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## IUR Capital

# Manage Risk with Options in Uncertain Times

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**Gareth Ryan**

Founder & Managing Director  
IUR Capital

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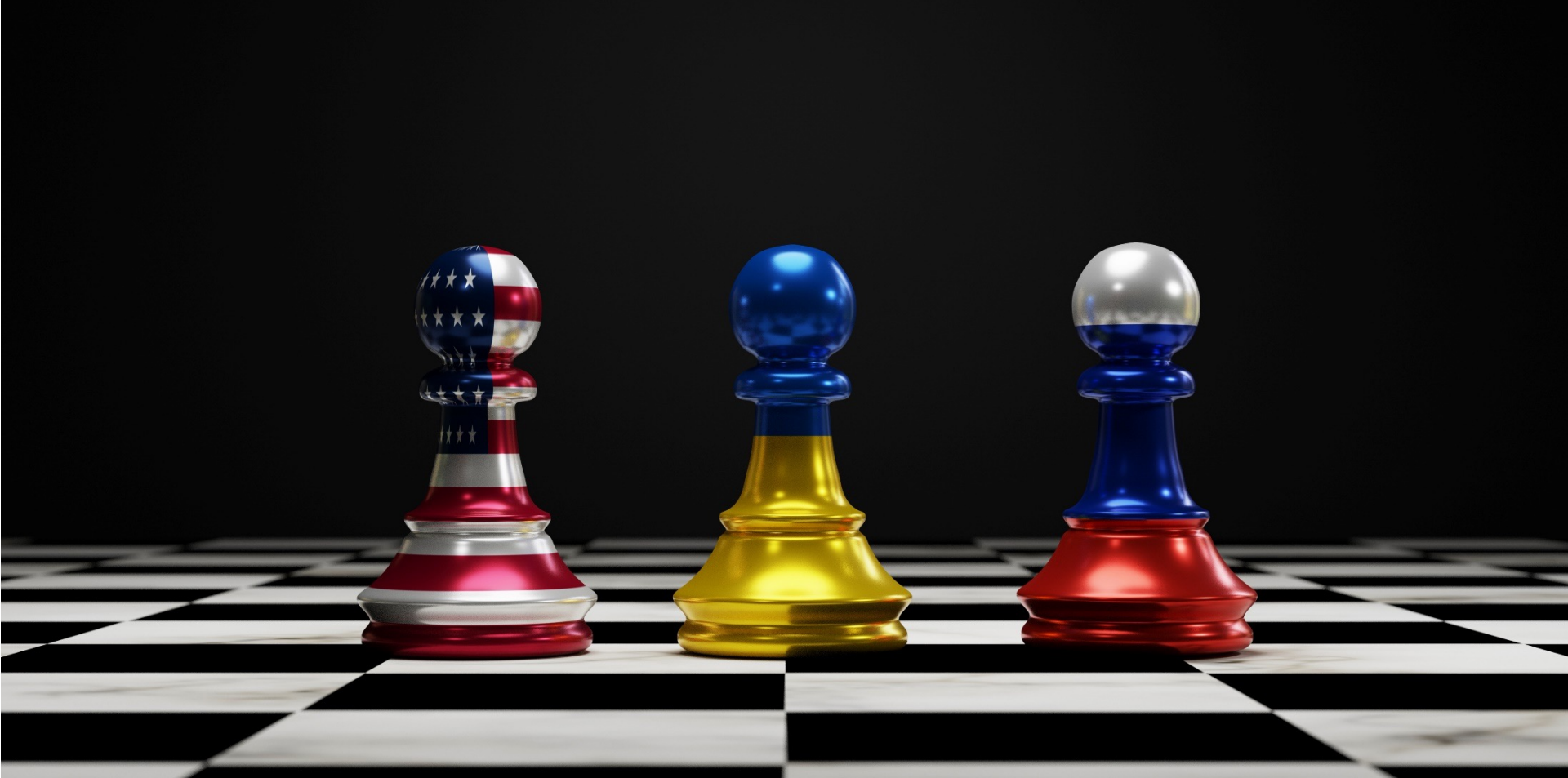
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# Uncertain Times: Manage Risk with Options



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

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“Bear markets should be the true test of every investor.”

