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EQDerivatives

Index Option Strategies For Protection And Income

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Outline

- Markets
- Income
- Portfolio Protection
- Income / Protection
- Summary / Q&A

Markets

- S&P 500 – SPY, SPX, XSP
- Nasdaq-100 – QQQ, NDX, XND
- Russell-2000 – IWM, RUT, MRUT

Income

- A common income strategy is the buy-write or covered call
- This is typically demonstrated with an at-the-money or out-of-the-money call sold versus a stock or index
- Although it does generate income, it also limits upside

Income

Buy-Write Example:

Buy 100 SPY @ 442.50

Sell SPY Sep 30th 445 Call @ 6.70

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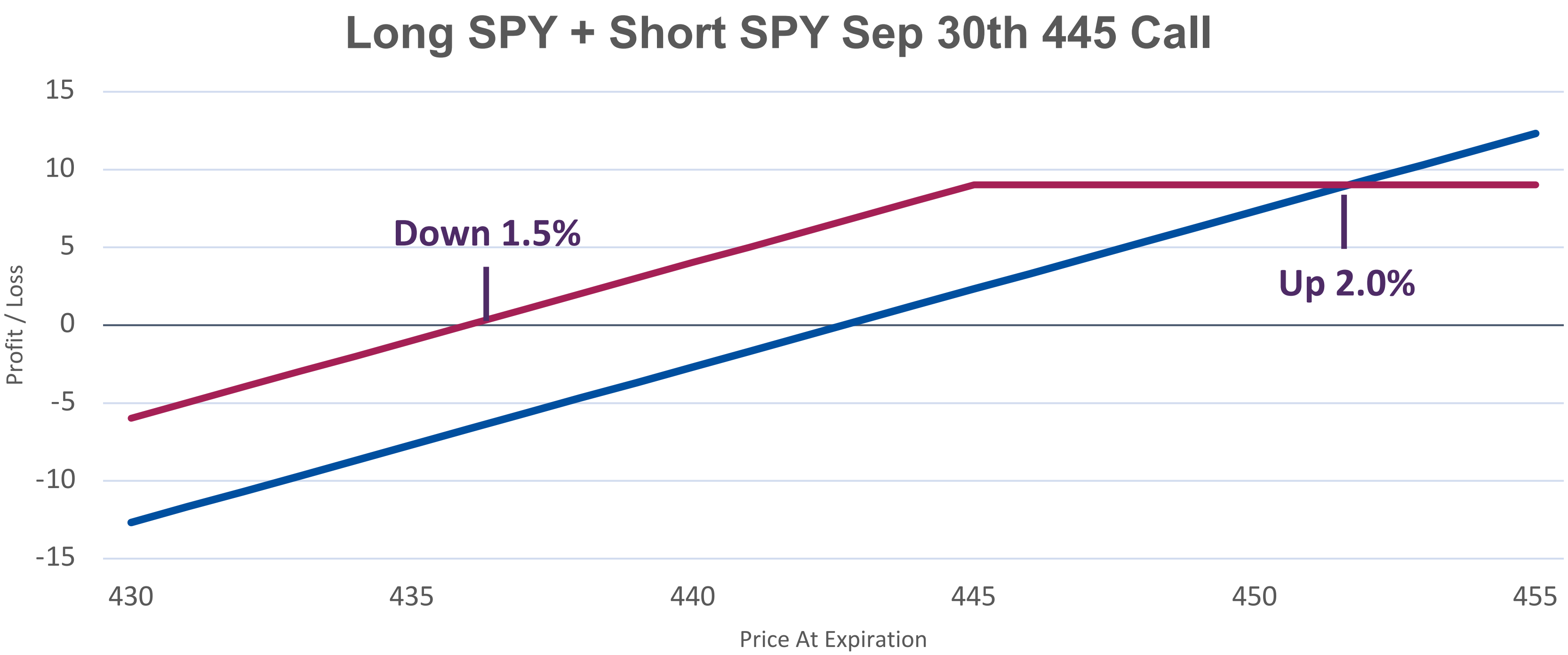
Income

Buy-Write Example:



Protection

- The option industry likes to equate using options to insurance policies
- A major use of index options is for portfolio protection
- Most basic hedging strategy is the protective put

Protection

QQQ @ 367

Sep 30 Put Strike	Premium	Downside	Performance Cost
367	10.00	0%	2.72%
348	4.60	5%	1.25%
330	3.30	10%	0.90%

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Protection

Protective Put Example:

