TRANSCRIPT

'Options' for earnings season with Dan Nathan

Alex Mauer: Hello, and welcome to today's webinar on "Trading: 'Options' into earnings season.'" I'm Alex Mauer at Fidelity Investments, and I'm joined here today by Dan Nathan. Dan is a CNBC contributor as well as the principal at Risk Reversal Advisors. And I'm also joined by Colin Songer. Colin is a Fidelity Trading Strategy Desk representative. Today we're going to cover some of the basics around why traders would consider adding options to their overall trading strategy. Dan is going to also share some insight around how he approaches idea generation and idea valuation, and then finally, we're going to get into some actual demonstrations of a couple of examples of option trades leveraging some symbols that are announcing, one this week, and one next week, so just a good opportunity for our viewers to see some practical examples of an execution.

As always, if you have any questions, please click on the link on your screen. We have Fidelity trading representatives standing by ready to answer your questions in real time.

So Dan and Colin, thank you so much for being here today. Why don't we just get started with an overview of why traders consider adding options trading to their overall trading plan.

Dan Nathan: Hey Alex, hey Colin, thanks for having me. You know, this is a great opportunity for us to expand on some of the topics we talk about every week on "In the Money," the series that you and I do. You know for me, you know, options trading has been an evolution. I think like a lot of people that are on this webinar here, you know, you start out trading or investing in stocks and then you kind of figure out other ways to kind of do some different things with your ideas, and that's where options come in. You know, I use options for three main uses when I think about trading and investing, and first and foremost, I mean risk management is probably the number one reason to use options in your investing and trading program. But the other one would be yield enhancement, and that is really maybe geared towards investors who are always long stocks, but looking to kind of augment some yield, and usually that means selling options against long stock position. And the last one, you know, we'll just use the term "leverage," and I think a lot of traders kind of think about it in terms of speculation, but using options to kind of define their risk to express directional views, and when you wrap it all up and you think about all the different ways that you want to kind of express views in the stock market, using options to help you do that, to help manage risk, to help add leverage where appropriate, and to help add yield make a lot of sense to me.

Alex Mauer: Right. Great overview, thank you. Colin, next slide. Let's talk about earnings season and events overall. So how do events like earnings season impact your trading strategy, and how do they impact option pricing?

Dan Nathan: Yeah, so I think really interestingly, you know, when you think about events, corporate earnings, you can take it to the bank, right? US companies that are listed on major exchanges have to report their earnings every three months. And so, the idea that you have those schedule events gives you something to kind trade against. As an investor, you know, those earnings events give you insight into how that company performed over the prior three-month period, but usually the commentary about their business currently and the visibility that they have going forward are the things that are going to drive the movement of the stock; it's going to affect investor sentiment. It's going to affect valuation. It's going to affect how people think about their products and services, and so they're really, really important events.

Now obviously, those are scheduled, but there's no shortage of unscheduled events that just kind of pop up all the time with individual companies. It could be an competitive event from up here, it could be a broad market macro situation like one we're involved in right now, where companies, having no fault of their own, their businesses have been shut down and adversely affected, and so these are affecting the underlying stock prices, and using options in the ways that we just described around scheduled events and unscheduled events can really help manage your risk as an investor.

Alex Mauer: Great. Colin, next slide. Let's talk about implied volatility. So this is basically the supply-and-demand of option contracts. Let's talk about what that is from a strategic input perspective, and how traders should think about using it.

Dan Nathan: Yeah, I think the point you make as an input is really important. So implied volatility is essentially the price of options of an underlying security, and there's a lot of things that kind of go into that, but you also use the term "supply and demand," and that's generally calculated by market-makers what they're willing to sell an option at, or what they're willing to buy it at, no different than the bid-ask of a stock. But the difference here is that the premiums that an option buyer is paying is basically just calculated by that implied volatility. So you know, option market-makers perceiving risk, if it's into or prior to an earnings event, the options market-maker and the speculator buying that option, they have no idea what the outcome is going to be, and so the option market-makers are going to basically, if they think that there's a lot of risk, IV is going to be higher than it would normally be in front of event, or if they think that the company, let's say, had already pre-announced their sales for the quarter, and they think that there's not much left to come out when the company reports, then IV, implied volatility might be less than it'd normally be. But really what you're trying to do here is figure out whether the options premia are cheap or expensive, and whether it's worth paying that, versus let's just say buying or selling the stock.

