

#### Agenda

Day 2

Generate Consistent Monthly Cash Flow Generation

Capital Appreciation with Leverage Effect without Leverage Damage

How I Grew \$1k USD to \$281k USD in the bull market in less than 10 years without market timing, without regular additional deposits & being extremely passive

## Key Option Facts:

• "\_\_\_\_ are financial weapons of mass destruction" – Warren Buffett

Purpose of using options is to reduce \_\_\_\_\_ and improve \_\_\_\_\_

• Whatever your results are in \_\_\_\_\_, you those results with options.



#### **Option Basics**

\_\_\_\_\_ Basic Terms & Conditions:

1. \_\_\_\_\_ (Business you're willing to buy/sell)

2. \_\_\_\_\_ (What price to buy/sell the stock?)

3. \_\_\_\_\_ (For how long?)



#### **Usage of Options**

- We can use options on any asset listed on the stock exchange:
- **≻**Stocks
- ➤ Exchange Traded Funds (ETF)
- **≻**Bonds
- **≻**Commodities
- Our Focus:
- \_\_\_\_



# When we sell options,

- 1. We are Selling
- By Selling Promises, we COLLECT





#### At Expiry Date

Once you sold an option, only 2 things can happen at expiry date:

or \_\_\_\_\_



Module 4: The Options Framework

The Options Investing Framework

The A-I-M Analysis
 System

Portfolio Strategy









#### Why Is Assessing Important?

	Quality Businesses will be the main			
of your	in the long run.			

- Behind every option contract is a \_\_\_\_\_\_\_\_
- If the \_\_\_\_\_ does well, so will our \_\_\_\_\_.

#### No. 1 Objective When Assessing A Company

BUILD

&

#### 2 Types of Assets to Focus On

- Stocks
- ➤ Part ownership of \_\_\_\_\_

- Exchange Traded Funds (ETFs)
- ➤Ownership of a \_\_\_\_\_

# Exchange Traded Funds (ETFs)

Easy way to build confidence/conviction

What are ETFs?

portfolio of companies

managed by a fund manager

#### ETFs Pros & Cons



#### Pros

- Instant \_\_\_\_\_
- \_\_\_\_\_ volatility
- \_\_\_\_\_ risks
- investment costs
- •

#### Cons

- \_\_\_\_\_ diversification
- \_\_\_\_\_ returns
- \_\_\_\_\_ control over portfolio





Assess

Initiate

Method

#### When to Buy?



We simply attempt to be fearful when others are greedy and to be greedy only when others are fearful.

— Warren Buffett —

AZ QUOTES

#### Market Cycles

Stock Market Moves in

Bad news/ uncertainty often cause \_\_\_\_\_ and

\_\_\_\_\_

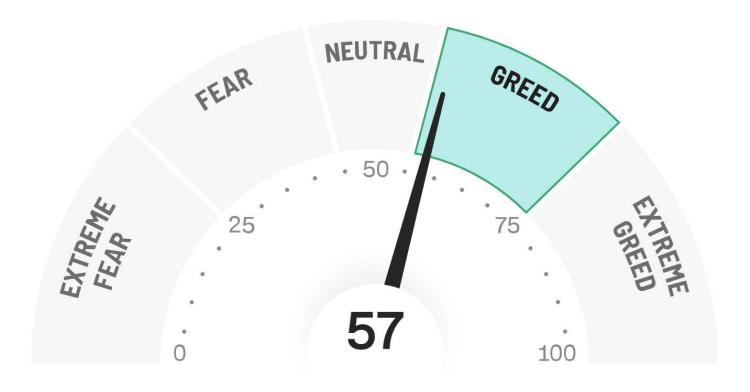
Aim to be \_\_\_\_\_ during down cycles and \_\_\_\_ during up cycles



