



IUR CAPITAL

Volatility Strategies for 2016

February 2016

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Founder & Managing Director

Risk Disclosure

Options are leveraged products that involve risk and are not suitable for all investors. Before committing capital to any options strategies, read the “Characteristics & Risks of Standardized Options” provided by the Options Industry Council. For a copy call 312-542-6901.

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 Bloomberg/FOX TV

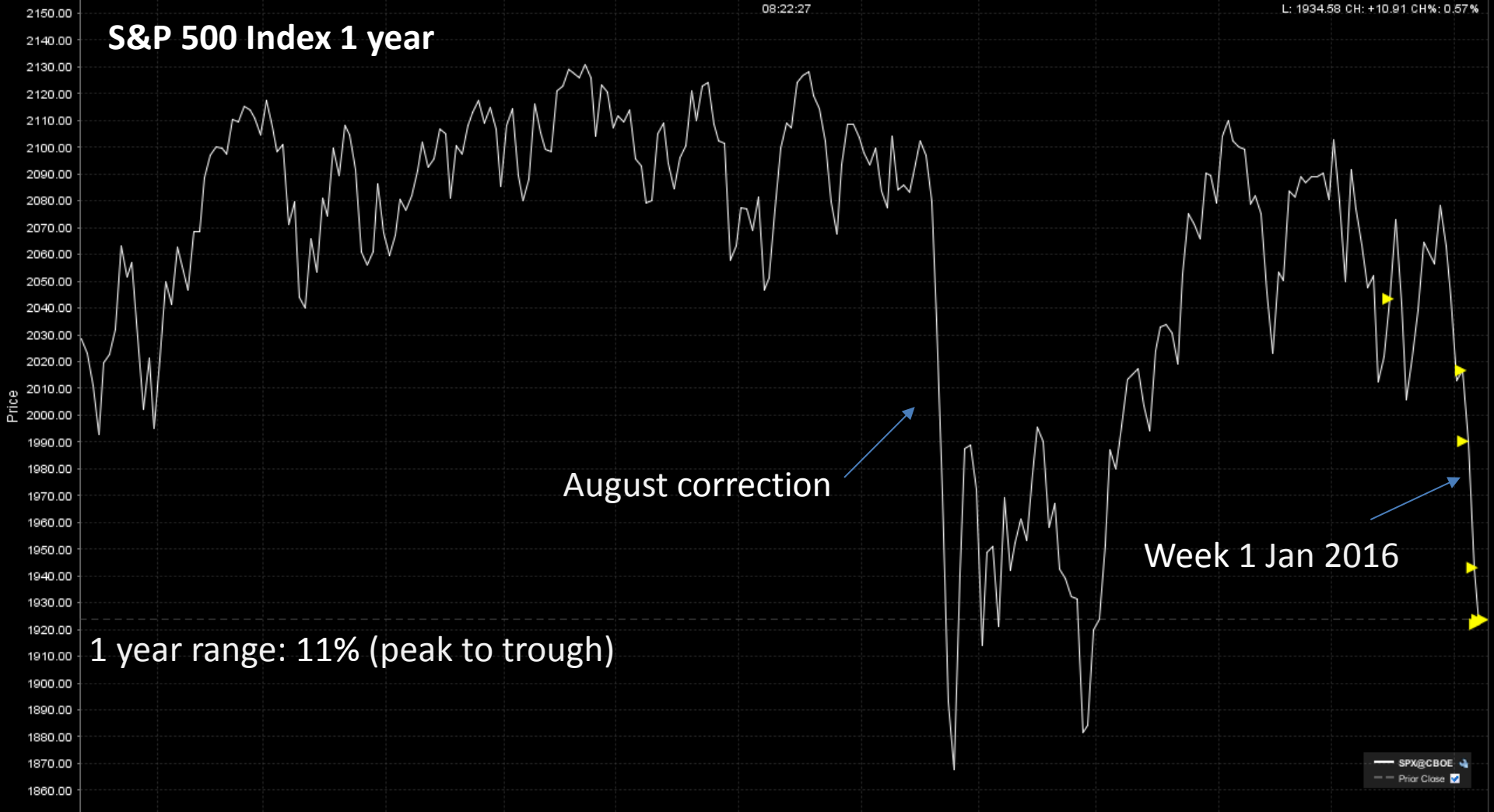
Market Update

February 2016

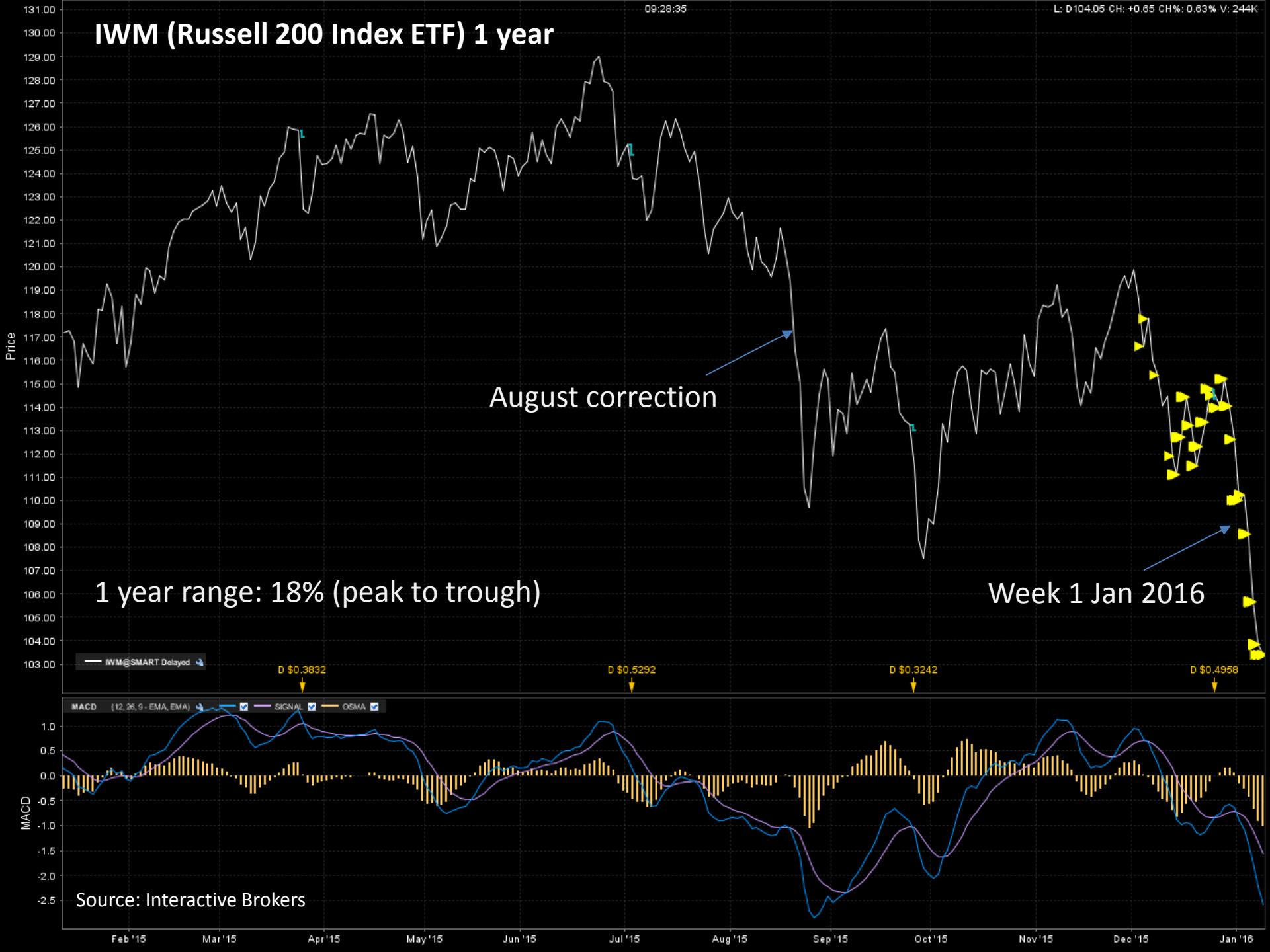
- SPX -5% YTD....VIX at historical average (low-mid 20's)
- 1st week in Jan was the worst start in many years for equity markets
- Catalysts: Overnight moves in Chinese markets / eco data
- Oil continues to slide...drag effect on S&P 500 Index.
- European markets also struggling despite ECB stimulus
- Equity markets appear technically oversold (MACD)...but a lack of direction prevails
- SPX average daily moves has increased, indicating a longer-term trend of increased volatility.
- Most obvious adjustment during any period of near-term weakness for bullish options positions was to roll down strikes, i.e.; bull put spreads (credit spreads) to recover premium.

