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# IUR Capital

## Seeking Income with SPDR ETF Options

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### Gareth Ryan

Founder & Managing Director  
IUR Capital

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# Seeking Income with SPDR S&P 500 ETF Options



May 3rd, 2021

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Gareth Ryan  
Founder & Managing Director  
[gryan@iurcapital.com](mailto:gryan@iurcapital.com)

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# Host Profile (Gareth Ryan)

- Founded IUR Capital Ltd in 2007, IUR Capital LLC in 2010
- IUR Capital is an investment advisor for institutional and retail investors
- Focusing on exchange-traded options

- SPX +11% / Nasdaq 9% YTD
- Russell 2000 Index still outperforming +15% YTD
- 2020's best performers now lagging “re-opening stocks”
- Retail, banks, airlines all now in double-digits YTD
- Q1 2021 has been solid, if unspectacular, for risk assets
- Ten-year treasury yields continue to march higher
- And the largest vaccination programme in history rolls on....>1bn vaccinated

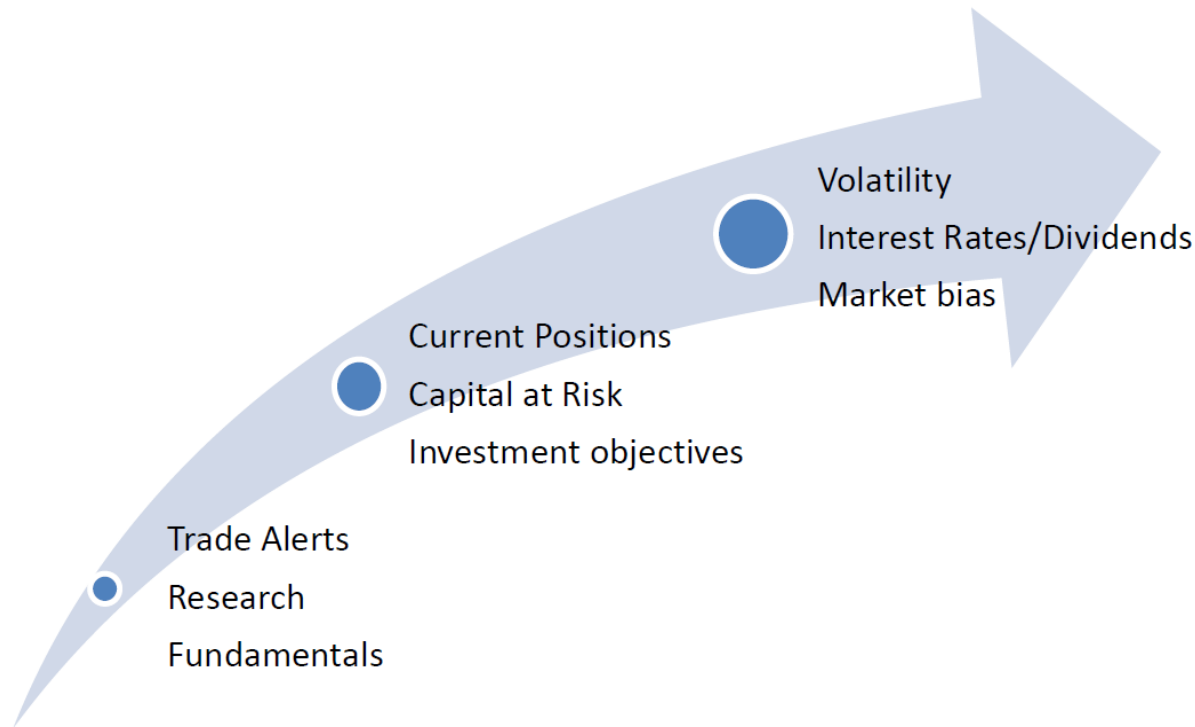
# Where are we on the Volatility Landscape?

