

A Complete Guide to Using Collars

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Market Taker Mentoring



Market Taker Mentoring

Disclaimer

In order to simplify the computations, commissions and other costs have not been included in the examples used in this presentation. These costs will impact the outcome of stock and options transactions and should be considered. Investors considering options should consult their tax advisor as to how taxes may affect the outcome of contemplated options transactions.

Options involve risks and are not suitable for all investors. Prior to buying or selling an option, a person must receive a copy of Characteristics and Risks of Standardized Options (ODD). Copies of the ODD are available from your broker, by calling 1-888-OPTIONS, or from The Options Clearing Corp., One North Wacker Drive, Suite 500, Chicago, Illinois 60606. The information in this presentation is provided solely for general education and information purposes and therefore should not be considered complete, precise or current. No statement should be construed as a recommendation to buy or sell a security or to provide investment advice.

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Market Taker Mentoring

Protecting Holdings

- Options can be used to help protect long-term holdings (stock, ETFs, futures)
- But, strategy must be structured correctly
- Protective puts, collars



Market Taker Mentoring

Protective Puts

- Definition:
 - Long stock
 - Long (OTM) put
- Limited risk, at a big cost



Market Taker Mentoring

Rationale for Protective Puts

- Want to limit our downside risk potential on a stock owned
- Buy a put option on the stock
- The put owner will then have the right to sell stock at an agreed upon price (the strike price) until the expiration date



Market Taker Mentoring

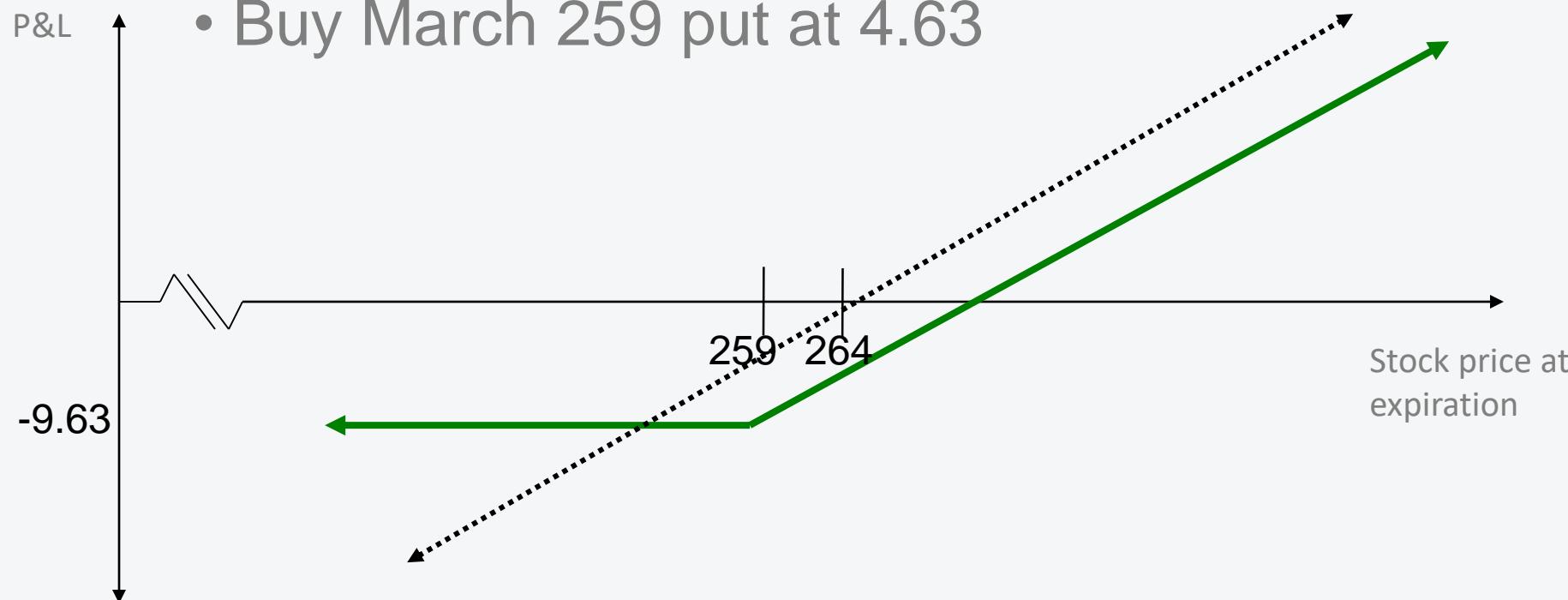
Protective Put Example

- Own 100 shares of SPY (ETF) at 264
- Buy March 259 put at 4.63

Leg	Strike	Bid Size	Bid	Ask	Ask Size	Implied Volatility	Delta	Theta
Mar19 (46 days) Put								
0.3	259	48	4.61	4.63	50	18.33%	-0.3623	-0.0640
0.3	260	46	4.92	4.95	100	18.06%	-0.3836	-0.0639
0.3	261	48	5.25	5.28	100	17.78%	-0.4057	-0.0636
0.3	262	48	5.60	5.63	50	17.50%	-0.4287	-0.0630
0.3	263	48	5.98	6.01	50	17.24%	-0.4528	-0.0622
0.3	264	16	6.40	6.42	80	17.01%	-0.4777	-0.0613

