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IUR Capital

Seeking Income with Index Options

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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)

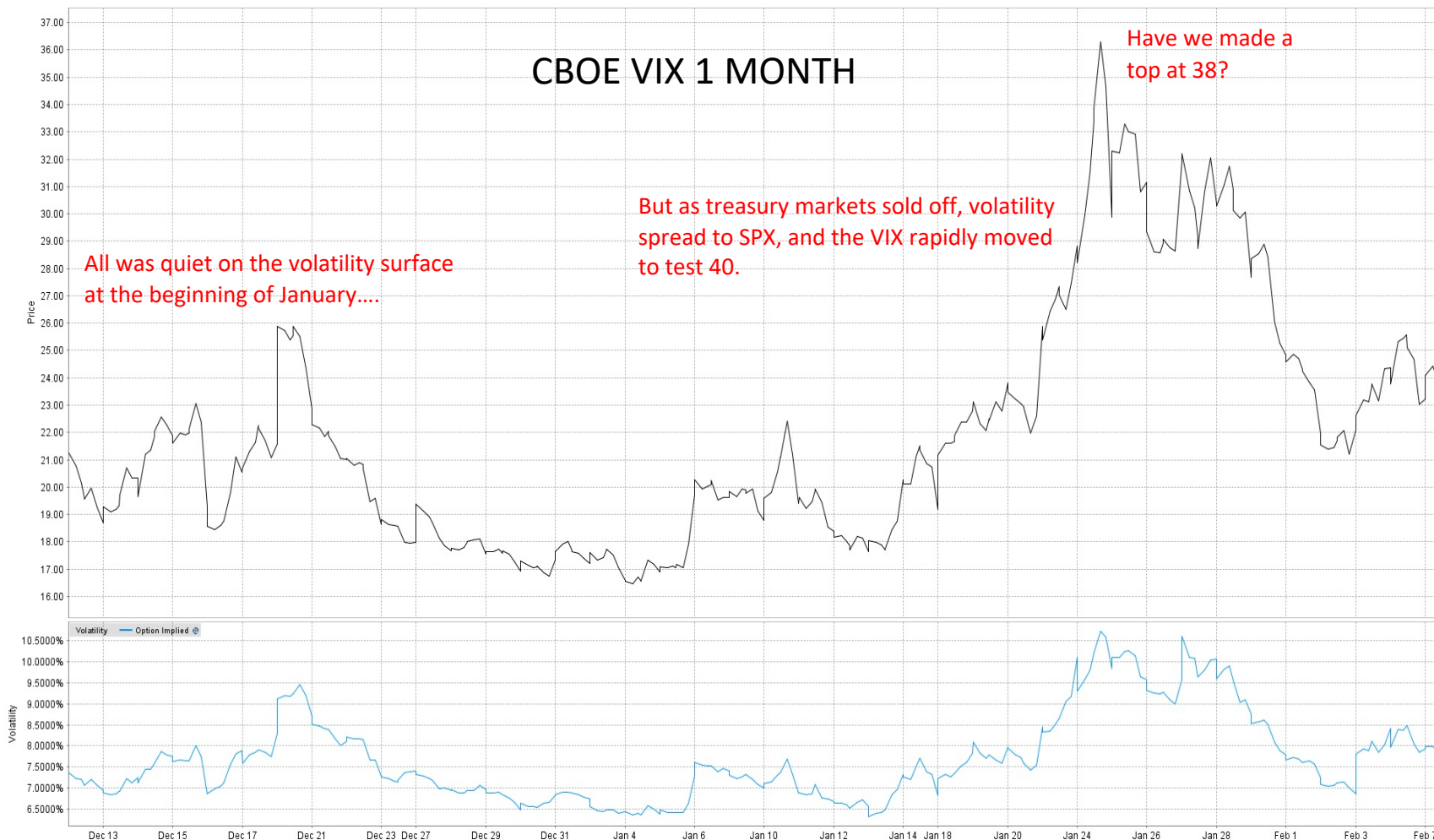
- Founded IUR Capital Ltd in 2007, IUR Capital LLC in 2010
- IUR Capital is an investment advisor for institutional and retail investors
- Focused in exchange-traded option strategies

How has 2022 been so far?

