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Seeking Income for Retirement Accounts

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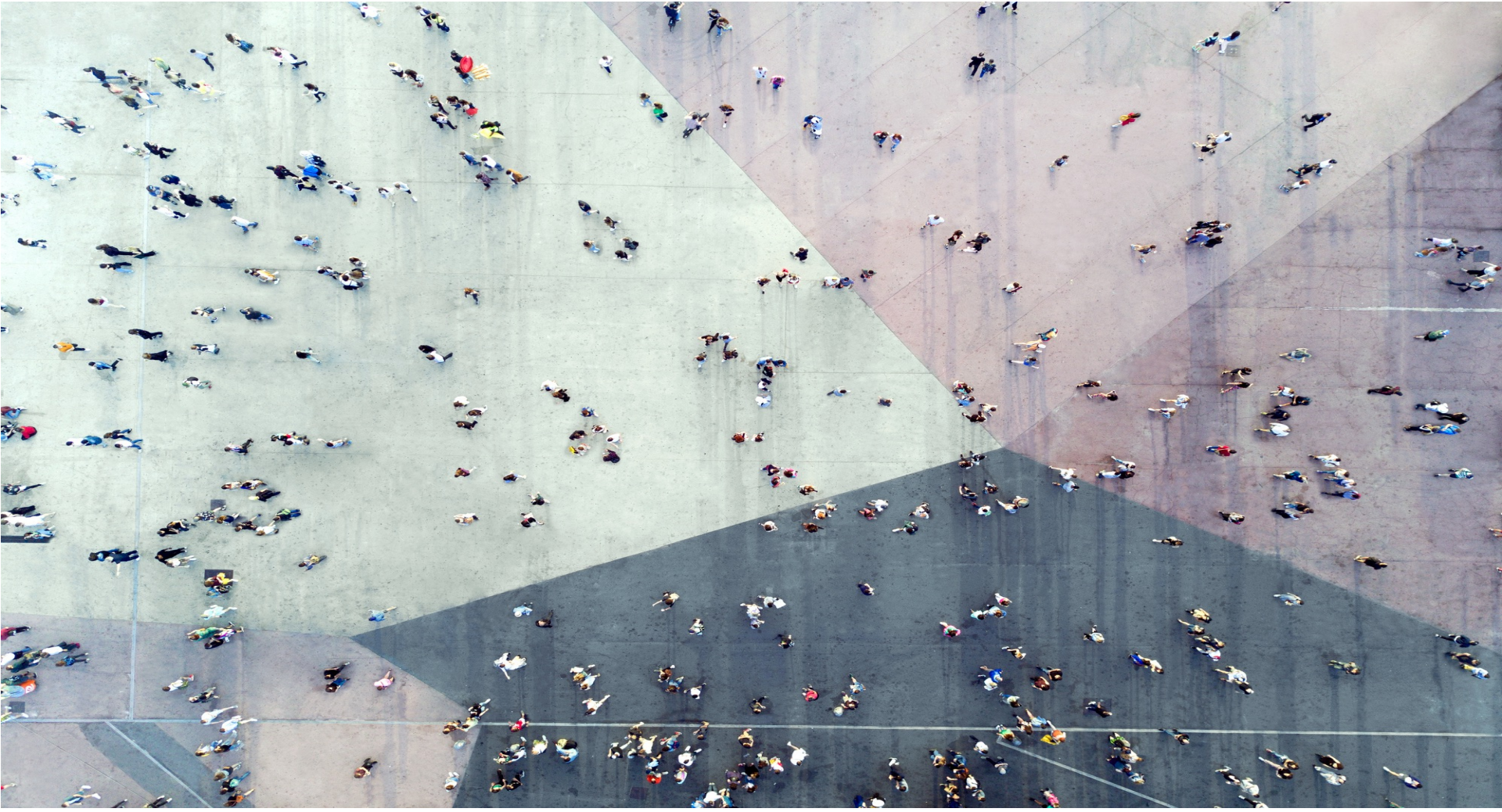

Seeking Income with Options for Retirement Accounts

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Market Update..

- S&P / Nasdaq both having solid gains in January
- Some of last year's worst performers are +20% YTD
- Earnings / Fed Rate Decision / CPI
- 10Y Treasury yields remain below 2022 peak
- Oil continues to see strength
- Are we out of the woods yet?

