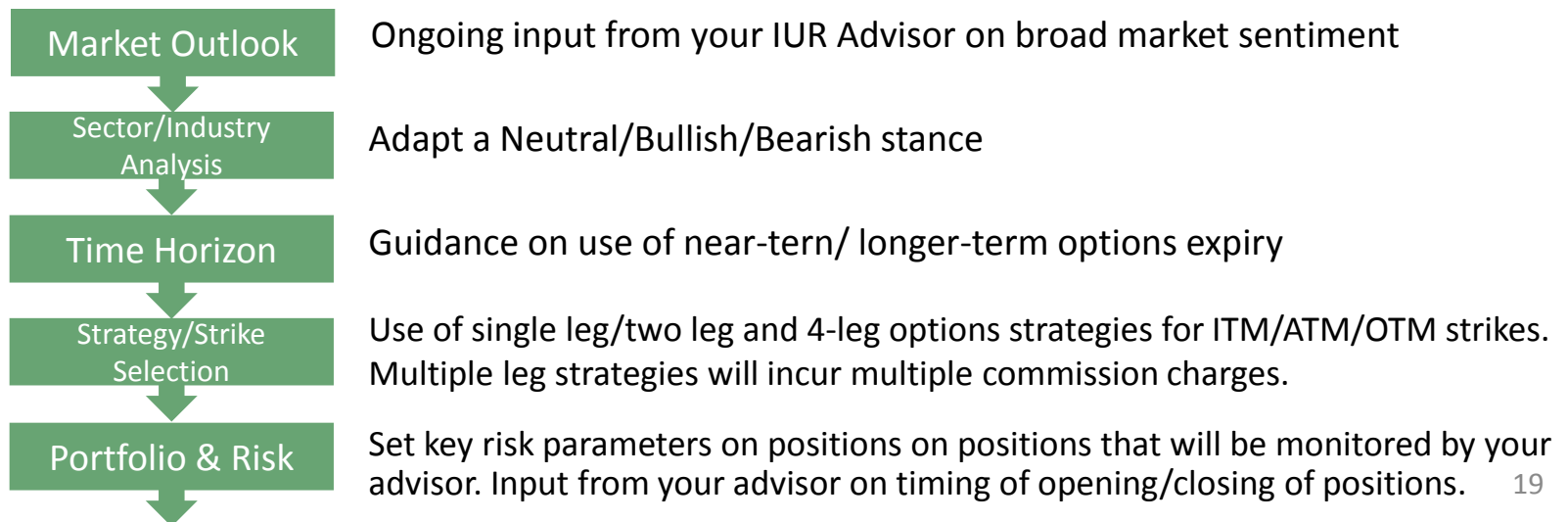
- Don't allow one specific event or price move to seriously affect your options portfolio!
- Avoid company-specific risk particularly on earnings reports.
- Look at what your monthly objectives are for returns. Is your strike selection and strategy still going to allow you to achieve that?
- Keep a small basket of underlying securities on the book... we are not here to be stock-pickers.
- There is nothing wrong with working with a professional, particularly on risk.

Options Advisor Account

2016

- Highlights
 - 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

Our Options Advisory Process

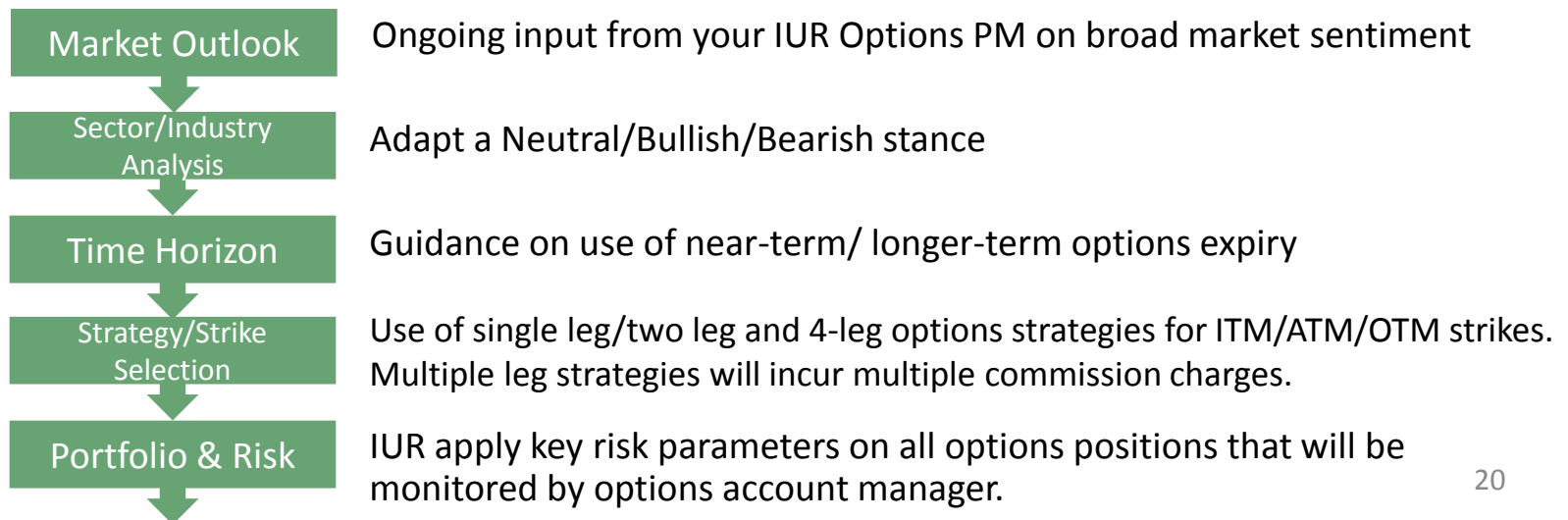


Managed Options Account

2016

- 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 at gryan@iurcapital.com to arrange a 1-to-1 call and to request the slides for this webinar.

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