#### Fear & Greed Index

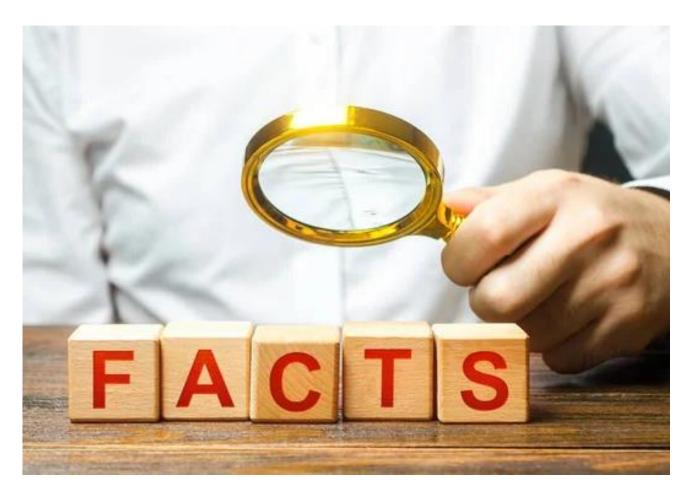
 What emotion is driving the market now?

 https://money.cnn.com/d ata/fear-and-greed/



### What To Do During Down Cycles?

•	Look for facts. Ask yourself:				
_	Is the news	_ or	?		
-	Will there still be hig	h?	for their		
_	Are there plenty of _		?		
-	If share price company	_ by 50%, does _50% of their	s the business?		
-	Does the company h sheet to pull through		_ balance		
-	Is the issue/crisis	or _	?		
-	Does the management to turn things around	_			
-	Will you buy more?				



Assess

Initiate

Method



#### Selling vs. Buying Options





Module 6: Selling Options

<ul><li>Selling Options = Selling a</li></ul>	<del></del>
• Golden Rule:	
- Promise You	
- Promise You	
• Sell Put = Promise to	_ Shares (Want Shares, Have Money to Buy
<ul><li>Sell Call = Promise to</li><li>to Sell)</li></ul>	Shares (Want to Sell Shares, Have Shares

#### New Simple Terminologies

- Implied volatility
- The degree of stock \_\_\_\_\_

- Trading Volume
- The average \_\_\_\_\_ of shares traded per day

- Extrinsic Value
- \_\_\_\_\_ value of options

#### Implied Volatility & Volume

Ideal situation to sell put options:

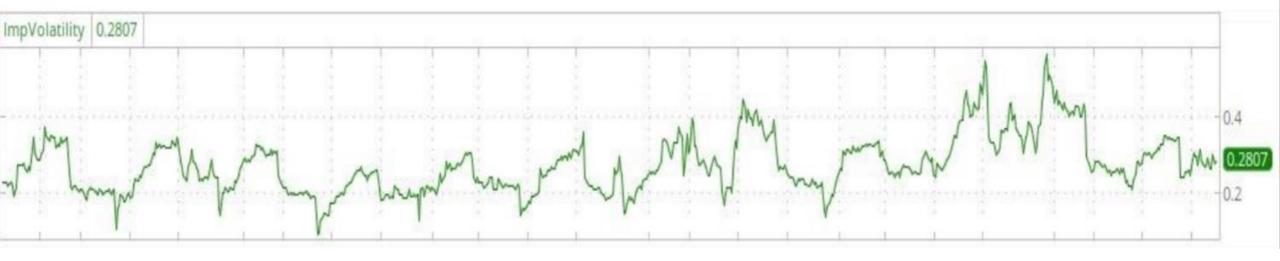
- High Implied Volatility (\_\_\_\_\_)

- High Volume (\_\_\_\_\_

<b>∨</b> Watchlist	Top 1%	<b>1</b> 2	_   ≣ <i>₁</i>
Symbol	Last	Impl Vol	Volume <b>\$</b>
AAPL 😗 🤅	162.03	30.70%	47,716,882
GOOGL	? 106.44	39.14%	27,067,355
MSFT	<b>?</b> 289.39	31.15%	23,102,994
AMZN 🧃	102.17	45.03%	37,261,185
NVDA	275.79	46.63%	39,527,855
META 😗 🤅	214.75	51.61%	16,106,074
TSLA 😗 🤅	184.51	67.63%	142,154,640
SPY	409.61	20.15%	63,681,042
AVGO	627.39	28.37%	1,540,174
QQQ	<b>4</b> 317.87	24.55%	45,134,736
ASHR	29.89	23.98%	3,419,199
GXC	81.89	31.57%	10,841
KWEB	30.09	46.30%	12,068,679