- The events of early 2020 have set a permanent mark on cross-asset volatility and how it is priced
- High volatility = High option pricing
- Covid “volatility premium” is now firmly in the background
- Implied volatility tells us what the options market is *implying* in terms of market moves
- The reversion to a lower volatility environment continues into Q2
- For as long as volatility continues to decline, the cost of insurance (puts) will be significantly lower than March 2020
- Opportunities within both long volatility and short volatility option strategies in 2021...



# Options: Significant Potential Benefits...but inherent challenges

- Used correctly options can provide the opportunity to improve portfolio performance and also reduce risk
- But identifying our parameters for use of options in a portfolio can be daunting

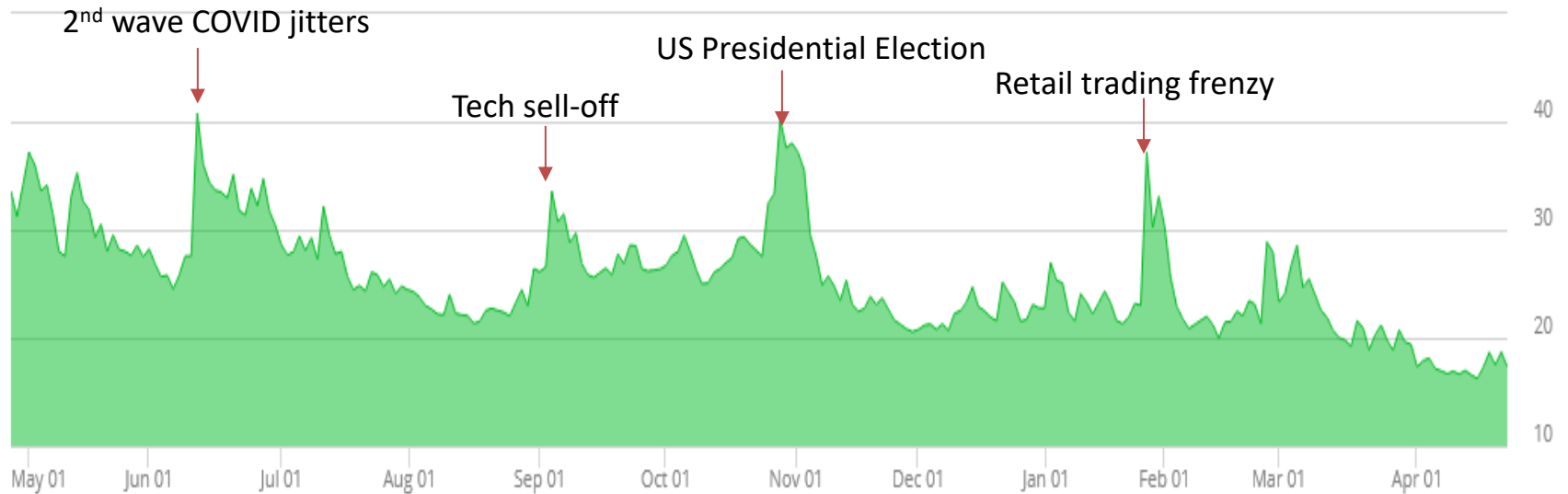




# Volatility trend continues to the downside....

## CBOE Volatility Index

Intraday 5D 1M 3M 6M YTD 1Y 5Y All

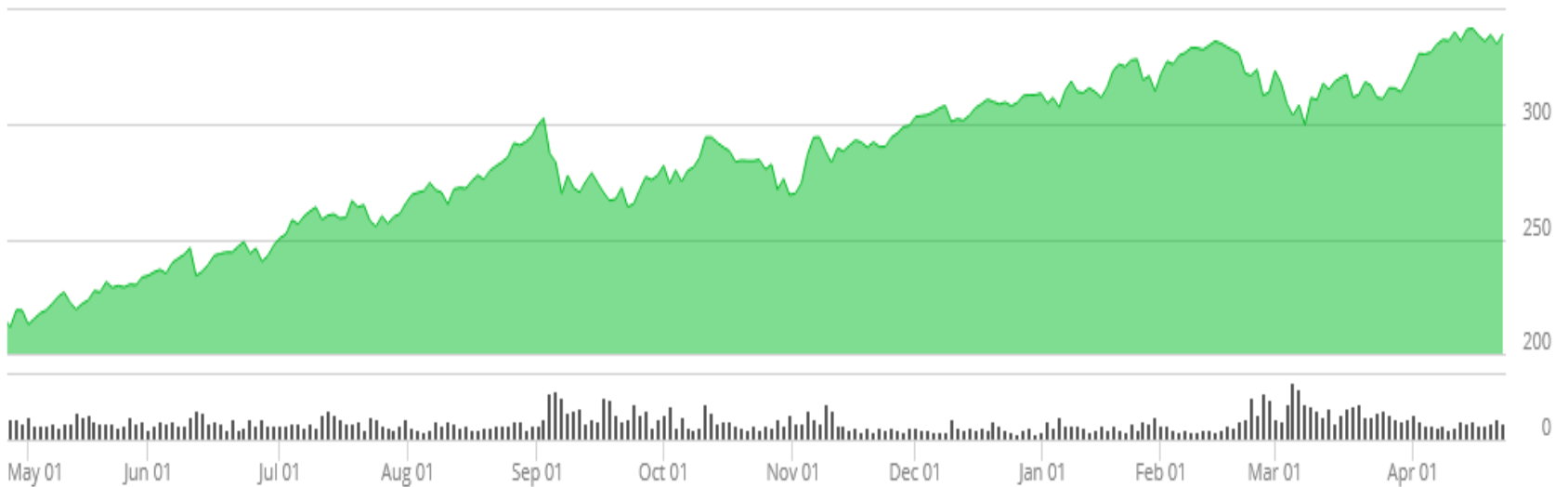


Source: CBOE

# Tech continues to trend higher...but underperforming other parts of the market....

PowerShares QQQ Trust, Series 1 (ETF)