Buy 100 QQQ @ 367.00

Buy 1 QQQ Sep 30th 348 Put @ 4.60

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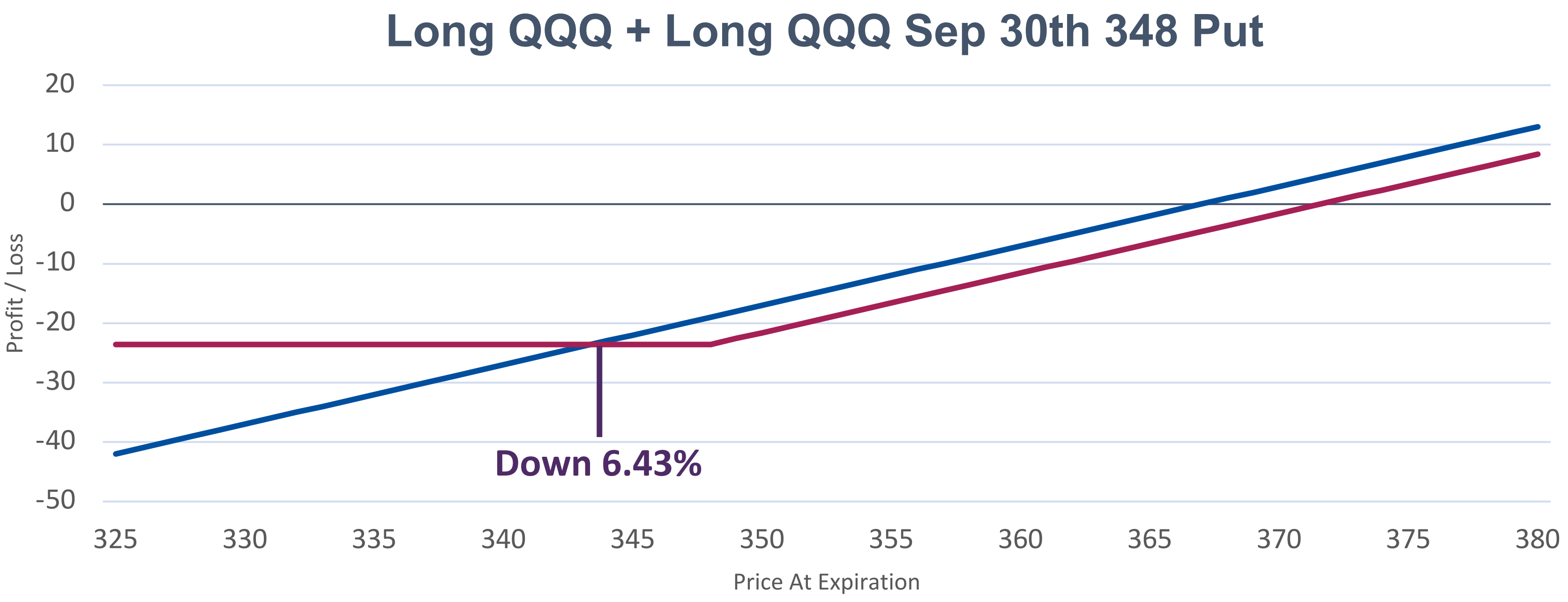
Protection

Protective Put Example:



Protection

- A collar is a good method of protecting against downside with a lower dollar cost
- A put is purchased and a call sold against the portfolio
- The cost of the hedge if giving up some upside performance

Protection

Collar Example:

