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## IUR Capital

# Repairing Stock Losses With Option Strategies

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# Repair Stock Losses with Options



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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>

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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 on exchange-traded option strategies



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

*(Me...just now)*

- It's Fed day!
- Expect 2-3% move for equity indexes post-Fed rate decision
- What happened at the May meeting? 5% swing over 2 days for SPX
- Nasdaq still in bear market, SPX has now also entered bear market
- More than 1/3 of the Nasdaq is down >50% YTD
- Last year's IPOs are this year's biggest decliners
- Utilities, energy and quality names remain in vogue
- Every Fed meeting this year is a cross-asset market-moving event

# What happened to sentiment during 1H of 2022?





# The VIX tells its own story about *implied* market moves...

CBOE VIX YTD



Source: CBOE

# SPDR S&P 500 ETF -21% YTD... how long will this bear market last?



Source: CBOE

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# QQQ deep in bear market.... Growth names hit the hardest



Source: CBOE

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# Question of the day....

**How long will the bear market last for the Nasdaq?**

Answers please in the Q&A Panel

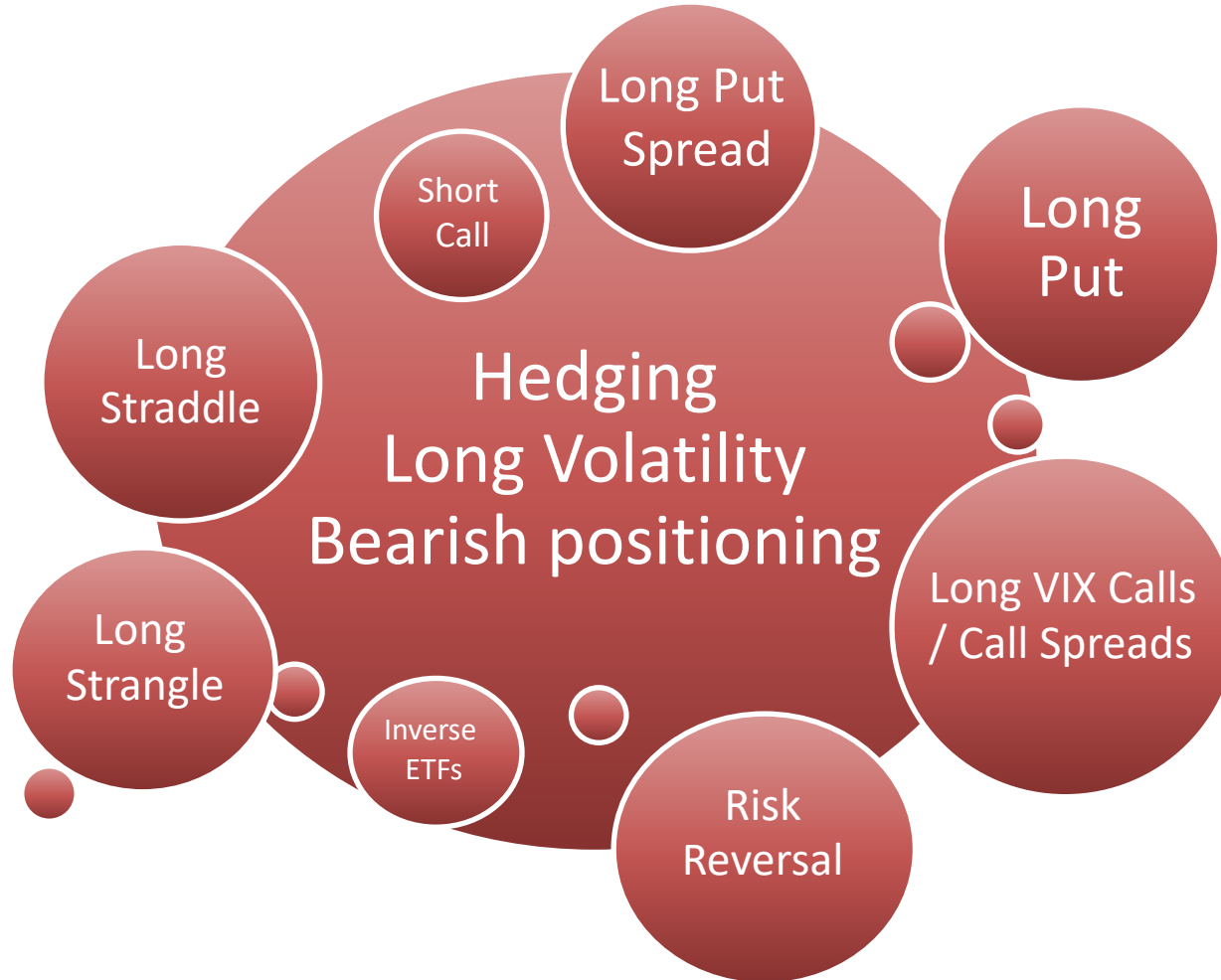
Correction territory = 10%  
decline from recent high

Bear market territory = 20%  
decline from recent high

# Scenario:

## Tech-focused equity portfolio

- 2020 / 2021 posted significant gains
- Exposure to both mega-cap tech names and growth-oriented software/internet stocks
- 1H of 2022 has saw a sizeable impact to 2021 unrealized gains in the portfolio
- Some single names down >50% YTD
- How can we mitigate our downside for these beaten up names?