Intraday 5D 1M 3M 6M YTD 1Y 5Y All

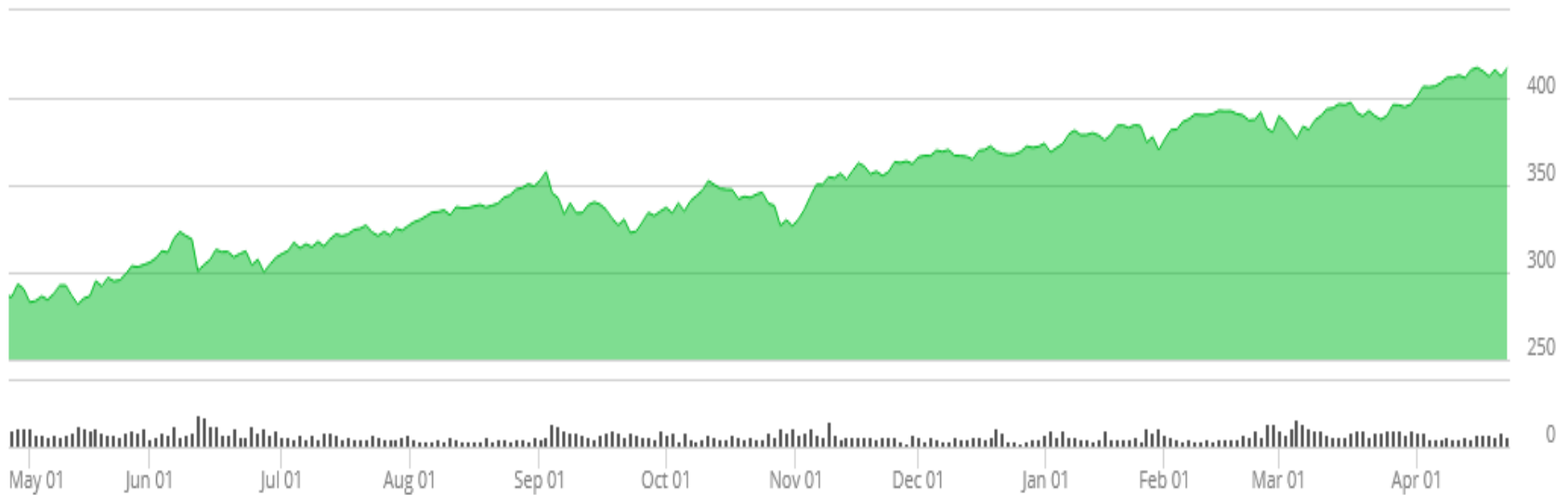


Source: CBOE

# SPDR posting 12% YTD gains despite continued volatility within Nasdaq and the “rotation play”

## SPDR S&P 500 ETF Trust

Intraday 5D 1M 3M 6M YTD 1Y 5Y All

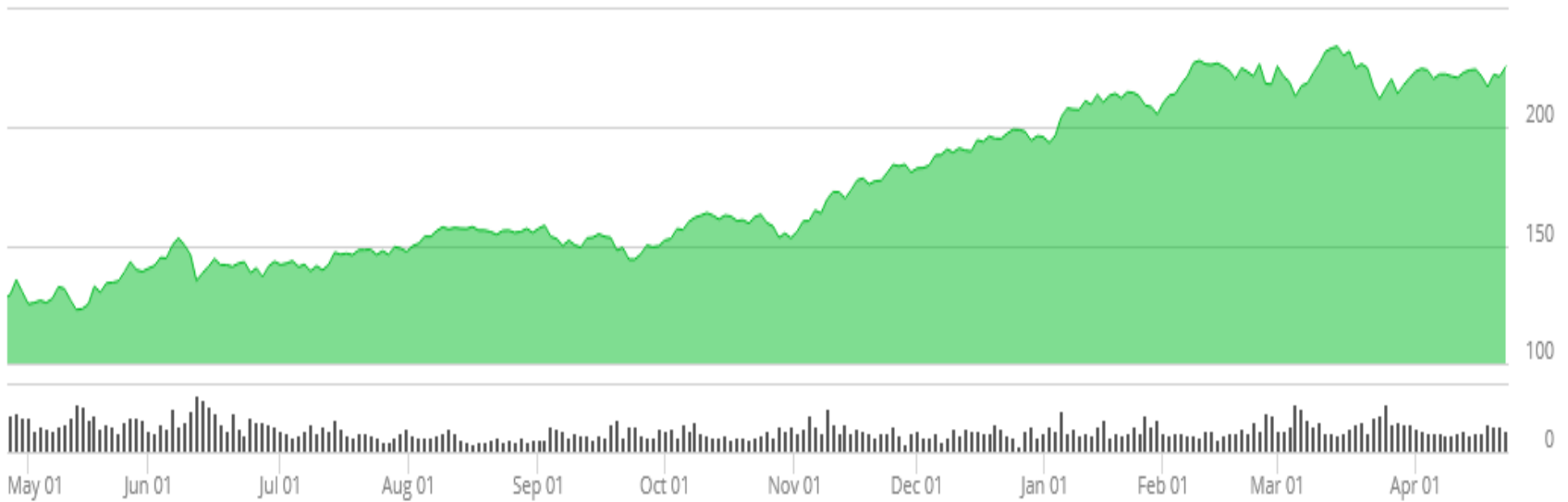


Source: CBOE

# Small-caps continue to outperform.....

## iShares Russell 2000 Index (ETF)

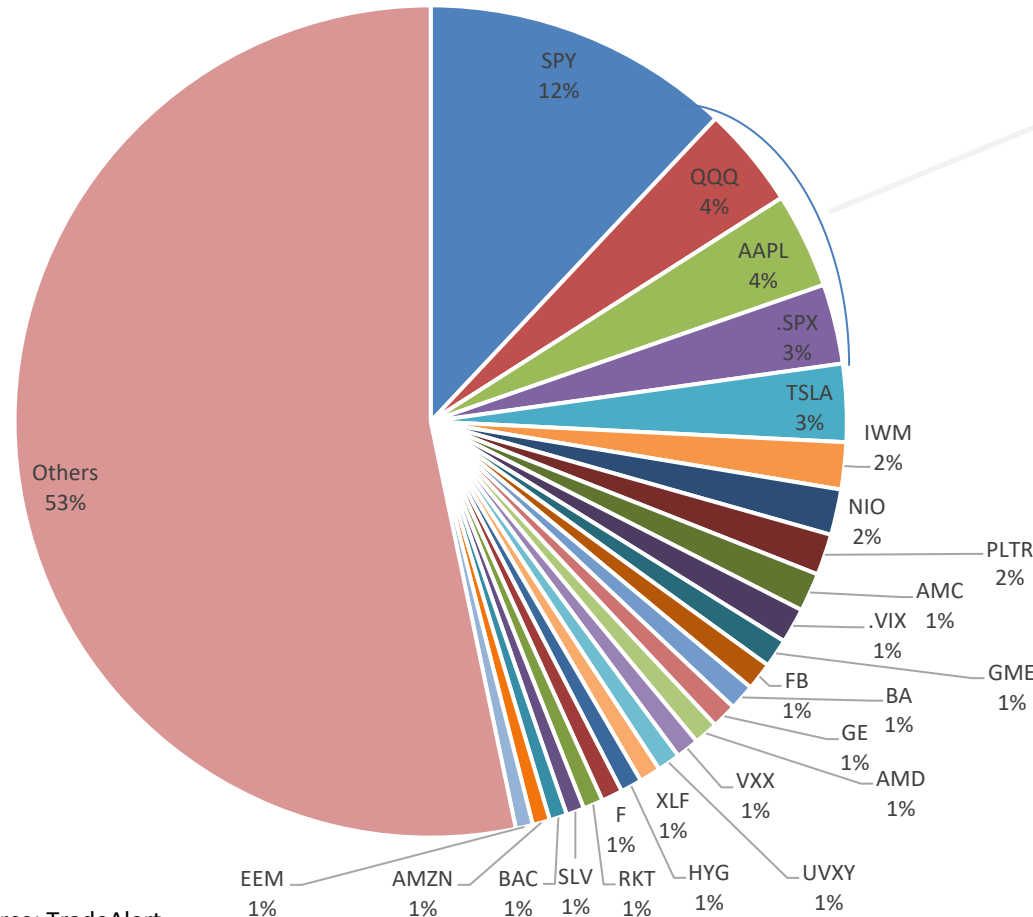
Intraday 5D 1M 3M 6M YTD 1Y 5Y All



Source: CBOE

# Where do we see largest option volumes by product? A daily snapshot

March 31, 2021



23% of options volume originated from just 4 names. SPDR contributed 12% of daily volume alone (4.6m contracts)

Source: TradeAlert

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# Questions to ask about option strategies:

- What are the objectives for an equity/fixed income portfolio?
- How can option strategies achieve a “*net benefit*”?
- If seeking income with options, what risk/return profile is appropriate?
- If taking directional positioning with options, what strategies can we use?
- For hedging an equity position with options, how can we justify costs?
- Do we have sufficient knowledge of the various strategies available?

# Use of index ETF products as underlying vehicles

Ticker	Instrument	Style	Settlement
SPY	SPDR S&P 500 ETF	American	Physical
SPX	Credit Spread	European	Cash
IWM	Russell 2000 Index ETF	American	Physical
RUT	Russell 2000 Index	European	Cash

\*Note that SPY / IWM ETF products have quarterly dividends.

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



# Income-seeking strategies... an overview

Objective	To harvest regular premium to portfolio / generate income	
Setup	Selling of put / call options for premium on underlying security Carries inherent market exposure	
Covered Call	Credit Spread	Iron Condor / Iron Butterfly
When it works:	Moderately trending market Sideways market	
Risks:	Sharp market moves with no hedge Realized volatility is higher than implied volatility	

- **The SPDR S&P 500 ETF Trust seeks to provide investment results that, before expenses, correspond generally to the price and yield performance of the S&P 500 index**
- Launched in January 1993, SPY was the very first exchange traded fund listed in the US.
- The S&P 500 Index is a diversified large cap US index that holds components across 11 sectors
- Current market cap: \$416b