Buy 100 QQQ @ 367

Sell 1 QQQ Sep 30th 370 Call @ 7.00

Buy 1 QQQ Sep 30th 357 Put @ 6.95

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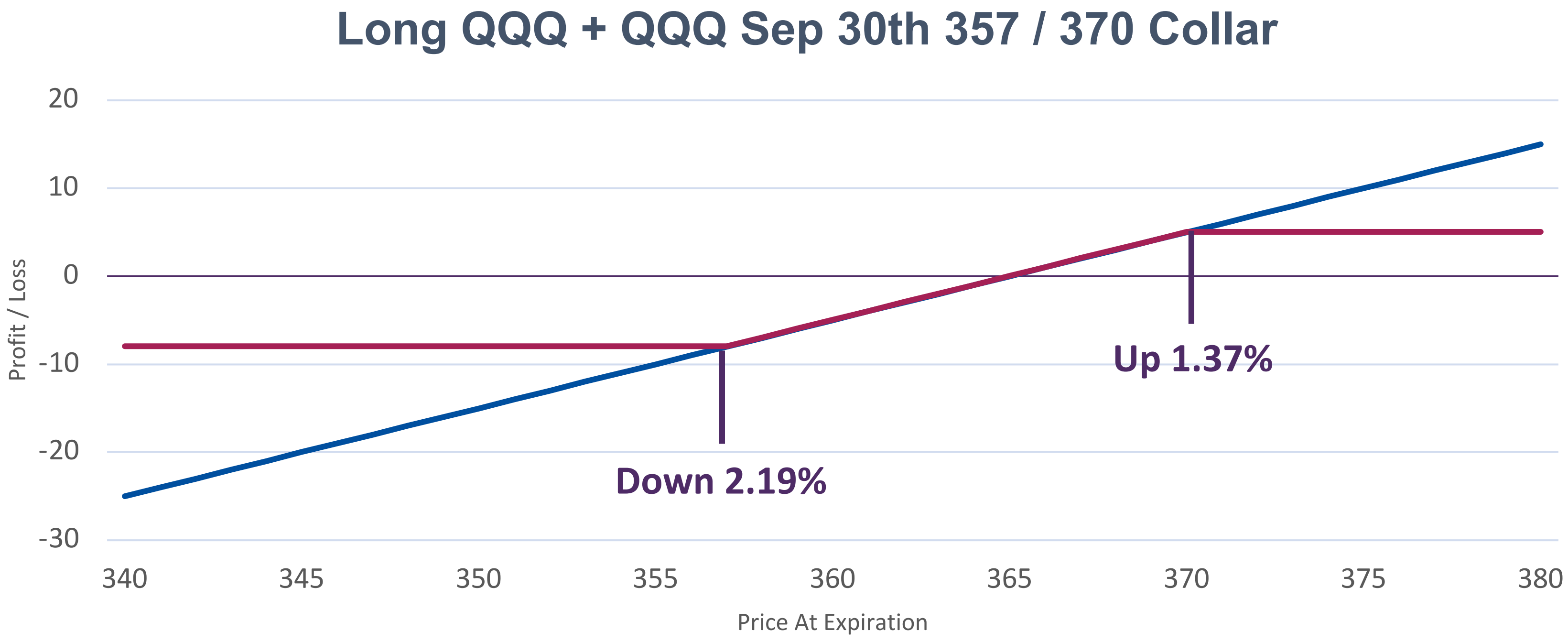
Protection

Collar Example:



Income / Protection

- Typically a buy-write / covered call is considered an income strategy
- A deep in the money call can be sold versus an underlying
- Depending on market conditions there may be some income above the options intrinsic value

Income / Protection

IWM @ 222.60

Sep 30th Call Strike	Premium	Upside	Protection
200	24.30	0.76%	10.92%
205	20.00	1.08%	8.98%
210	15.90	1.48%	7.14%
215	12.10	2.02%	5.44%
220	8.75	2.76%	3.93%

Income / Protection

Buy-Write Example:

Buy 100 IWM @ 222.60

Sell IWM Sep 30th 210 Call @ 15.90

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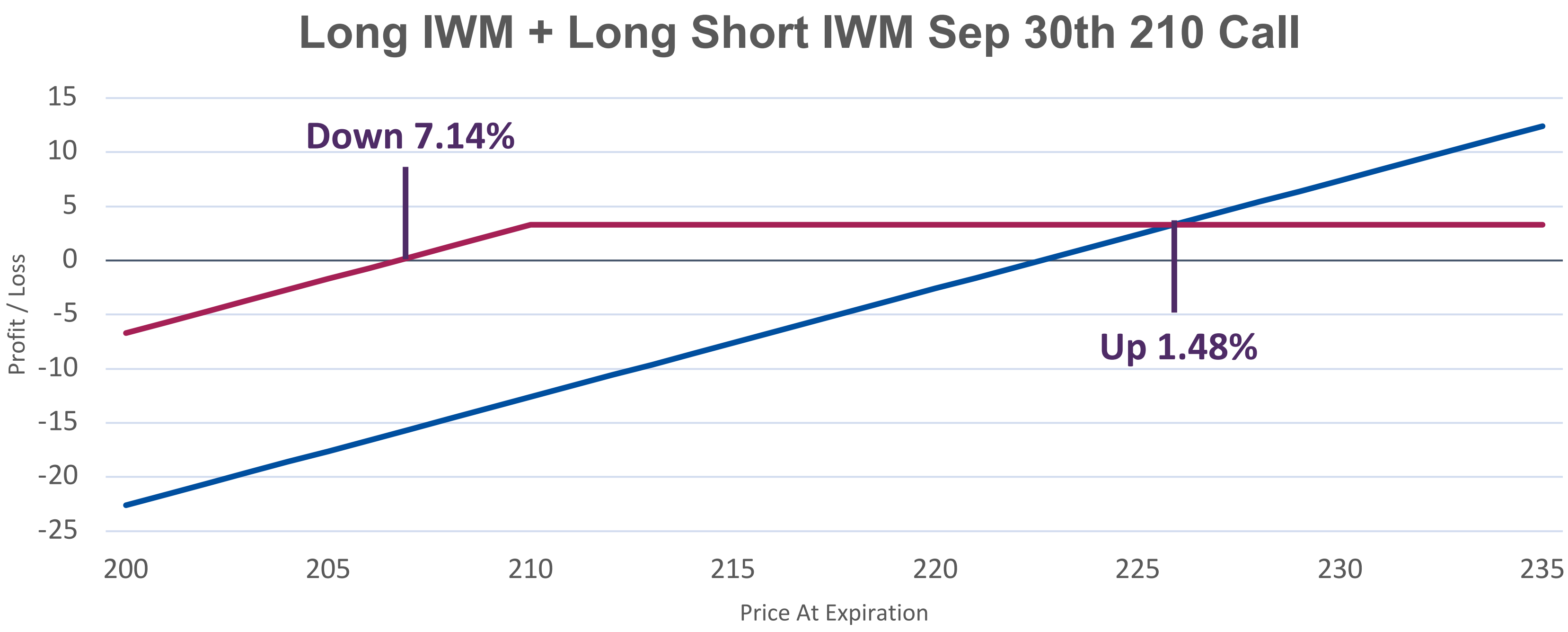
Income / Protection