*(Me...just now)*

# 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

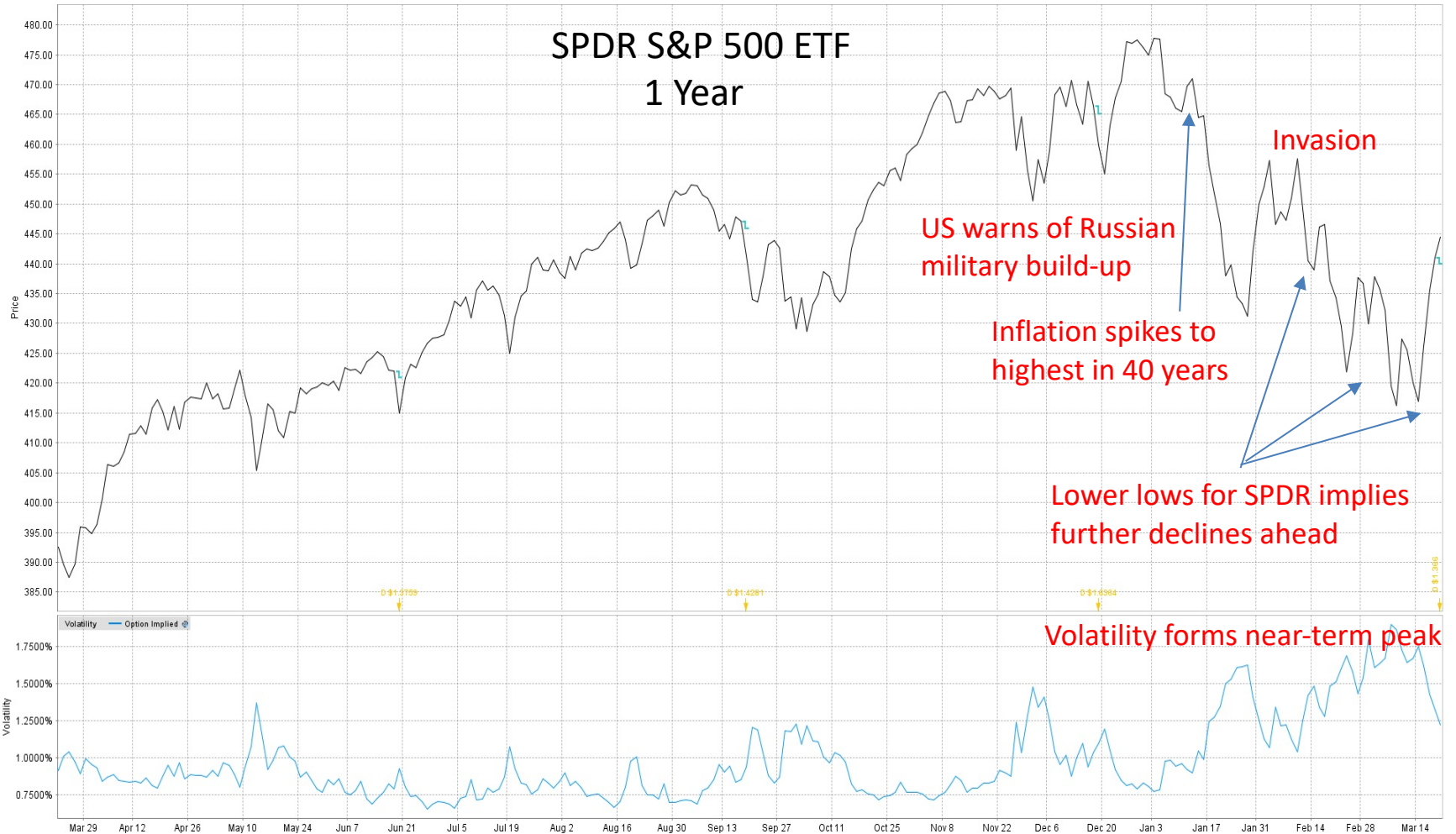
# How has your Q1 been?