Alex Mauer: Right. Next slide. So something that we talk about a lot in our weekly segment is not just implied volatility but implied movement. Let's talk about how that is different and how you calculate and use that as another input.

Dan Nathan: Yeah, so implied movement is really over a period of time what you would need to earn out if you were to buy an option and cover the cost of that premium. And in implied movement, implied volatility is really one of the most important inputs, obviously, because that is really how expensive or cheap the options are. So when I, as an investor, am thinking about earnings season in particular, and I'm looking at a stock that let's say has not been doing particularly well, but they have this sort of event, and let's say I own it, and I want to get a sense for how much risk I might have, or at least how much risk the market-makers are pricing for it, that's a really important kind of thing for me to get a hold of, and I think a lot of investors out there don't really have a sense how to use options to give them a sense of what the market is pricing as far as risk, especially into events like earnings.

Alex Mauer: Right. So implied movement, implied volatility, two really important inputs for traders to use. We're going to talk more about that, and you're going to use them as part of the examples you're going to provide when you and Colin do some demonstrations. But before we get into that, Colin, next slide. One of the reasons why really like working with someone like Dan, someone who is an active options strategist, is it's an opportunity for us to get a different perspective and understanding how, Dan, you think of new ideas, and then how you evaluate those ideas. So Colin, next slide, we're just going to have Dan talk to us about, you know, how he approaches that.

Dan Nathan: You know, it's funny; it's great to have an audience here, your Fidelity audience because I assume that most of these people listening to this webinar are not spending their days and nights like toiling over the stock market the way that, say, you guys at Fidelity or me are doing, right? They are out there living their lives; they have other professions, but they're really interested in the stock market; maybe they see it as a way to kind of make long-term income, and some of them are traders; it might be their hobby, and that's why they're thinking about options trying to pack what a new product might be and how it might help their investing or trading program, but to me, not only is it my profession, but I find it an awful lot of fun.

And so one of the things that we have right now in this new age of technology seeping into almost every industry, all of these stocks are companies that have products that are likely in our pocket, or in our home, or we use in our daily work, that sort of thing. And so I think it's becoming more and more prevalent for just citizens to be in-tune with what these companies are and what they do. And then when you take it a next step further, you say to yourself, OK, these stocks are moving based on all of my actions, how I interact with these companies, how I use their products and services, that sort of thing. So, I find it to be a lot of fun, and I'm usually looking at things that are right around me; you know, that's how I'm trying to figure out my ideas.

But there's a lot of inputs that go into those ideas, right? And so I usually think about my trading from a top-down approach; I take a macro view of the world. It could be a macro view of a specific sector; it could be some sort of secular shift within an industry, and then I start thinking about it on a micro-level from the bottoms up, right? And I try to kind of meet in the middle, and try to find ideas that kind of fit that macro view, and that fit that micro view, and then I start thinking about, what are some catalysts? What are some events that might make my thinking about this company affect the price of the stock? And so, obviously earnings are big ones; product announcements and that sort of thing, go into it.

But I'm thinking about valuation; I'm thinking about, like I just said, fundamentals. I'm always using technical analysis when I'm thinking about a trade, whether it be in a stock or an option, because that may give me a sense for an entry point, and exit points. It also really, on the options side, helps inform the strikes of trades. So you know, those are a lot of the inputs. Sentiment is really a big one too; I mean that could be just the price action of the stock, but then going back to implied volatility, implied movement, what are the option market-makers thinking about this name around this period? That's also a really important one, because I tend to think about entering trade ideas that are a bit contrarian, where a story is maybe kind of unloved, a stock is unloved, a product is unloved, and maybe the possibility of that changing and the rest of the investment community, whether it be investors or analysts or pundits coming around to that story, that's always really fun for me, and that's one of the really good uses for options when you think about it, because it provides the opportunity to kind of manage your risk in a way that maybe just owning or shorting a stock does not.

Alex Mauer: Right. Next slide, so you get to the point where you have an idea, you know what you want to do, but then you really want to validate it a little bit, evaluate it and validate it before you pull the trigger, so what does that process look like?

