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IUR Capital

Option Strategies for Earnings Season

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Option Strategies for Earnings Season

IURCAPITAL

January 2024

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A copy is also available at: <http://www.optionsclearing.com/publications/risks/riskstoc.pdf>

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Host Profile (Gareth Ryan)

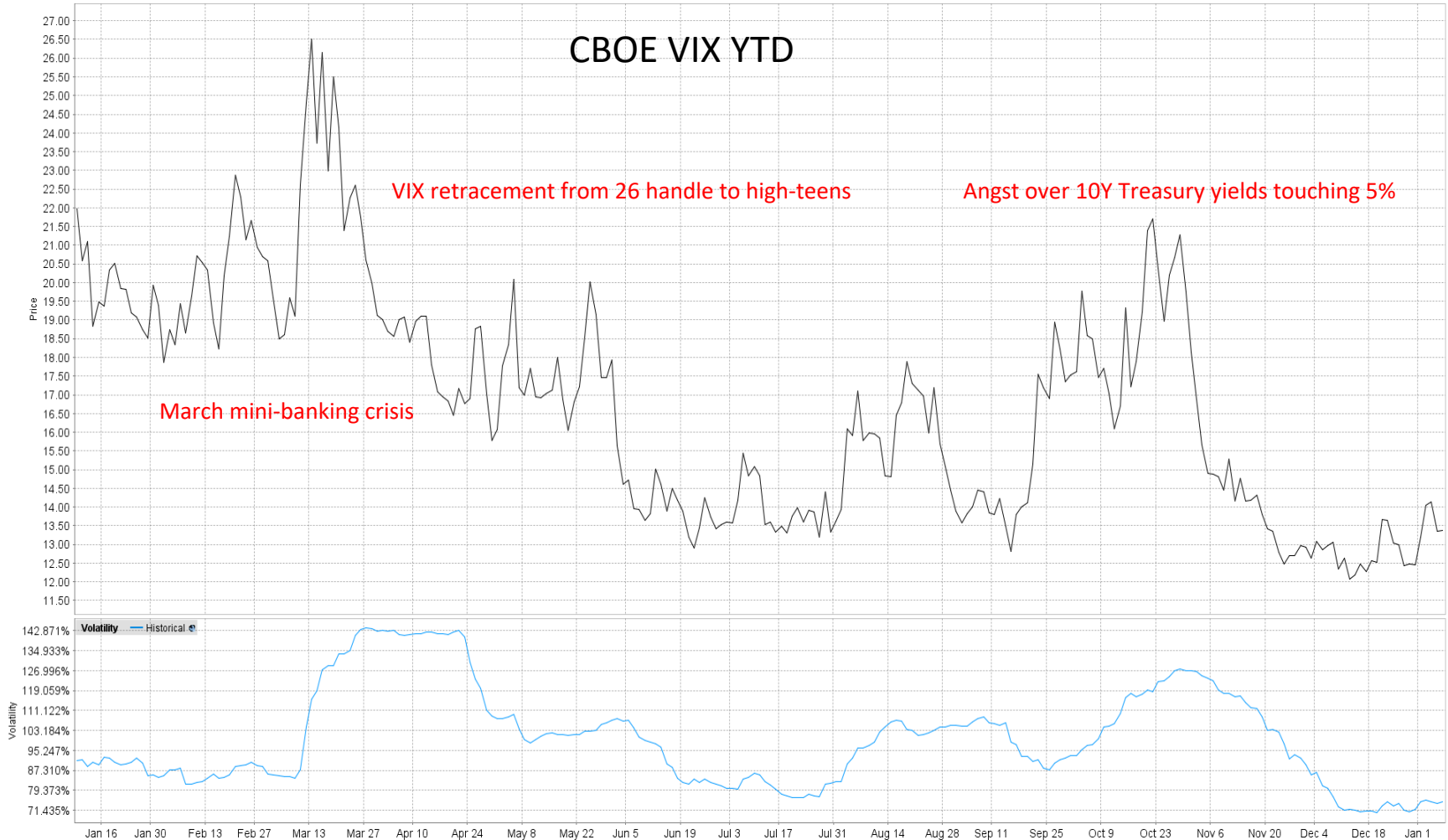
- Founded IUR Capital Ltd in 2007, IUR Capital LLC in 2010
- IUR Capital is an investment advisor for institutional and individual investors
- Focusing on exchange-traded options