- Nasdaq enters bear market, first time since March 2020
- S&P 500 index remains deep in correction territory
- Commodities continue to see epic daily swings
- Chinese internet stocks down 20% this month
- Risk assets are bearing the brunt of unprecedented events
- VIX remains firmly above 30 handle for several weeks
- Talk of the next global recession lingering
- And the Russian stock market remains closed....

*(As of March 15, 2022)*

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# S&P 500 ETF...daily headlines driving daily swings

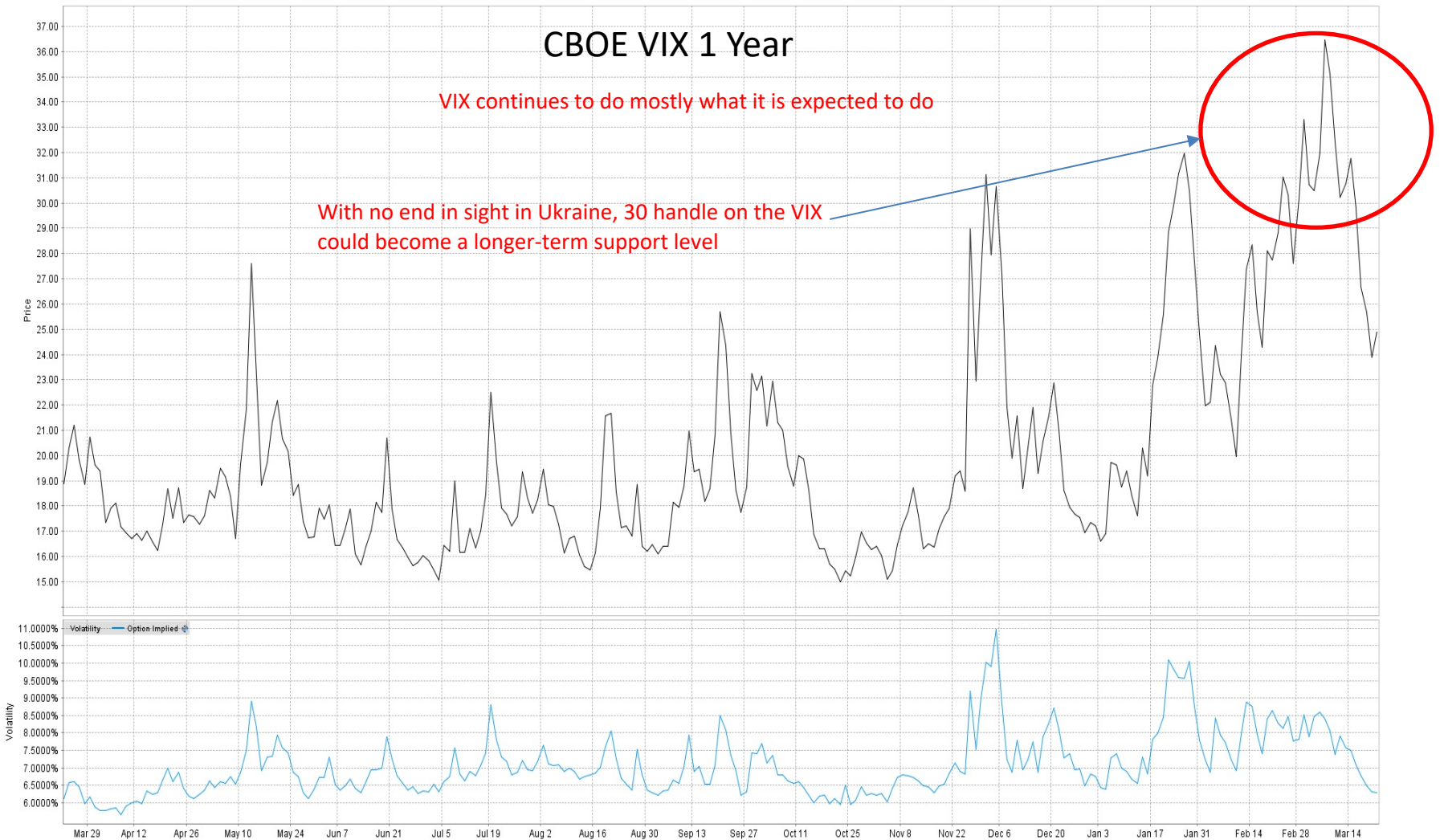


Source: IBKR TWS (March 21, 2022)