Dan Nathan: Yeah, so I mean I think that that slide right here is pretty interesting; it's showing just kind of implied volatility and volatility of the underlying over a period of time, and that's a really important input because when you see that spread kind of widen a little bit, let's say when you look at what a stock has done historically as far as movement, and then you all of a sudden see the implied volatility, the price of options going forward, going up, that's showing to me a measure of risk. Now that could present opportunities, right? Especially if you're long a stock where that is going on, it presents the opportunity to maybe sell some premium, some options premium, take advantage of that, and if things happen the way you think you do, you kind of take advantage of that premium coming in after the fact. So you know, there's a lot of really interesting inputs. We're going to continue to kind of go through some of these in our "In the Money" series and kind of highlight them on a real-time basis, but as we get into some of these trade idea examples for educational purposes throughout this webinar, you're going to see where you have the opportunities to use options to take advantage of some of the pricing disparities and how option prices move over time based on events and just decay.

Alex Mauer: Right. And we're going to pivot now to some example demonstrations, but before we do, you've mentioned our weekly segment "In the Money" a few times, so just for the viewers who may not be familiar with that, it's about ten minutes. It's a segment that we host on Fidelity.com/options, where each week he comes and shares one options -- maybe two -- but for the most part, one options trade idea for that week, and he explains his rationale for that idea. So something maybe as a next step after this webinar to consider doing as well.

So, with that, let's pivot. As mentioned, Colin is a Trading Strategy Desk representative, and he and Dan are going to now walk through a couple of examples leveraging symbols that are announcing one this week, and one the following week, to kind of bring home and illustrate the actual execution of a trade idea.

Dan Nathan: Yeah, let's start with one of the topics that we kind of hit on before, and that's implied movement. We're talking about earnings season. We know when these events are coming up. That's really important because we can isolate specific expirations, and you know, I get this question all the time; I've gotten it for years and years. We talk about implied movement; how do I figure out that if I don't have a fancy machine, like Active Trader Pro, to do that? Obviously, Colin's going to show you on Active Trader how that happens at Fidelity, but there's also a kind of back-of-the-napkin way to do it using weekly options.

So let's use a company that's reporting this week, an oil driller called Schlumberger; the ticker is SLB. They're going to report their Q1 earnings Friday morning before the open, and so let's just kind of work out how I might figure out what the implied movement in the options market is for that earnings event. So when I looked at Schlumberger as of yesterday's close, the stock was trading at about $16. It's down about 60% on the year; that is a massive decline. Obviously the S&P 500 is down about 15%, down a little less than 20% from its highs, but Schlumberger has been hard hit. It's in the oil sector; we know that there's been tremendous downward volatility, but we have that earnings event, right? And so if you're a trader, you might say to yourself, there might be an opportunity for a hard-hit stock, but let's figure out what the options market is implying. So how would I do that? I would look at April 17th, this Friday weekly expiration, and I would look at the at-the-money straddle in Schlumberger.

And what does that mean? That means taking the at-the-money strike which is $16, that's what a stock is trading right now, and taking the call premium, which is about 80 cents, and then taking the put premium, the April 16 put, it was also about 80 cents. You put those two premiums together, it's $1.60. That is the April at-the-money straddle in Schlumberger. So if you take that straddle premium, $1.60, and divide by the stock price of $16, that's how do you get this 10% implied move. So if you were inclined to say, I think Schlumberger is going to move a lot, but I don't know in which direction, you could buy that at-the-money straddle. But if you were to do that, you would need a rally in the stock by Friday's close of $1.60 to break even up to about $17.60, or you would need a decline down to $14.40 by Friday's close to make money. That's a hard way to make money in a market, especially with high implied volatility; Schlumberger on average has moved just a few percent over the last few quarters the day after earnings, so what the market is saying here is that, we don't know which way this thing's going to go, but market-makers want to price enough room, basically so they don't get blown out.

The chart is really interesting; I think Colin has it here, of Schlumberger. This stock is down nearly 85% from its all-time highs of 2014. It's obviously down very near its lows, its recent lows, and this is a stock that could definitely move on earnings.

Now, let's move into some trade examples where, you know, we gave those three buckets of uses of options. One of them is yield enhancement, one of them's risk management, the other one was kind of leverage/speculation defining your risk. Let's just use a Schlumberger example because we just talked about the straddle. Let's just say you were bullish, and you thought this stock could move up after the report, because it's better than expected, or maybe sentiment is just way too low. They put up a good number, and you're going to begin a big short squeeze, if you were inclined to do that, you could just buy the at-the-money call; that would be half the straddle, right? And if the straddle is 10% of the stock price, the at-the-money call which is half of it, would be 5%. And in that instance, if you were bullish and you bought that at-the-money call in Friday expiration, you would need a rally above $16.80 to make money on that.