Protective Put

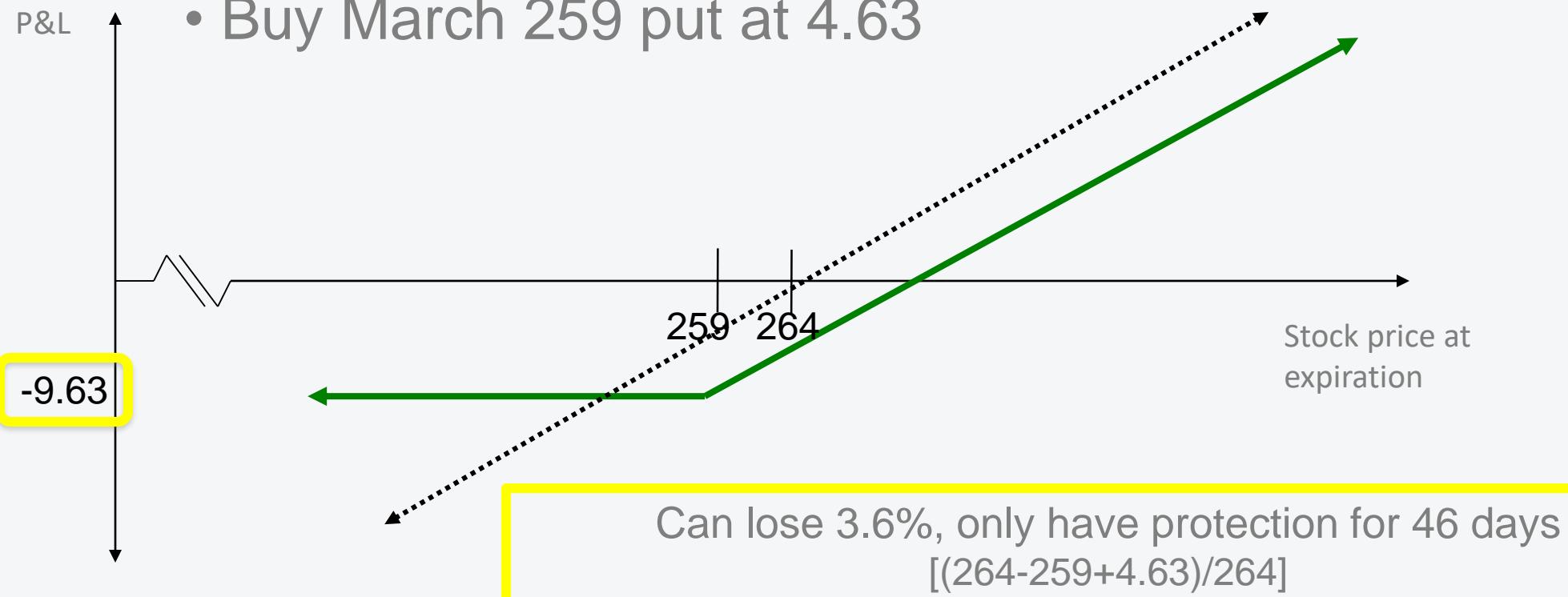
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Market Taker Mentoring

Protective Put

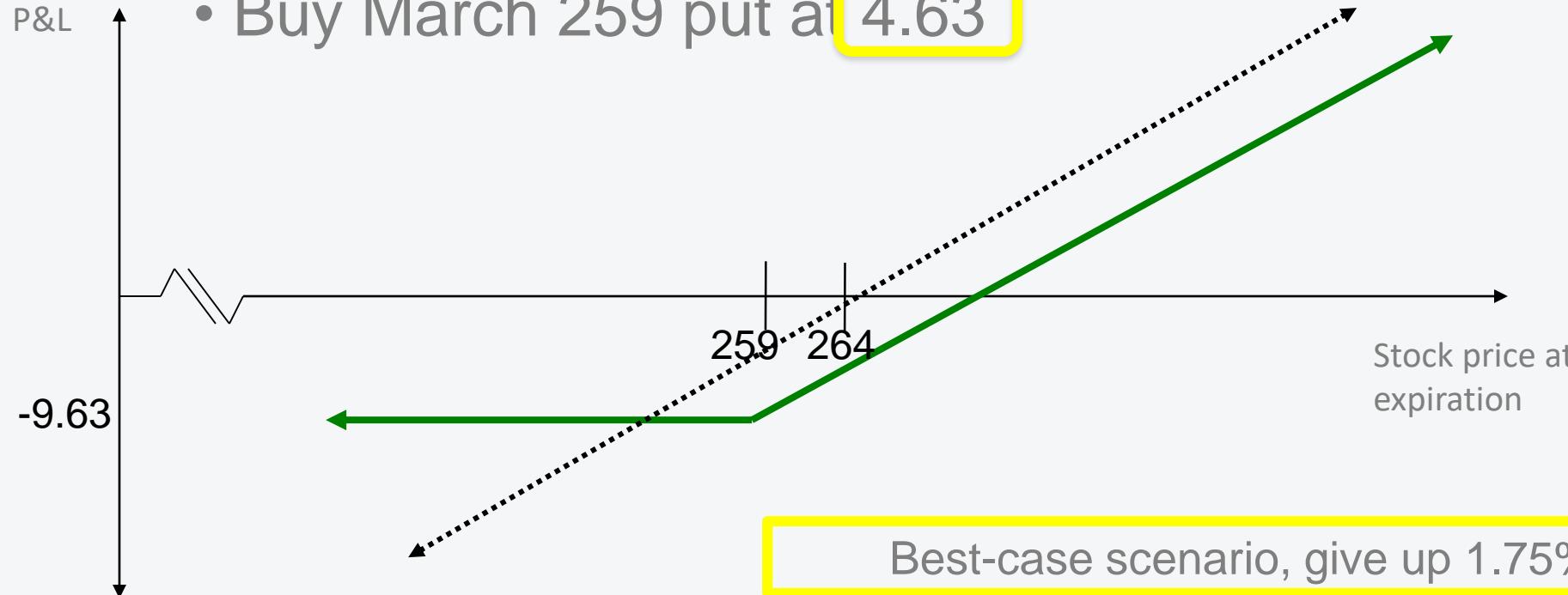
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Market Taker Mentoring

