

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.

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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

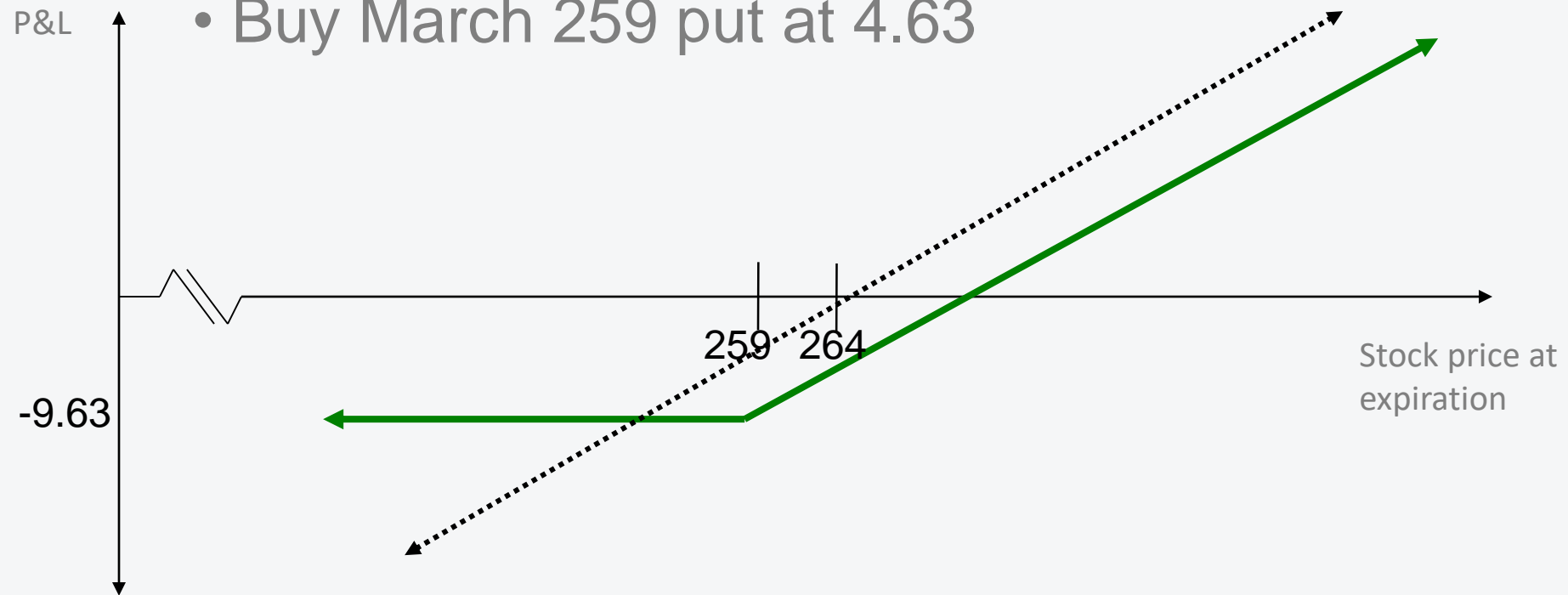
Protective Put Example

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

◀ Strikes ▶		Bid Size		Bid	Ask	Ask Size	Implied Volatility	Delta	Theta
Mar19 (46 days)					Put				
1.3	259	■ ■	48	4.61	4.63	50	18.33%	-0.3623	-0.0640
1.3	260	■ ■	46	4.92	4.95	100	18.06%	-0.3836	-0.0639
1.3	261	■ ■	48	5.25	5.28	100	17.78%	-0.4057	-0.0636
1.3	262	■ ■	48	5.60	5.63	50	17.50%	-0.4287	-0.0630
1.3	263	■ ■	48	5.98	6.01	50	17.24%	-0.4528	-0.0622
1.3	264	■ ■	16	6.40	6.42	80	17.01%	-0.4777	-0.0613