And then I guess the flipside would be true; if you were bearish, if you said to yourself, there's just no good news come out, I don't know why this stock is trading at $16, I want to define my risk and I want to make a bearish bet that the stock is going to be lower on Friday afternoon, if you were looking at the weekly options and you just wanted to make a one-day trade, you could buy that April 17th 16 strike put at $0.80 and you would need the stock to go to $15.20 or lower to make money.

But I got to just tell you, I've been doing this a long time, and buying options, short-dated options especially with IV, implied volatility really high into events like earnings, is a really hard way to make money. You've got to get a lot of things right. First and foremost, you need to get the direction right. If you don't get that right on a short-dated trade like this, you're really going to see decay in that option that you own. The other thing is magnitude of the move; you need to get that move right, right? So the implied move is 10%, but if you buy one and you make it a directional bet, you need a 5% move. And then there's of course timing, and timing when you're long premium, when you're long option, is always working against you; those options, especially short-dated ones, are always declining if the stock is not doing anything; they're decaying.

So again, a really hard way to make money, but it really is dependent on your conviction, right? A lot of people, a lot of investors have a lot of conviction that stocks that they own, or views that they want to express, and options just gives you another way to do that, and in this example, it gives you a way to do it with defined risk.

So, then I want to kind of switch gears a little bit, because you know, that was that kind of leverage/speculation component of it. Obviously, defined risk means risk management, but when I think about investors, and a lot of you out there own stocks, you own them, and you're not inclined to sell them too frequently unless something really changes about the story. But this is where I see a great opportunity for investors to use options to manage risk, and then obviously add yield.

And let's start with the yield part of it, because this is kind of the entry trade for a lot of equity investors, and that would be kind of overwriting a stock that you already own. Let's move to Coca-Cola. This is obviously a widely-held stock. It's a very high-quality company. It pays a dividend yield of 3.5% which is attractive to a lot of investors. High-quality management, high-quality product, it trades at premium valuation to the stock market. I think a lot of its products are deemed to be kind of staples, and therefore somewhat defensive. And so, let's just say you're long Coca-Cola. We have a situation where the stock was doing great right until February. It had a very sharp decline. I think Colin has a great chart right there. If you look at that, when that stock started going down February to early March, when it broke $50, it broke through that technical support, it went down nearly 30% over the next couple of weeks. Well what has it done in the last couple of weeks? It rallied right back to $50. And so, therefore the other day, it kind of found a little technical resistance at that level; it's come down. We know that earnings are next Tuesday, the 21st. The implied move in the options market is about 6.5% in either direction, which is basically double how much the stock has moved over the last four quarters in the day following its earnings.

So when I think of this name, if I were long it, I'd say premiums are really high, the stock has been really volatile. I might not be interested in selling the stock, but I might be interested in taking advantage of the high price of options. And what would I do here to do that? I might look to sell a short-dated out-of-the-money call against my line stock, and the idea here is to take in some elevated premia.

So let me give you an example of this and how this might work. So I'm thinking about that earnings event; I'm thinking about that technical resistance at $50 here, and I'm saying to myself, maybe the stock is going be range-bound; we know that visibility is very poor for a lot of corporate earnings.

Maybe it's not going to be a disaster, but maybe the stock just kind of sticks around here. So, when the stock was trading at about $47 this morning, versus let's say 100 shares long, so when you think about this, every options contract is equal to controlling 100 shares of stock. So for this example, let's say, we're long 100 shares at $47, I might look out to May expiration, which is May 15th, about a month from now, and I might look to sell the May 50 call at $0.90 against that.

So what am I doing here? I'm long the stock at $47. I'm selling a $3 out-of-the-money call one month out in May at $0.90, that's nearly 2% of the stock price. What do I want to have happen here? I want this stock to trade between $47 and $50 over the next month, but I want the stock to close at $50 or lower, and therefore I take in that $0.90 premium. That would be added yield to my long stock position, and if I do this frequently enough, that's adding considerable yield to a stock like Coca-Cola that I don't really want to sell, but I'm looking to take advantage of high options premium.

The other point I want to make, it also is creating a small buffer to the downside. Again, you're long the stock at $47, you sold that $0.90. If the stock is $47 or lower, you have losses of the stock, but you've created a $0.90 buffer to the downside, or about 2%. So that's kind of the entry-level options trade for equity investors. It's called overwriting your stock. I would put that in the category of yield enhancement, and it's definitely an interesting strategy to do during earnings season when you are not expecting the stock to move significantly higher, but you're taking advantage of high elevated options premium. OK.