2024....it's all ahead of us

- Nasdaq 2023 gains of 50% will be hard to repeat in 2024
- S&P's more modest gains of 25% driven by tech last year
- What's happened since the November FOMC meeting?
- Treasury market rally in Q4'23 was epic....90bps decline in 10Y yields
- Watch out for volatility in Q1!
- And we have earnings season getting underway....

(As of December 22nd, 2023)

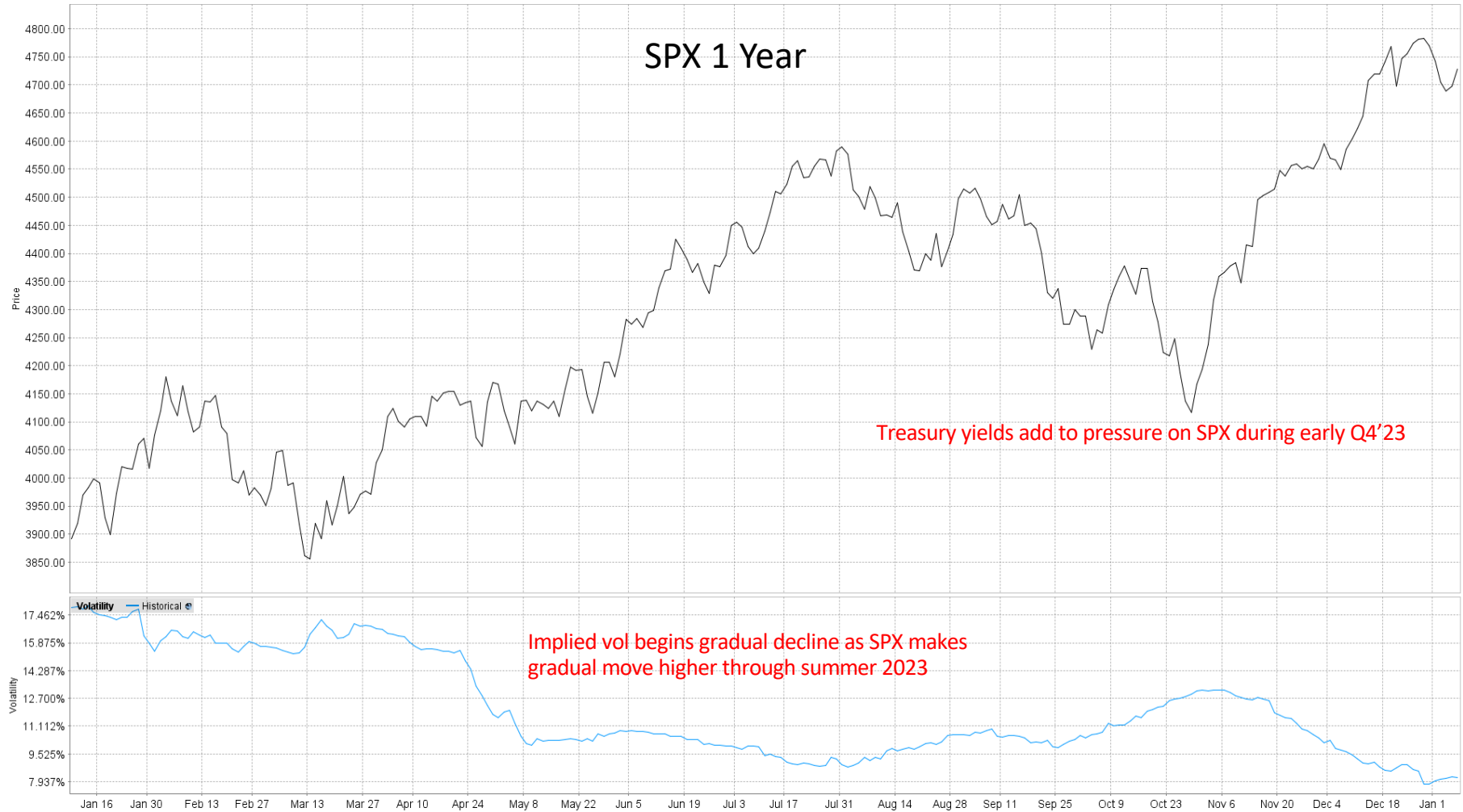
CBOE VIX....below 20 signals lower volatility for SPX