Protective Put

- Own 100 shares of SPY (ETF) at 264
- Buy March 259 put at 4.63



Market Taker Mentoring

Key Implications

- Premium is 1.75% for 46 days
- Roughly 8 46-day periods in a year
- Would be 10% a year to carry position year round (doesn't count "the deductible")



Market Taker Mentoring

Overcoming Cost

- Expense of puts can be creatively overcome
- Covered calls can help finance the put



Market Taker Mentoring

Covered Calls

- Definition:
 - Long stock
 - Short (OTM) call
- Collect premium, limit upside



Market Taker Mentoring

Rationale for Covered Calls

- Want to generate income, OK limiting upside profit potential
- Sell a call option on the stock
- The call seller will then have the obligation to sell stock at an agreed upon price (the strike price) until the expiration date



Market Taker Mentoring

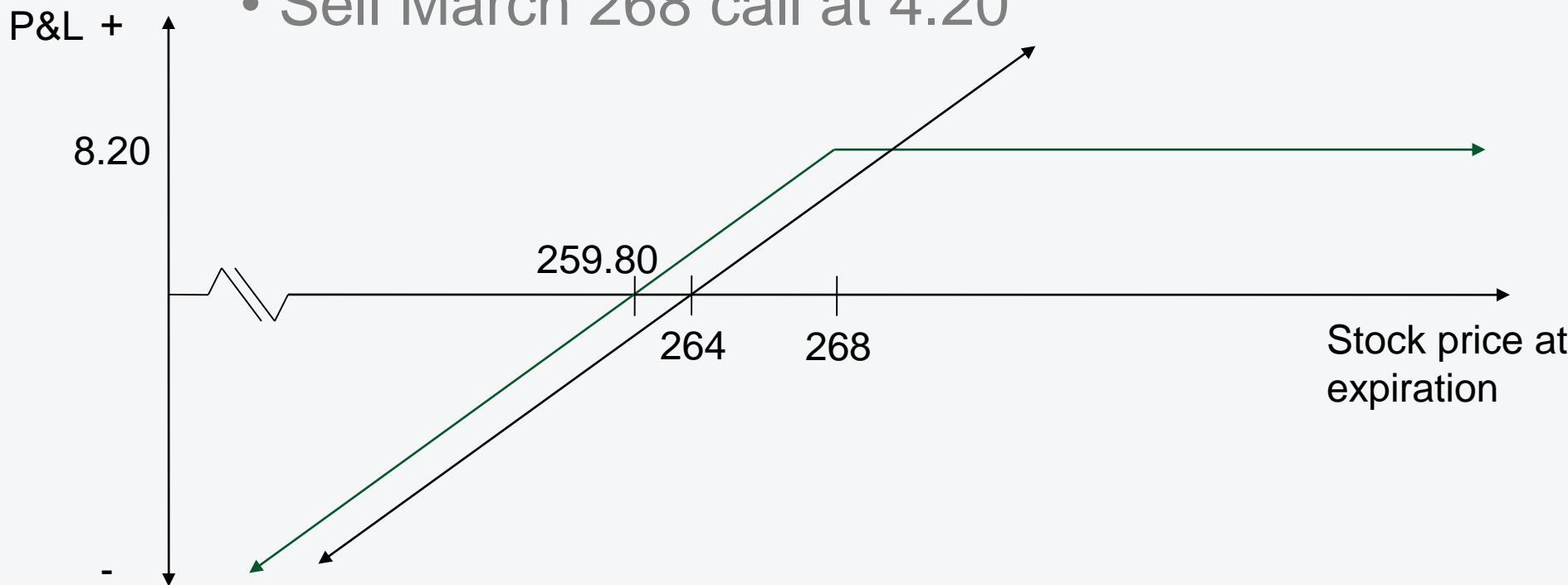
Covered Call Example

- Own 100 shares of SPY (ETF) at 264
- Sell March 268 call at 4.20

Bid Size	Bid	Ask	Ask Size	Implied Volatility	Delta	Theta	Strikes
Call							Mar19 (46 days)
114	7.01	7.10	147	17.69%	0.5494	-0.0803	263
155	6.39	6.43	30	17.29%	0.5256	-0.0787	264
98	5.80	5.85	3	16.99%	0.5008	-0.0772	265
168	5.24	5.31	177	16.71%	0.4753	-0.0756	266
104	4.70	4.76	249	16.38%	0.4489	-0.0734	267
185	4.20	4.24	57	16.06%	0.4219	-0.0709	268

Covered Call

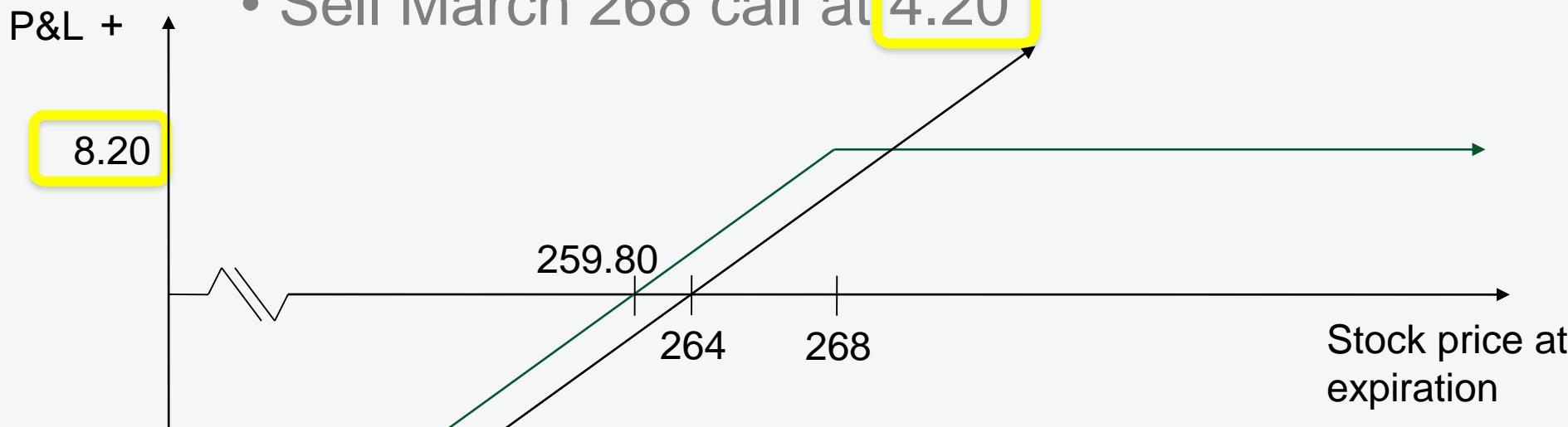
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Market Taker Mentoring