Alex Mauer: So Dan, building on that for a moment, what if you have the sentiment on Coca-Cola, and you are looking for yield enhancement, but you don't own the symbol? Is there another way to achieve the same thing if you aren't long Coca-Cola?

Dan Nathan: Well, it really depends. I mean, so that would go back to, let's just say you're interested in Coca-Cola because you think that the options prices are really high; I mean there's a lot of strategies that you could do to take advantage of selling options premium in a name like Coke where you don't expect it to move a whole heck of a lot. You know, with the stock at $47, this goes back to kind of talking about straddles, the at-the-money call and the at-the-money put. You know, that's going to be much fatter than that $0.90, but you could sell the at-the-money straddle.

The only reason why I don't really like doing those sorts of strategies especially for equity investors, especially ones who are new to options, is I don't like selling naked options; it just makes no sense to me, especially if you're new to the strategy, because if you're selling a naked call, then you have unlimited risk to the upside if the stock were to go much higher above that short strike, and if you're selling a naked put, you have risk below that short strike, the short put strike on the downside, so that's a more sophisticated options trading strategy, but one that's widely employed.

Alex Mauer: Right, OK, thanks.

Dan Nathan: Sure. Yeah, and so, let's go to that last bucket that we had. So we talked about leverage, defined risk leverage, buying a call or buying a put which gives you the right to buy or sell a stock at a certain price at a certain point in time. We just talked about yield enhancement against a stock that you own, again, I think a great strategy for long-term holders of high-quality names looking to take advantage of high implied volatility.

But let's talk about another one, and this is the risk management one, and I think this is a really important one when you think about the volatility that we've had in the stock market over the last few months, I think it's really important to understand that the move that we had from the highs in February 19, in the S&P 500, down to the lows on March 23rd, down 35% in a little more than a month, is unprecedented; we have not had that sort of move since the great crash, the Great Depression in 1929. So a lot of investors who'd maybe been complacent on a lot of stocks that they've owned, we've had a lot of great years over the last ten years or so of stock market returns, that might have been a wakeup call. That might have been, you know, just saying, hey, look and think about what you own here. What is the risk? What is the valuation? What is the risk to an elongated lockdown due to this coronavirus with stocks that I own? And this is where I think options are such a great use for risk management.

And so, let's stick with Coke. Let's say that this is a name that you just own for your kids, or your grandkids, and you're never selling it. But that move from $50 down 30% in March really opened your eyes; you said, oh my goodness, this is a stock that could really move, I never expected it to do that; maybe into a potentially volatile event like earnings, you might consider hedging that position.

What would you do in this situation? This is a scenario where, let's say you don't want to sell Coke; it's a long-term holding, but you're worried about that short-term event, let's kind of build on what we just talked about of selling that out-of-the-money call, and using the proceeds to buy an out-of-the-money put, that's creating a strategy called collar, where you're creating a scenario where you have room to the upside in the stock that you own, you have some losses to the downside, but you're defined. And let just walk you through this strategy. This would be again, using 100 shares of Coke long at $100. I might think to sell the May 50 call at $0.90, and I might look to use that premium not to add yield to my position, but to help finance the purchase of a downside put creating that collar. So let's just say I look at May expiration, I'm selling the May 50 call at $0.90, and I'm looking down to the 42 1/2 put in May, and that costs about $0.80, so I'm taking a $0.90 premium towards selling the May 50 call. I'm using $0.80 of that to buy the May 42 1/2 put, and I've created a collar where I have gains to the upside at $50, I have losses to the downside to 42 1/2, but I'm protected below that.

Why might somebody use a collar? We went through a lot of the examples, but you would only do it if you want to stay long the stock, you're more worried about the extreme downside than you are extreme upside in the near-term, and you're taking advantage of the high implied volatility in the options by selling that call to help finance that put, and I really like this strategy, especially for core positions. You know, again, last year the stock market was up about 30%. A lot of people owned stocks that were up more than that. And so let's say you didn't want to sell your stock, but you want to protect a portion of the gains. Collars make a lot of sense on single stocks, especially as the stock is appreciated, and it might make up too big of a percentage of your portfolio; this is one way to help define your risk.

Alex Mauer: OK, so in these last two examples, you're talking about selling a call against a long position on Coca-Cola. What happens if you get to expiration and the price is below?