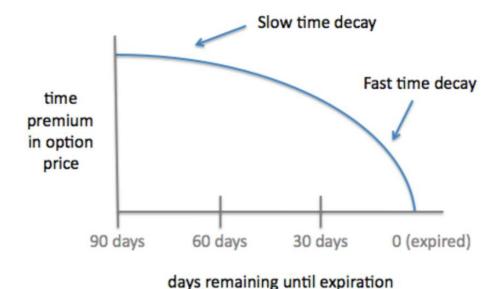
Volatility of a stock changes from time to time

• The higher the \_\_\_\_\_, the higher the \_\_\_\_\_



#### Extrinsic Value

- Extrinsic Value (Time Decay)
- The value of the contract that deteriorates over time.
- Value drops at accelerating rate nearer to expiry date.
- Prefer to sell contracts with .



## Summary

Ideal situation to sell options:

High implied volatility (>40%)

High stock trading volume (> 1 million)

Short term contracts (\_\_\_\_\_



## Sell Put Strategy

- Sell At-The-Money (ATM) Puts to collect \_\_\_\_\_ which will be first treated as margin of safety
- Capital at risk = purchase value of 100 shares less premiums collected
- Pros:
- Extra \_\_\_\_\_ (premium received)
- Safety turns into cash flow if options are not \_\_\_\_\_
- Cons:
- Opportunity \_\_\_\_\_
- Cannot be repeated \_\_\_\_\_ (only can be done when there's opportunity





#### Requirement

- Fundamentally \_\_\_\_\_\_ business/ETFs only
- Must fulfil two golden \_\_\_\_\_ and be comfortable to hold the shares over long-term if required
- Be prepared to stay \_\_\_\_\_ until expiry date
- Criteria:
- Preferably Drop in Share Price
- Implied Volatility >40

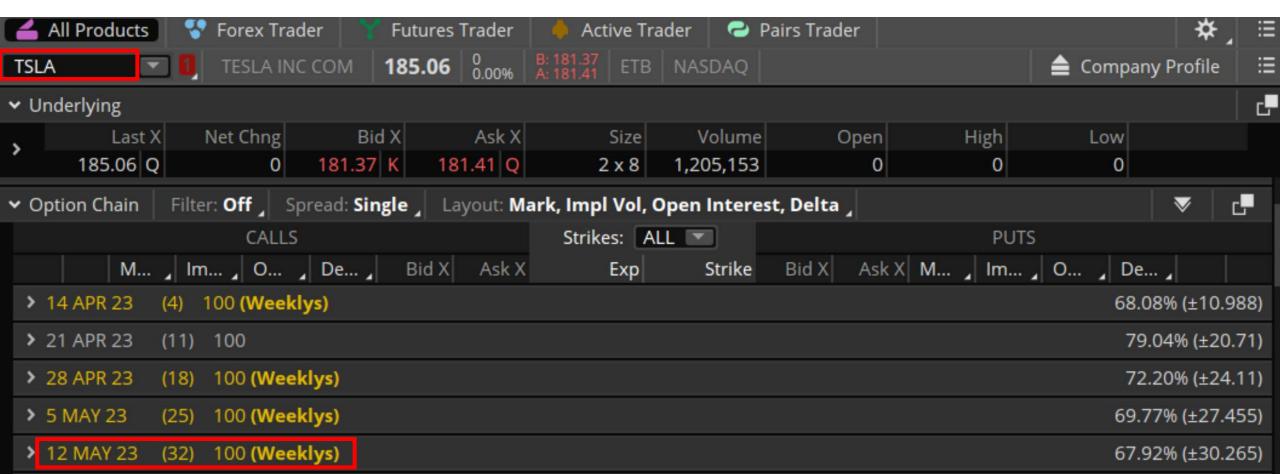


#### **Execution Steps:**

- 1. Select high \_\_\_\_\_ company with recent pullback.
- 2. Go to the contract less than \_\_\_\_\_ days but prefer monthly.
- 3. Aim to collect AT LEAST \_\_\_\_\_ in premium monthly.
- 4. When Put Option is sold, leave the contract until expiry or purchase the stock if exercised (Use for call options later)
- 5. Repeat