Covered Call

- Own 100 shares of SPY (ETF) at **264**
- Sell March 268 call at **4.20**



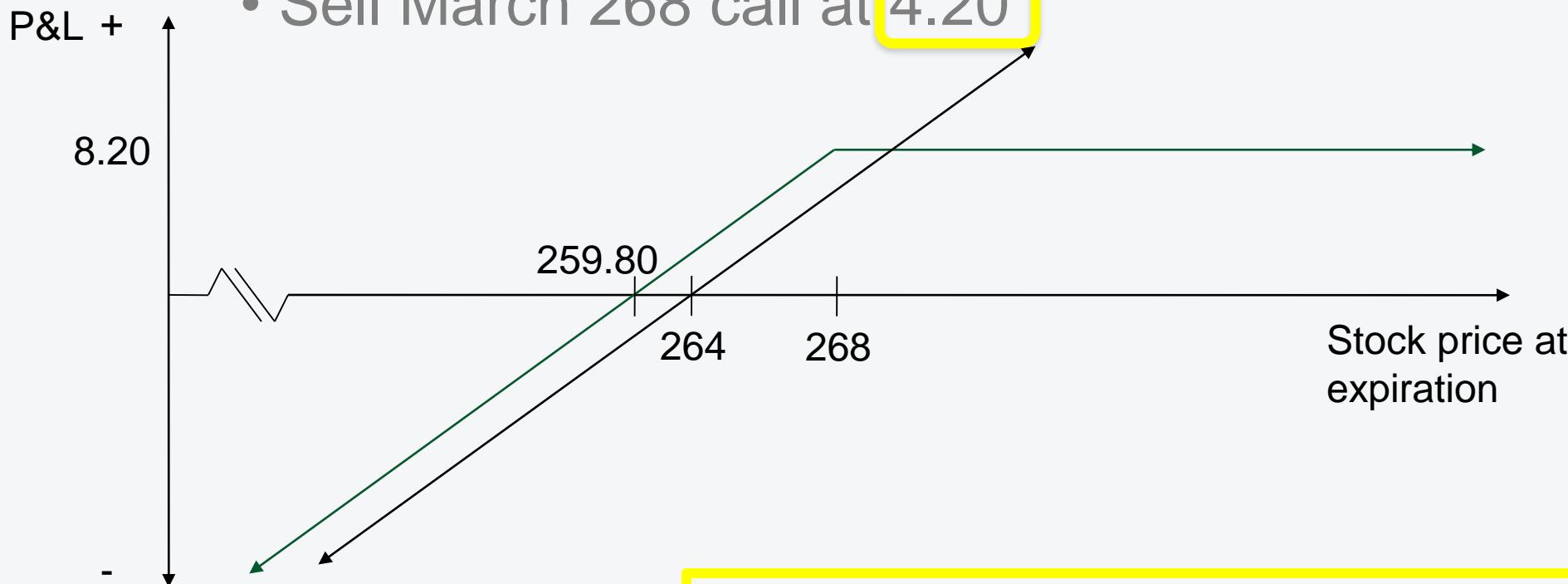
Bring in 1.6%, over 46 days



Market Taker Mentoring

Covered Call

- Own 100 shares of SPY (ETF) at **264**
- Sell March 268 call at **4.20**



Market Taker Mentoring

Key Implications

- Premium is 1.6% for 46 days
- Collect premium, have downside risk, might have to sell shares



Market Taker Mentoring

Collars

- A collar is a strategy that can help protect long stock or futures at a low cost
- Investor-oriented strategy
- Trade-off



Market Taker Mentoring

Collar

- Definition:
 - Long stock
 - Short (OTM) call
 - Long (OTM) put
- Limited risk / limited reward



Market Taker Mentoring

Rationale for Collar

- Want to limit our downside risk potential on a stock owned
- Buy a (protective) put and sell a (covered) call to help finance the put
- Will have the right to sell stock at an agreed upon price (the strike price) until the expiration date, might get assigned on call



Market Taker Mentoring

Collar Example

- Own 100 shares of SPY (ETF) at 264
- Buy March 259 put at 4.63
- Sell March 268 call at 4.20

