

ENHANCE[®]
YOUR OPTIONS
Add an extra dimension to your trading[®]



Demythifying Options

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- Paul McLaren
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Session Outline



“If the key to developing a new skill follows successive stages of attitudes and perception, education and learning and finally action and implementation, then hurdles and obstacles at any stage will hinder, if not halt successful progression. These stumbling blocks will need to be overcome for advancement to be made.”



Session Outline

Options – Quick Introduction

Options Perception - Dealing with the myths

- Most options expire worthless
- Options are risky
- Options are for expert traders
- Options are complicated

Options education – Dealing with the confusion

- Is there an inherent problem with the way options are taught?

Options trading – Dealing with the common mistakes

- The 8 most common mistakes of options trading.
- Cognitive biases with options trading



Call and Put Options: Definition

Call Option

A contract which conveys to its

holder (buyer) the right, but not the obligation, to buy the underlying security (shares) at a specified price (the strike price) on or before a given date (expiration day).

the seller (writer) of an call option is, in turn, obligated to sell the shares to the buyer of the option at the specified price upon the buyer's request.

Put Option

A contract which conveys to its

holder (buyer) the right, but not the obligation, to sell the underlying security (shares) at a specified price (the strike price) on or before a given date (expiration day).

the seller (writer) of an put option is, in turn, obligated to buy the shares from the buyer of the option at the specified price upon the buyer's request.



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Strategy Summary: Long Call

Characteristic	Description
Level of Proficiency	Novice
Market Outlook	Bullish ←
Volatility Outlook	Rising / increasing
Maximum At Risk	Limited ←
Maximum Gain	Unlimited ←
Credit / Debit	Debit
Time Decay Effects	Detrimental
Delta	Positive
Number of Legs	1
ASX Margin Requirement	No
Reverse	Short Call
Similar	Protective Put
Similar	Ratio Call Backspread
Alternative Names	Cash-Backed Calls
Alternative Names	Cash-Secured Calls
Assignment Risk	None
Expiration Risk	Slight
Trade Objective	Speculative trading



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Strategy Summary: Long Call

Characteristic	Description
Level of Proficiency	Novice
Market Outlook	Bearish ←
Volatility Outlook	Rising / increasing
Maximum At Risk	Limited ←
Maximum Gain	Substantial ←
Credit / Debit	Debit
Time Decay Effects	Detrimental
Delta	Negative
Number of Legs	1
ASX Margin Requirement	No
Reverse	Short Put
Similar	Ratio Put Backspread
Assignment Risk	None
Expiration Risk	Slight
Trade Objective	Speculative trading



Why Options: Limited Risk

Instrument: TELSTRA FPO
 Selected Strategy: Long Underlying

Date / Price Selection: Last Date / Last Price
 EMV: \$ -352

Net Cr/Db (Incl Comm): \$ -16,485 Debit
 Volatility (Historical): 23.4%
 Maximum At Risk: \$ -3,485
 Expiry Date (Nearest): 27/06/2019
 Expiry Date (Furthest): 27/06/2019
 Selected Date: 16/04/2019

Net Cr/Db/Cntrct (Ex Comm): \$ -3,290 Debit
 BreakEven: \$ 3,297
 Maximum Gain: \$ 5,165