Buy-Write Example:



Income / Protection

- The in-the-money buy-write offered partial downside protection
- Another strategy that offers partial protection combines a collar with a short put option
- In this case two options are being sold for each one purchased

Income / Protection

Buffer Protect Example:

Buy 100 IWM 221.50

Sell 1 IWM Sep 30th 222 Call @ 6.75

Buy 1 IWM Sep 30th 211 Put @ 4.30

Sell 1 IWM Sep 30th 220 Put @ 2.25

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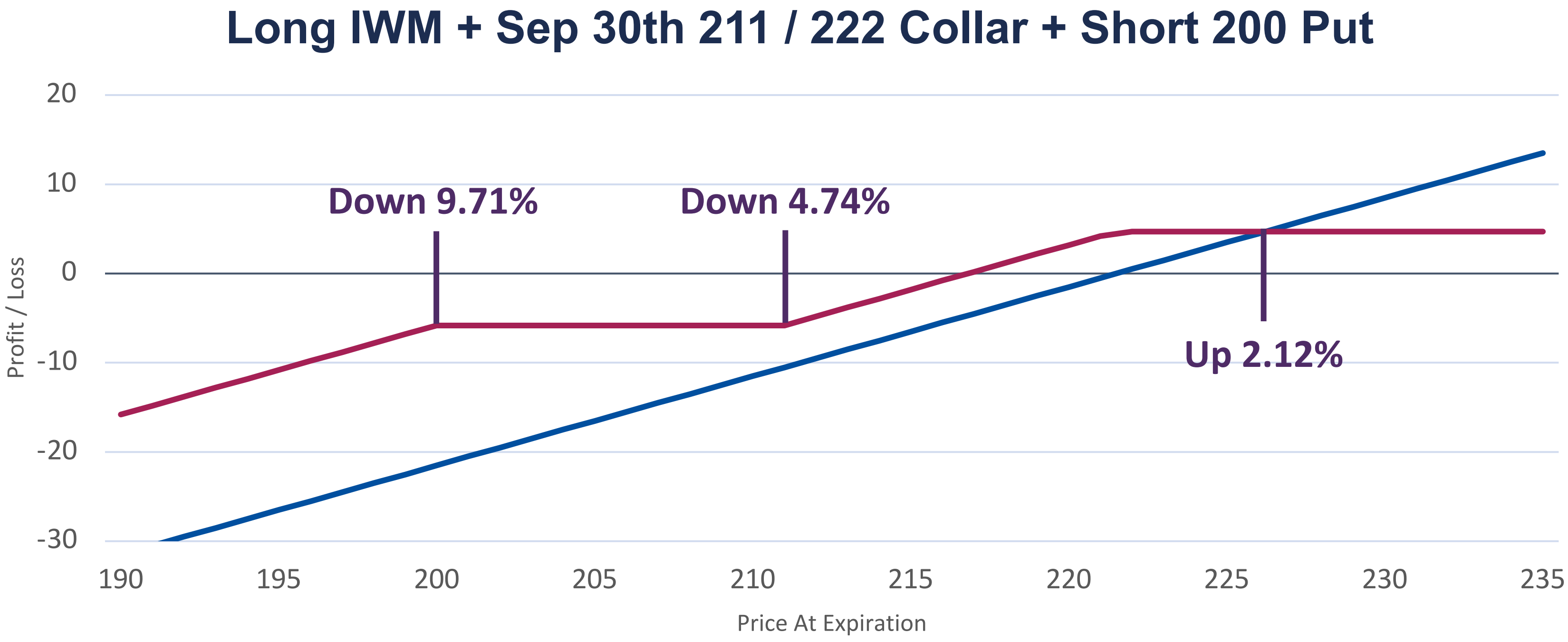
Income / Protection

Buffer Protect Example:



Summary

- Options may be used for both income and portfolio hedging
- It is possible to combine options to lower the dollar cost of a hedge or even take in a credit
- If limited upside is expected in the market, selling a call to pay for protection can result in portfolio income plus some downside protection

Questions / Contact

Questions?

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