

Webinar Presentation: Quarterly Education Day

Does Your Option Strategy Match Your Outlook?



Presented by:
Trading Strategy Desk

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Goal of this Presentation:

Provide a checklist for option traders to help develop an option strategy **based on their outlook**, and explain the importance of doing so.

Every Trade has a process

- Reason for placing trade
- Directional Outlook
- Volatility Outlook
- Time Frame
- Exit Strategy



Trader's Corner: Keep in mind the amount you are willing to lose/risk relative to the account size. Don't allow trades to get too big!

Reason for the Trade



– Earnings/Product Release/FDA trials

- Trading Implied Volatility or Direction
 - Implied Volatility play: Selling or Buying IV Strategies
 - » Don't forget that the option market is pricing in "it's" expected price movement
 - Direction play: Buying or Selling Strategies
 - » Don't forget about the Implied Volatility changes that occur around these events

– Technical Events

- Type of event
 - Trends can take years to develop versus impacts of time decay
 - Support and Resistance
 - Breakouts
- Technical event fails, still keep trade on?

– Fundamentals

- Current business environment
- Individual company metrics

– Technical & Fundamental

Bulls		Bears	
Symbol	Description	Symbol	Description
Fundamental Analysis PROVIDED BY ZACK'S INVESTMENT RESEARCH Methodology			
ROG	05/12/2016 - Originally a paperboard manufacturing company, this major materials technology leader is poised to grind back to 2015 highs.	BIDU	05/12/2016 - Is the Google of China Run Over Baidu faces regulatory issues and lower estimate revisions
Technical Events PROVIDED BY RECOGNIA AS OF 05/12/2016 Methodology			
KTCC	Bottom Triangle	BURL	Diamond Top
AFH	Continuation Diamond (Bullish)	GES	Continuation Diamond (Bearish)
WWE	Continuation Diamond (Bullish)	FOR	Head and Shoulders Top
WWE	Bottom Triangle	ADRO	Downside Breakout
CSPJ	Diamond Bottom	BBOX	Double Top

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Trader's Corner: Reason for placing the trade can help define the exit strategy.

Outlook on Price Movement



— Bullish

- Positive Delta option strategies

— Bearish

- Negative Delta option strategies

— Neutral or no directional bias

- Close to zero delta
- Trade is not based on direction, but instead; on time, implied volatility changes, and/or magnitude of price movement.



Trader's Corner: There is more than one way to trade direction or volatility outlooks.

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Volatility Outlook



– Increasing Volatility

- Positive Vega option strategies (buying)

– Decreasing Volatility

- Negative Vega option strategies (selling)

– Tools to help evaluate Volatility

- Option Statistics (provided by LIVEVOL, Inc.)
- Profit/Loss Calculator (provided by IVolatility.com)
- IV index (provided by IVolatility.com)

– Methods of evaluating volatility

- Implied Volatility level vs. Historical Volatility level
- IV percentile within 52 week IV range



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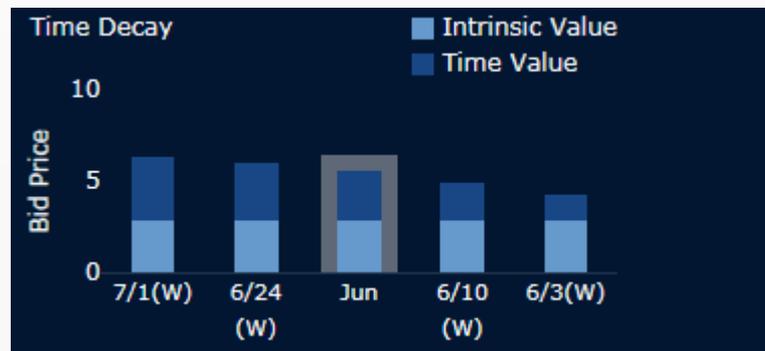
Trader's Corner: Implied Volatility is the market's expectation of the volatility of price movement, which is stated as an annual percentage.

*Greeks are mathematical calculations used to determine the effect of various factors on options.

Time Frame



- Reason for trade will impact the selected time frame
 - **Shorter Term:** High price acceleration, but more time decay
 - **Longer Term:** Less time decay, but less price acceleration
- Buyer or Seller?
 - **Buyer:** Typically option buyers utilize further out expirations
 - Time works against long option positions
 - Further dated expirations reduce time decay impacts
 - More time for outlook to play out
 - **Seller:** Typically option sellers will look for 30-60 days to expiration
 - Attempt to balance premium being received with exposure to accelerated time decay
 - Time decay helps short option positions



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Trader's Corner: Options have a balance of risk and reward.

Exit Strategy

- Establish exit strategy **prior** to entering into trade!
- Reason for trade can help define exit
 - Did event happen or not?
- Define **risk and reward** targets
 - \$ or % amount
 - Technical signal
 - Price level
- Some strategies have a defined max gain
 - Consider closing when % of max gain attained
- Change of original outlook?



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Exit Strategy(cont.)

- Tools that help set up exit on the trade
 - Alerts
 - Trade Armor
 - Order types (stop, limit, trailing stop orders)



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Trader's Corner: Options allow the trader to “pick their poison” based on the strategy they use.

*Trailing Stop orders are monitored between 9:30 AM and 4:00 PM Eastern Standard Time and are maintained on a separate order file on a “not held” basis until triggered, at which time they are sent to the marketplace. Additional information about Trailing Stop orders is available at Fidelity.com (link: https://www.fidelity.com/bin-public/060_www_fidelity.com/documents/Conditional_Orders.pdf)

Let your Outlook Define the Option Strategy!

- Know **what** you are trying to trade!
- Consider your Risk/Reward balance
- **Volatility** analysis can help with selecting the option strategy
- Consider the impact of **time** on the strategy
- Option Greeks can help with strategy evaluation
- Establish an **exit strategy** prior to entering into trade!
 - Reason for trade can help determine exit strategy
- If outlook changes after trade is placed, consider closing

Trader's Corner: Defining what exposure that you desire for risk and reward will define the option strategy.

Let your Outlook Define the Option Strategy!

This concludes today's presentation.

Thank you for attending.

Please join the Trading Strategy Desk for our upcoming webinars:

- **June 9th - Intro to ATP**
- **June 14th - It's all Greek to me**
- **June 16th - Intro to options Part 3 I placed my options trade! Now what?**

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