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*



# Stock Repair Strategy

- Multi-leg option strategy used to help recover losses from tech holdings
- Limited profit potential, seeks to lower the break-even price of our long stock position
- Reduces our upside participation, can be used as alternative to waiting for stock price to recover to repair loss
- Best outcome is break even on the original long stock position

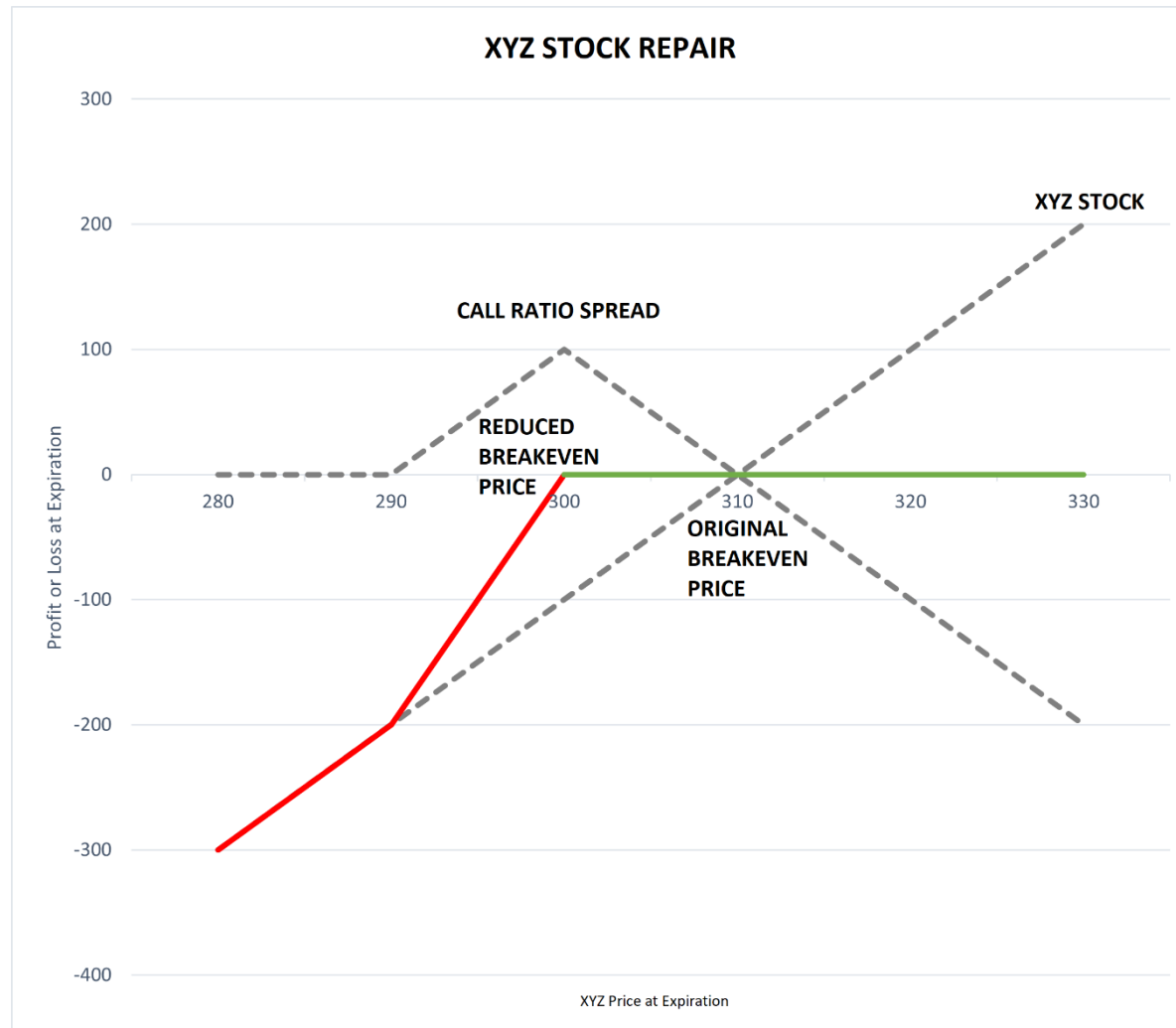
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# Let's look at the setup...

- Call ratio spread combined with our long stock position
- Buying ATM call + Selling two OTM calls at higher strike
- Established at either a credit or at zero
- Best outcome is break even on the original long stock position

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# And our payoff.....