(As of February 1st, 2023)

The VIX tells its own story about *implied* market moves…

Source: CBOE

S&P 500 having a solid start to 2023….

Source: CBOE

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Nasdaq 100 +13% YTD…

Source: CBOE

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Question of the day….

Will the S&P 500 retest 2022 highs this year?

(2022 high – 4800 SPX)

Answers please in the Q&A Panel

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Scenario:
$500k retirement account

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- You are nearing retirement or already retired, with no dependents
- Your income has dropped, but you are wary that you will still have living costs for you and your spouse
- Mostly invested in bonds with a small element of stocks, but your dividend income is not sufficient for regular drawdowns
- Preserving your capital in your retirement accounts is a priority
- But you are willing to look at an income strategy using options that does not require a rising market
- You want to achieve regular premium even if the market remains flat

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Questions to ask about option strategies in a retirement account:

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- What are the objectives for a retirement account?
- 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?

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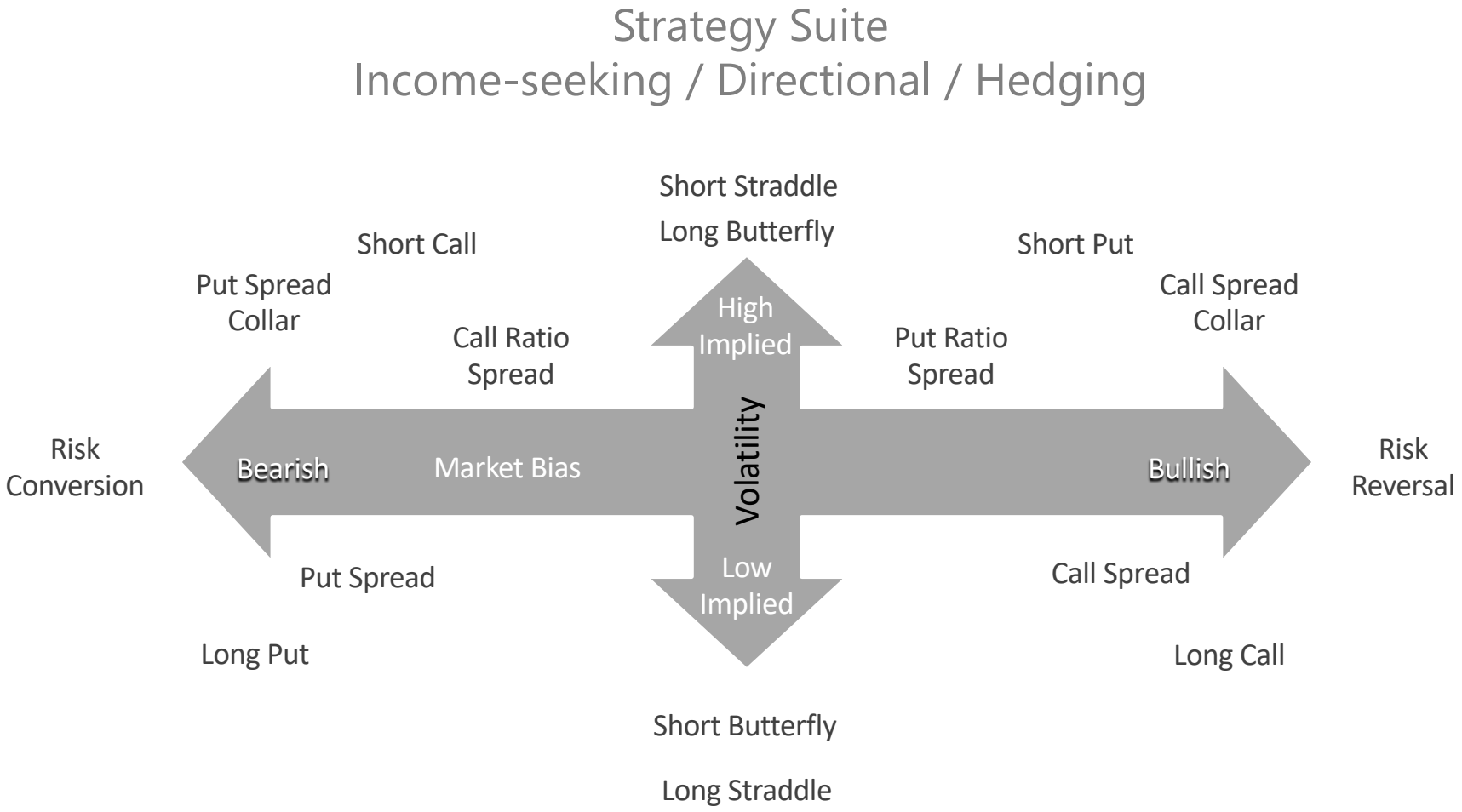
Let's revisit our strategy suite…