- Nasdaq enters a 14% correction in 2 weeks
- Russell 2000 Small Caps test 20% bear market
- S&P 500 finds near-term support at 13% correction from recent highs
- Volatility impacting risk assets the most since March 2020
- 10y Treasury Yield moves 30bps since beginning of Jan
- And we have increased geo-political risk on the horizon
- Global markets prepare for a change in the rate environment
- Beware of tail risk in 2022....

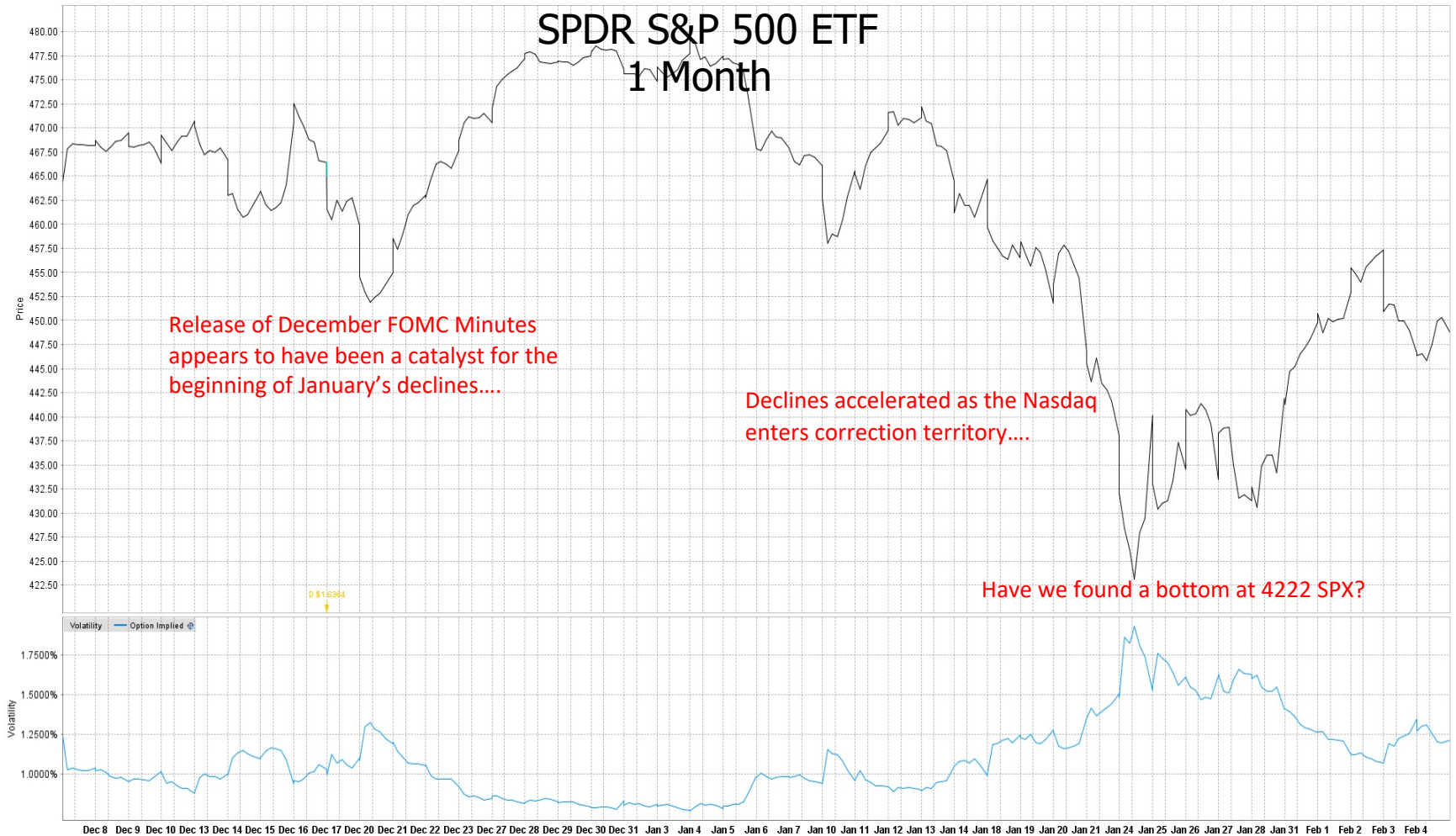
(As of February 7, 2022)

What happened with volatility in Jan?