S&P 500 Index 1 year

L: 1934.58 CH: +10.91 CH%: 0.57%



IWM (Russell 200 Index ETF) 1 year



09:28:35

Price

August correction

1 year range: 18% (peak to trough)

Week 1 Jan 2016

IWM@SMART Delayed

D \$0.3832

D \$0.5292

D \$0.3242

D \$0.4958

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

MACD

Source: Interactive Brokers

Feb '15 Mar '15 Apr '15 May '15 Jun '15 Jul '15 Aug '15 Sep '15 Oct '15 Nov '15 Dec '15 Jan '16

(VIX) CBOE Volatility Index 1 Year

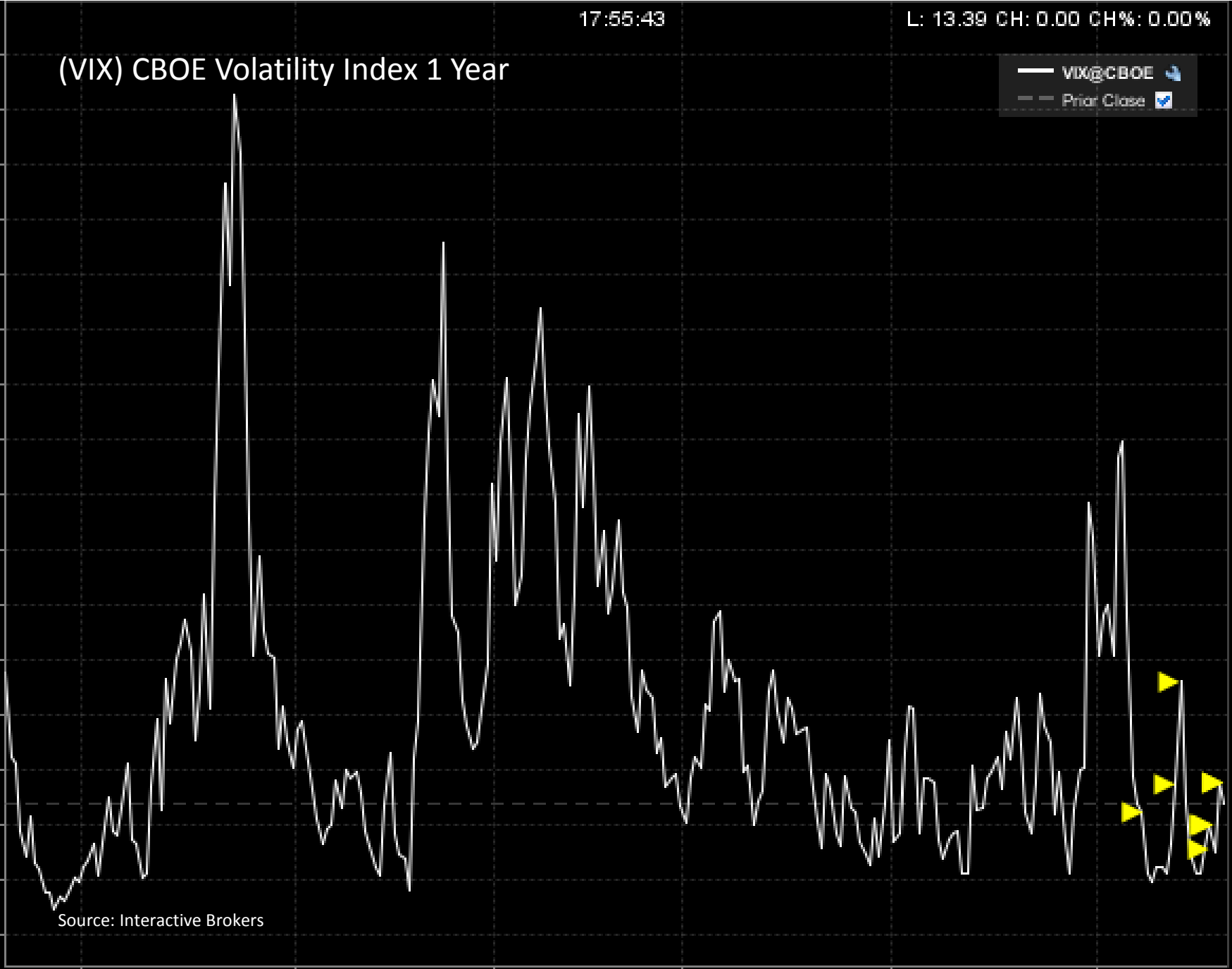
— VIX@CBOE ↗
- - Prior Close ✓

Price

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

Sep '14 Nov '14 Jan '15 Mar '15 May '15 Jul '15

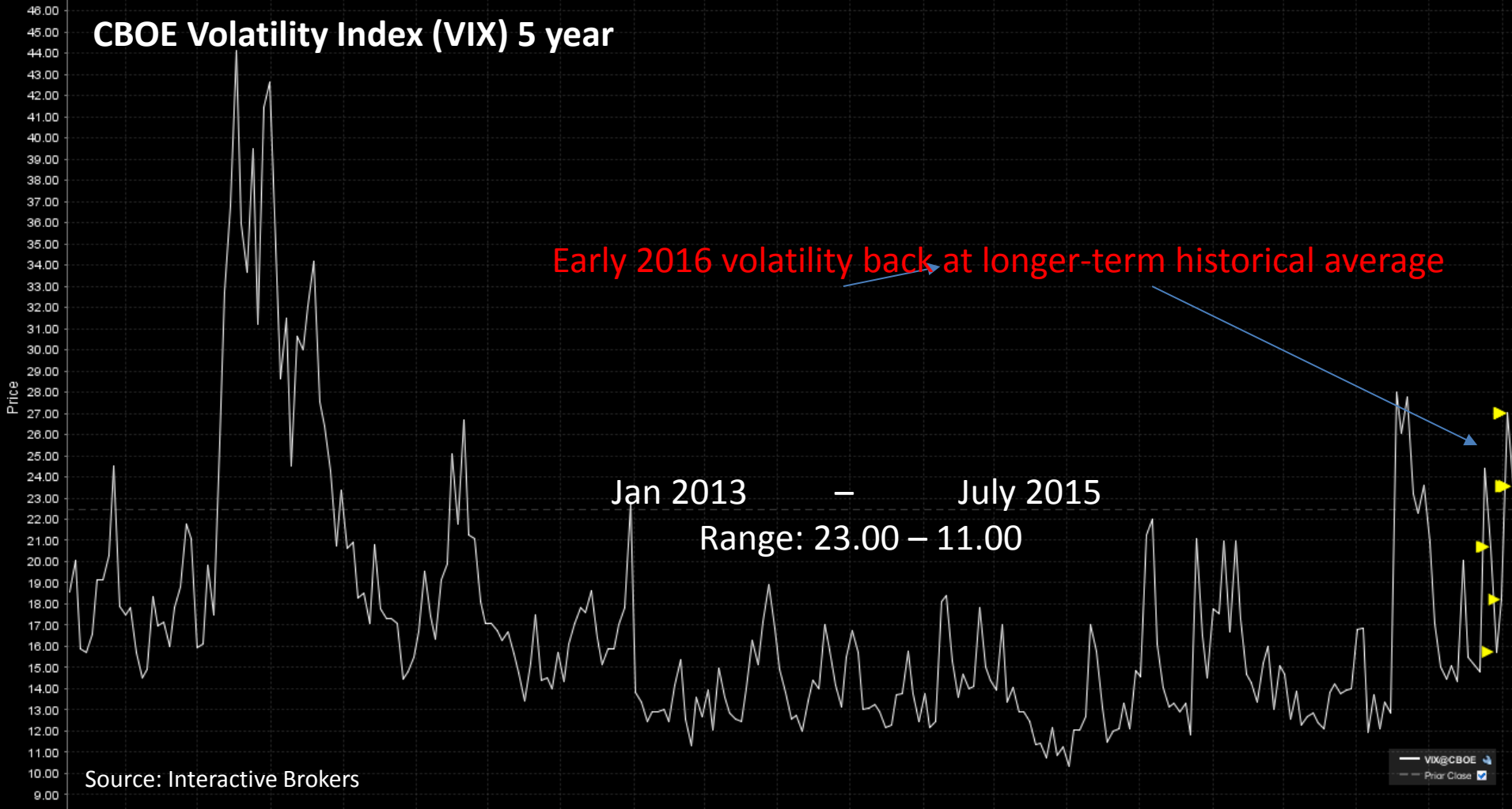
Source: Interactive Brokers



Why volatility matters with options... a refresher

- Option prices are driven by implied volatility (IV)
- A higher IV means higher option prices.
- Option buyers should seek to buy options with a low IV
- Option sellers should seek to sell options with a high IV
- Big moves in IV in a short period of time can cause big changes in option prices.

CBOE Volatility Index (VIX) 5 year



Volatility Strategies for 2016...

Speculative Volatility Strategies

Long Straddle

Long Strangle

Calendar Spread (Time Spread)

Volatility hedging

Long VIX calls / call spreads

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

Volatility Strategies

