

IBKRWEBINARS.COM



April 5, 2022

# IUR Capital

# Seeking Income with Options

---

## Gareth Ryan

Founder & Managing Director  
IUR Capital

Exchange and Industry Sponsored Webinars are presented by unaffiliated third parties. Interactive Brokers LLC is not responsible for the content of these presentations. You should review the contents of each presentation and make your own judgment as to whether the content is appropriate for you. Interactive Brokers LLC does not provide recommendations or advice. This presentation is not an advertisement or solicitation for new customers. It is intended only as an educational presentation.



## Disclosure:

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.

Futures are not suitable for all investors. The amount you may lose may be greater than your initial investment. Before trading futures, please read the [CFTC Risk Disclosure](#). For a copy visit [interactivebrokers.com](http://interactivebrokers.com).

There is a substantial risk of loss in foreign exchange trading. The settlement date of foreign exchange trades can vary due to time zone differences and bank holidays. When trading across foreign exchange markets, this may necessitate borrowing funds to settle foreign exchange trades. The interest rate on borrowed funds must be considered when computing the cost of trades across multiple markets.

The Order types available through Interactive Brokers LLC's Trader Workstation are designed to help you limit your loss and/or lock in a profit. Market conditions and other factors may affect execution. In general, orders guarantee a fill or guarantee a price, but not both. In extreme market conditions, an order may either be executed at a different price than anticipated or may not be filled in the marketplace.

There is a substantial risk of loss in trading futures and options. Past performance is not indicative of future results.

Any stock, options or futures symbols displayed are for illustrative purposes only and are not intended to portray recommendations.

- IRS Circular 230 Notice: These statements are provided for information purposes only, are not intended to constitute tax advice which may be relied upon to avoid penalties under any federal, state, local or other tax statutes or regulations, and do not resolve any tax issues in your favor.
- Interactive Brokers LLC is a member of [NYSE](#) [FINRA](#) [SIPC](#)



# Seeking Income with Options



April 2022  
*Not for redistribution or copy*

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

Options are leveraged products that involve risk and are not suitable for all investors. Before committing capital to any option 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>

IUR Capital LLC is an investment advisor registered with the Securities & Exchange Commission (Firm CRD 153630). IUR Capital Ltd is a registered Portfolio Manager with the Ontario Securities Commission (NRD 37230) and authorized and regulated by the UK Financial Conduct Authority (Firm Reg 514394). We do not hold any client funds. Client accounts are held at a FINRA regulated broker-dealer and clearing firm. Certain individuals of IUR Capital are FINRA registered representatives of an affiliated broker-dealer (IUR Securities LLC).

None of the content discussed in this presentation carries an offer or solicitation of an offer to buy or sell any security or operate any specific strategy. Any securities included in this presentation are for illustrative purposes only and are not intended as recommendations. Where multi-leg strategies (including spreads) are discussed, the commission is per leg and therefore multiple commissions will apply. Commissions are subject to change.

The information provided in this presentation is believed to be accurate, but the accuracy and completeness of the information is not guaranteed. Investors should not rely on any information for the maintenance of books and records or for tax, accounting, financial, or regulatory reporting. *Past performance is not indicative of future results.*