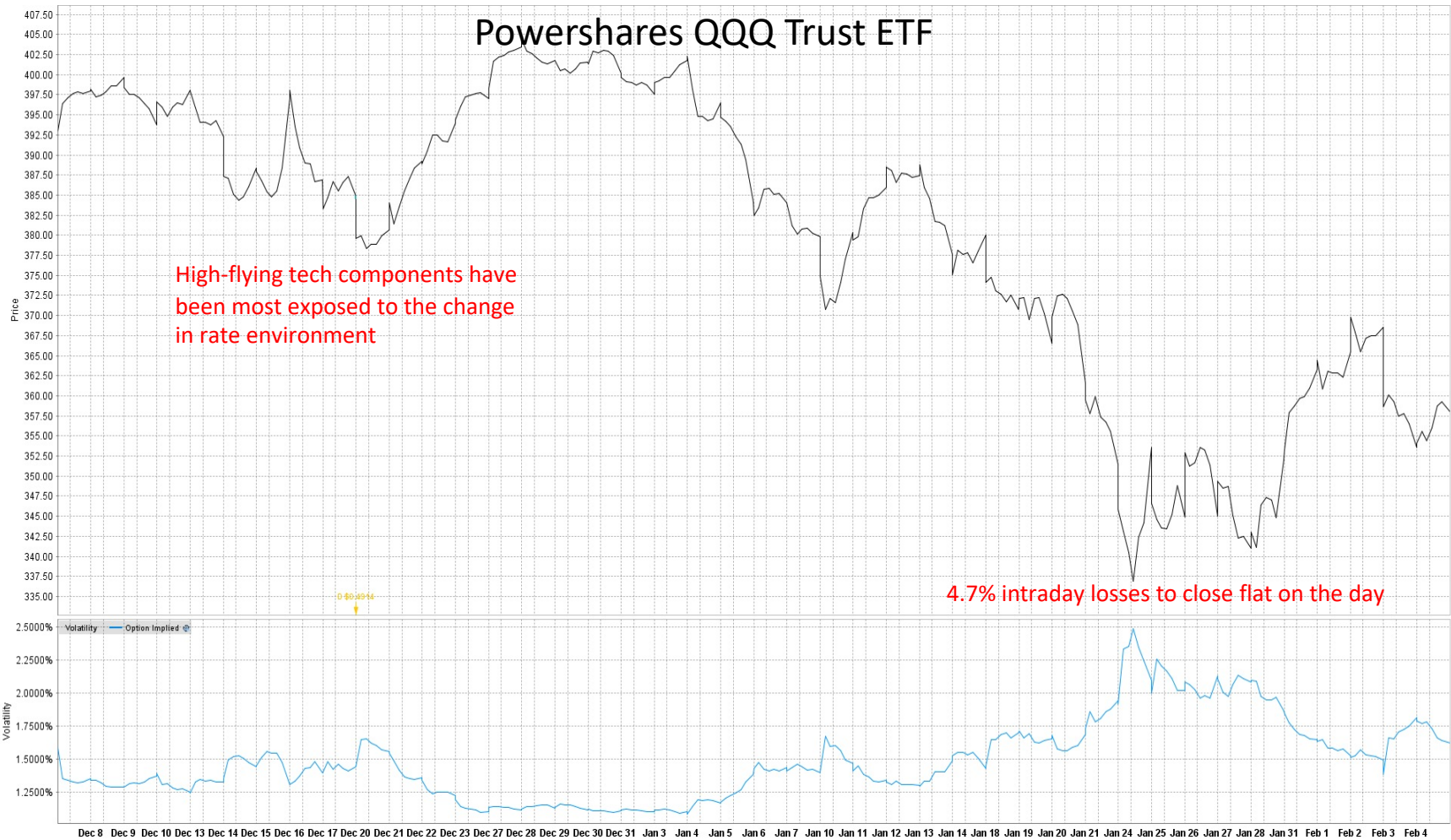
Source: IBKR TWS (February 7, 2022)

SPDR S&P 500 ETF had its worst January since 2008....



