OptionProfessor.com Alert

July 9th, 2021

DELTA VARIANT DROP

BY THE OPTION PROFESSOR

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Welcome Back Everybody!...Well the fears of the Delta variant, discounting slower growth-inflation-Fed & Fiscal accommodation has everybody from the People Bank of China to Wall Street reassessing how much risk they are prepared to tolerate.

We told subscribers that July could be brutal and that data showed that within 4 months after yields peak (we told subscribers that 1.75% 10yr/2.55% 30yr in MARCH was the taper tantrum!)..stocks hit a peak (July!) So; if we are on our way toward 4100 S&P (before maybe a turn to take us up to 4600 S&P EOY)??? Q2 earnings are coming and the Fed is still injecting $120 Bill per month so the taper talk may happen in Jax Hole but hikes could be years away.

Here's an opinion for putting parameters around your equity at least in the short term.

Using Apple (AAPL) as an EXAMPLE ONLY.....let's look at a hedging tactic.....not right for everyone. Consult your brokerage.

AAPL closed at about 143.....the all-time high is about 145.....let's use an example of 1,000 shares = 10 option contracts

Strategy One- The use of a COLLAR....using Sept 17 2021 expiration date...combines call selling and put buying

The trader sells 10 Sept 150 calls @ $4000 (400 each) meaning he is contracted to deliver stock at 150 until expiration
The trader buys 10 of the 135 puts @ $4000 (using call proceeds) and has the right to sell stock at 135 until expiration

If the trader holds both the positions until expiration and both are trading on just intrinsic value The $143,000 of AAPL could be worth as much as $150,000 (if above 150 at expiration) or at least $135,000 if under 135.

If AAPL at expiration is priced between the 2 strikes; both options expire (one offsets the other) and the trader owns AAPL. The trader can adjust quantities, strikes and expirations to fit his own view and leg out (different risks & other factors)...

When you subscribe to optionprofessor.com/subscribe you can email your questions and we can provide our opinion.

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Hope to see you as a subscriber today!

- The Option Professor, 7/9/21 at 1:21AM 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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