

PALOS

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Palos Weekly Commentary

Issue No. 19 | MAY 9 2019

Options Corner

By Robert Mendel

Volatility is back! And no I don't mean at my sister's house when her husband comes home after a night of drinking and smelling like perfume. No, I am referring to the Volatility Index, affectionately known as the VIX.

With Tuesday's spike above 20, a level it hasn't seen in a while, the Dow Jones ETF known as the DIA, once again became interesting for me. This is what I did. At 3pm in the afternoon with the DIA at 259.50 (25,950 on the Dow), I sold 5 May 10 255 puts for .95 cents. And Wednesday morning, with the market opening a little weaker, I sold 5 more for .85 cents to be short 10 with an average cost of .90 cents. What does this all mean? Well, assuming the DIA stays above the 255 strike, (25,500 on the Dow), I will keep my premium of .90 cents which would equate to a .3% return in just over 2 days. It may not sound like much but it does equate to a 64% annual return, with 4.5 dollars of downside protection (450 Dow points – yes I know, it can fall that much in 8 minutes) Why choose the DIA over an individual security? Well for one thing, if I can get almost the same premium on it as I would an individual name but without company specific risk it is almost a no brainer, at least for me (See the position below). As you can see I am already up \$520 on my play, but still with 2 days to go.

DIA US 05/10/19 P255	-10.0000	0.38	-380.00	0.90	-900.00	05/07/19	520.00
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Maybe I will take my profits and help pay for a shower in my brother-in law's office; so he can take one before he goes home if for no other reason than I won't have to listen to my sister go on and on about her personal life – which between you and me is torture. I think I would rather go for a root canal.

Onto another idea. I went long Electronic Arts (EA) on February 25 at \$95.96 after falling from over \$150. I thought the time was right to enter, I figured how the heck could it keep falling since my sister's son keeps using it 5 hours a day. He alone would boost revenues. Anyway, my cost is now down to \$87.43 and I am capped at \$100 for this Friday May 10. It reported decent earnings (thank you to my sister's kid), and now is at \$94.22 as I write this (See below every transaction).

Options Corner cont.

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(This is an example of how the strategy works in a perfect world. As you can see there was only one time in which I had to buy back the call (.90 cents on April 15) but I rolled without issue to April 26)

02/27/2019	Buy	EA	200	95.960
02/26/2019	Sell	EA190315C100	(2)	2.320
03/18/2019	Expiration	EA190315C100	2	0.140
03/20/2019	Sell	EA190412C101	(2)	2.000
04/15/2019	Buy	EA190412C101	2	0.900
04/15/2019	Sell	EA190426C101	(2)	2.980
04/29/2019	Expiration	EA190426C101	2	0.190
05/07/2019	Sell	EA190510C100	(2)	1.830

Until next week..

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