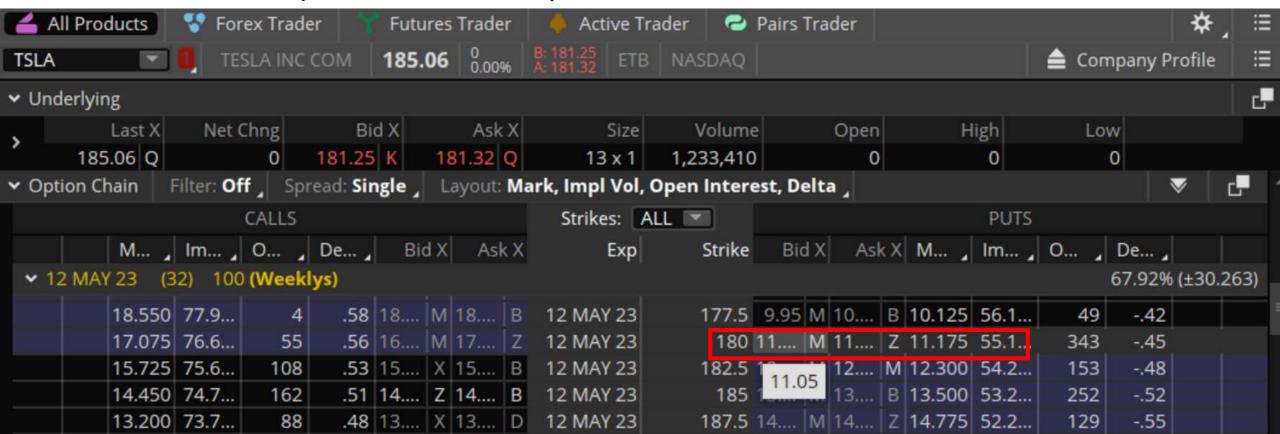
### **Choose Contract**

Contract expiry needs to be less than 365 days (I prefer \_\_\_\_\_\_).



## Sell Options

- Selling ATM Strike will give you a premium of \$11.05 in 32 days
- ROI: 6.14% (\$1,105/\$18,000).



#### 3 Terms & Conditions of an Options Contract

\_\_\_\_\_ (that I want to buy/sell)

\_\_\_\_\_(that I want to buy/sell)

\_\_\_\_\_(week, month, year)

## Example

\_\_\_\_(GOOGL)

\_\_\_\_(\$95)

\_\_\_\_\_ (32 days)

## Current GOOGL price \$97.46

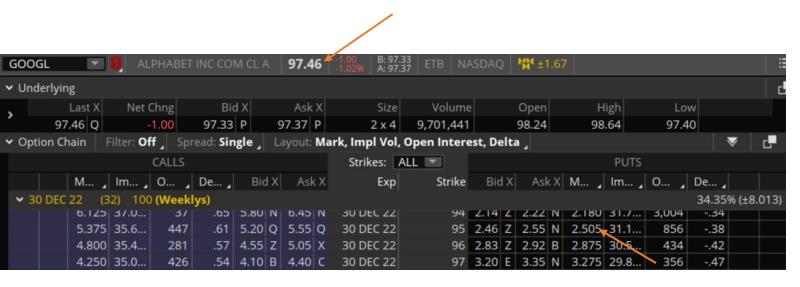
#### Options \_\_\_\_\_

- Own GOOGL shares in portfolio
- Wants to protect/ hedge GOOGL shares (from drastic drop)
- Buy protection by paying premium to options seller
- Buy options on GOOGL with \$95 as strike price
- If GOOGL drop below \$95, options seller will buy GOOGL shares at \$95 from options buyer.