Dan Nathan: Yeah, so if the price is below, you receive a premium for that call sale; in both of those examples in Coke, you were selling the May 50 call at $0.90; you take in that $0.90 of premium. Here's the most important part about that: you were doing those strategies because you're long the stock and seemingly you don't want to sell it into this event. So the question now is what do you do if the stock is $50 or higher? Now you could just have your stock called away at $50; that would be $3 in the overwrite, but really your call-away level is up at $50.90 because you're taking in that $0.90 premium. On the collar, your call-away level is up $3 at $50, and that is also basically in line with the implied move in the options market. But here's the thing: that collar, you did it because you wanted to hedge the position; you wanted to stay long. You have to make a decision now, if you want to keep that long position intact. Either one of these trade overlays is whether or not to cover that short $0.50 before May expiration because otherwise your stock will be called away versus that short May $0.50 call strike. Great question, thanks for asking, Alex.

Colin Songer: All right, thank you so much, and thank you Alex and Dan for inviting me on to join you here today. I really appreciate it, and thank everyone for joining us here today.

I want to show you a few things that we went through within some of these tools to show you some of the functionality, but also how you can utilize this and potentially think about if this looks like something that you've been analyzing and you're interested in, how to really get to that trade ticket for some of the, whether it's a trade example of something you're looking at.

So first off, let's talk about how do we get to a trade ticket. So straight from our profit-loss calculator, and that's what we're looking at currently, if we highlight the strategy I'm interested in and this accounted for already long those shares, and I just want to place that trade, if I highlight that strategy right here, I have the ability to right-click right off of the name of the strategy, and it will bring me straight to a trade ticket. This gives me that quick one-click feel for placing that trade. And it will right away align me with what I would expect of bringing in for those particular legs, whether it's a debit or credit for that particular collar.

Now, we walked through and had the, I would say, luxury of being able to already have these loaded in. Let me do everyone a favor here and show you how you can add this into this calculator. So we can take a look at some of those trade examples so you could do it at home.

So right now, I'm going to actually delete these from this calculator and start from anew. Now right now, if I don't have those shares of stock in there, you'll notice on the bottom-right hand corner, you'll see a button that says, "add simulated position." Now in clicking on that "add simulated position," we're going to get a pop-up. Now this window allows me the ability to simulate or add some of these positions into this calculator. So I'm going to open this up, and let's start with the beginning, right? What is the beginning? Having 100 shares of stock. Now in this scenario, we want to get a better understanding, so let's put exactly the price that we were discussing which was that $47 per share, and then we click the "Supply" button. This is going to load that into our calculator. Now let's build it out; let's talk about how we add that collar position that was discussed.

Now the beautiful part is you can actually break those up, and I'll show you in one minute how we can accomplish that. So if we open up this dropdown box and I go into "collar," I can add this position right into the calculator and simulate that particular position. Notice that it's all drop-down base, allowing us the ability to choose which expirations are available, instead of guessing which date is in expiration. And then we can look at those strikes. So we were looking to buy that $42.50 put in the trade example, and then doing the overwrite with that $50 strike. This allows that ability in these dropdowns to simulate these positions. And you guessed it. Yeah, we can go in here; we can change these prices as well so we get a better understanding of that particular strategy at that point in time. Not only is it a great tool to analyze our trades, but also an educational tool. So it does have a double-threat for us here today, so when we click on "apply," look what we just did. We built out that trade example all right inside this calculator giving us a better understanding. By simply holding down the control button, selecting that stock position, now we have our collar to evaluate.

Now there are a lot of things with a profit-loss diagram that maybe people don't feel comfortable with it. I've been looking at them for a long time, had a manager who just drilled it into my head to be able to read these effectively.

But really reality, what it gets down to is, we're looking at where we make money and where we lose money. And that information is available right up above. We can see here along these pricing thresholds, this is the underlying price. As it progresses left to right, we can see how much we lose, and how much we make. So at that $42.50, so we're flattened out here; we're saying, OK, well that's the most we could lose on that strategy. We could see how much that is right here. At expiration, we can see we would be down that $440 based on one contract and 100 shares involved in that particular collar.

Now to the upside, because remember, not only did Dan talk about the risk management part, but also OK, how about the good case where it goes to the highest ceiling we are projecting, which is that $50 strike that we did with the overwrite. You'll see that the most we'll make is at $310. But notice on the profit/loss, it flattens out. That's the most we'll make on that strategy if it goes above that $50 strike; that's the max gain on there.

