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## IUR Capital

# Create An Income-Seeking Portfolio With Index Options

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# Create an Income-Seeking Portfolio with Index 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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- Established in 2007 by Gareth Ryan, Managing Director
- Investment advisor focused on option strategies for client portfolios
- Option strategies seek to enhance yield through premium
- Provides Discretionary Managed Portfolios
- We work with.....
  - Individual accounts
  - Retirement accounts
  - Joint accounts
  - Corporate accounts
  - Trust accounts

# Market Update....Tech Boom

- US equity markets end 1H in double-digits
- Nasdaq had its best 1H on record
- Tech mega caps are driving broader market rally going into earnings
- End of rate hike cycle approaching
- Treasuries / Oil remain well below 1Y highs
- And the VIX is now at multi-year lows...
- Earning season beginning....expect some surprises

*(As of July 3<sup>rd</sup>, 2023)*

# VIX making new 12-month lows...beware

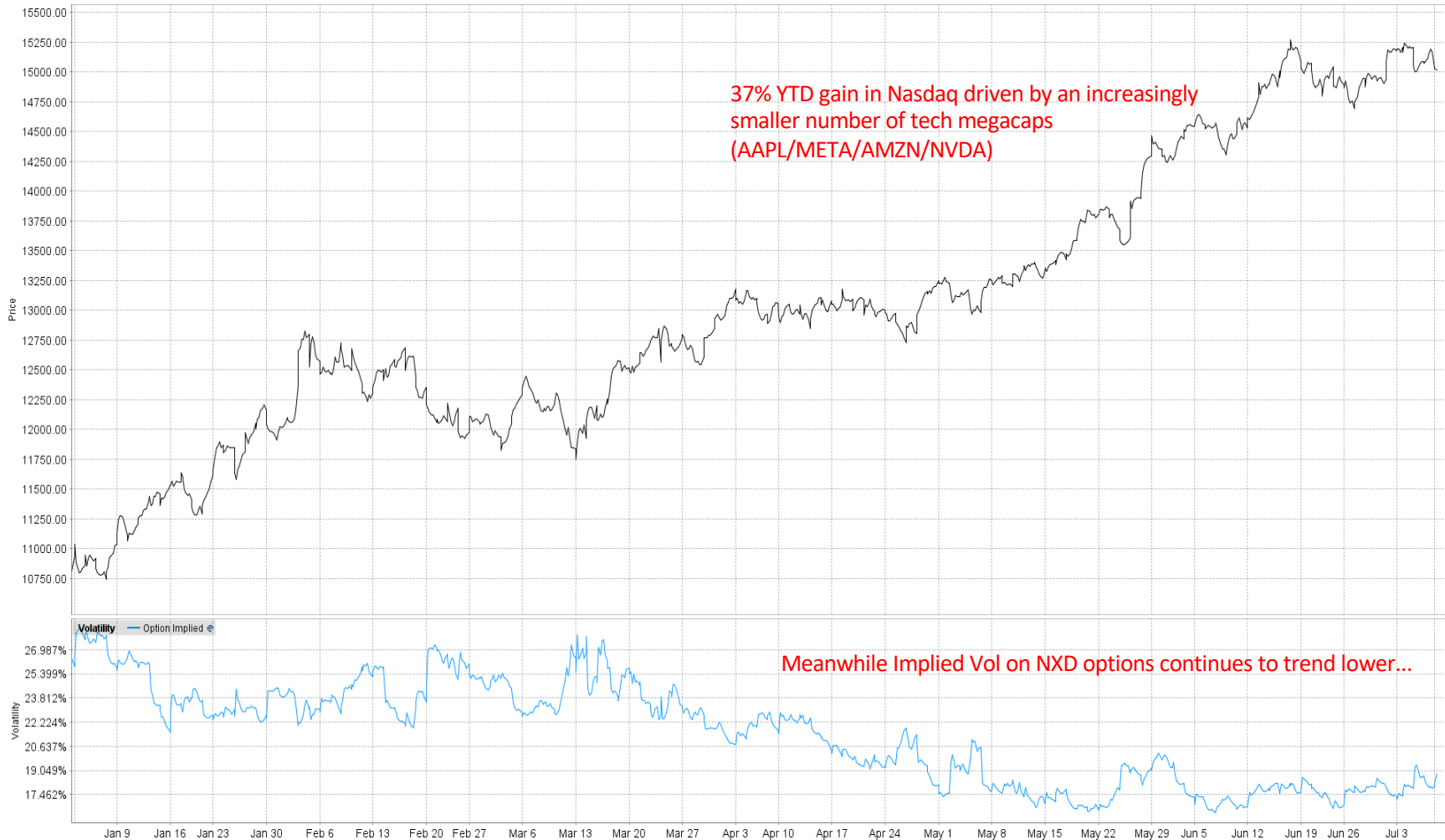
### CBOE VIX YTD



Source: CBOE