# Host Profile (Gareth Ryan)

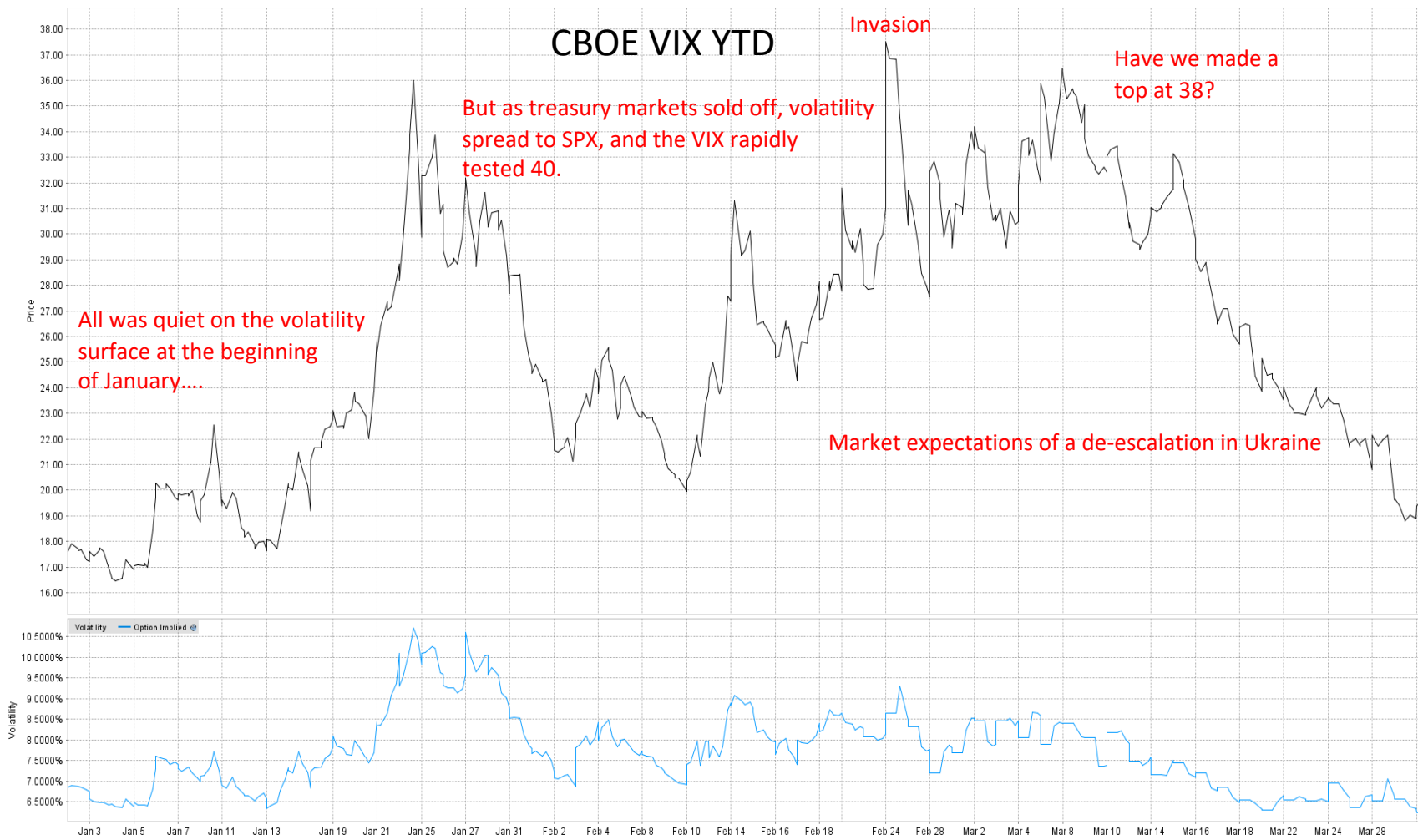
- Founded IUR Capital Ltd in 2007, IUR Capital LLC in 2010
- IUR Capital is an investment advisor for institutional and retail investors
- Focused in exchange-traded option strategies

# How has 2022 been so far?

- Nasdaq rallies 13% from bear market lows from March 14
- S&P 500 still negative YTD, but well out of correction territory
- Equity indexes now trading around pre-invasion levels
- Volatility also retracing to early February levels
- Geo-political risk remains on the horizon
- Global markets adjusting to accelerated change in rate environment
- Beware of further tail risk in 2022....