-5,165 -2,583 Expiry Date Payoff 2,583 5,165



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Why Options: Limited Risk

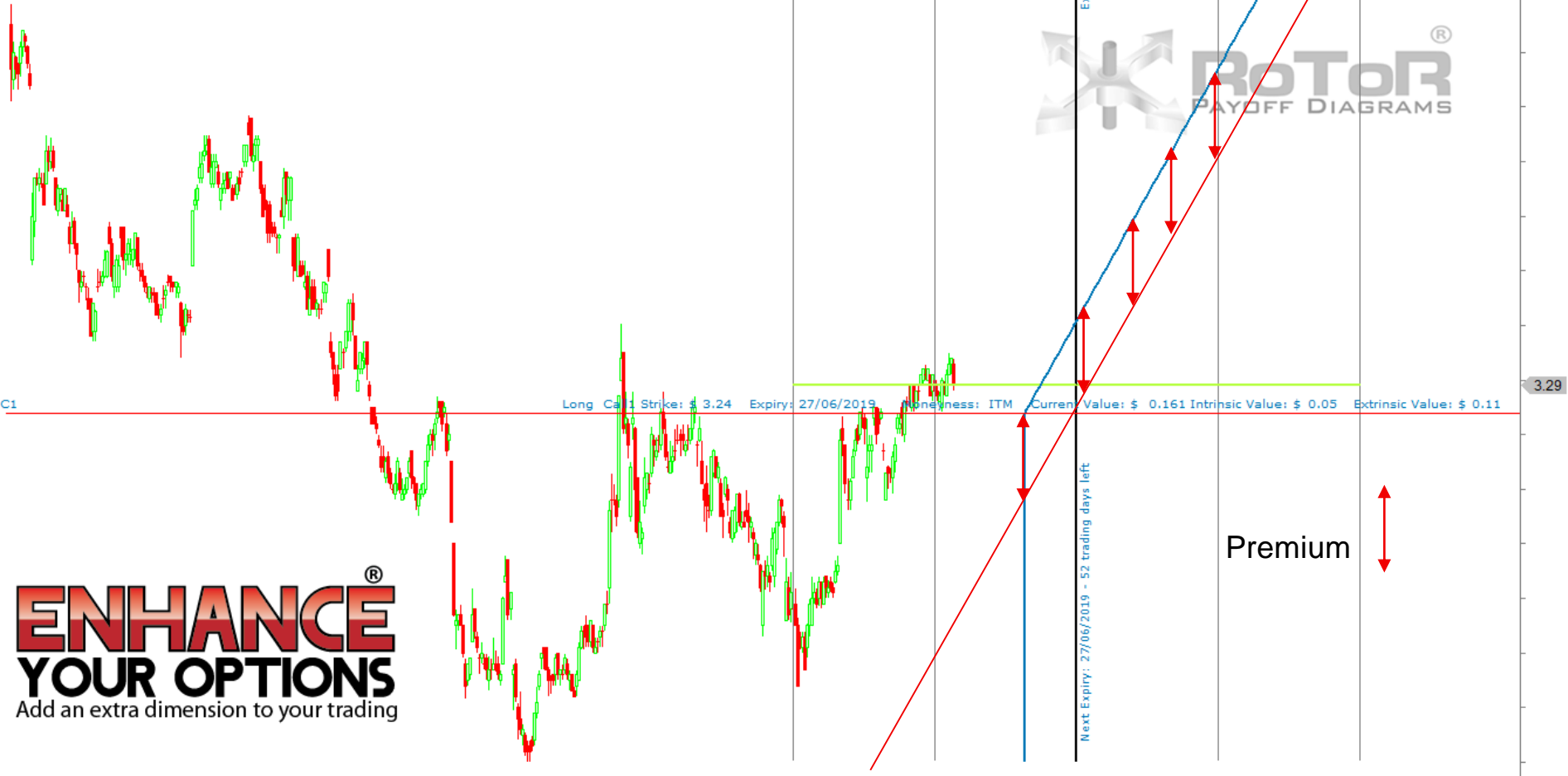
Instrument: TELSTRA FPO
 Selected Strategy: Long Call

Date / Price Selection: Last Date / Last Price
 EMV: \$ -195

Net Cr/Db (Incl Comm): \$ -838 Debit
 Volatility (Historical): 23.4%
 Maximum At Risk: \$ -838
 Expiry Date (Nearest): 27/06/2019
 Expiry Date (Furthest): 27/06/2019
 Selected Date: 16/04/2019

BreakEven: \$ 3.406

Net Cr/Db/Conrtct (Ex Comm): \$ -0.161 Debit
 Maximum Gain: \$ 4,620



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Attitudes and
Perception

Education and
Learning

Implementation

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The x Common Myths about Options



Wednesda

myths about options# - Google X The 10 Biggest Option Trading X 7 Myths about Options Trading X

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The 10 Biggest Option Trading Myths Debunked [Guestpost] - Tradeciety
<https://www.tradeciety.com/the-10-biggest-option-trading-myths-debunked-guestpost/>
Nov 15, 2018 - There is more than one way to make money with options. Here are some of the common myths and misconceptions about options trading.