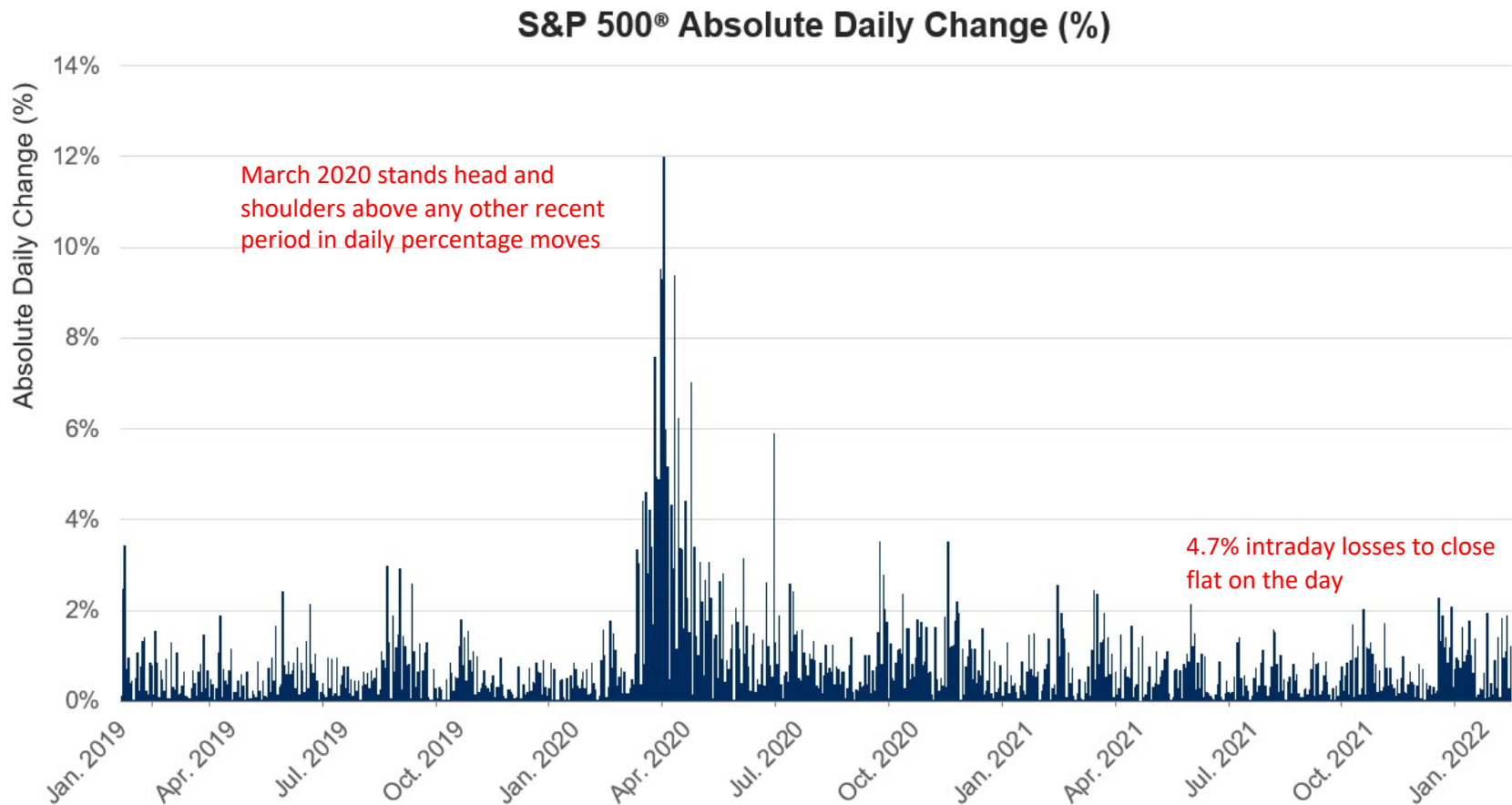
Source: IBKR TWS (February 7, 2022)