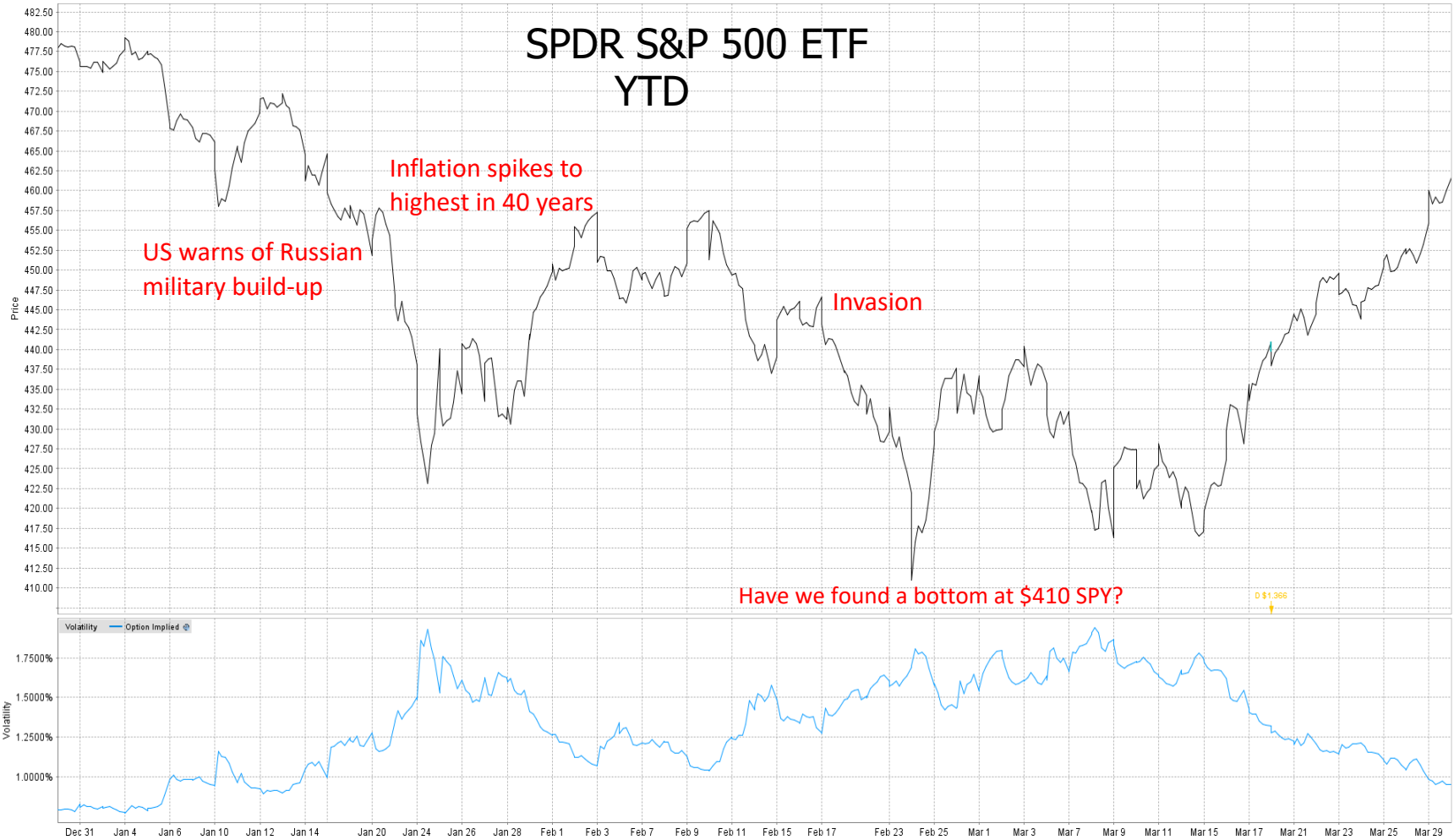
*(As of February March 30, 2022)*

# Q1 volatility...it was rough out there



Source: IBKR TWS (March 30 2022)