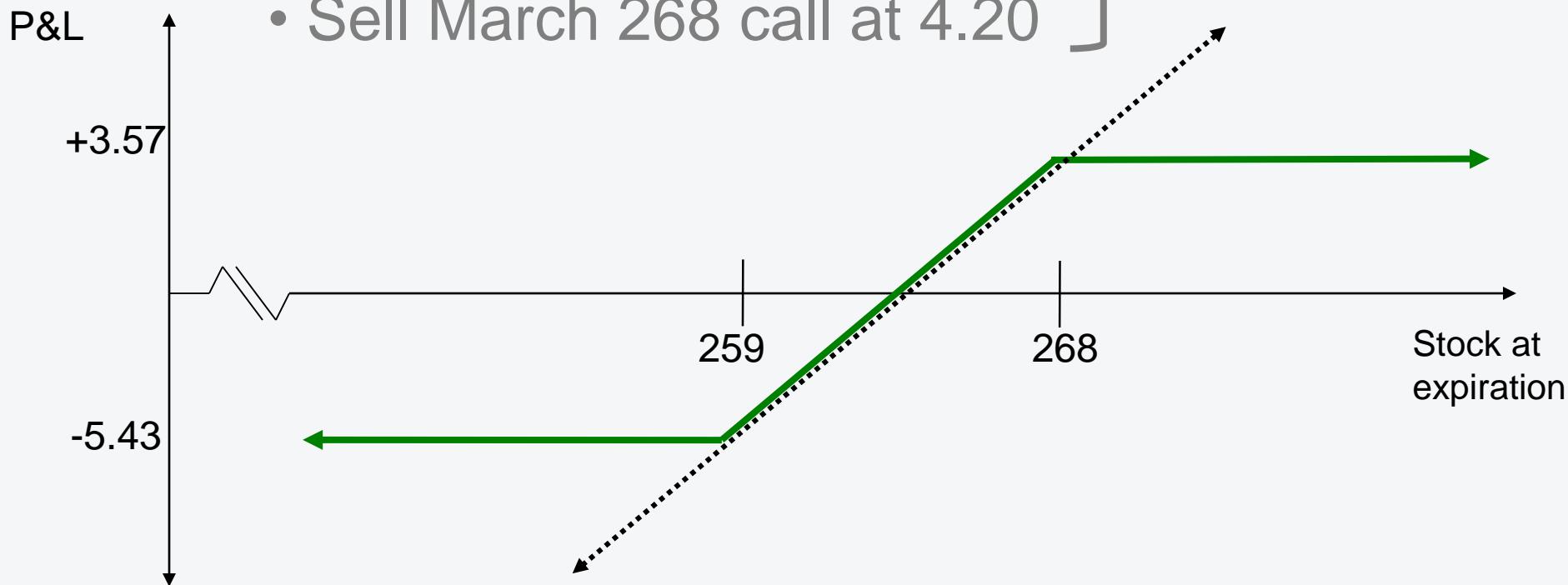
} 0.43 debit

Bid Size	Bid	Ask	Ask Size	Implied Volatility	Delta	Theta	Strikes	Bid Size	Bid	Ask	Ask Size	Implied Volatility	Delta	Theta			
Call							Mar19 (46 days)							Put			
89	9.73	9.82	134	19.10%	0.6348	-0.0833	259	■■■	48	4.61	4.63	50	18.33%	-0.3623	-0.0640		
83	9.02	9.11	106	18.75%	0.6150	-0.0829	260	■■■	46	4.92	4.95	100	18.07%	-0.3836	-0.0639		
102	8.33	8.43	839	18.41%	0.5941	-0.0823	261	■■■	48	5.25	5.28	100	17.79%	-0.4057	-0.0636		
103	7.66	7.74	90	18.03%	0.5723	-0.0814	262	■■■	48	5.60	5.63	50	17.51%	-0.4288	-0.0630		
114	7.01	7.10	147	17.70%	0.5494	-0.0803	263	■■■	48	5.98	6.01	50	17.24%	-0.4528	-0.0623		
155	6.39	6.43	30	17.30%	0.5256	-0.0787	264	■■■	16	6.40	6.42	80	17.01%	-0.4777	-0.0613		
98	5.80	5.85	3	16.99%	0.5008	-0.0773	265	■■■	72	6.82	6.85	64	16.74%	-0.5035	-0.0600		
168	5.24	5.31	177	16.71%	0.4753	-0.0756	266	■■■	48	7.28	7.31	64	16.50%	-0.5300	-0.0584		
104	4.70	4.76	249	16.38%	0.4489	-0.0734	267	■■■	32	7.77	7.81	51	16.27%	-0.5571	-0.0567		
185	4.20	4.24	57	16.06%	0.4219	-0.0709	268	■■■	72	8.29	8.40	187	16.14%	-0.5841	-0.0550		

Collar

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- Sell March 268 call at 4.20