- Why the straddle or strangle?
- Speculating volatility of the stock
- Straddle BUYERS expect higher volatility
- Straddle SELLERS expect lower volatility
- Stranglers expect a similar movement, BUT with a different risk/return scenario

Options involve risk and are not suitable for all investors. For information on the uses and risks of options, you can obtain a copy of the Options Clearing Corporation risk disclosure document titled [Characteristics and Risks of Standardized Options](#) by calling (312) 542-6901.

The Long Straddle

- Purchase of one call
- Purchase of one put
- Same strike price, underlying and expiry date.
- Risk Profile
- Maximum Risk – Net Debit
- Maximum Reward – Unlimited
- Downside Breakeven – Strike less net debit
- Upside Breakeven – Strike plus net debit

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Long Straddle Example

- With ABC stock trading at \$50.00
- Buy 1 ABC 50 Call at \$3.20
- Buy 1 ABC 50 Put at \$3.00
- Net Cost $\$6.20 * 100 = \620.00
- The “50 straddle” is purchased for a total cost of \$620 plus commissions.

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Long Straddle P/L

Stock Price	50 Call Profit/Loss	50 Put Profit/Loss	Combined Profit/Loss
\$60.00	\$680	(\$300)	\$380
\$55.00	\$180	(\$300)	(\$120)
\$50.00	(\$320)	(\$300)	(\$620)
\$45.00	(\$320)	\$200	(\$120)
\$40.00	(\$320)	\$700	\$380