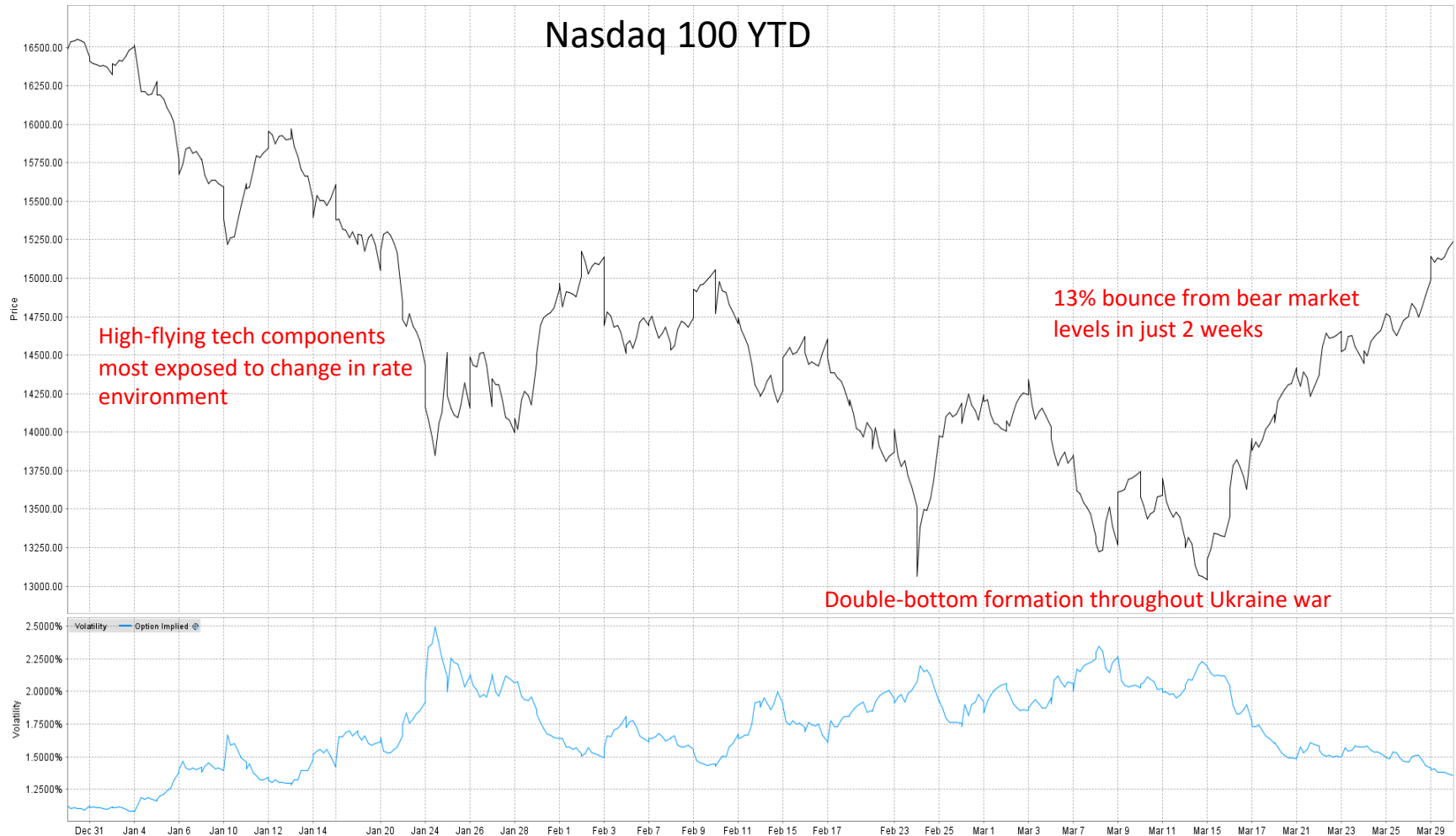
# SPDR S&P 500 ETF... daily headlines driving daily swings



Source: IBKR TWS (March 30, 2022)