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# CBOE VIX....in case you haven't noticed, it's volatile out there



Source: IBKR TWS (March 21, 2022)

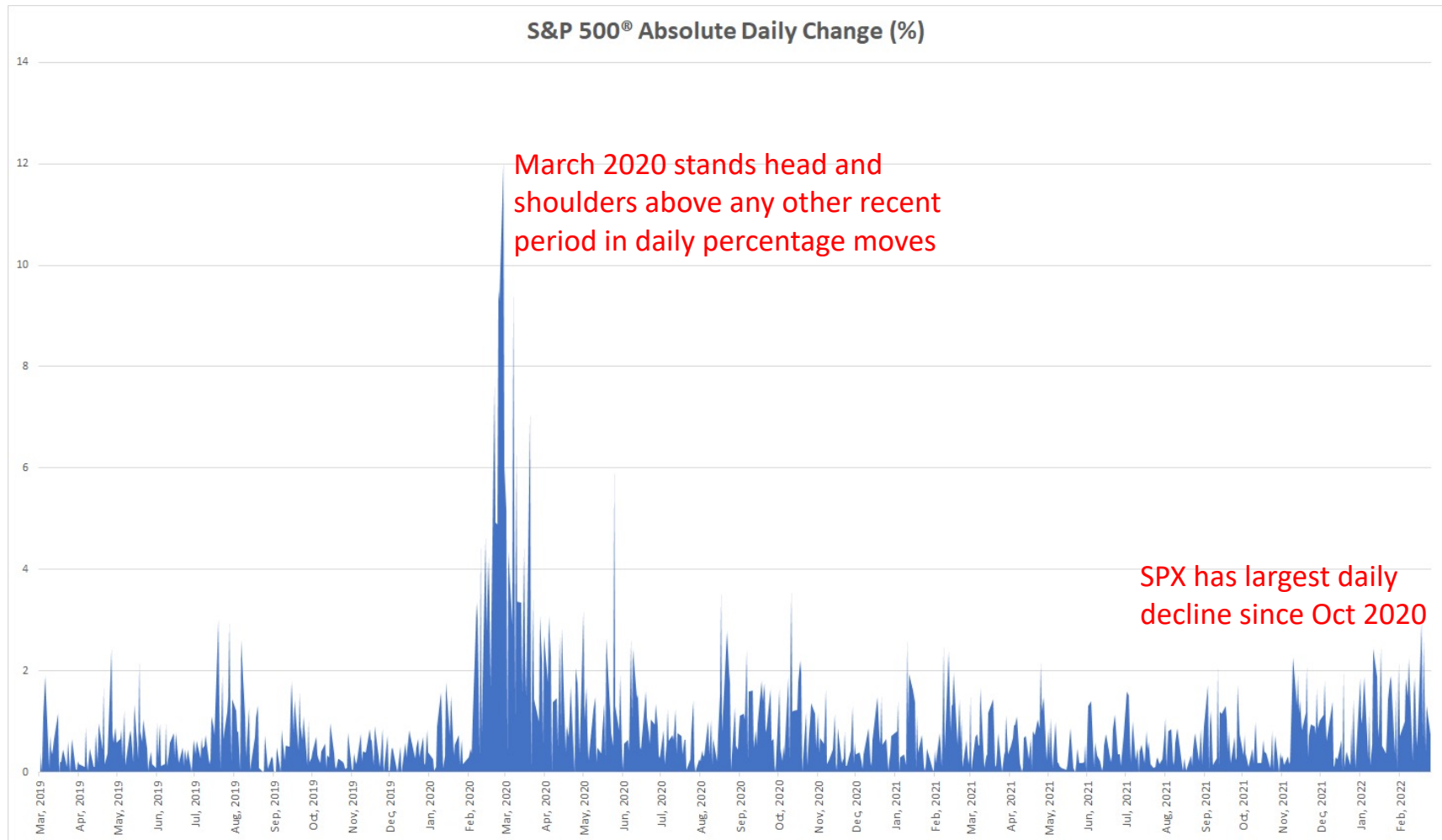
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# Powershares QQQ Trust.....epic declines in Q1



Source: IBKR TWS (March 21, 2022)

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



Source: Bloomberg (March 15, 2022)

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# What's driving x-asset volatility?