People also ask

- What is the riskiest option strategy?
- Can Option Trading make you rich?
- Is buying options a good idea?
- How much money do I need to sell options?

Feedback

7 Myths about Options Trading Debunked - FX Empire
<https://www.fxempire.com/education/>
There is more than one way to make money with options. Here are some of the common myths and misconceptions about options trading.

MYTHS ABOUT OPTIONS – MOMS WHO TRADE OPTIONS
<https://momswhotradeoptions.com/2018/09/17/myths-about-options/>
Sep 17, 2018 - Here are the Answers to Fire Right Back to Every Myth. MYTH: Options are too risky. True ___ False ___ False: You are a thinking, educated ...

The Biggest Myths About Options - Wall Street Daily
<https://www.wallstreetdaily.com/2018/03/23/biggest-myths-options/>
Mar 23, 2018 - I want to break down the biggest myths about options for you. You should NOT be afraid to use these investments... you should be embrace ...

10 Busted Myths About Options Trading - MoneyShow.com
<https://www.moneyshow.com/articles/optionsidea-28273/>
May 14, 2015 - Common misconceptions often keep traders and investors out of the options markets, writes Ji.

Option Myths and Misconceptions - Option Matters
<https://www.optionmatters.ca/option-myths-misconceptions/>
Mar 21, 2018 - For those readers who are just beginning their options education journey, I am sure you have been presented with many opinions from other ...

[PDF] 10 Common Myths About Options - Interactive Brokers
https://www.interactivebrokers.com/webinars/CBOE_Myths_About_Options.pdf

4 + 1

~~10~~ Common Myths About Options

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CBOE The Options Institute: 10 Common Myths About Options

Myth Number 1 – Options are only for speculators

- Reality – Many professionals use options for portfolio protection.
- Options may be used as insurance policies.



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CBOE The Options Institute: 10 Common Myths About Options

Myth Number 2 – Options are risky because they use leverage

- Other instruments use leverage; CFDs, Margin loans
- Options may be used in non risky ways. The key is capital management.



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CBOE The Options Institute: 10 Common Myths About Options

Myth Number 3 – Options are only for short term trading.

- Options may be used with a long time horizon.
- Many stocks have options with well over a year until expiration.



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CBOE The Options Institute: 10 Common Myths About Options

Myth Number 4 – 90% of options expire with no value

- The majority of option contracts are closed out before expiration.
 - Less than 10% of options assigned.
 - **About 20% of options expire with no value.**
 - About 70% of options positions are closed out before expiration.



Calls - Worthless
Puts – Have Value

Call - OTM
Put - ITM

Call - ATM

Put - ATM

Underlying Price

Calls – Have Value
Puts – Worthless

Put - OTM
Call - ITM

Strike Price

7
6
5
4

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Myth Number 1 – Options are complicated

- Options are complex, but the way they are taught makes them overly complicated



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Education and
Learning

Implementation

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Common Issues with Learning Options

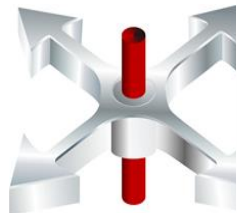
- The complexities of options
- The way related concepts are presented in a disparate, counter-intuitive way
- The payoff diagram, what it tells you, what it doesn't, and how it misleads you
- The number of strategies
- When do you use a Broken Wing Long Butterfly Spread?