0.43 debit

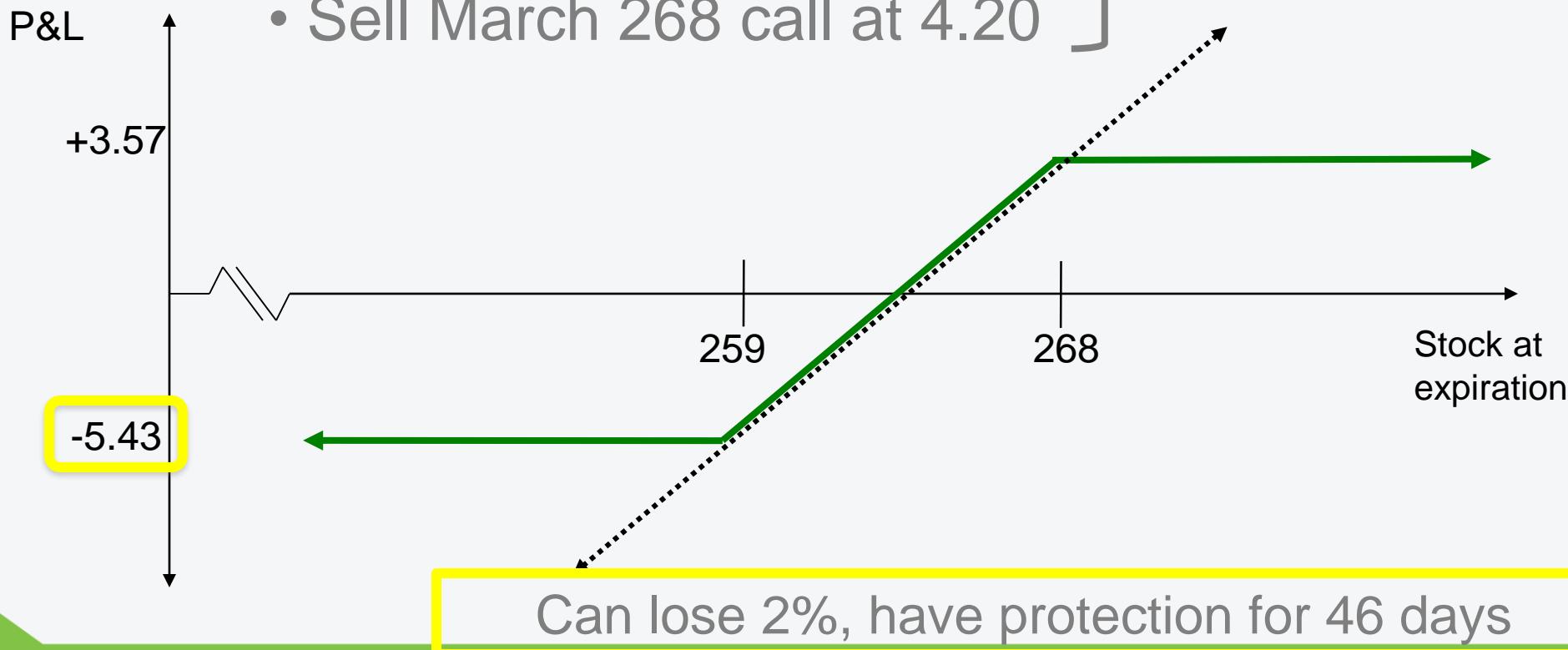


Market Taker Mentoring

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