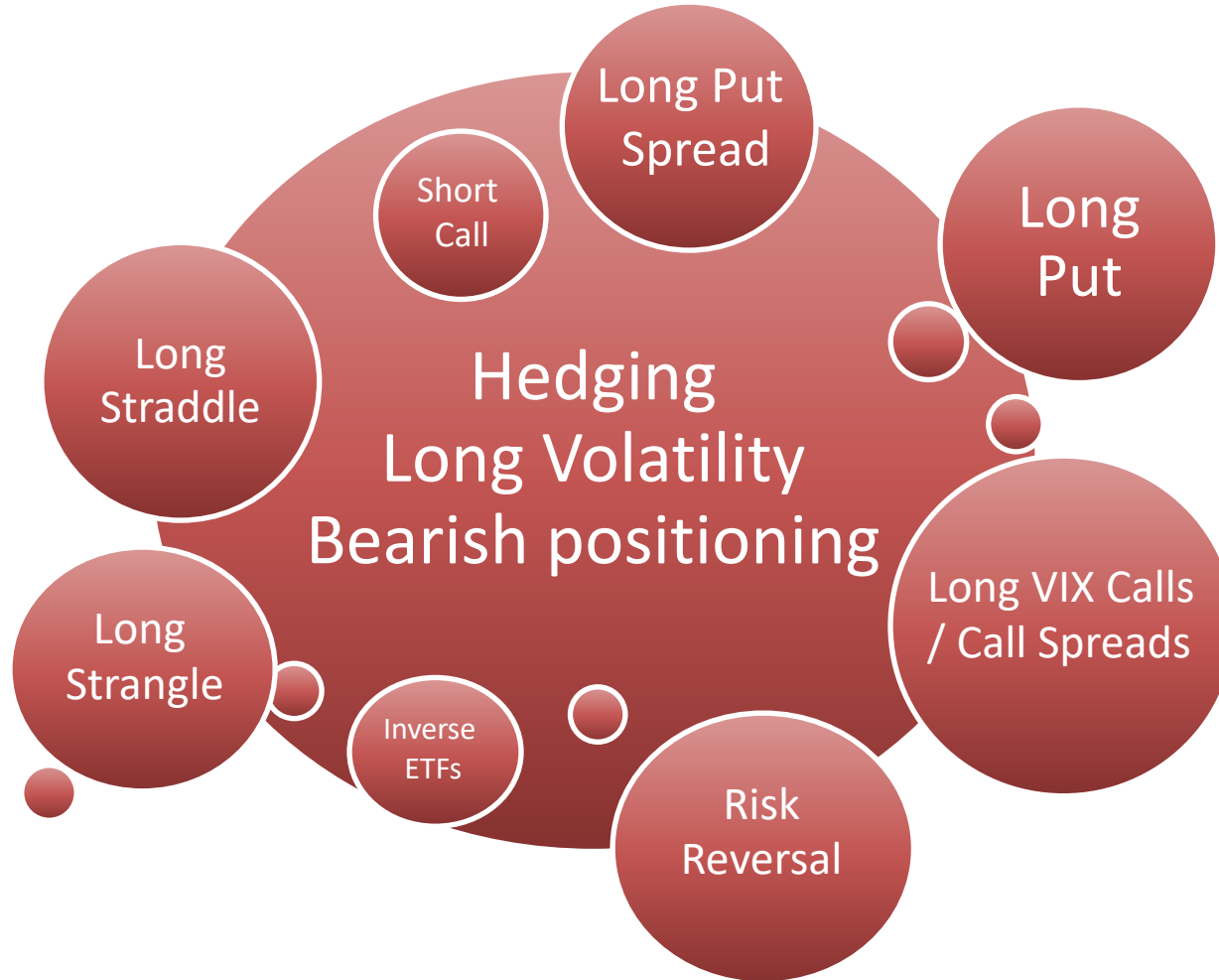
# Question of the day....