Long Straddle Pricing Behaviour

	Initial	Estimate	% Change
Stock Price	\$50.00	\$60.00	20%
Days to Expiration	60	32	
50 Call	\$320	\$1020	220%
50 Put	<u>\$300</u>	<u>\$15</u>	(95%)
50 Straddle	\$620	\$1035	67%

The Long Strangle

- ABC stock trading at \$50.00
- Buy 1 ABC 55 Call at \$1.40
- Buy 1 ABC 45 Put for \$1.05
- Net Cost \$2.45
- The “45-55 Strangle” is purchased for a total of \$245 plus commissions.

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

The Long Strangle P/L

Stock Price	55 Call Profit/Loss	45 Put Profit/Loss	Combined Profit/Loss
\$60.00	\$360	(\$105)	\$255
\$55.00	(\$140)	(\$105)	(\$245)
\$50.00	(\$140)	(\$105)	(\$245)
\$45.00	(\$140)	(\$105)	(\$245)
\$40.00	(\$140)	\$395	\$255

Long Strangle Pricing Behaviour

	Initial	Estimate	% Change
Stock Price	\$50.00	\$60.00	20%
Days to Expiration	60	32	
55 Call	\$140	\$590	320%
45 Put	<u>\$105</u>	<u>\$0</u>	(100%)
45-55 Strangle	\$245	\$590	140%

Straddles vs. Strangles

- Strangle – Maximum loss possible over wider range than straddle
- Straddle – Maximum loss only if stock = strike price at expiry
- Combination (strangle) – Maximum loss anywhere between two strikes at expiry

The Calendar Spread

- Spread Features
- Motivation for using
- Effect of Time Decay + Volatility
- Risk v Return Profile

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

Long Calendar setup...