# Tech strength = Broad market strength

## Nasdaq 100 YTD



Source: CBOE



# SPX begins 2H in double-digits...



Source: CBOE

# Question of the day....

**Will the S&P end 2023 at a new all-time high?**  
(All-time high: 4818 set on Jan 4th, 2022)

Answers please in the Q&A Panel

# What we need to watch in the coming months....



# Scenario.....The Individual Investor

## \$1m portfolio

- You are nearing retirement or already retired, with no dependents
- Mostly invested in bonds and exposure to stocks, but dividend income is not sufficient for regular drawdowns
- **Capital preservation** in a retirement account is a priority
- But you are willing to look at **income-seeking** option strategies that do not require a rising market
- Focus on defined-risk / defined-return option strategies
- 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*

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# What should be my approach for 2<sup>nd</sup> half of 2023?



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# And what are the objectives for the portfolio for the 2<sup>nd</sup> half of 2023?

Capital Growth?

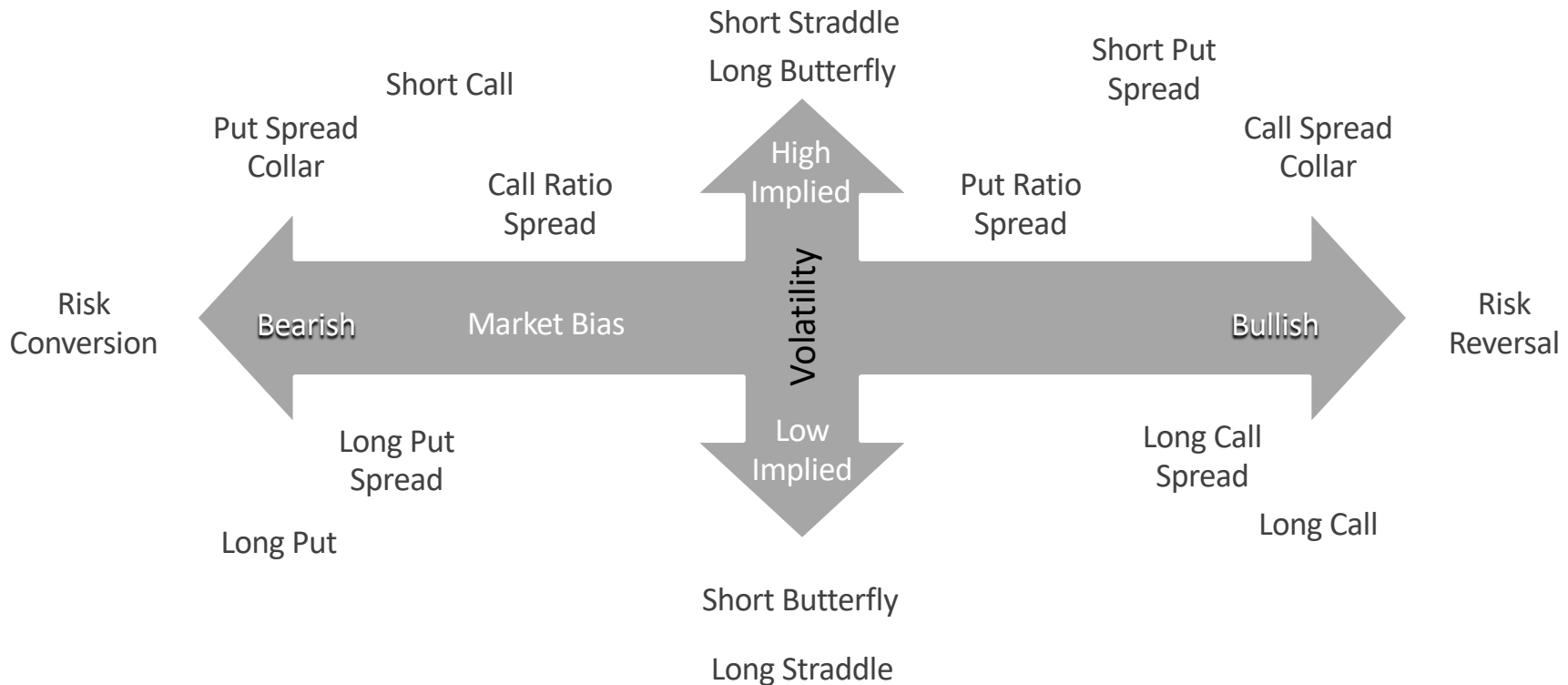
Capital Preservation?