Nasdaq's January declines have been epic...but the dip-buying prevails



Source: IBKR TWS (February 7, 2022)

Let's put this market correction in perspective....

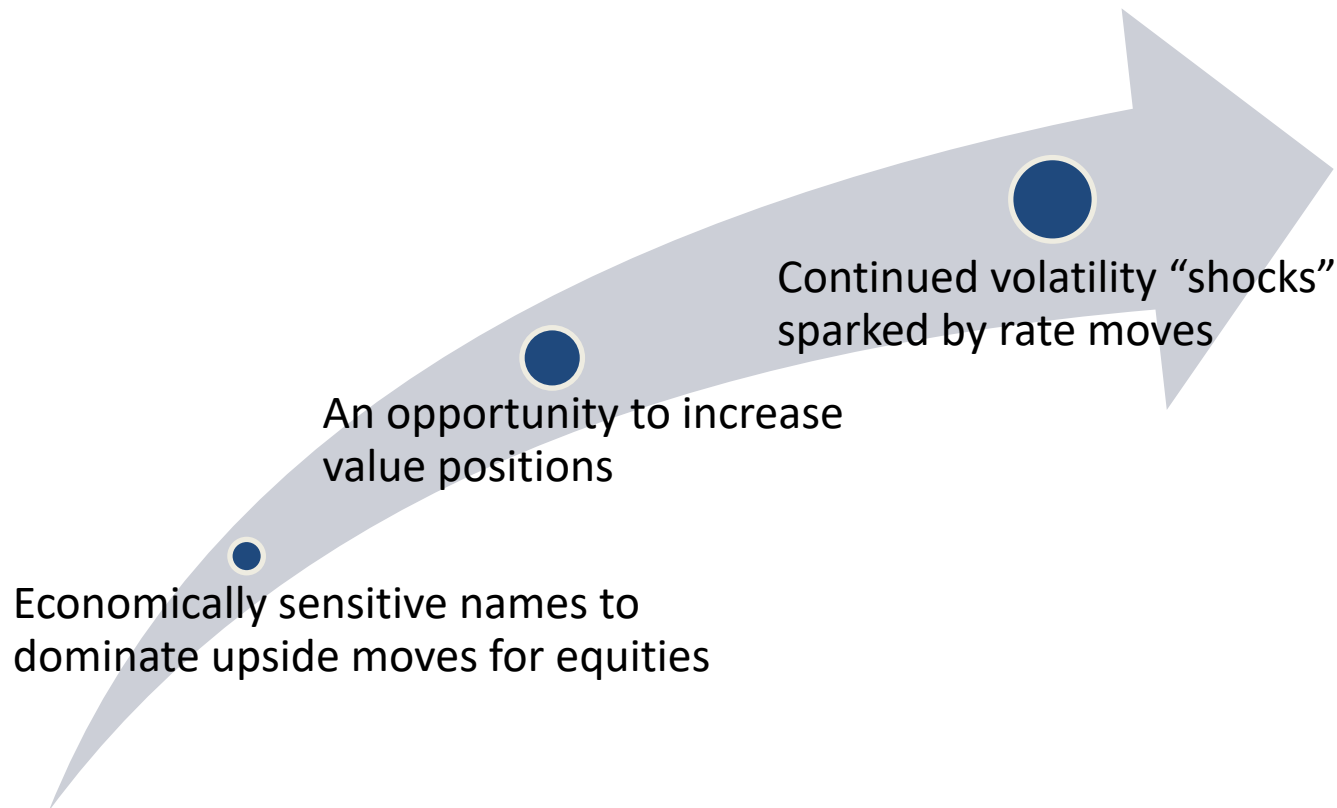


Source: S&P Dow Jones Indices. Data as of Jan. 25, 2022. Chart is provided for illustrative purposes only. Past performance is no guarantee of future results.