Setup	Expectations
Sell near-term option (short)	Generally neutral on underlying security
Buy far-term option (long)	Can be used as a bullish or bearish strategy
Same strike price	Also known as “Time Spread”
All calls or puts (1 : 1 ratio)	Looking for increase in implied vol
Selected strikes generally ATM	
Established as a debit spread	

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

Time Decay & Volatility

- Aside from underlying stock price, you need to be aware of:
 - Time Decay (theta)
 - Implied Volatility (vega)
- Time Decay – known phenomenon
 - Measured by theta (rate of time value decay)
- Implied Volatility
 - Change is unpredictable
 - Change in option price per 1% change in volatility

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

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

Time Decay & Volatility

- You have 2 option expirations to consider:
 - Near term option expiry (short option expires)
 - Far term option expiry (long option expires)
- What's my motivation?
 - Take advantage of short term time decay
 - Expect long term implied volatility to stay same or increase

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

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

Near-term expiry...

- Maximum profit scenario
 - underlying at strike price
 - short option at the money (or slightly out of the money)
 - no assignment on short option contract
 - long option has maximum value (volatility dependent)
- Maximum profit
 - Value of long call less debit paid for spread
- Maximum profit calculation
 - Long call value at near term expiry can only be calculated with pricing model

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

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

Near-term expiry... cont'd

- Maximum loss at near-term expiry
 - limited to debit paid for spread
- Maximum loss seen if:
 - underlying is away from strike price
 - both options out-of-the-money and worthless
 - both options deep in-the-money with no time value
 - spread between option values = 0

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

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

Working with IUR on volatility strategies...

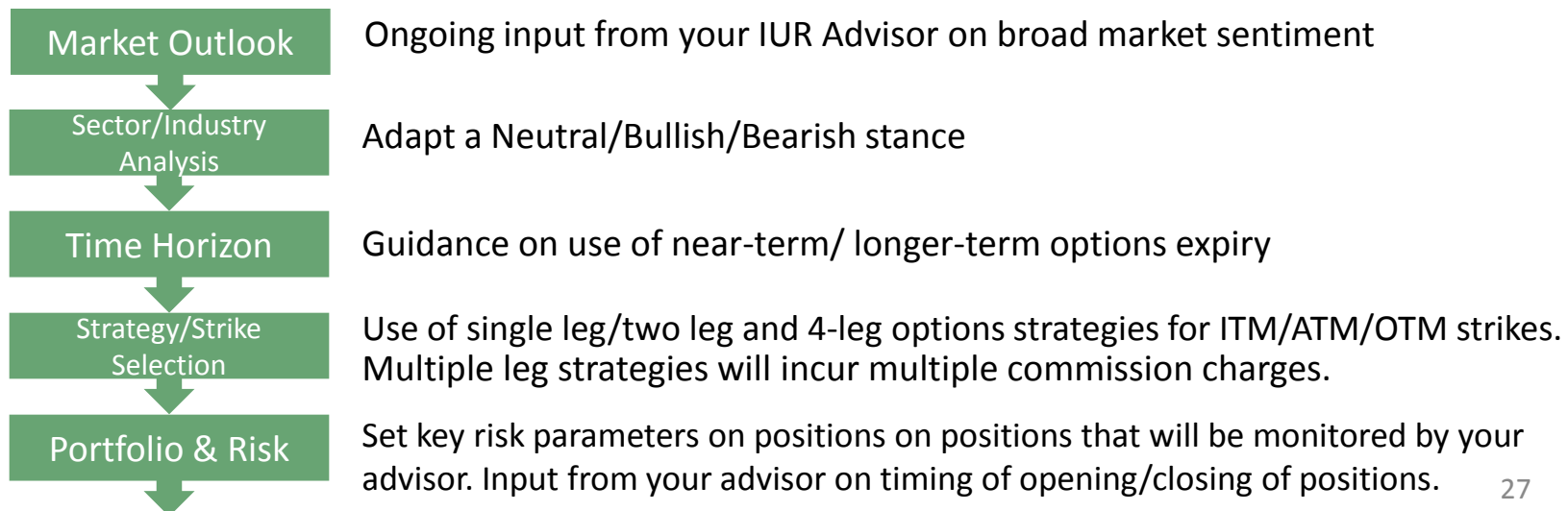
- We run our client portfolios like individual businesses
- SPY and IWM are our primary vehicles for our client option portfolios that we advise... but not always as a volatility play.
- Option buyers generally benefit more than option sellers... however underlying price may move up and option prices will change due to changes in volatility.
- SPY and IWM vehicles should only form part of an overall option portfolio and position sizing should be appropriate.
- You may combine a volatility position with another strategy when you are more neutral than bullish/bearish on other securities in your basket.