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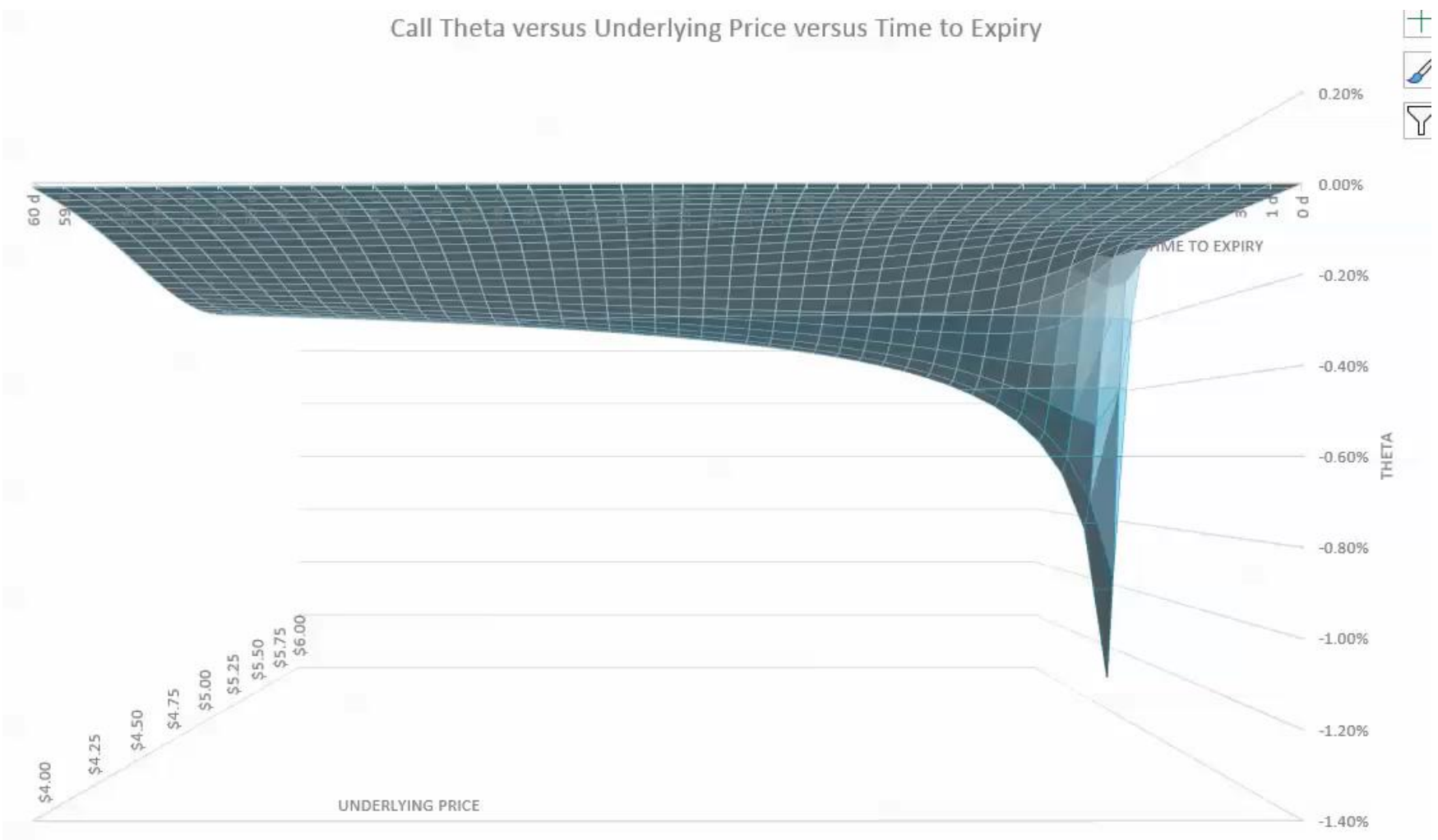
Presently



RoToR
PAYOFF DIAGRAMS

Strike price (X) = \$ 5, Risk-free rate (r) = 0.03, Time to expiration (T) = 0.16 years, Volatility (σ) = 0.3, Dividend Yield (q) =

Call Theta versus Underlying Price versus Time to Expiry



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RoToR Payoff Diagrams[®]



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Option Strategies

THE ALLY INVEST OPTIONS PLAYBOOK

Featuring 40 options strategies for bulls, bears, rookies, all-stars and everyone in between

ally. DO IT RIGHT.

HOME OPTIONS BASICS ROOKIE'S CORNER **OPTION STRATEGIES** MANAGING POSITIONS GLOSSARY

SORTED BY: SKILL LEVEL / LEGS

- Rookies +
- Veterans +
- Seasoned Veterans +
- All-Stars +
- All Option Strategies +

Cutting edge options strategies explained.