Protective Put

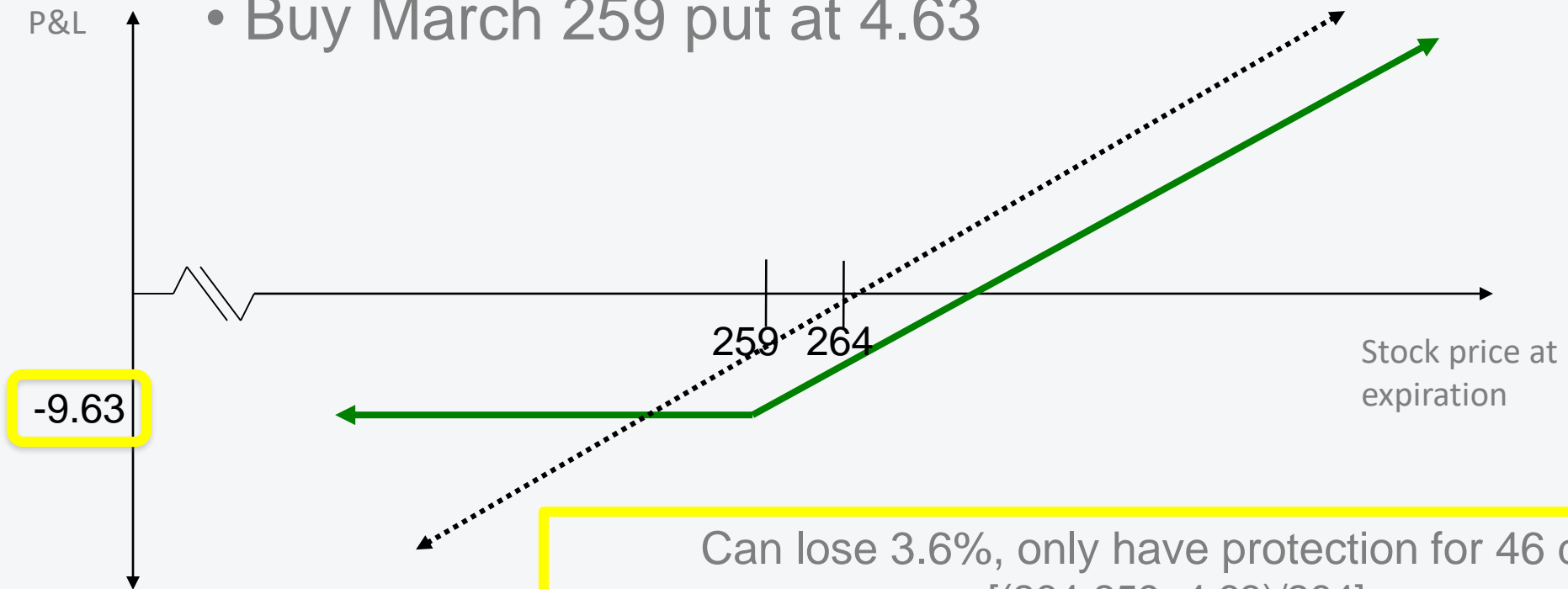
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Market Taker Mentoring