Options Advisor Account

2016

- Highlights
 - Dedicated IUR options advisor is 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 obtaining consistent P&L for your options account

Our Options Advisory Process

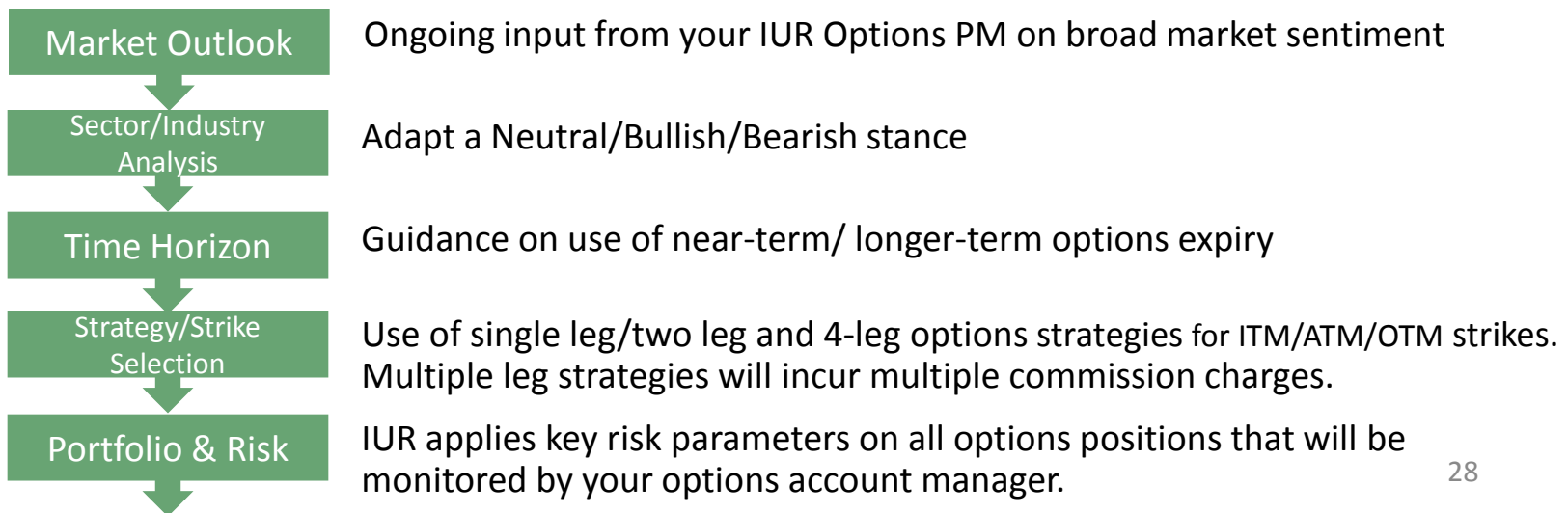


Managed Options Account

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 advisor 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 are available daily via account management
 - Focus on obtaining consistent growth for your options account

Our Options Advisory Process



The Next Step...

Email us – gryan@iurcapital.com to arrange a 1-to-1 call with our options advisors or to request the slides for this webinar.

Gareth performs live on Bloomberg and Fox TV on a regular basis.