**OPTIONS
PLAYBOOK
RADIO**

Listen In

OPTION STRATEGIES

Filter by market outlook -

COVERED CALL



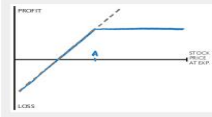
PROTECTIVE PUT



COLLAR



CASH-SECURED PUT



LONG CALL



LONG PUT

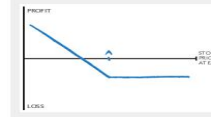
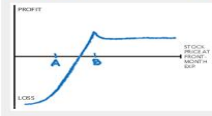


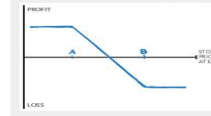
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LONG CALL SPREAD



LONG PUT SPREAD



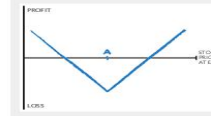
SHORT CALL SPREAD



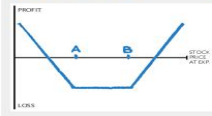
SHORT PUT SPREAD



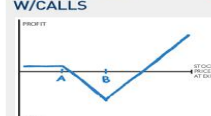
LONG STRADDLE



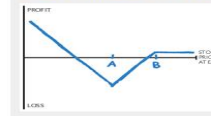
LONG STRANGLE



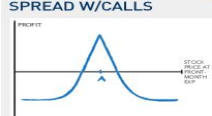
BACK SPREAD W/CALLS



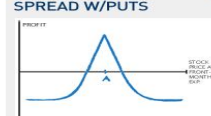
BACK SPREAD W/PUTS



LONG CALENDAR SPREAD W/CALLS



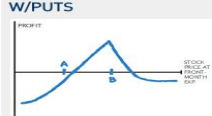
LONG CALENDAR SPREAD W/PUTS



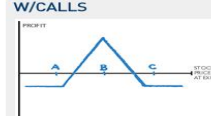
DIAGONAL SPREAD W/CALLS



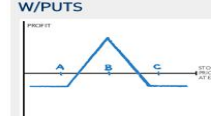
DIAGONAL SPREAD W/PUTS



LONG BUTTERFLY W/CALLS



LONG BUTTERFLY W/PUTS



**Common Mistake:
Overcomplicating
Trades**

Strategies for Market Direction, Volatility and Time

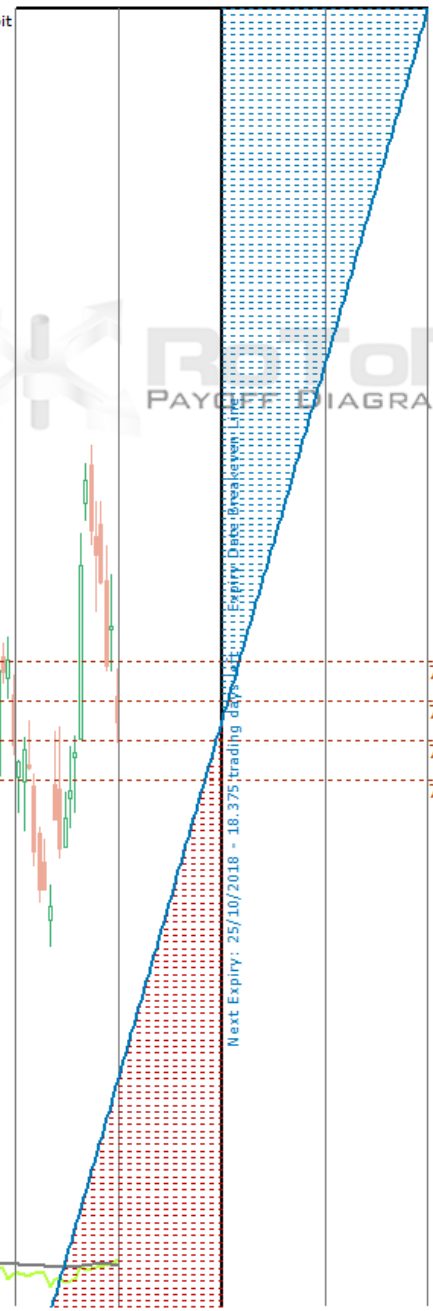
Market Outlook	Low Volatility	High Volatility
Bullish	<p>Long Calls</p> <p>Long Underlying</p>	<p>Short Puts</p> <p>Bull Call Spread</p> <p>Bull Put Spread</p>
Neutral / Birdirectional	<p>Long Straddle</p>	<p>Short Straddle</p>
Bearish	<p>Long Puts</p> <p>Short Underlying</p>	<p>Short Calls</p> <p>Bear Call Spread</p> <p>Bear Put Spread</p>