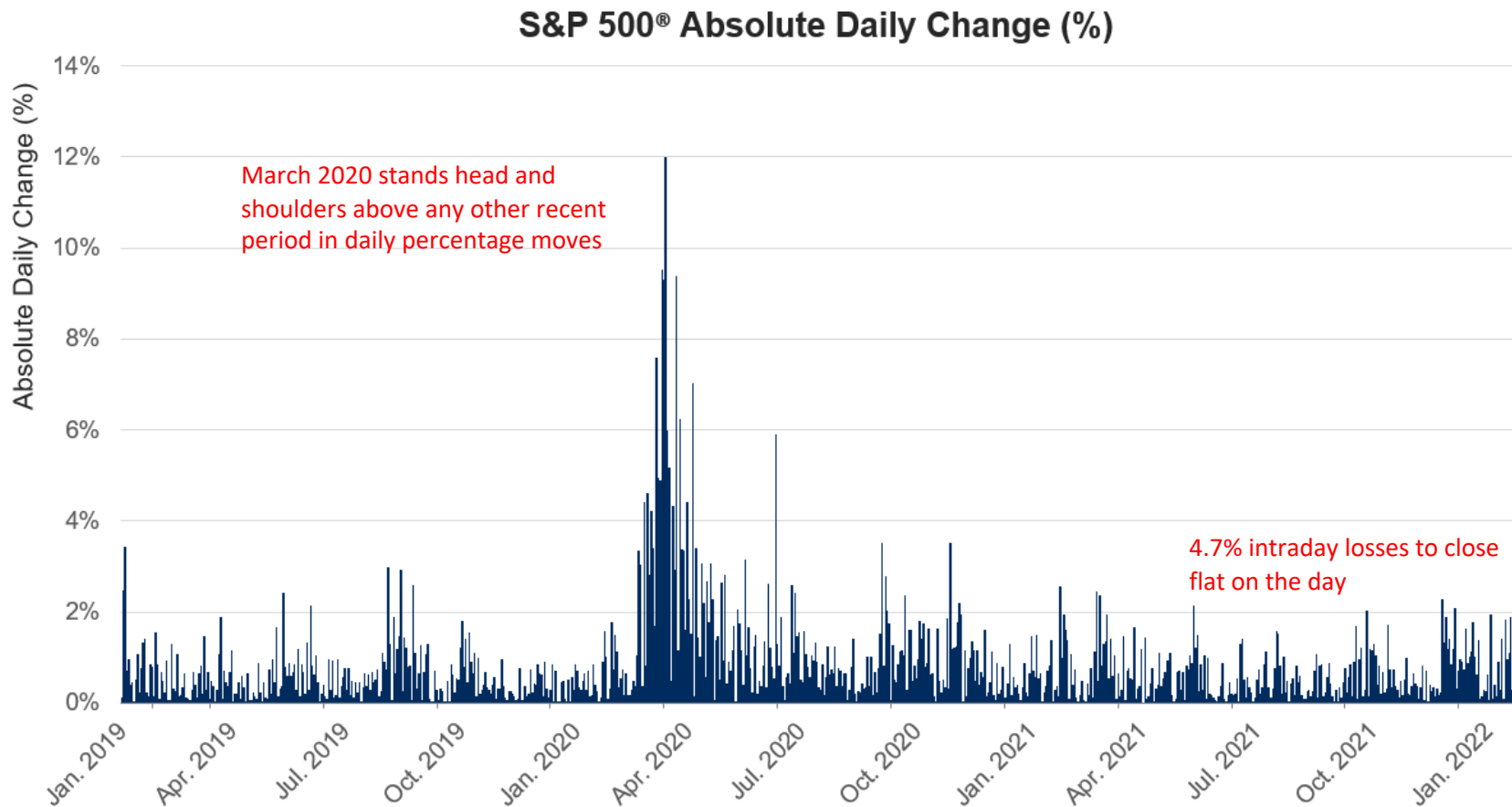


# Nasdaq's bear market declines have been epic...but dip-buying prevailed



Source: IBKR TWS (March 30, 2022)

# Let's put Q1 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.

Any trading symbols, entities or investment products displayed are for illustrative purposes only and are not intended to portray recommendations. Past performance is not necessarily indicative of future results.

Source: IBKR TWS (March 30, 2022)

# Question of the day....

**Will we retest 30 on the VIX in Q2?**

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?

# Scenario 1.....The Institutional Investor

## A high-level view

- \$500m in assets
- Comprised of real estate, fixed income and equity portfolios
- Tech-heavy portion of portfolio likely outperformed all other assets in 2021
- With the re-opening gradually underway, some areas of the equity portfolio now start to under-perform.
- Investment committee willing to allocate to option overlay, which seeks to harvest premium on the equity portfolio holdings, but with a focus on capital preservation
- Seeks to harvest regular premium even if the market remains flat

|                               |     |
|-------------------------------|-----|
| Cash & Equivalents            | 2%  |
| Inv. Grade Fixed Income       | 33% |
| High Yield Bonds              | 5%  |
| Dom. Lg. Cap Equity           | 15% |
| Dom. Sm. Cap Equity           | 4%  |
| Foreign Developed Markets Eq. | 9%  |
| Emerging Markets Equity       | 15% |
| Real Estate (Public)          | 9%  |
| Commodities                   | 0%  |
| Alternative Strategies        | 8%  |