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Income-seeking strategies… an overview

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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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Use of index products as underlying vehicles

Ticker	Instrument	Style	Settlement
SPX	Credit Spread	European	Cash
RUT	Russell 2000 Index	European	Cash

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Using index options as a vehicle for income

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- 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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Credit Spread Strategy

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- Seeks to harvest premium on a continuous basis to the portfolio using both put spread and call spread premium on S&P 500 index.
- Makes use of short-dated and long-dated options.
- Can be used on equity options or index options.

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2023 approach for retirement accounts

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- Combine weeklies and traditional monthlies to harvest premium
- Weeklies setup could be as short as 14 days
- Traditional monthly structure could be 60-90 days (or longer)
- Consider an outright hedge

Risk Management

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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 the underlying security or index 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**

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

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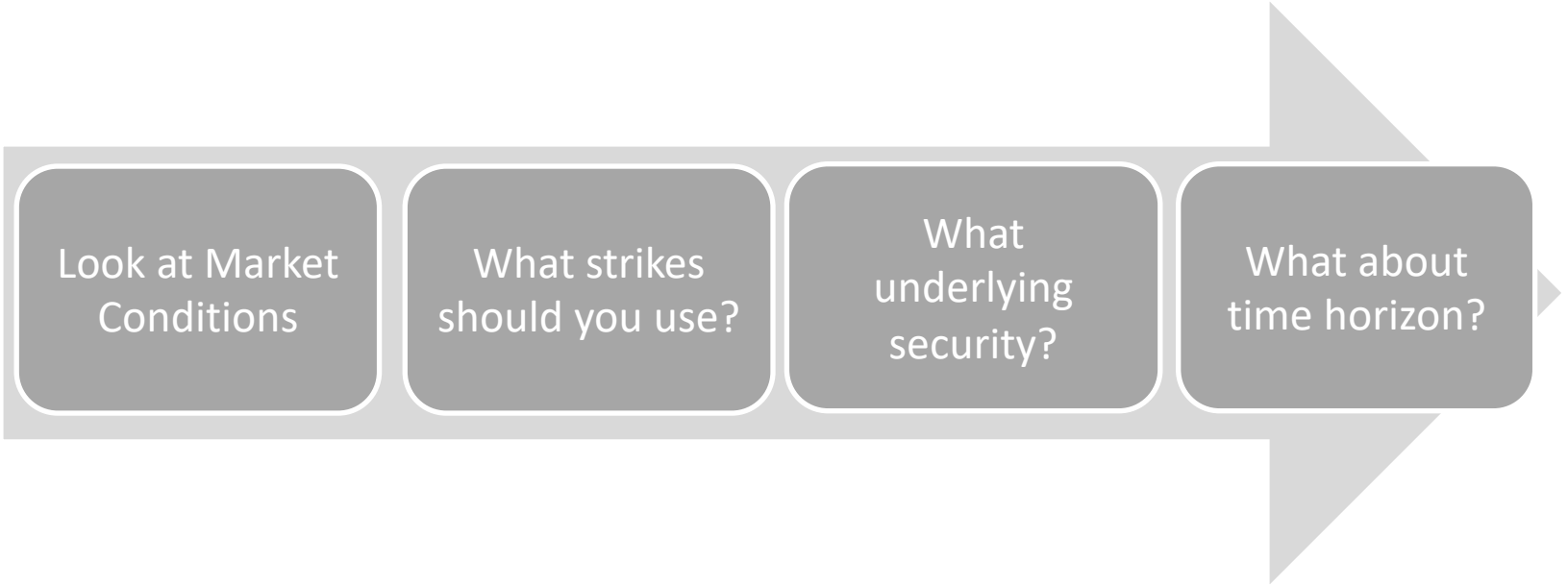

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Let's talk…

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