OptionProfessor.com Alert

July 1st, 2021

JOBS REPORT

BY THE OPTION PROFESSOR

OptionProfessor Alert:
Jobs Report Friday
July 1st, 2021

Greetings Everybody!

We've got a jobs report Friday that has an expected range so wide you can drive a Mack truck through It. We've heard estimates of anywhere between 1 million jobs to 400k jobs to be announced with the average around 700K. We saw the VIX hit about 14 last week and this week which is about the LOWEST level in 52 weeks! We are all time HIGHS in many stock indexes. We got great news from the banks about return of capital and the oil prices have been generally firm in advance of the OPEC meeting. Solid prices in health care, consumer discretionary and communications as well as big tech. We follow the VIX closely and have felt a number UNDER 20 can attract sideline cash as the markets seem stable AND if we are going on the next leg up to S&P 4400+ the VIX could see a 12 handle BUT if we get a shock Friday; the VIX could spike/mkt drops.

IF Volatility is to change SIGNIFICANTLY on the news and before a July 4th holiday then 2 strategies could be interesting.

1) Long straddle- this is where you buy a call and a put at the same strike price at the same expiration date. The risk is limited to the total price of the option and you have the right to buy and sell at the same strike price. There are many ways to trade out of the position; but you need enough volatility to overcome the premium paid. If you hold the position until expiration and the underlying market settles on your strike price; you lose it all.

2) Long Strangle-this is where you buy a call above the current price and buy a put below the current price both with the same expiration. The risk is limited to the total price of the strangle and you have the right to buy at the call strike price and the right to sell at the put strike price until expiration. Here you want the price of the underlying to be volatile enough to overcome the premiums paid. There are many ways to trade out of this position but if you hold the position until expiration and the underlying market settles between the strike prices of the call & put-you lose it all.

These are 2 strategies that come to mind to speculate that prices may move dramatically after an event, news or report.

- The Option Professor, 7/1/21 at 7:37AM ET

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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.

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