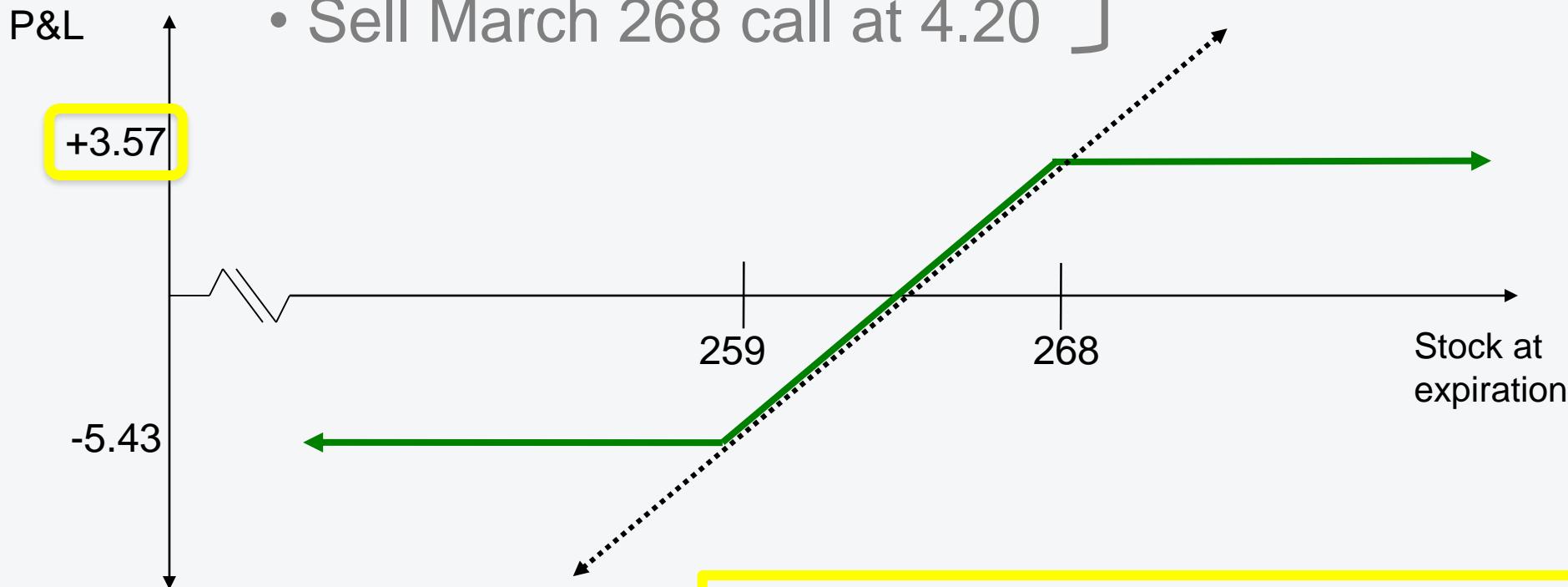


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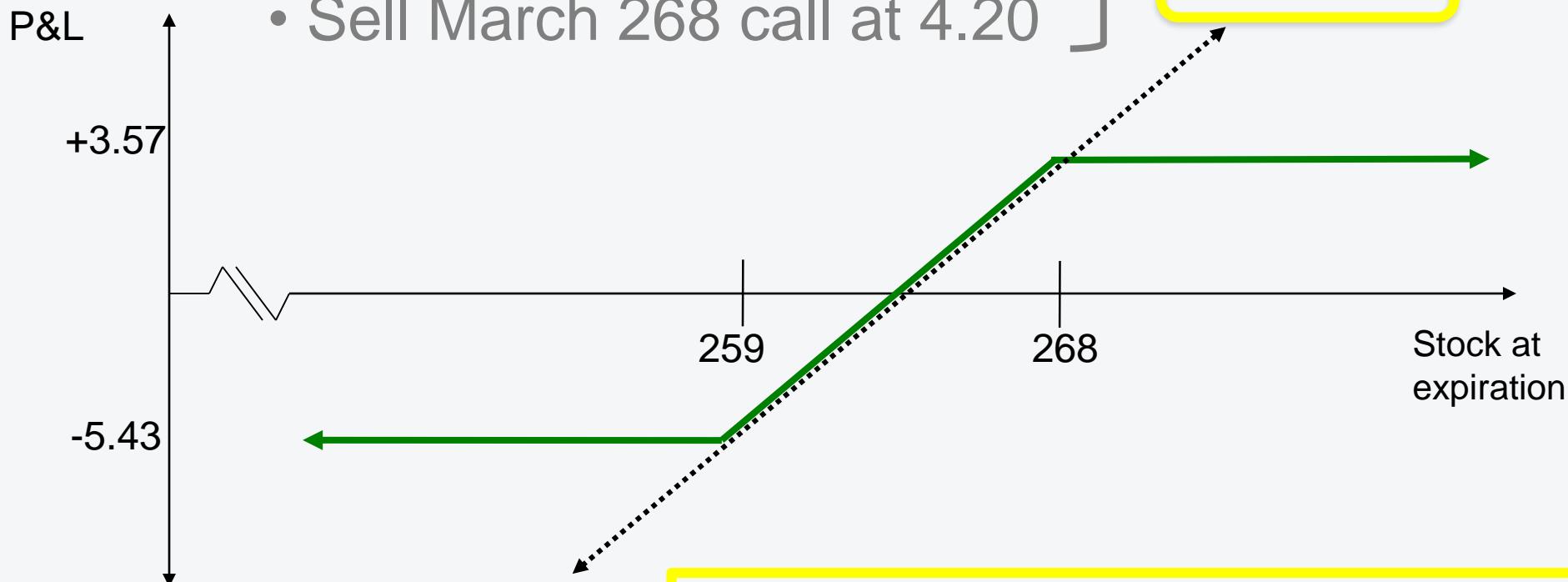