Protective Put

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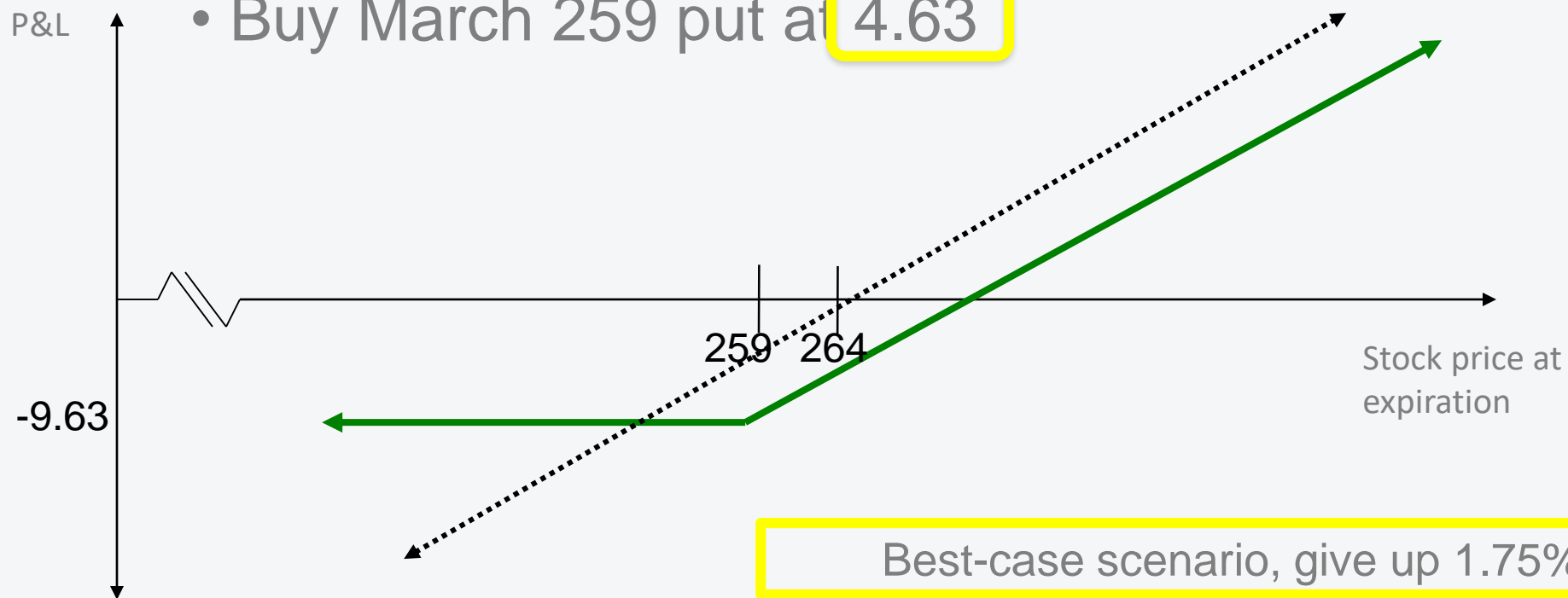
Can lose 3.6%, only have protection for 46 days
$$\frac{[(264-259)+4.63]}{264}$$



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")



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Overcoming Cost

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



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Covered Calls

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



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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