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# Let's revisit our strategy suite...

## Strategy Suite Income-seeking / Directional / Portfolio protection



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# Why do we like Index Options as a vehicle for income?

- Gives us broad-market (top-down) exposure
- Reduces concentration to single sectors or single names
- Liquidity – we like liquidity (particularly with options)
- Choice of time horizon – weeklies / monthlies
- Taking bearish / neutral or bullish outlook on equity index
- Deploy option strategy that allows us to be (slightly) wrong



# Three premium-harvesting strategies to consider....



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# Using index 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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# Weekly Options Credit Spread Strategy

- Seeks to harvest premium to the portfolio using both put spread and call spread premium on underlying index
- Combine weeklies and traditional monthlies to harvest premium
- Weeklies setup can be as short as 7 days
- Use of weeklies and the traditional monthly in any given month
- Consider an outright hedge

# Risk Management

- 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 S&P 500 to fall below the lower strike at expiry (bull put spread) or above the higher strike (bear call 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**

# Credit Spreads....

## 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

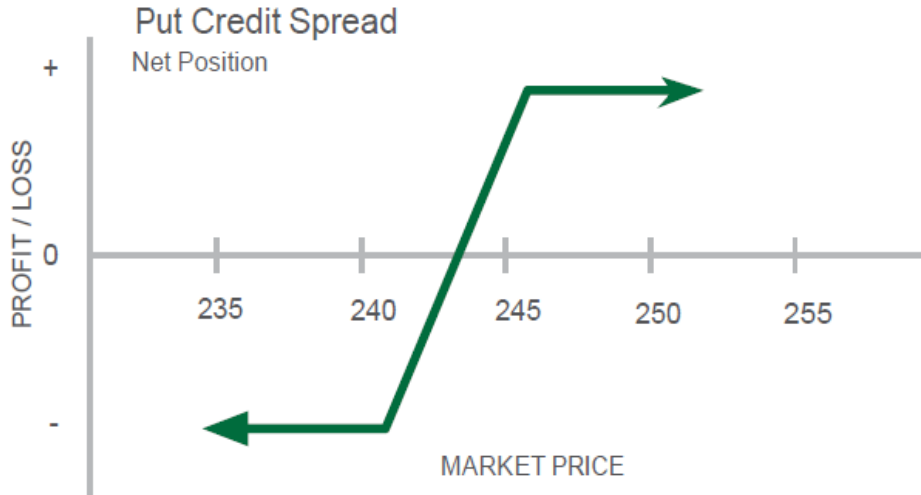
Avoid over-trading

### 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 from extreme market moves

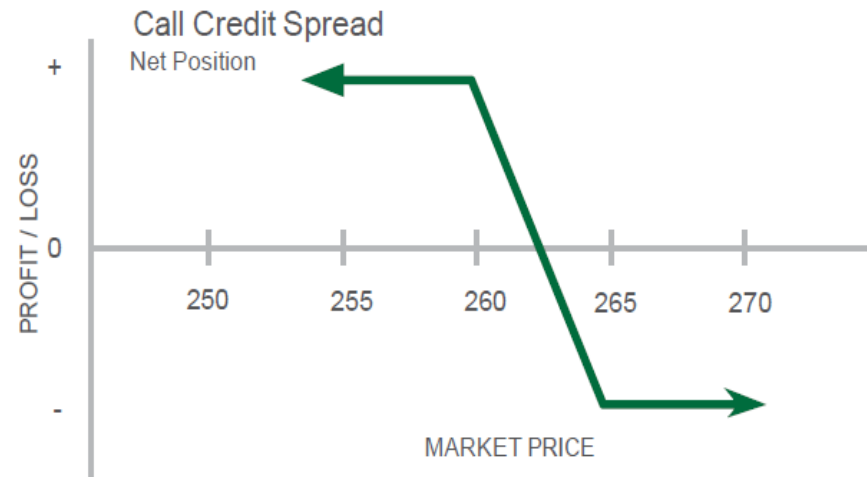
Avoid missing opportunities

# Credit Spread Strategy for income



Defined return

Defined risk



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Let's look at some real-time credit spreads in TWS platform...

# How we advise on the IBKR platform....

Advising on existing IBKR account

Divide account into two partitions

Create a new advisor-linked account



# Let's talk...

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