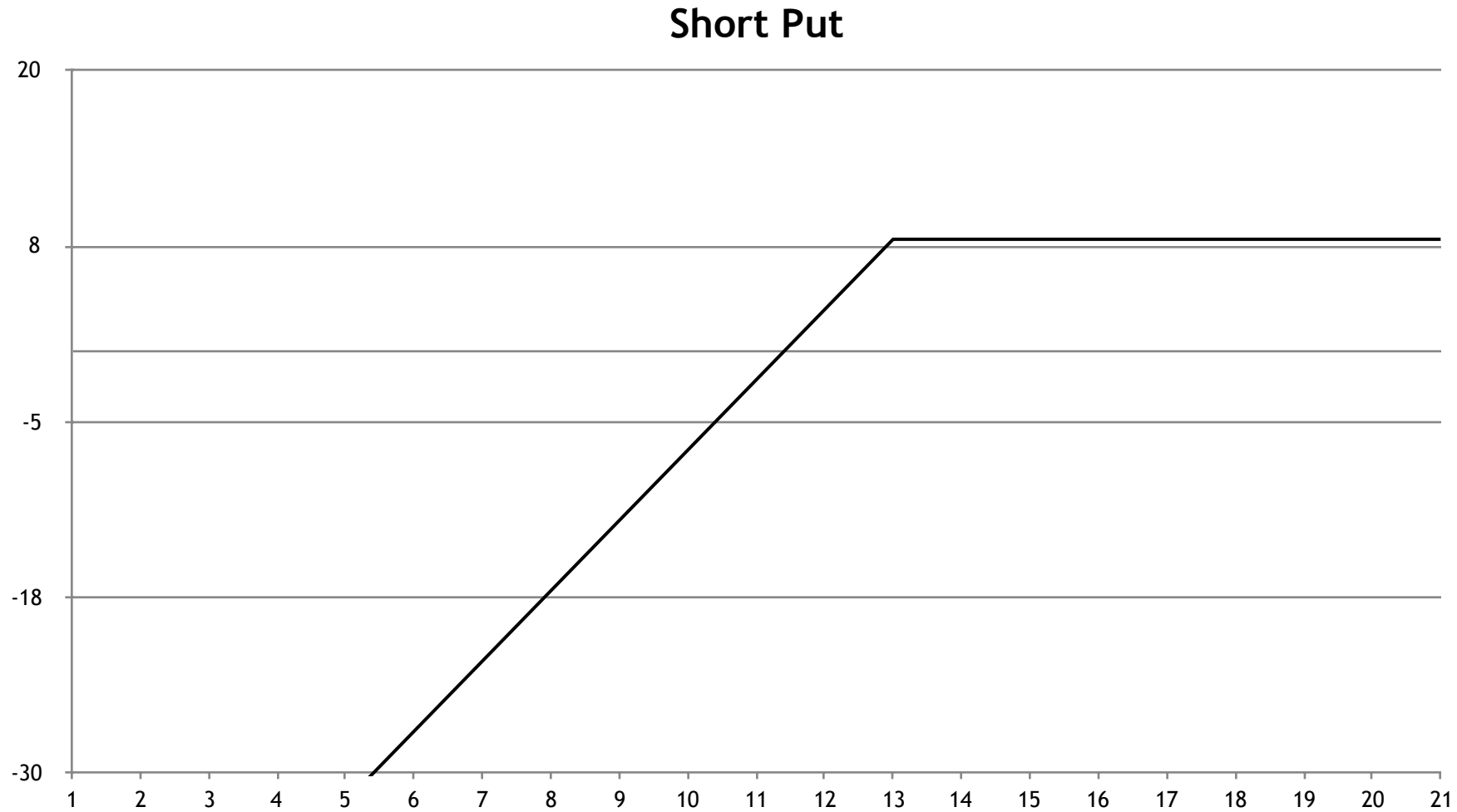


Finding stocks to write put options on



Margin Requirements!

- Depends on level of trading
- For most brokers:
 - Below level 3, cash secured. This means 100% of the maximum future liability.
 - Level 3 and above: lower margin requirements, but significantly more complicated to figure.

Margin: Below level 3, cash secured

| FB @ 181.29 | | March 16 2018 Puts | | | | | | |
|---------------------|-------|--------------------|----------|------------------|--------|----------|----------|-----|
| Choose a Strategy ▾ | Trade | Get Quote | P&L Calc | Clear Selections | | | | |
| Strike | Bid | Ask | Last | Change | Volume | Open Int | Day High | Day |
| 170.00 | 3.20 | 3.35 | 3.55 | -0.20 | 327 | 15,570 | 3.55 | 3 |
| 175.00 | 4.70 | 4.85 | 5.10 | -0.30 | 971 | 10,469 | 5.20 | 4 |
| 180.00 | 6.75 | 6.90 | 6.82 | -0.78 | 19,694 | 17,949 | 7.25 | 6 |
| 185.00 | 9.25 | 9.35 | 9.67 | -0.59 | 172 | 2,743 | 9.80 | 9 |
| 190.00 | 12.25 | 12.45 | 12.65 | -0.77 | 136 | 1,164 | 12.85 | 1 |
| 195.00 | 15.85 | 16.00 | 16.25 | -0.70 | 115 | 1,418 | 16.45 | 1 |

\$170 per share x 100 shares = \$17,000.

