

## **HYPOTHETICAL COVERED BUY-WRITE OPTIONS RECOMMENDATION**

WRITE (SELL) 5x 6425 June SPI 200 Call Options @ Market **AND** BUY 5x June SPI 200 Futures @ Market

### **EXAMPLE**

WRITE 5x 6425 June SPI 200 Call Options @ 89 points for a premium of **\$11,125 AUD** - (\$25 AUD x 5 lot) x 89 pts = \$11,125 AUD.

THEN BUY 5x June SPI 200 Futures @ Market (around 6340 pts)

Required Capital (initial minimum margin deposit) = **\$30,000+ (approx)**

Set stop-loss @ 30 points on the SPI 200 Futures (if stopped-out then exit both the futures and options at market)

### **MAX POSSIBLE GROSS PROFIT**

Max Profit on Futures = (85 pts x 5 lot) = \$10,625 AUD

Max Profit + Premium = \$10,625 + \$11,125 = **\$21,750 GROSS PROFIT POTENTIAL (AUD)**

### **ALTERNATIVE PROFIT SOLUTION**

If you had no profit on the futures contract (say still trading at 6340 entry price on the SPI 200) and your options are out-of-the-money at expiry then you will pick up around **\$11,125 AUD** premium (less brokerage).

Anything below the 6340 level on the SPI 200 will eat into your \$11,125 profit.

REMEMBER: You are aiming for a rise in the futures contract while receiving premium on your options position.

THIS IS A NEUTRAL to BULLISH STRATEGY

### **LOSS/RISK**

Futures: Loss on 30 pts = \$3,750 AUD

Options: Profit on written options = around 10 pts (estimate subject to volatility) x 5 lot = **PROFIT \$1,250**.

LOSS = \$3,750 - \$1,250 = **\$2,500 ESTIMATED LOSS POTENTIAL (AUD)**

## MARKET EXPECTATION

Neutral to bullish.

## RISKS

Upside: No Risk.

Downside: Limited to the stop-loss + slippage.

NOTE: Risk would be open-ended without the use of a stop-loss order.

## RISK MANAGEMENT

Place a stop-loss to exit the SPI200 futures if the market falls, and at the same time buy to close your written options position. Losses on the SPI200 futures should be partly offset by profits earned on the written call position.

## EFFECTS OF TIME DECAY

Positive: Time decay works in favour of the written position.

## BEST TIME TO TRADE

When you expect a positive move higher in the SPI200.

## BEST EXERCISE PRICE TO WRITE

The more bullish you are, the higher your strike price should be taking into consideration premium of the option.

## WHEN TO IMPLEMENT

Write a call option that has 10 weeks or less to expiry.

## BEST TIME TO EXIT

At expiry of the option when the futures price is above or near the strike price of the written call.

## MAXIMUM POTENTIAL FOR PROFIT

Limited to the difference between the entry price of the futures contract and the strike price of the written call, plus the premium received for writing the call option.

NOTE: The above hypothetical recommendation is for example purposes only and should not be considered advice.

If you are ready to start trading futures, please call us on free call 1800 228 600 for our new client account opening forms.

## **Titan Futures**

**Free Call: 1800 228 600**

**AFSL: 307040**

**ACN: 120 951 608**

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