Source: IBKR TWS (January 8th, 2024)

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S&P 500 index...bumpy start to 2024



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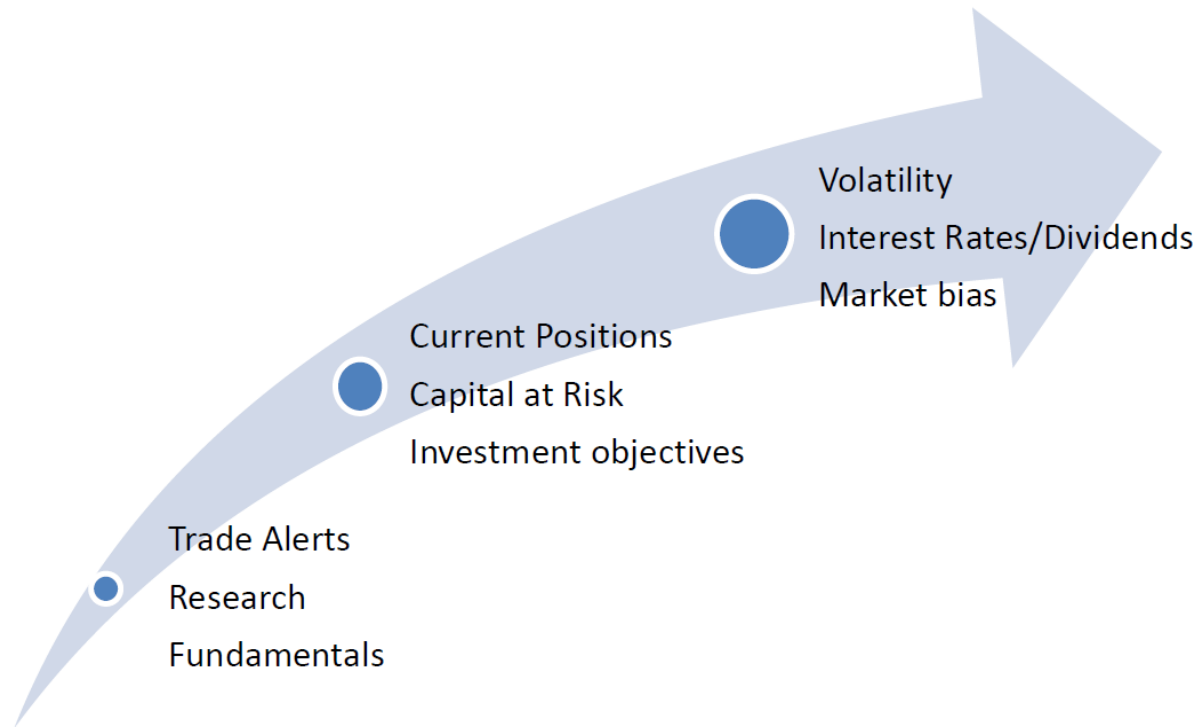
Scenario 1: \$1m retirement account

- You are nearing retirement or already retired, with no dependents
- Your income has dropped, but wary of record inflation
- Mostly invested in bonds with a small element of equities
- Preserving your capital in your retirement accounts is a priority
- How can we achieve premium-harvesting through defined-risk / defined-return option strategies?
- You want to achieve regular premium even if the market remains flat

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

Options: Significant Potential Benefits...but inherent challenges

- Used correctly options can provide the opportunity to improve portfolio performance and also reduce risk
- But identifying our parameters for use of options in a portfolio can be daunting



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Question of the day....

Should we be a BUYER or SELLER of volatility during earnings?