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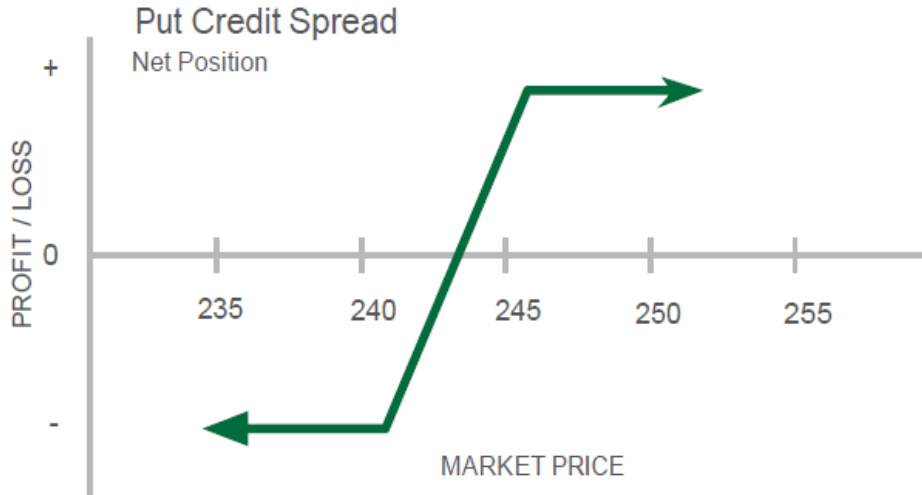
# Using SPDR ETF options as a vehicle for income

- 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)

# SPDR Options Credit Spread Strategy

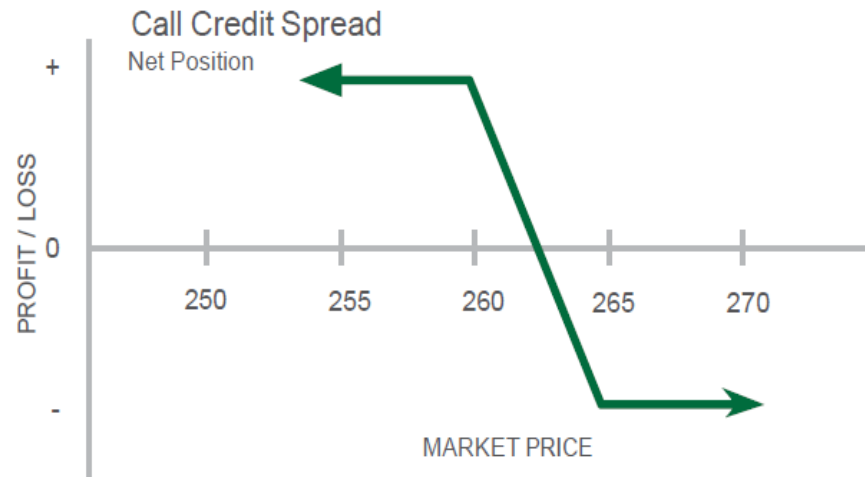
- Seeks to harvest premium to the portfolio using both put spread and call spread premium on underlying SPDR Exchange Traded Fund.
- Combine weeklies and traditional monthlies to harvest premium
- Weeklies setup could be as short as 14 days
- Use of at least 2 weeklies and the traditional monthly in any given month
- Consider an outright hedge