Instrument: Citigroup, Inc. Date / Price Selection: Last Date / Last Price -17,920 -8,960 Expiry Date Payoff 8,960 17,920

Selected Strategy: Long Underlying
 Net Cr/Db (Incl Comm): \$ -143,480 Debit
 Volatility (Historical) 19.6 %
 Maximum At Risk: \$ -14,720
 BreakEven: \$ 71.740

Net Cr/Db/Cntrct (Ex Comm): \$ -71.740 Debit
 Maximum Gain: \$ 17,920

Long Underlying



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Instrument: Citigroup, Inc. Date / Price Selection: Last Date / Last Price -14,616 -7,308 Expiry Date Payoff 7,308 14,616

Selected Strategy: Long Call EMV: \$ -9

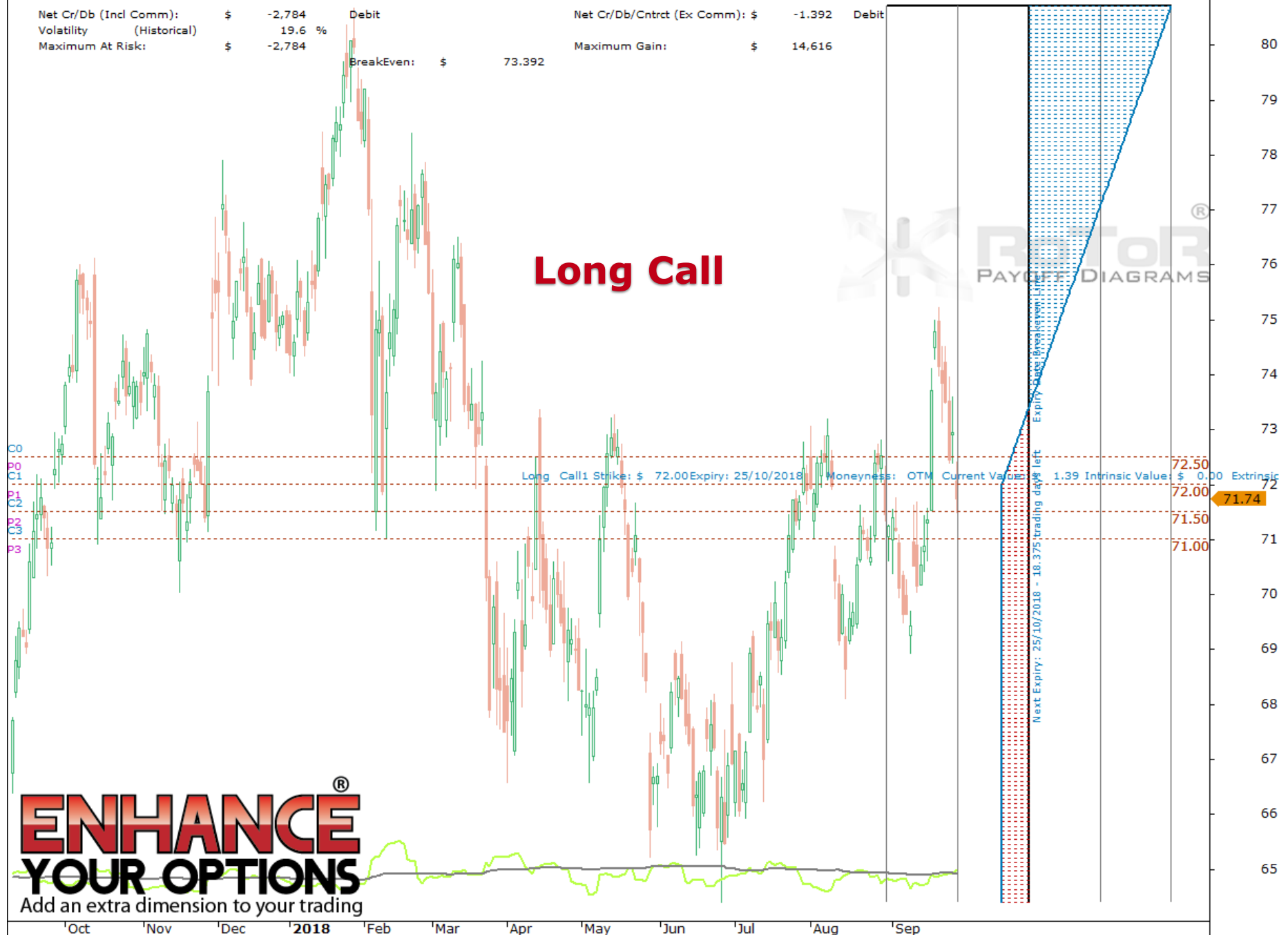
Net Cr/Db (Incl Comm): \$ -2,784 Debit Net Cr/Db/Cntrct (Ex Comm): \$ -1,392 Debit