Answers please in the Q&A Panel

Buying Puts = Buying Volatility

Selling Puts = Selling Volatility

- Set to get under way mid-October, with publicly-traded companies reporting financials for Q3 (before or after the bell)
- Earnings announcements typically see near term price moves of individual names that is greater than historical norm
- Equity options help us determine what the *implied* move is for the underlying security after the announcement

Strategy Suite

Earnings Season

Directional/Market bias	Long Volatility
Long Call	Long Straddle
Long Put	Long Strangle
Long Call Spread	
Long Put Spread	

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Am I long volatility or short volatility around earnings?

Strategy	Vega	Rise in IV	Fall in IV
Long Call	Positive / Long	Gain	Loss
Short Call	Negative / Short	Loss	Gain
Short Call	Positive / Long	Gain	Loss
Short Put	Negative / Short	Loss	Gain

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Am I long volatility or short volatility around earnings? (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 for Earnings

- 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

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.

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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

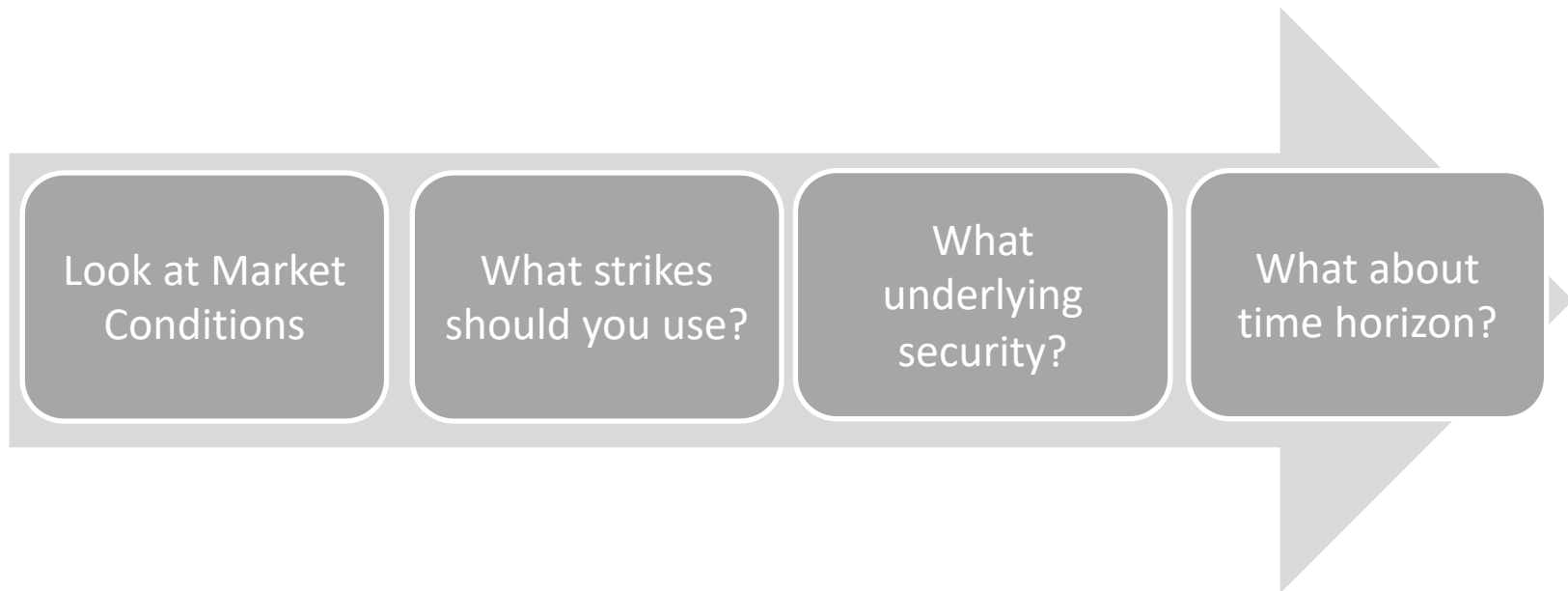
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Straddles vs Strangles

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

Let's look at a volatility play on earnings.....

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 to request the slides or just to have a chat....