Market Taker Mentoring

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0.43 debit



Protection costs 0.43 (very low cost)



Collar Example

- Collars at alternative strikes (and expirations) may be established
- Can do better (or worse)

Bid Size	Bid	Ask	Ask Size	Implied Volatility	Delta	Theta	Strikes	Bid Size	Bid	Ask	Ask Size	Implied Volatility	Delta	Theta			
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185	4.20	4.24	57	16.06%	0.4219	-0.0709	268	■■■	72	8.29	8.40	187	16.14%	-0.5841	-0.0550		

Economics and Timing

- Collars can often be established at close to no cost
- Collars are often established longer-term, sometimes using options with one year to expiration; still low cost



Market Taker Mentoring

1-Year Collar

- Own 100 shares of SPY (ETF) at 246
- Buy January 247 put at 18.45
- Sell January 290 call at 13.72

4.73 debit

Bid	Ask	Implied Volatility	Delta	Theta	Strikes	Bid	Ask	Implied Volatility	Delta	Theta	
Call					Jan21 (718 days)				Put		
36.54	38.27	19.98%	0.7048	-0.0268	247	17.29	18.45	18.84%	-0.3064	-0.0120	
35.90	37.62	19.89%	0.7002	-0.0269	248	17.60	18.77	18.75%	-0.3118	-0.0120	
35.26	36.98	19.80%	0.6955	-0.0269	249	17.91	19.09	18.66%	-0.3173	-0.0119	
34.63	36.34	19.72%	0.6908	-0.0269	250	18.23	19.42	18.57%	-0.3230	-0.0119	
31.55	33.21	19.27%	0.6664	-0.0268	255	19.90	21.15	18.14%	-0.3524	-0.0117	
28.59	30.20	18.84%	0.6407	-0.0267	260	21.68	23.00	17.69%	-0.3842	-0.0115	
25.75	27.32	18.40%	0.6136	-0.0264	265	23.60	24.99	17.26%	-0.4185	-0.0111	
23.04	24.56	17.96%	0.5853	-0.0260	270	25.67	27.12	16.82%	-0.4556	-0.0106	
20.48	21.95	17.53%	0.5557	-0.0255	275	27.89	29.41	16.38%	-0.4956	-0.0100	
18.07	19.49	17.11%	0.5249	-0.0249	280	30.28	31.88	15.95%	-0.5388	-0.0093	
15.81	17.18	16.70%	0.4931	-0.0241	285	32.84	34.52	15.53%	-0.5856	-0.0084	
13.72	15.04	16.30%	0.4603	-0.0232	290	35.60	37.36	15.11%	-0.6359	-0.0074	

Compare Collar to Put

- Own 100 shares of SPY (ETF) at 246
- Buy January 247 put at 18.45

18.45 debit, vs.
4.73 debit

Bid	Ask	Implied Volatility	Delta	Theta	Strikes	Bid	Ask	Implied Volatility	Delta	Theta
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23.04	24.56	17.96%	0.5853	-0.0260	270	25.67	27.12	16.82%	-0.4556	-0.0106
20.48	21.95	17.53%	0.5557	-0.0255	275	27.89	29.41	16.38%	-0.4956	-0.0100
18.07	19.49	17.11%	0.5249	-0.0249	280	30.28	31.88	15.95%	-0.5388	-0.0093
15.81	17.18	16.70%	0.4931	-0.0241	285	32.84	34.52	15.53%	-0.5856	-0.0084
13.72	15.04	16.30%	0.4603	-0.0232	290	35.60	37.36	15.11%	-0.6359	-0.0074

Options and Protection

- Options can provide protection
- Costs must be managed
- Can use options to offset costs of other options



Market Taker Mentoring