**Will the S&P 500 enter a bear market in 2022?**

Answers please in the Q&A Panel

Correction territory = 10%  
decline from recent high

Bear market territory = 20%  
decline from recent high



Risk/Return Profile must be understood for each strategy

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

# 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.

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# Reasons to hedge with options...

*"Everybody's got plans...until they get hit."*

*Mike Tyson*

- **Economic**
- Correct for “wrong-way market bias”
- Reduce portfolio volatility at appropriate cost
  
- **Behavioural**
- Hedging should be a mouthguard, helps to avoid big psychological hits during major market events...like earnings
- Also helps us to stay the course...are you short-term or long-term with your horizon?

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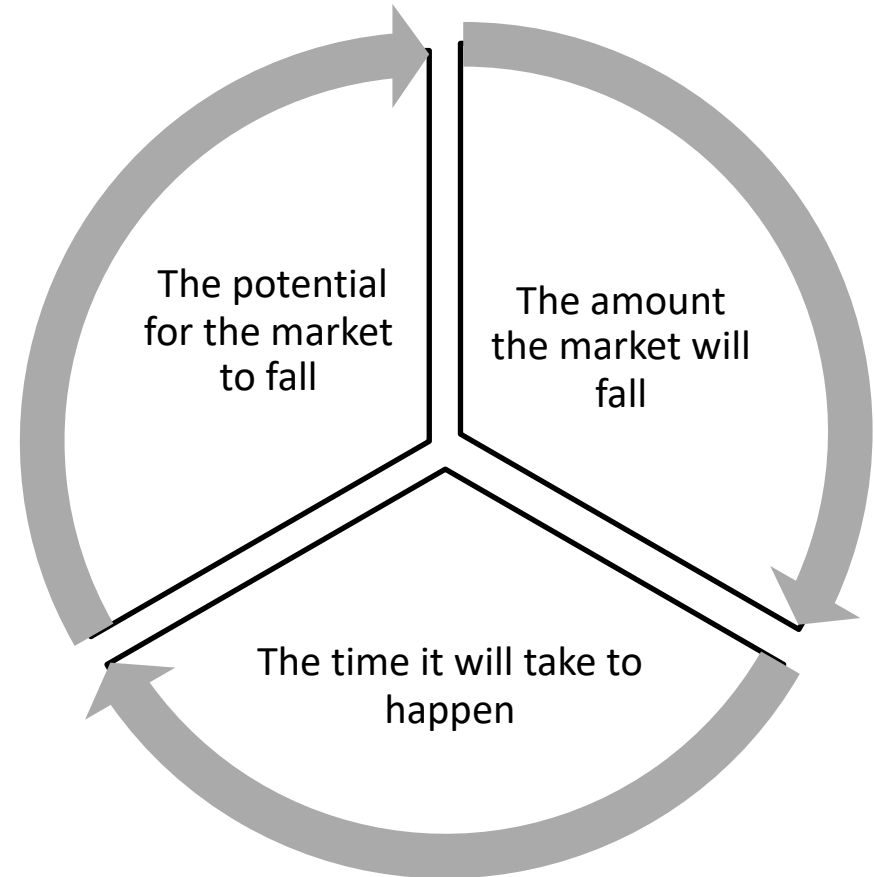


- **By having an explicit approach to hedging in place, we can more accurately determine the “lay of the land” during sharp market selloffs**
- We planned for this
- We hedged in anticipation
- We are better positioned for this situation than we were previously
- If the portfolio is heavily exposed to tech, the recent correction necessitates at least partially reducing your risk with puts

# Protection is cheaper than you think...

To be successful with hedging using put options, we need to be right about three things:

- **Fixed costs** – what will we spend on premium?
- **Standalone** – expected return of the protection element of the portfolio?
- **Portfolio cost** – What is the marginal effect on the portfolio from continually hedging with puts?



# Puts – a quick review of the basics...

**To be successful in buying put options, we need to be right about three things:**

\*The more bearish you are, the more willing you may be to purchase options that are far out-of-the money. That means there might have to be a substantial decrease in the price of the underlying stock for you to break even or realise gain.

**The potential for a stock to fall**

**The amount that the stock will fall**

**The time will take to happen**

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# Why use Puts as Insurance....