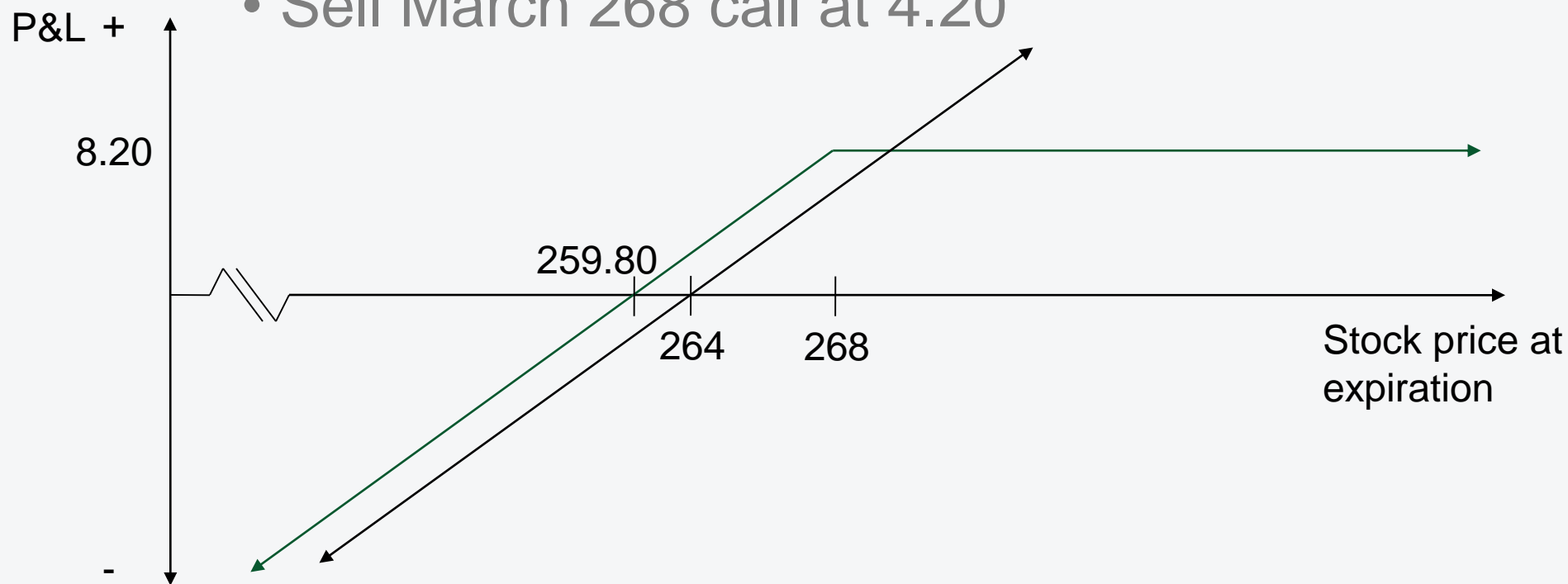
Covered Call Example

- 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

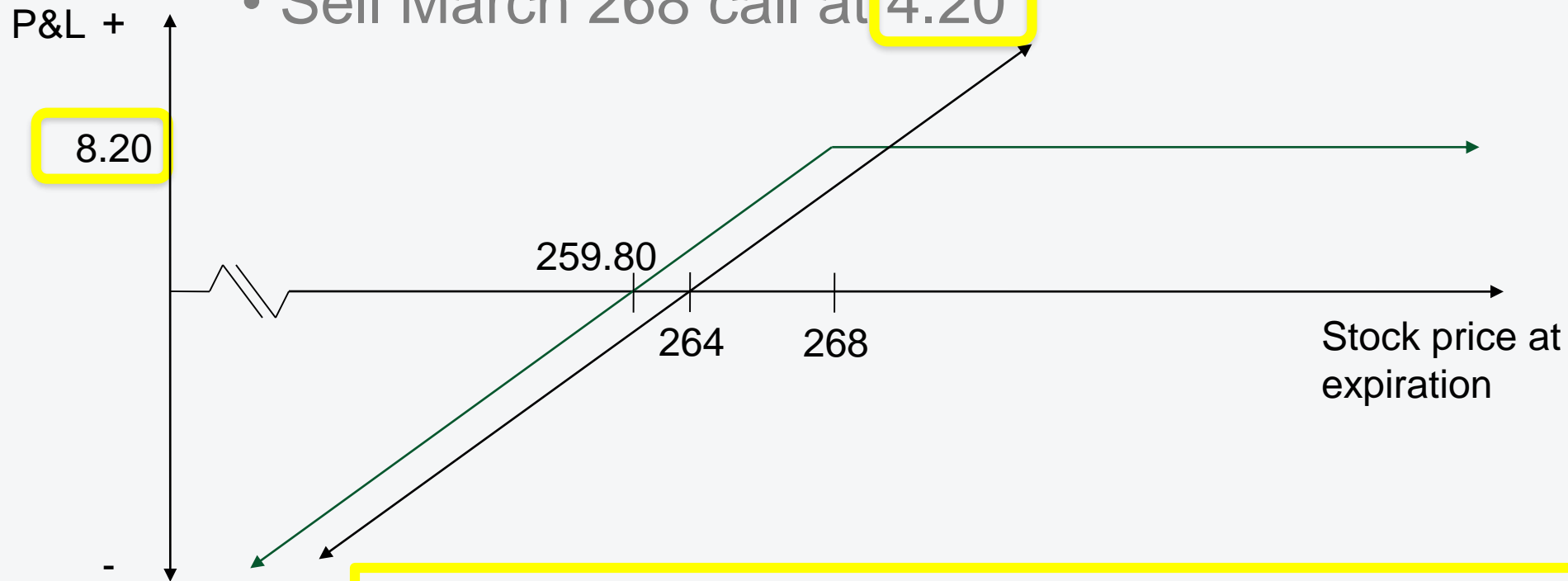
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Market Taker Mentoring

