Think Margin of Safety When Selling Puts

By Alfredo Holguin

Who is that guy who is blind?

- * Became totally blind in May of 2008
- Started attending Cuyamaca college in August of 2008
- Obtained BS in Information Systems from SDSU in 2012
- Work for the Navy as a programmer since August 2012
- Bought condominium for wife and son in 2013
- Obtained MBA from SDSU in 2015
- Have been investing in stocks since 2014/options since 2015

Selling is SMARTER than buying Option

selling is profitable

- Stock price goes up
- Stock stays near the same
- Stock price goes down but not passed strike price

Buying put is profitable

- Stock price goes down pass strike price

Volatility is usually in the seller's corner

Weekly’s time premium decay faster than Monthly’s

- * Any investment has risk, the longer the period the longer the risk
- Compound interest works in your favor
- You will not get 4x time premium on Monthly versus weekly

Selling Out of the Money Put are for peace of Mind Traders

- Warren Buffett Margin of Safety concept for Options
- The closer to the current stock price the higher the risk
- Faster premium decay
- Brokers penalize risky investors

Naked puts out-weight the benefit of credit spread insurance

- * Cost of insurance can be as much as 20 to 50% of profit

Plan to Manage Losers

- Let it be assigned, sell calls on new position
- Extend the duration
- If position negative on Thursday or Friday, close it
- Accept the lost, they will happen

Use 80/20 Rule for Buy-to-Close

- Eliminate the needless RISK
- 80% of profits can be made in 1-3 days
- Free up capital and reinvest

Pick volatile stocks

- Most of volatility happens during earnings
- The less volatile the more contracts are required

When NOT to use

- * with biotech stocks
- During earnings
- Executing trade via market order

Vix makes a difference!

Vix < 20

- Less $ premium
- Less perceived risk

Vix >= 20

- Higher $ premium
- Higher Margin of Safety required

Margin of Safety

- * <= 14% current day to Friday increase/decrease
- Average/Median of all losses in model
- Delta
- Model curve fitting

Portfolio Risk Management

Risk no more than 1-2% of capital

Questions

Conclusion

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