Less \$3.20 per share x 100 shares = \$320.

Requirement: \$16,680

Margin: Level 3 and above

100% of option proceeds plus 20% of underlying security / index value less out-of-the-money amount, if any, to a minimum for puts of option proceeds plus 10% of the put's exercise price.



Margin: Level 3 and above

| FB @ 181.29 | | March 16 2018 Puts | | | | | | |
|---------------------|-------|--------------------|-----------|----------|-------------------------|----------|----------|---------|
| Choose a Strategy ▾ | | Trade | Get Quote | P&L Calc | <u>Clear Selections</u> | | | |
| Strike | Bid | Ask | Last | Change | Volume | Open Int | Day High | Day Low |
| 170.00 | 3.20 | 3.35 | 3.55 | -0.20 | 327 | 15,570 | 3.55 | 3.20 |
| 175.00 | 4.70 | 4.85 | 5.10 | -0.30 | 971 | 10,469 | 5.20 | 4.70 |
| 180.00 | 6.75 | 6.90 | 6.82 | -0.78 | 19,694 | 17,949 | 7.25 | 6.75 |
| 185.00 | 9.25 | 9.35 | 9.67 | -0.59 | 172 | 2,743 | 9.80 | 9.25 |
| 190.00 | 12.25 | 12.45 | 12.65 | -0.77 | 136 | 1,164 | 12.85 | 12.25 |
| 195.00 | 15.85 | 16.00 | 16.25 | -0.70 | 115 | 1,418 | 16.45 | 15.85 |

Proceeds:
 $\$3.20 \text{ per share} \times 100 \text{ shares} = \$320.$

10% of exercise: $\$170$
 $\text{per share} \times 100 \text{ shares} \times 10\% = \$1,700.$

20% of asset:
 $\$181.29 \times 100 \times 20\% = \$3,626$

Requirement:
 $\$320 + \$3,626 = \$3,946$

Potential Return

Margin requirement may seem high, but potential return is:

$$\$320 / \$3,946 = 8.11\%$$

Pretty good for a 56 day holding period!

In fact, even if we had to put up the \$17,000, the potential return is still: $\$320 / \$16,680 = 1.92\%$.

Still not bad for the timeframe.

Risk

- The losses can be *MUCH* larger than the steady profits.
- How do we know how likely it is that we'll lose money?
 - Delta can be an approximation
- Other indications of volatility, or crash risk?
 - Debt ratios

FB @ 181.29**March 16 2018 Puts****56 Days to Exp**

Choose a Strategy ▾

Trade

Get Quote

P&L Calc

[Clear Selections](#)

| Strike | Bid | Ask | Last | Change | Volume | Open Int | Day High | Day Low | Delta | Gamma | Theta | Vega | Rho | Imp Vol |
|--------|-------|-------|-------|--------|--------|----------|----------|---------|--------|-------|--------|-------|--------|---------|
| 155.00 | 0.86 | 0.91 | 1.00 | -0.08 | 61 | 5,073 | 1.01 | 0.88 | -0.084 | 0.007 | -0.029 | 0.110 | -0.022 | 30.90% |
| 160.00 | 1.35 | 1.41 | 1.44 | -0.24 | 2,249 | 8,602 | 1.56 | 1.34 | -0.125 | 0.010 | -0.038 | 0.146 | -0.033 | 29.85% |
| 165.00 | 2.11 | 2.18 | 2.24 | -0.34 | 378 | 13,678 | 2.38 | 2.05 | -0.182 | 0.013 | -0.047 | 0.187 | -0.048 | 29.03% |
| 170.00 | 3.20 | 3.35 | 3.55 | -0.20 | 327 | 15,570 | 3.55 | 3.10 | -0.256 | 0.016 | -0.056 | 0.228 | -0.067 | 28.42% |
| 175.00 | 4.70 | 4.85 | 5.10 | -0.30 | 971 | 10,469 | 5.20 | 4.65 | -0.344 | 0.019 | -0.062 | 0.261 | -0.089 | 27.68% |
| 180.00 | 6.75 | 6.90 | 6.82 | -0.78 | 19,694 | 17,949 | 7.25 | 6.50 | -0.444 | 0.021 | -0.065 | 0.280 | -0.112 | 27.24% |
| 185.00 | 9.25 | 9.35 | 9.67 | -0.59 | 172 | 2,743 | 9.80 | 9.00 | -0.550 | 0.021 | -0.062 | 0.280 | -0.134 | 26.50% |
| 190.00 | 12.25 | 12.45 | 12.65 | -0.77 | 136 | 1,164 | 12.85 | 11.96 | -0.654 | 0.020 | -0.056 | 0.261 | -0.152 | 25.95% |

Ideas

- Sell puts on a stock you would be prepared to own at the strike price
- Compliment strategy with call writing to increase income and reduce potential losses slightly.
- Reduce losses, but also income, substantially by making it a spread trade. Buy put that is further out-the-money (and cheaper).
- Reduce cost of buying stock by selling deep in-the-money put. Delays purchase (and misses out on dividends during the option life), but reduces price.