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

# Scenario 2.....The Individual Investor

## \$1m portfolio

- You are nearing retirement or already retired, with no dependents
- Mostly invested in bonds with a small element of stocks, but dividend income is not sufficient for regular drawdowns
- Capital preservation in your retirement accounts is a priority
- But you are willing to look at an income-seeking strategy using options that does not require a rising market
- Exclude option strategies which carry unlimited risk profile

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

---

# Systematic vs Discretionary....

## Systematic

Creates an “auto-pilot”  
Options rolled at expiry each month  
Strike selection pre-defined  
Fixed time horizon  
Minimal variation in market timing  
Involves continuous market exposure  
Seeks to perform consistently in low volatility

Avoid over-trading

## Discretionary/Opportunistic

Option Strategy / Market Bias can vary  
Positions rolled only when appropriate  
Strike selection may change each month  
Time horizon to vary based on market conditions  
Does not seek on-going exposure to volatility / market moves  
Seeks to benefit in extreme market moves

Avoid missing opportunities

# 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<br>Carries inherent market exposure |                              |
| Covered Call   | Credit Spread  | Iron Condor / Iron Butterfly |
| When it works: | Moderately trending market<br>Sideways market  |                              |
| Risks:         | Sharp market moves with no hedge<br>Realized volatility is higher than implied volatility            |                              |

There is a substantial risk of loss in trading futures and options. Past performance is not indicative of future results.  
Any stock, options or futures symbols displayed are for illustrative purposes only and are not intended to portray recommendations



# Using NDX 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)

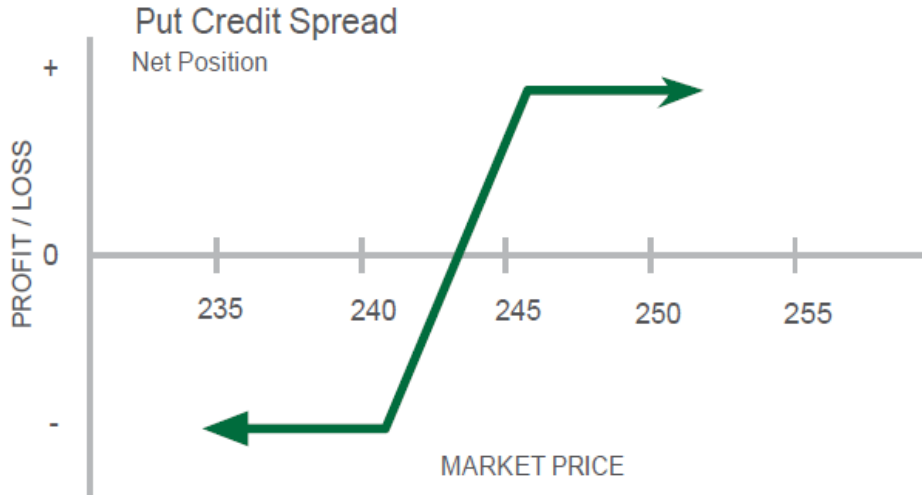
There is a substantial risk of loss in trading futures and options. Past performance is not indicative of future results.  
Any stock, options or futures symbols displayed are for illustrative purposes only and are not intended to portray recommendations

- Seeks to harvest premium on a continuous basis to the portfolio using both put spread and call spread premium on NDX options.
- 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.

There is a substantial risk of loss in trading futures and options. Past performance is not indicative of future results.  
Any stock, options or futures symbols displayed are for illustrative purposes only and are not intended to portray recommendations