Covered Call

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



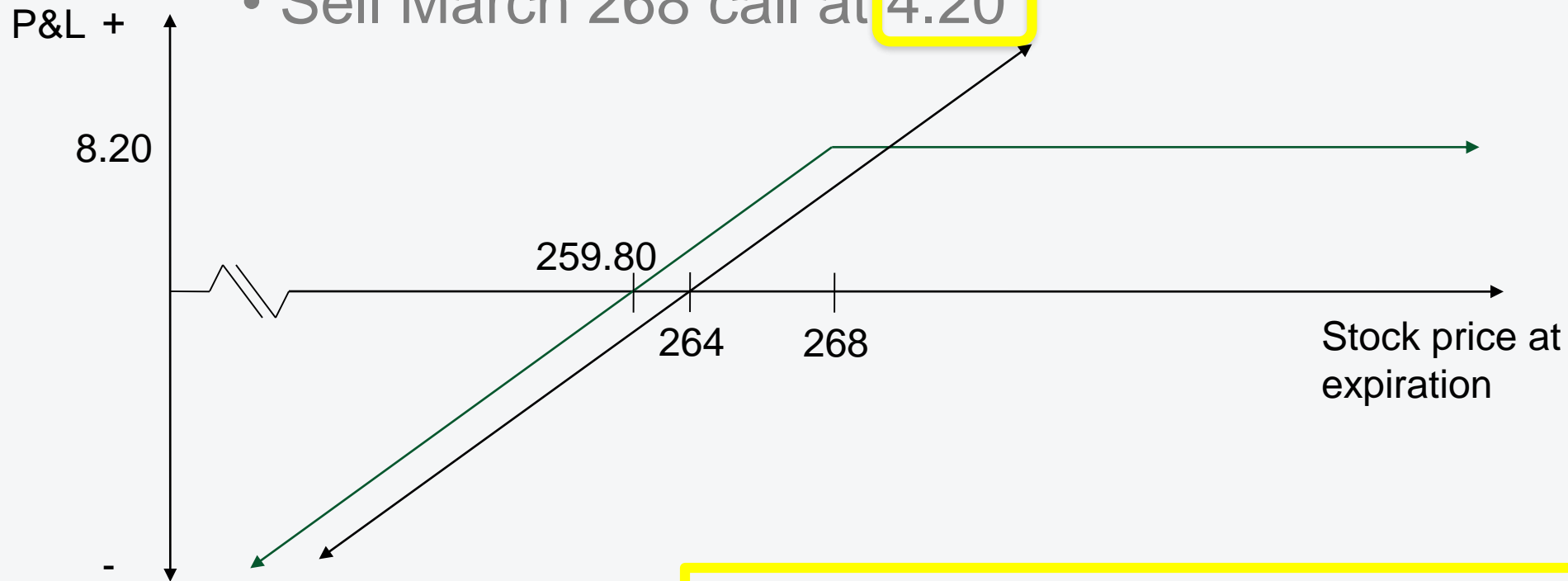
Bring in 1.6%, over 46 days



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Covered Call

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