Volatility (Historical) 19.6 %

Maximum At Risk: \$ -2,784 Maximum Gain: \$ 14,616

BreakEven: \$ 73.392

Long Call



Long Call1 Strike: \$ 72.00 Expiry: 25/10/2018 Moneyness: OTM Current Value: 1.39 Intrinsic Value: \$ 0.00 Extrinsic: 1.39

Next Expiry: 25/10/2018 - 18.375 trading days left

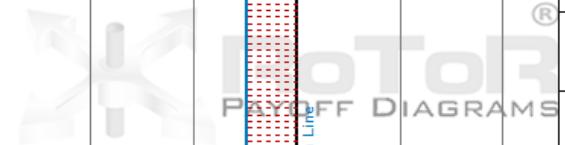
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Instrument: Citigroup, Inc. Date / Price Selection: Last Date / Last Price -11,447 -5,724 Expiry Date Payoff 5,724 11,447
 Selected Strategy: Long Put EMV: \$ -478

Net Cr/Db (Incl Comm): \$ -2,793 Debit Net Cr/Db/Cntrct (Ex Comm): \$ -1,396 Debit
 Volatility (Historical) 19.6 %
 Maximum At Risk: \$ -2,793 Maximum Gain: \$ 11,447

BreakEven: \$ 70.104

Long Put



C0
 P0
 C1
 P1
 C2
 P2
 C3
 P3

Long Put Strike: \$ 71.50 Expiry: 25/10/2018 Moneyness: OTM Current Value: 1.40 Intrinsic Value: 0.00 Extrinsic Value: 1.40

Next Expiry: 05/10/2018 - 18.375 trading days left

72.50
 72.00
 71.50
 71.00

71.74

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Instrument: Citigroup, Inc.
Selected Strategy: Bear Put Spread

Date / Price Selection: EMV: \$ -34

Last Date / Last Price

-509 -255 Expiry Date Payoff 255 509

Net Cr/Db (Incl Comm): \$ -509 Debit
Volatility (Historical) 19.6 %
Maximum At Risk: \$ -509

Net Cr/Db/Cntrct (Ex Comm): \$ -0.255 Debit
Maximum Gain: \$ 491

BreakEven: \$ 71.745

Bear Put Spread



C0
P0
C1
P1
C2
P2
C3
P3

Long Put1 Strike: \$ 72.00 Expiry: 25/10/2018 Moneyness: ITM Current Value: 1.65 Intrinsic Value: 72.00
Short Put2 Strike: \$ 71.50 Expiry: 25/10/2018 Moneyness: OTM Current Value: 1.40 Intrinsic Value: 71.50