So this is an effective tool to analyze our potential positions, but also understand where we make money and we lose money. Now a lot of the times, you notice that I was highlighting this particular piece of information on the profit/loss diagram. This is showing you what's known as a "breakeven." Now for those who are not familiar with a breakeven, a breakeven's where you don't make money, but you don't lose money at expiration. And it's important to take a look at that and keep that part of your process to evaluate, all right, if it stays at $47, well if my breakeven's $46.90, wait a minute, I'm in the positive. So I can utilize that to scope that in that instance, I know that if the price doesn't move, I actually didn't lose money on that particular strategy; I'm actually ahead. So this is a real good way to analyze a trade and more importantly understand the trade, which is very important.

Now I do want to also cover another piece of the puzzle that we utilize throughout was that option chain. Now our option chain which is available right from this option menu, as a matter of fact, the majority of option tools in Active Trader Pro are available right off this menu, making it real easy to access. When I open it up, you'll see the first one down is that option chain. Now if you also took a gander further down, you'll notice that it also had that profit-loss calculator. So right now, we select that option chain, we put in our symbol, and the secret sauce that goes into this is choosing the right expiration. Because remember how Dan stated, and I thought this was really important, was making sure that we choose the expiration that includes that earnings day, right? So we want the one that follows that earnings day. If I use the April 17 for Coca-Cola, guess what? It's not including that earnings move, right? So we want to make sure we're incorporating that expiration date that follows that, and guess what, the option chain shows you where that's at with this [big E?] right here available between those expiration dates. That way we know the expiration that we should be utilizing.

And if I hover over it, did you notice? That's right, it gives you that report date. So pieces of information that you might find valuable. And once again, we choose a straddle. Now this a dropdown box that allows us to be able to select that. Now it's going to default to calls and puts. We're going to adjust that to straddle. And we're going to do is remember what we said we want, the at-the-money? That's right, we select that at-the-money to filter down the strikes, bring us closer wo that we're looking for, and that way we can see what that implied move is; we can start that calculation here, grab that.

Now this net ask is, what it's doing for us is doing the math for us. I know a lot of people say math, I don't think so. Don't worry; the option chain can do it for you by giving you the price for that straddle to help you out with that calculation.

One last tool that I thought was interesting to really do is that IV index. We covered the IV index and applied how this can help you out with your evaluations. Now, hopefully everyone picked up what I picked up from what

Dan put across which is the idea, we have to have an outlook on three things, right? The direction on the underlying, timeframe, and volatility, very different than if you're trading equities where look, I just got to choose the direction. Makes that a lot easier.

But if I utilize here, and I'm just going to use this shortcut menu, and go down to "Option Analytics," over here to the right, the bottom of that menu, the IV index. Now this will allow us to create that outlook on volatility, get a sense of what kind of volatile environment are we dealing with? It's going to prefill with Coca-Cola because I utilize that Coca-Cola profit/loss diagram to launch this, and look what it has down below. That's correct, an IV index for us to evaluate, create those outlooks on volatility, and help us to analyze further, so we know the impact of each one of those.

So I just want to let everyone know, really appreciate everyone coming out, but we also have services that'll supplement these webinars. Obviously, we have virtual online classes that our Trading Strategy Desk teaches, as well as we have one-on-one conversations with clients, so at any point in time, if you would like to have a discussion about any one of these tools, or a strategy discussion, you could always call into Fidelity, we're here to help you out in any way that we can.

And with that being stated, I'll hand it back over to Alex.

Alex Mauer: Yeah, thank you very much, Colin, and thank you Dan for being here. Just to kind of build on what Colin just mentioned, we have resources on our website at Fidelity Learning Center including educational articles and videos. That's where you can find the coaching classes and the daily coaching sessions that Colin just referenced. So, these are a great sort of small-setting conference call-type events where you can hear from folks like Colin and his colleagues, and have interactive discussions, and really ask any questions that you have.

So that concludes today's webinar. Again, thank you to Colin and Dan. Finally, just one last thing to leave you with. Dan and I do a weekly segment called "In the Money," and that's available each week at Fidelity.com/options, and this is where you'll hear a new trade idea, an actionable trade idea from Dan along with rationale every week, so we hope you can join us for that as well. And again, thank you for watching today.

END OF AUDIO FILE

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