OptionProfessor.com Alert
June 24th, 2021

BANK STRESS TEST

BY THE OPTION PROFESSOR

OptionProfessor Alert:
Bank Stress Test
June 24th, 2021

Big banks are close to releasing billions of dollars potentially via stock buybacks (share reductions) and cash distributions (higher dividends). Not all banks are created equally and some are about to return capital at different percentages. Today we saw a nice snapback on the financials after a pretty good sell off after the Fed Meeting and quad witching last week.

WARNING!!-while the jump is impressive; they are still UNDER some key moving averages so more wood to chop. ALSO; interest rates have gone the other way for the banks which does not help their profits AND trading revenues and loan/ credit card demand has waned-all formidable obstacles short term. BEWARE of buy the rumor sell the fact potential ahead.

HOWEVER-longer term; we figure loan & credit card demand will come back, interest rates will drift higher to help margins and trading volumes will stabilize at healthy levels. KEY NOTE- the BUYBACKS are a reduction of shares outstanding (helps the P/E ratios) and the INCREASED DIVIDENDS should attract the weary income hungry investor.....both big positives.

Some expectations include WFC 12% net capital return of which 9.4% in share reductions, BK STT C GS expect sizeable net capital returns with some of the largest year over year total payment from Capita One 83%, RF 81%, WFC 69% and BAC 68%.

We believe longer term these are big positive but short term moving average hurdles above 3%-5% higher.....but if the value trade is going to get back on the horse; the financials may get some gas out of this to join the party.

- The Option Professor, 6/24/21 at 4:37PM ET

• *Questions or comments? Email optionprofessor@gmail.com*

• *Weekly FREE Market Updates at https://www.optionprofessor.com/blog/*

• *Plus, more in-depth weekly market analysis available in The Option Professor Portfolio Roadmap (subscribe here, only $49):*
https://track.optionprofessor.com/OPSubstack

Bonus: The Replacement Trade (Are Your Stocks Dropping? You Could have Done This)

QUESTION: How Could Investors Stay Bullish BUT Also Reduce Risk at the Same Time???

We see financials, industrials, materials, energy, transports ect all getting hit and accounts losing value

ANSWER: There a number of alternatives but here we'll give a HYPOTHETICAL EXAMPLE of REPLACEMEN TRADES

Now most stocks are already way off their highs so the horse has left the barn to some degree in many cases BUT we'll take a look at MEME trading which is dangerous as to wild swings and use AMC as an example

GIVEN: In May you bought 1000 shares of stock at 20 ($20,000) as it broke out and it has run to 60 ($60,000)
You are still in love with the stock but have no idea where it's going and want to take the money but remain bullish

CHOICE--Should the trader SELL the stock @ 60 he takes $60,000 off the table but no longer has any upside potential.
The trader REPLACES his stock position with a CALL SPREAD of long 10 Sept 70 calls and short 10 Sept 100 Calls
In this HYPOTHETICAL EXAMPLE...the trader is filled @ 24 on the 10 Sep 70 calls and 19 on the 10 Sep 100 calls= $5000 debit. The Trader has the right to buy 1000 shares @70 and the obligation to deliver 1000 shares at 100 until expiration.

RISK-REWARD.. The trader has taken $60,000 out of the trade and REPLACED it with a LIMITED RISK $5000 position. There are many things that can happen here but in this HYPOTHEICAL EXAMPLE we are saying the trader holds the position until the expiration date and there is no time value left in the option and they both are trading at intrinsic value.

RISKS- There are many risks but we will address ONLY 2 Outcomes. AMC stock at EXPIRATION is either ABOVE 100 or BELOW the 60 where you initiated the REPLACEMENT. If AMC is ABOVE 100 at expiration (EXAMPLE 105) the 70 calls would have intrinsic value of 35 and the 100 call would have intrinsic value of 5 for a credit of 30 the maximum the spread. The $5000 in would have intrinsic value of $30,000 + $55,000 you originally took out =

$85,000 HOWEVER if AMC stock is BELOW 60 (EXAMPLE 40) the trader loses his $5,0000 option money as both options expire worthless BUT he has the $55,000 that was not at risk and if AMC was at 40 ($40,000)....he's better off by $15,000 and has $55,000 capital to use.

When traders are seeing high volatility and want to capture profits while maintaining bullish or bearish exposure; they sometimes investigate replacement trades to attempt to achieve that objective. It is not right for everyone.

• *Questions or comments? Email optionprofessor@gmail.com*

• *Weekly FREE Market Updates at https://www.optionprofessor.com/blog/*

• *Plus, more in-depth weekly market analysis available in The Option Professor Portfolio Roadmap (subscribe here, only $49): https://track.optionprofessor.com/OPSubstack*