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## IUR Capital

# Volatility Strategies For A Volatile Market

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# Volatility Strategies for a Volatile Market



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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
- Focusing in exchange-traded option strategies

- Nasdaq had best 1<sup>st</sup> half ever, pushing broader markets to multi-year highs
- Tech earnings were mixed, earnings season now in the rear-view
- Fed rate cycle now ending, but lots of recent action in treasuries
- VIX found support at the 13 handle YTD
- It's August, and that means volatility!

*(As of August 8<sup>th</sup>, 2023)*

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



Source: CBOE

# SPX firmly in double-digits YTD...but will these hold into year-end?



Source: CBOE



# Tech outperformance YTD...but how long will this last?



Source: CBOE

## Will we see the VIX end 2023 above 20?

Answers please in the Q&A Panel

Buying Puts = Buying Volatility

Selling Puts = Selling Volatility

# Income-seeking vs volatility strategies

What is my risk tolerance with option-based strategies?



Income-seeking		Volatility Strategies	
Covered Call	Credit Spread	Long Straddle	Long Strangle
Iron Condor	Iron Butterfly	Long Put	

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

# 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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# Potential Volatility Strategies

- Why the straddle or strangle?
- Speculating volatility of the stock
- Straddle BUYERS expect higher volatility
- Straddle SELLERS expect lower volatility
- Stranglers expect a similar movement, BUT with a different risk/return scenario

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# The Long Straddle

- Purchase of one call
- Purchase of one put
- Same strike price, underlying and expiry date.
- Risk Profile
- Maximum Risk – Net Debit
- Maximum Reward – Unlimited
- Downside Breakeven – Strike less net debit
- Upside Breakeven – Strike plus net debit

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# The Long Straddle Example

- With XYZ stock trading at \$50.00
- Buy 1 XYZ 50 Call at \$3.20
- Buy 1 XYZ 50 Put at \$3.00
- Net Cost  $\$6.20 * 100 = \$620.00$
- The “50 straddle” is purchased for a total cost of \$620 plus commissions.



# Long Straddle P&L

Stock price	50 Call Profit/Loss	50 Put Profit/Loss	Net Profit/Loss
\$60.00	\$680	(\$300)	\$380
\$55.00	\$180	(\$300)	(\$120)
\$50.00	(\$320)	(\$300)	(\$620)
\$45.00	(\$320)	\$200	(\$120)
\$40.00	(\$320)	\$700	\$380

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# Long Straddle P&L

	50 Call Profit/Loss	50 Put Profit/Loss	Net Profit/Loss
Stock Price	\$50.00	\$60.00	20%
Days to Expiration	60	32	
50 Call	\$320	\$1020	220%
50 Put	<u>\$300</u>	<u>\$15</u>	(95%)
50 Straddle	\$620	\$1035	67%

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# The Long Strangle Example

- XYZ stock trading at \$50.00
- Buy 1 XYZ 55 Call at \$1.40
- Buy 1 XYZ 45 Put for \$1.05
- Net Cost \$2.45
- The “45-55 Strangle” is purchased for a total of \$245 plus commissions.

# Long Strangle P&L

Stock price	55 Call Profit/Loss	45 Put Profit/Loss	Net Profit/Loss
\$60.00	\$360	(\$105)	\$255
\$55.00	(\$140)	(\$105)	(\$245)
\$50.00	(\$140)	(\$105)	(\$245)
\$45.00	(\$140)	(\$105)	(\$245)
\$40.00	(\$140)	\$395	\$255

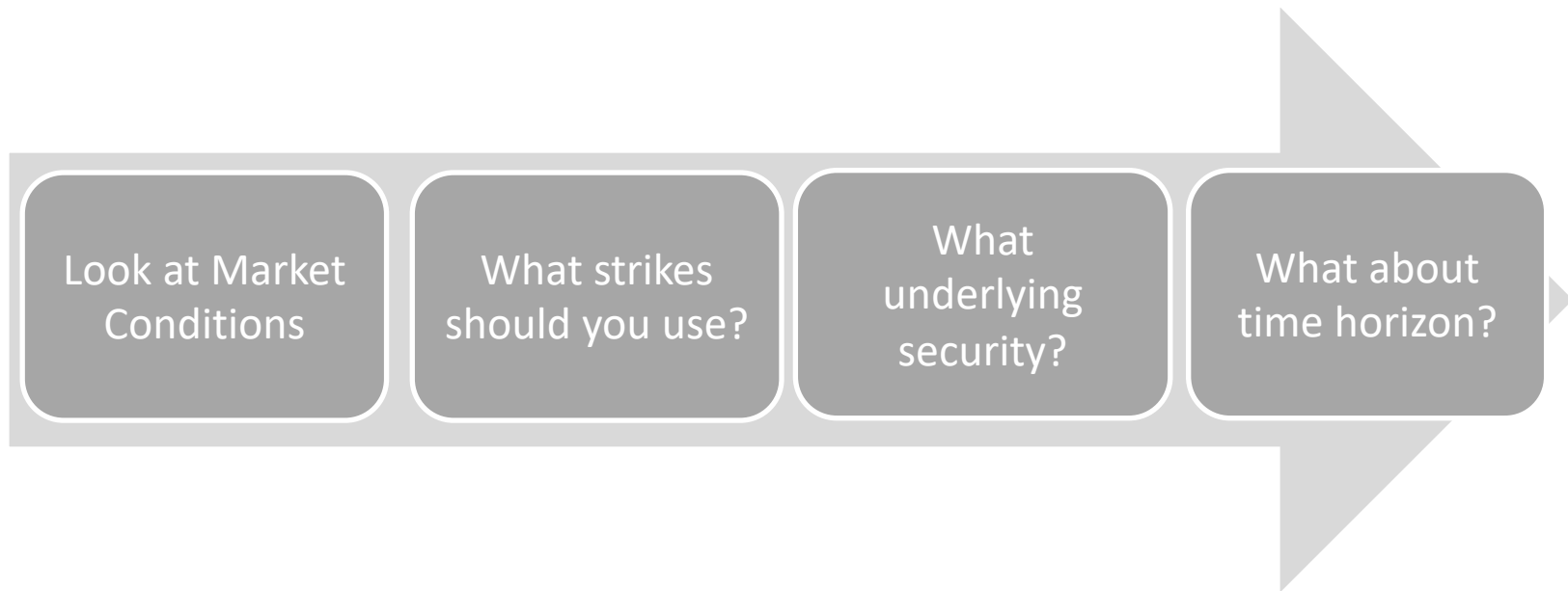
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# Straddles vs Strangles

- Strangle – Maximum loss possible over wider range than straddle
- Straddle – Maximum loss only if stock = strike price at expiry
- Combination (strangle) – Maximum loss anywhere between two strikes at expiry

Let's look at some volatility plays in TWS platform...

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



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# 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 to have a chat....