72.50
72.00
71.50
71.00

71.74

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Attitudes and
Perception

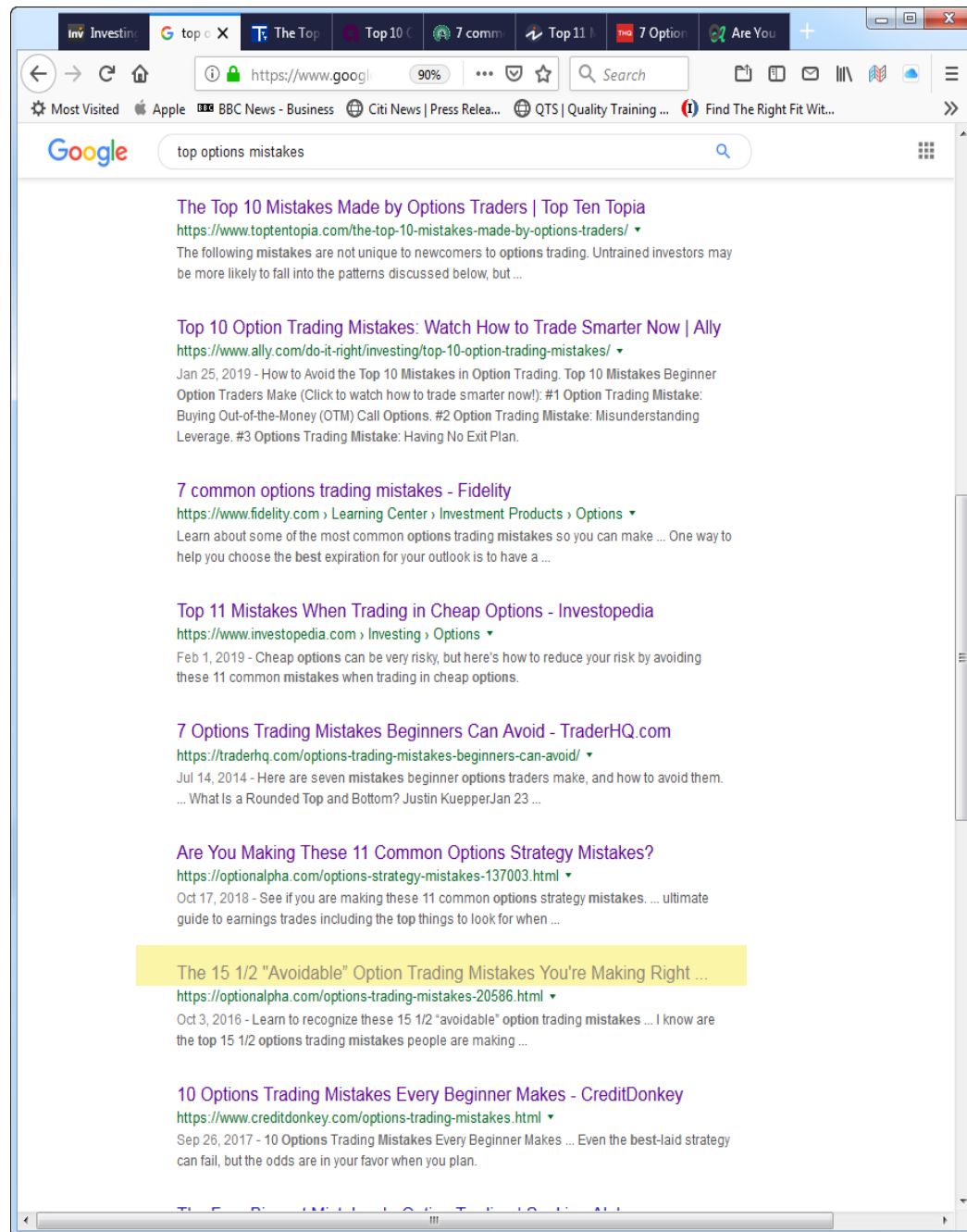
Education and
Learning

Implementation

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**The x Most
Common
mistakes
with options**



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Most Common Mistakes:

- Overcomplicating trades
- Ignoring the greeks
- Ignoring volatility
- Incorrectly selecting the expiration date
 - Share prices go up the stairs
 - Down the elevator
- Overleveraging your trades
- Buying options because they are "cheap"
 - Delta is the probability of a trade finishing in the money
- Staying in a written option that is a loss
- Holding on to a short trade till expiry



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Local Issues

- Local Laws and Customs - Shariah Law
- Local Trading Restrictions
- Illiquid, unsophisticated exchanges



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Activities and Opportunities

- Online Quiz - Investing and Trading*
- Online Survey – Attitudes to options

- Prize for the highest score* - Seminar: Using options for income and capital protection (valued at \$275 incl GST).

- Options Research Program with Academic Institution
- Looking for participants.



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Thank You