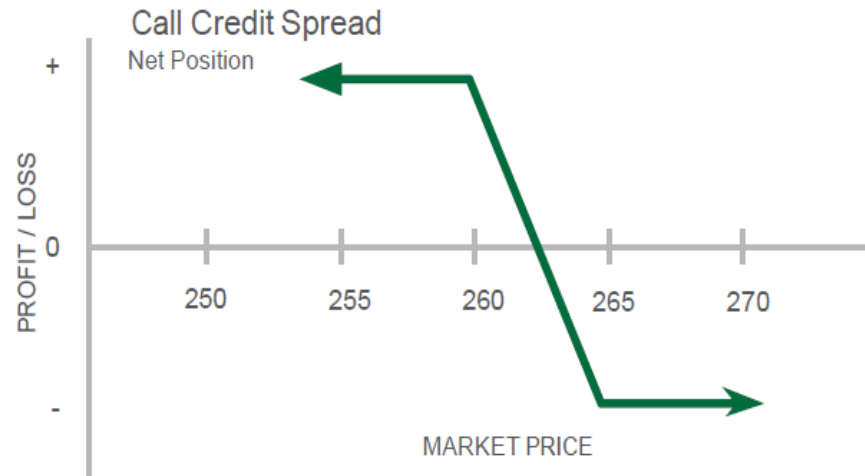
- Combine weeklies and traditional monthlies to harvest premium
- Weeklies setup could be as short as 14 days
- Use of at least 2 weeklies and traditional monthly each month
- Consider an outright hedge

# Credit Spread Strategy for income



Defined risk

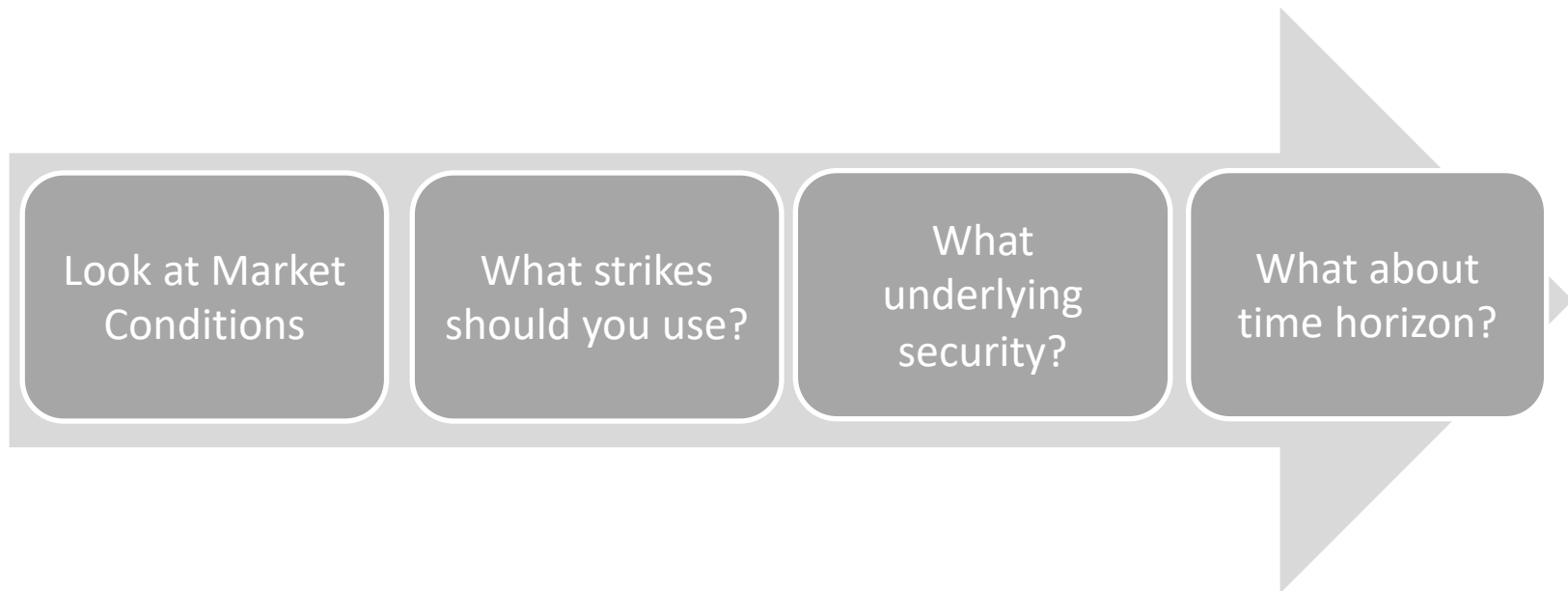
Defined return



There is a substantial risk of loss in trading futures and options. Past performance is not indicative of future results.  
Any stock, options or futures symbols displayed are for illustrative purposes only and are not intended to portray recommendations

- 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 the underlying 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.....



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

# Let's talk...

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