Best-case scenario, make 3.1%



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

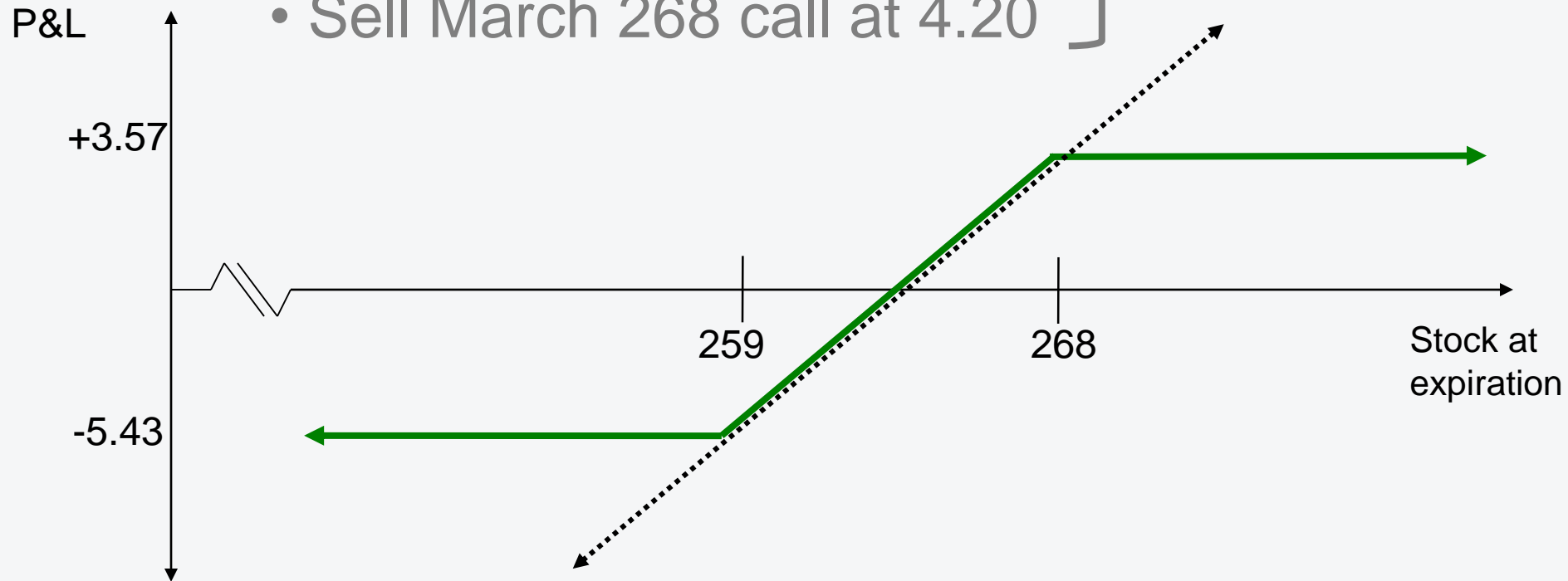
Collar Example

- 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	4.76	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