- Hedging a long equity portfolio
- Protection before a key event, which may significantly move your underlying
- If your underlying does have a near-term sell-off, puts will gain to mitigate unrealized loss on the equity portfolio
- How much protection are you seeking to hold? 50% of your portfolio

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# Am I "long vol" or "short vol"?

Strategy	Vega	Rise in IV	Fall in IV
Long Call	Positive/Long	Gain	Loss
Short Call	Negative/Short	Loss	Gain
Long Put	Positive/Long	Gain	Loss
Short Put	Negative/Short	Loss	Gain

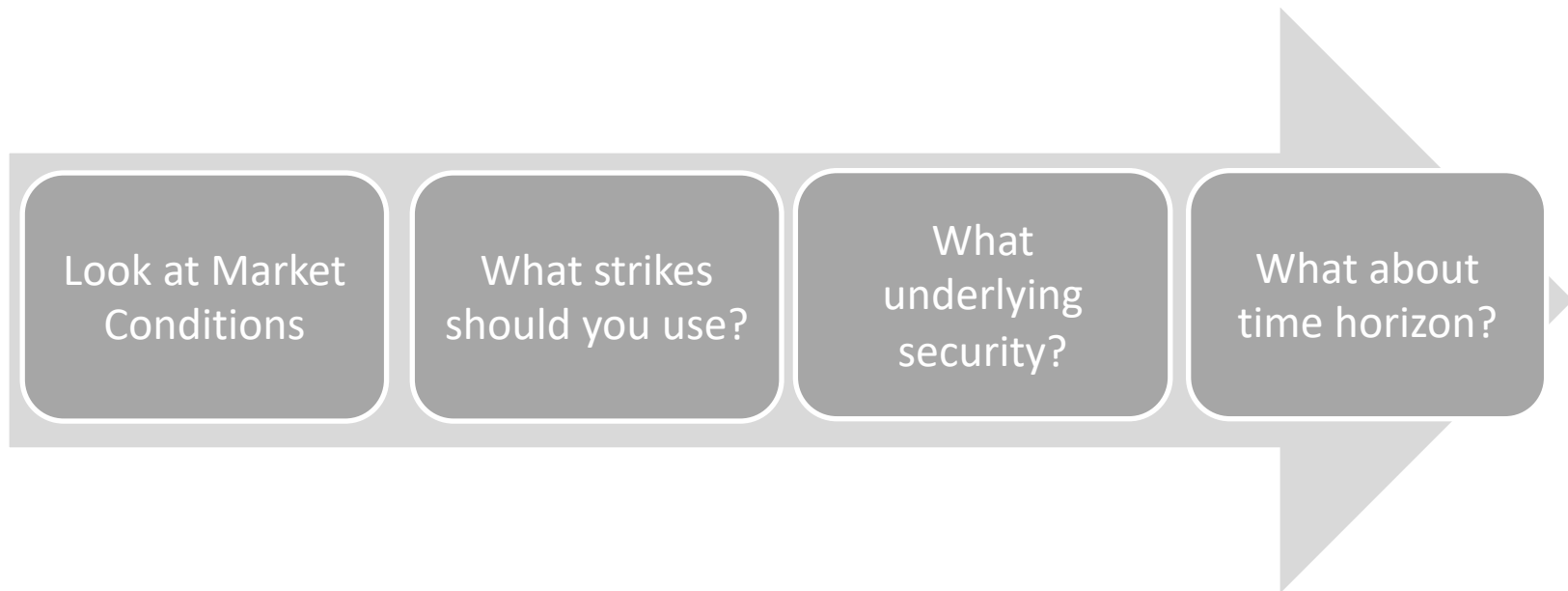
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# Am I long vol or short vol? (Spreads)

Strategy	Vega	Rise in IV	Fall in IV
Long Strangle	Positive / Long	Gain	Loss
Long Straddle	Positive / Long	Gain	Loss
Credit Spread	Negative / Short	Loss	Gain
Debit Spread	Positive / Long	Gain	Loss
Butterfly Spread	Negative / Short	Loss	Gain
Calendar Spread	Positive / Long	Loss	Gain

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



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# Let's talk...about your portfolio

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