Source: IBKR TWS (February 7, 2022)

What to watch in Q1

- **Interest rates** – Equity markets will continue to react to rate moves
- **Inflation**– Currently at it's fastest pace since 1982
- **Quarterly Earnings** – Expectations of a strong beat for consensus estimates



Question of the day....

Will we retest 30 on the VIX in Q1?

Answers please in the Q&A Panel

Buying Puts = Buying Volatility

Selling Puts = Selling Volatility

Questions to ask about option strategies for 2022:

- Every bull market has **corrections**, will this correction be the only one in 2022?
- 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?

Systematic vs Discretionary....



Use of index/index ETF products as underlying vehicles

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

*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 generate 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	

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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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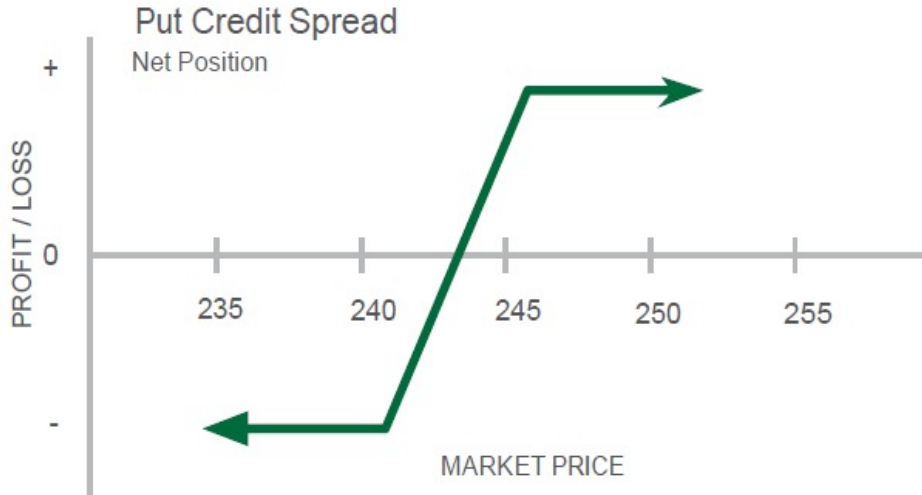
SPDR[®] S&P 500 Credit Spread Strategy

- Seeks to harvest premium on a continuous basis to the portfolio using both put spread and call spread premium on SPY ETF.
- Makes use of short-dated and long-dated options
- Seeks to outperform the underlying benchmark index net of fees.
- Can be used on any equity index or index ETF.

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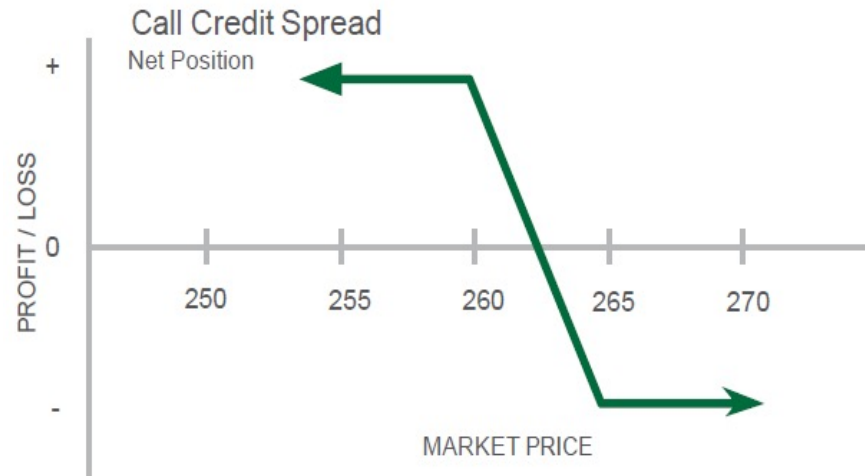
- Combine weeklies and traditional monthlies to harvest premium
- Weeklies setup could be as short as 14 days
- Use of at least 2 weeklies and traditional monthly in any given month
- Consider an outright hedge