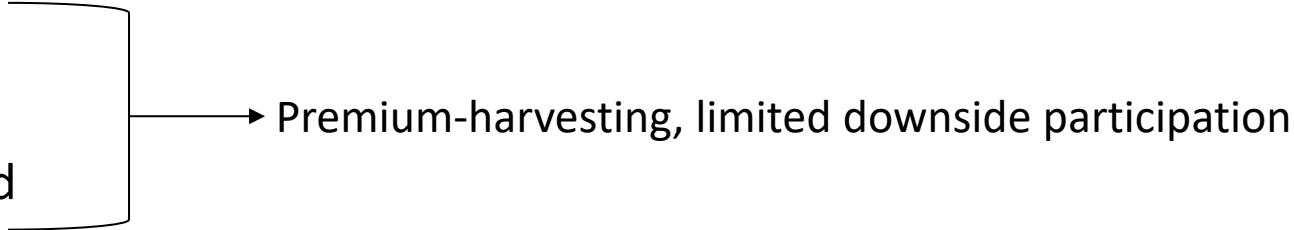


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# What else do we need to think about?

- **Adjusting a stock repair** – if we no longer want to break-even and are looking for more upside on our long stock
- **Rolling our stock repair** – if our long stock is above the long call at expiry and we want to extend our time horizon
- **What about hedging?** Stock repair seeks to lower our break-even on our long stock position, so hedging the stock repair would not be an objective

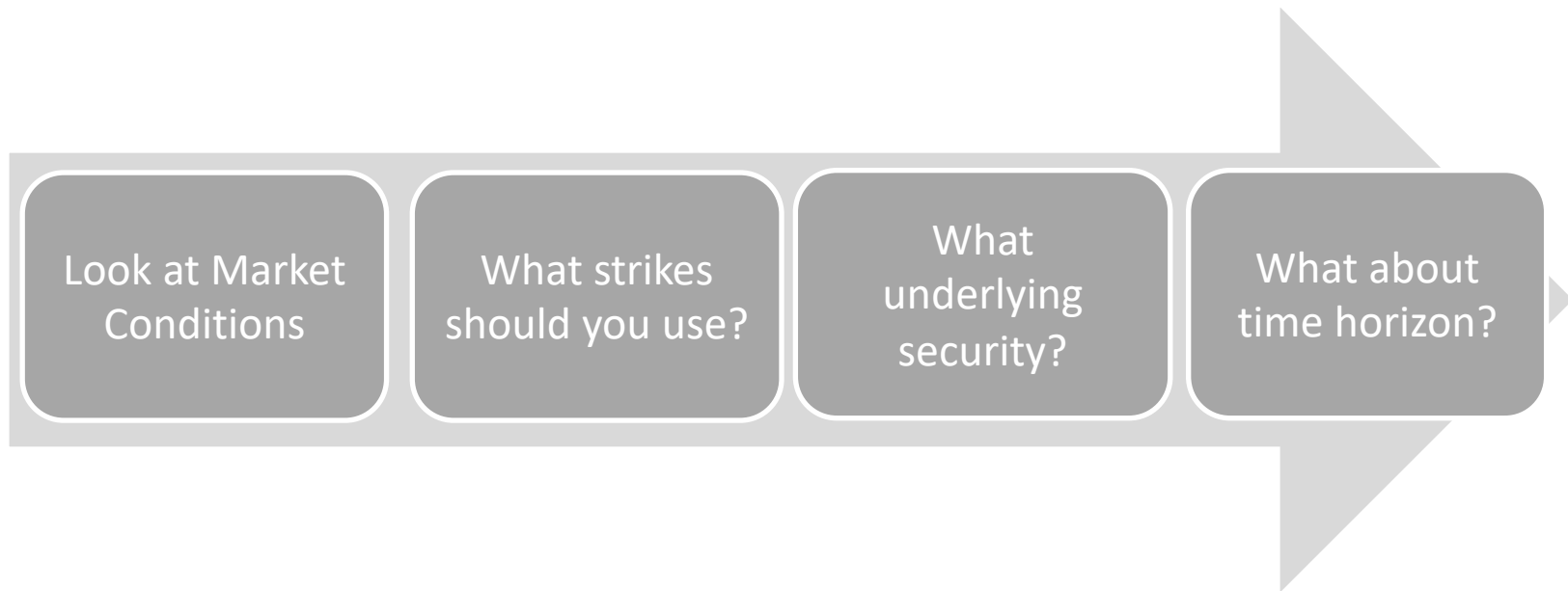
# What are the alternatives for downside participation?

- Covered Calls
  - Bear Call Spread
  - Risk Reversal
  - Long Puts / Long Put Spreads
- 
- Premium-harvesting, limited downside participation

Let's look at this in our tech portfolio....



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



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# Let's talk...

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