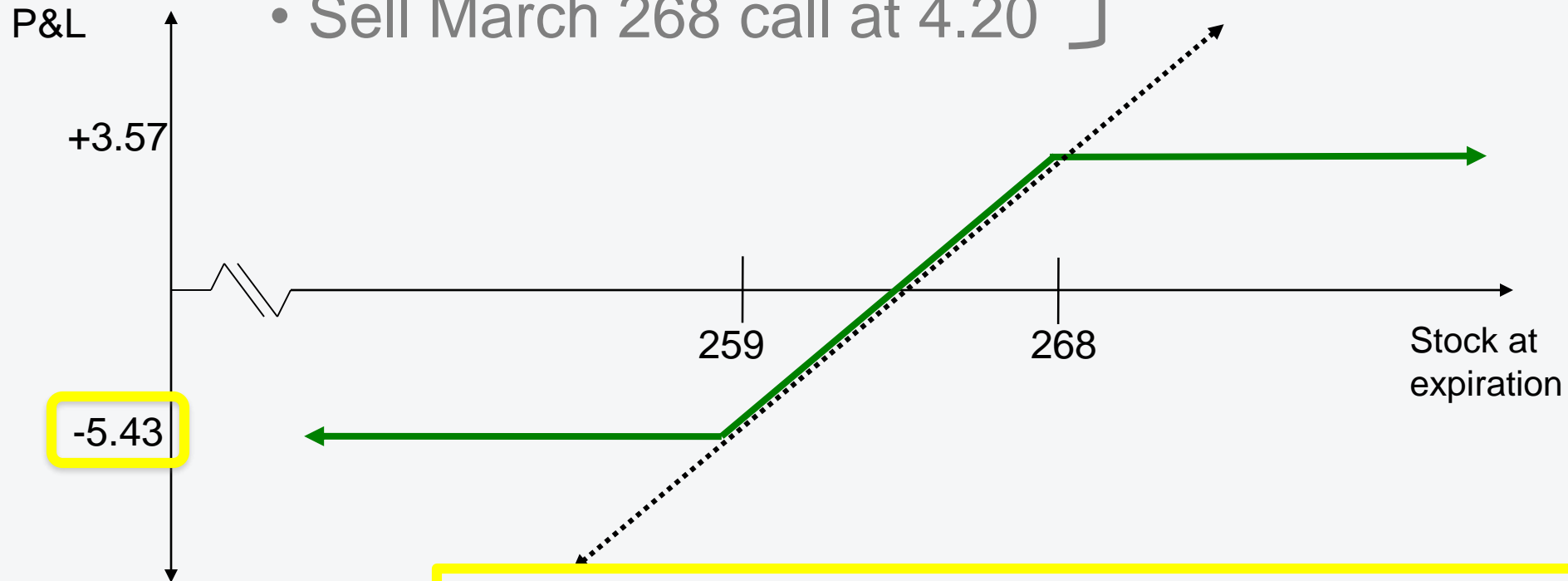
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Collar

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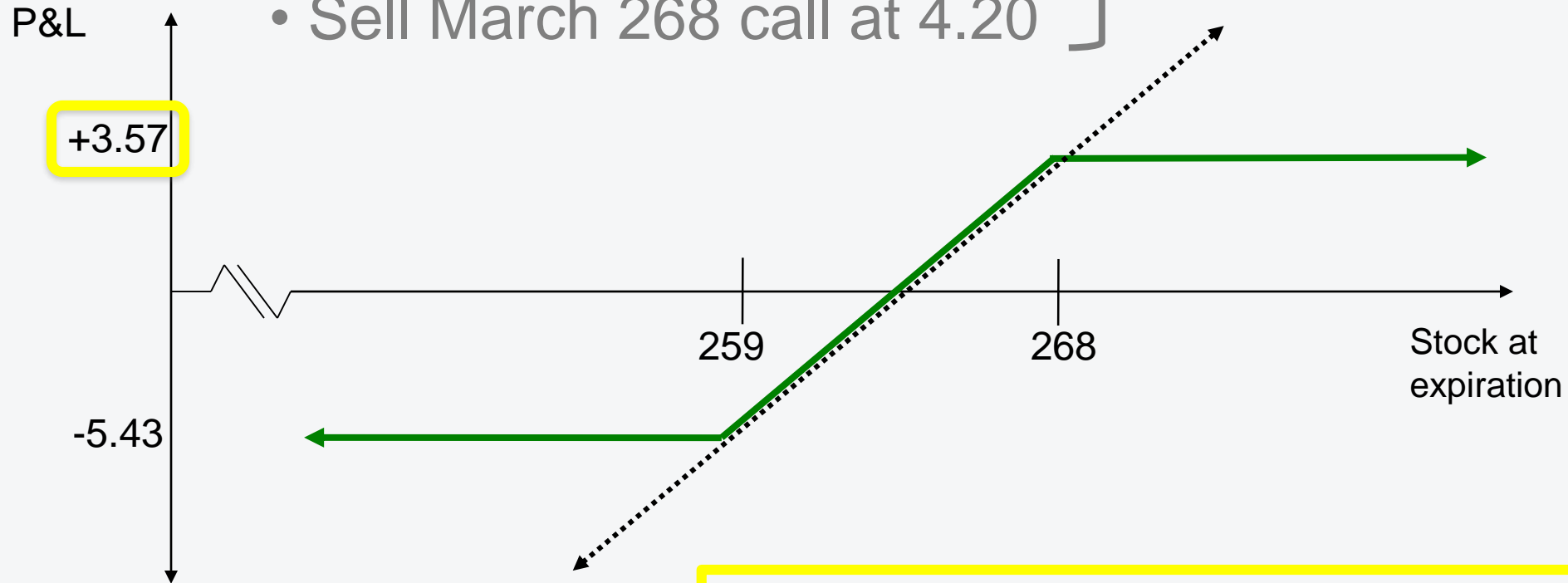
Can lose 2%, have protection for 46 days