Credit Spread Strategy for income



Defined risk

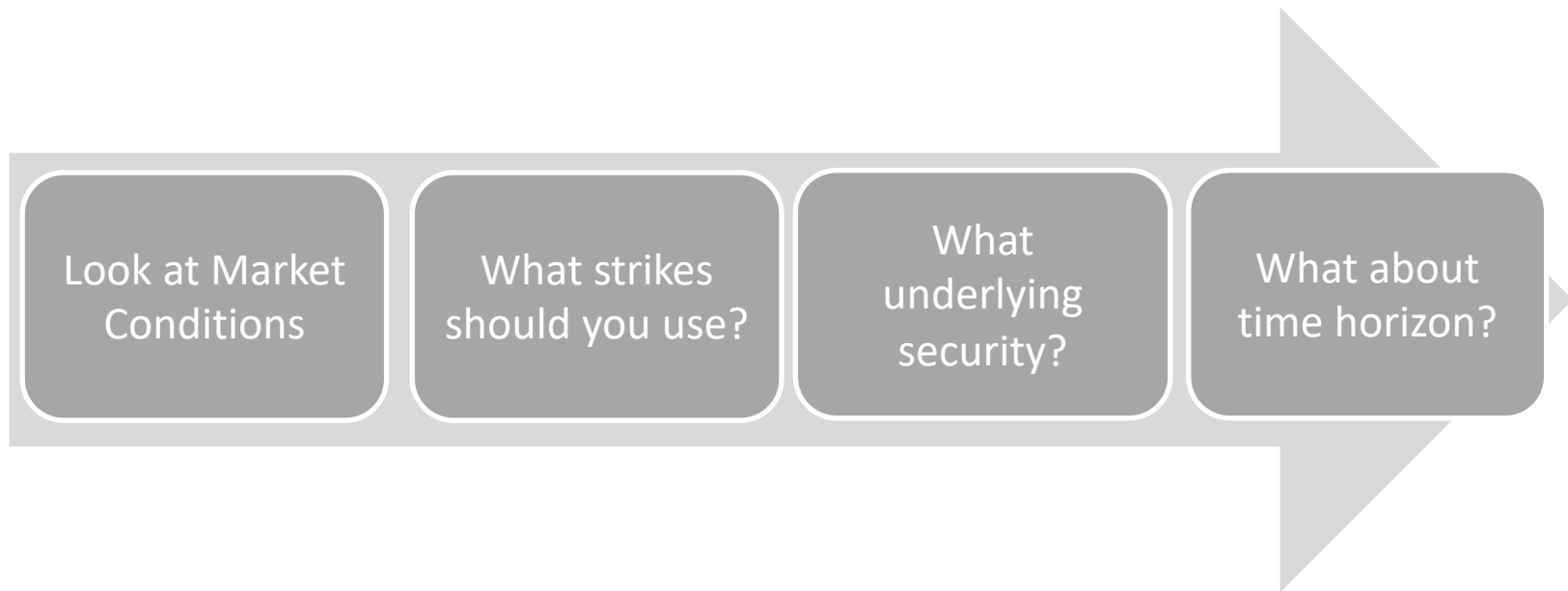
Defined return



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- Both maximum gain and maximum loss are defined
- Best case scenario is both legs of the credit spread expire OTM at zero
- Worst case scenario is for SPY to fall below the lower strike at expiry (put credit spread) or above the higher strike (call credit spread)
- Adjustment points determined at the outset to avoid assignment
- Credit Spread Strategy can also be hedged to reduce directional exposure
- **This requires active management of the position...particularly in market corrections**

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



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Let's talk...

Email me gryan@iurcapital.com to request the slides or to have a chat....