# Credit Spread Strategy for income



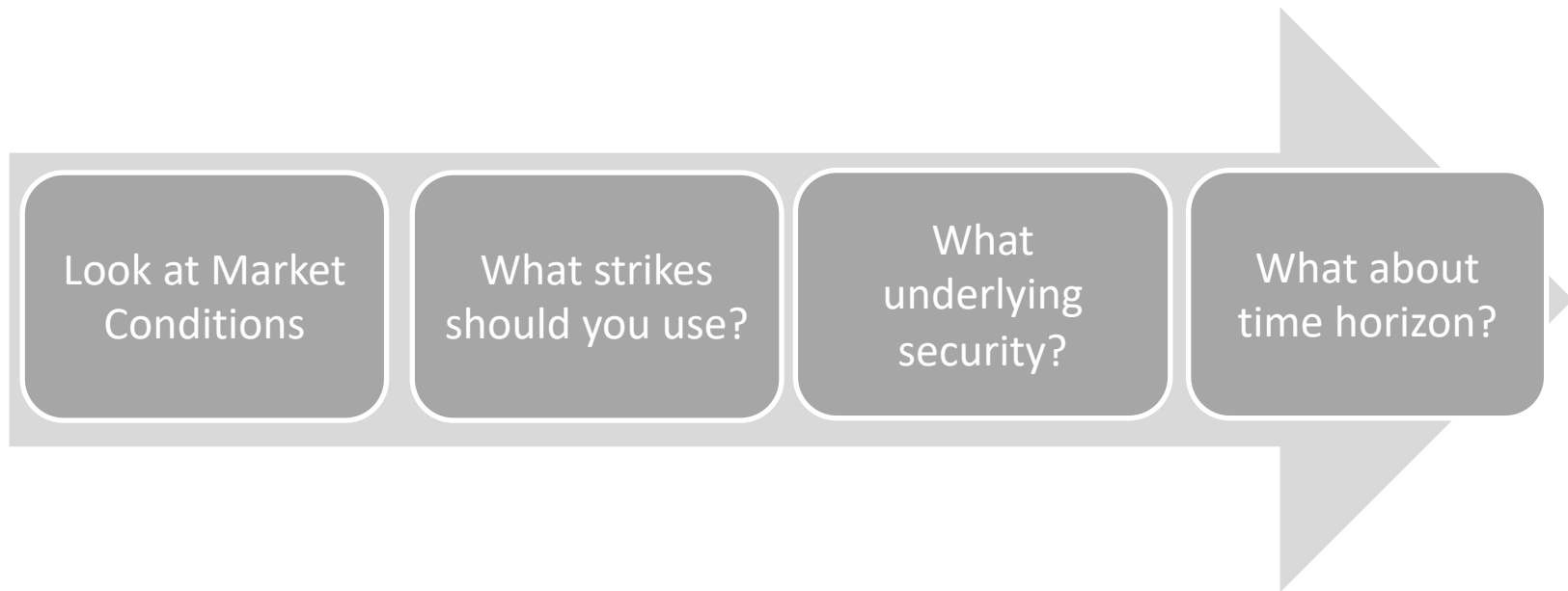
Defined risk

Defined return



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# Making option-based strategies work in a portfolio.....



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# What we do....

## Managed Options Account

### Our Discretionary Managed Account Process

#### Market Outlook

On-going monitoring of positions from IUR options portfolio manager

#### Sector / Industry Analysis

Adapt a Neutral/Bullish/Bearish stance

#### Time Horizon

Guidance on use of near-term / longer-term options expiry.

#### Strategy/Strike Selection

Focus on income generation and capital growth. Use of single leg/two-leg and 4-leg options strategies for with ITM/ATM/OTM strikes.

#### Portfolio & Risk

Set key risk parameters on a basket of underlying securities monitored daily by your advisor. Input from your advisor on timing of opening/closing positions, risk awareness and improvement of timing.

### Option Strategies

Long Call	Long Put
Long Call Spread	Long Put Spread
Credit Spread	Calendar Spread
Covered Call	Cash-Secured Put
Iron Butterfly	Iron Condor
Diagonal Spread	Straddle/Strangle

**Most Actively Used: Credit Spread**

### Active Underlying Securities

SPY ETF (S&P 500 index ETF)  
IWM ETF (Russell 2000 index ETF)

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Prior to engaging in options strategies, IUR strongly recommends that you read and understand the booklet “**Characteristics and Risks of Standardized Options**” provided by the Options Industry Council (OIC).



# Let's talk...

Email me [gryan@iurcapital.com](mailto:gryan@iurcapital.com) to request the slides or just to have a chat....