Market Taker Mentoring

Collar

- Own 100 shares of SPY (ETF) at 264
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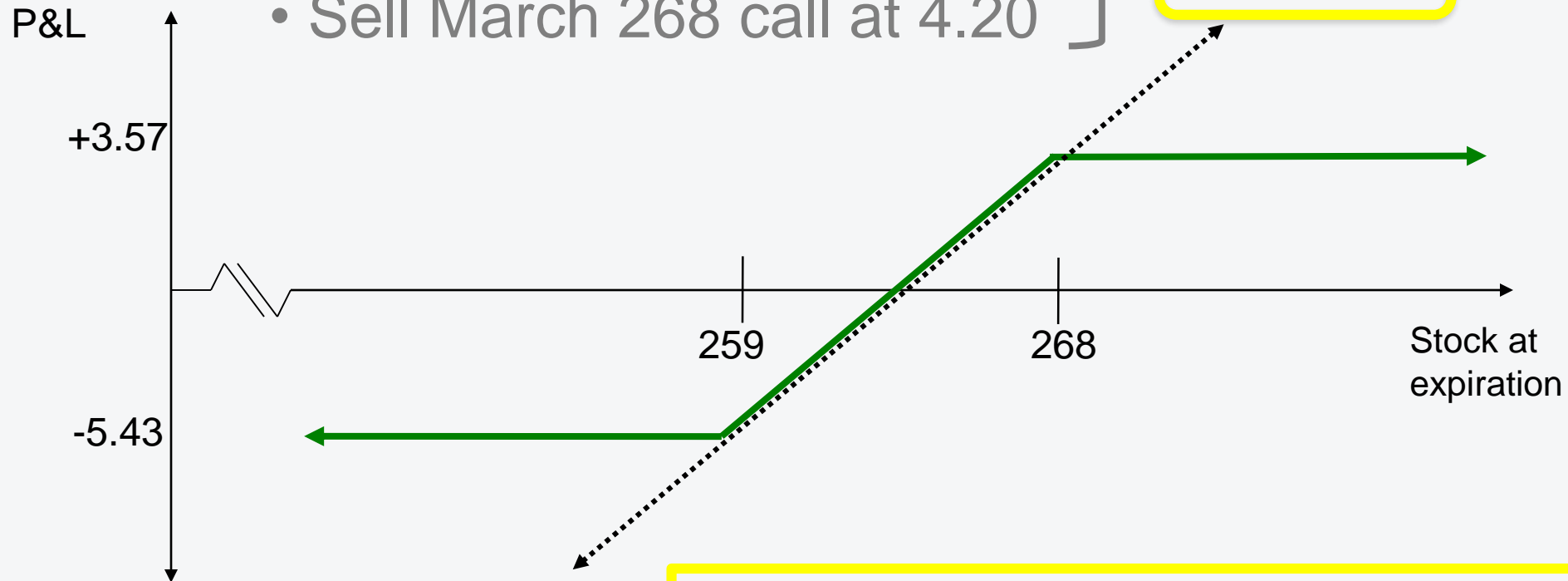
Can only make 1.35% over 46 days



Market Taker Mentoring

Collar

- Own 100 shares of SPY (ETF) at 264
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- 0.43 debit



Market Taker Mentoring

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
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
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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	4.76	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

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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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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
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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

Options and Protection

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



Market Taker Mentoring