#### Options \_\_\_\_\_

- Studied and love GOOGL shares
- Take "risk" off from option buyer
- Get paid premium (cash flow) for taking "risk" from option buyer
- Willing to buy GOOGL shares at \$95
- If price stays above \$95 at expiry. Contract expire. Keep premium.
- If price drop below \$95 at expiry, buy GOOGL shares at \$95 and still keep the premium.

# Example: GOOGL price @ \$97.46. But I (options seller) willing to \_\_\_\_\_ @ \$95



- We \_\_\_\_\_ 95 option @ 2.50/share
- Sell 1 contract = \$250 for 32 days
- Repeat the process until GOOGL \$95
- While waiting for the price to \_\_\_\_\_, you earn \$250 (2.63%)
- Actual buying price if drop below \$95 is \$92.5 (95-2.50)

## WHY SELL OPTIONS?

	Put Option Buyer	Put Option Seller
Big Uptrend	Lose	Win
Small Uptrend	Lose	Win
Big Downtrend	Win	Lose
Small Downtrend	Lose	Win
Sideway	Lose	Win
Odds	1/5	4/5

## So good deal???

GOOGL stock price now \$97.46	Strike Price @ \$237.5
GOOGL fly to \$150 (above \$95), contract expire worthless, you keep \$250 (premium)	
GOOGL rise a little to \$100 (above \$95), contract expire worthless, you keep \$250 (premium)	
GOOGL stays flat \$97.46 (above \$95), contract expire worthless, you keep \$250 (premium)	
GOOGL drop a little \$96 (above 95), contract expire worthless, you keep \$250 (premium)	
GOOGL drop a lot \$91 (below \$95), you lose \$1.5 (92.5*-91) a share. The bigger the drop you lose more. You still keep \$250 (premium).  *Actual buying price (Strike price of 95 – 2.5 premium)	

## How Warren Buffett uses Options

Years ago, Buffett sold puts for Coca Cola back when it was \$39. Buffett loves Coca Cola stock, but he didn't want to buy the shares at \$39. Instead, he wanted to buy them for \$35/share.

Rather than create a limit order that went through whenever Coca Cola's price hit \$35, Buffett decided to sell 50,000 Coca Cola puts with \$35 strike prices.

Since each option is for 100 shares, Buffett's 50,000 Coca Cola puts were a bid to buy 5 million Coca Cola shares at his desired \$35 strike price.

These 50,000 put contracts provided a \$1.50 premium for each share which resulted in an instant \$7.5 million windfall.

You can immediately use the money you earn from premiums to invest in other stocks or pay off expenses once the money settles. In the meantime, you'll get shares of your favorite stock at lower prices than what it's currently trading for.



## The Issue With Selling Call Options

- Holding \_\_\_\_\_\_ businesses allows you to sell call options regularly
- Therefore, the \_\_\_\_\_ you hold the business, the more \_\_\_\_\_
   you can sell call options
- The problem: Call options get exercised and you \_\_\_\_\_ the stock
- Research Findings: Statistical evidence suggests that share prices have a \_\_\_\_\_ probability to appreciate more than \_\_\_\_\_ in a month.

## Sell Call Strategy

- Sell monthly call options on 100 shares at strike price 10% higher than current stock price
- Capital at risk = purchase value of 100 shares premium
- Pros:
- Can \_\_\_\_\_ collect call premiums monthly ( Provided strike price > purchase price)
- Cons:
- \_\_\_\_\_ premiums
- Possibility of \_\_\_\_\_ your shares



## Requirements

- Fundamentally \_\_\_\_\_\_ businesses/ETFs only
- Only use when you are READY TO \_\_\_\_\_ THE SHARES

- Criteria:
- Own \_\_\_\_\_ shares
- Stock Implied Volatility Preferably > 40
- Strike Price > Average purchase price



#### **Execution Steps:**



1. Collect \_\_\_\_\_ shares



2. Sell Call Option at Strike Price > \_\_\_\_\_ than current share price



3. Leave until \_\_\_\_\_ or \_\_\_\_

4. Repeat



## At Expiry Date

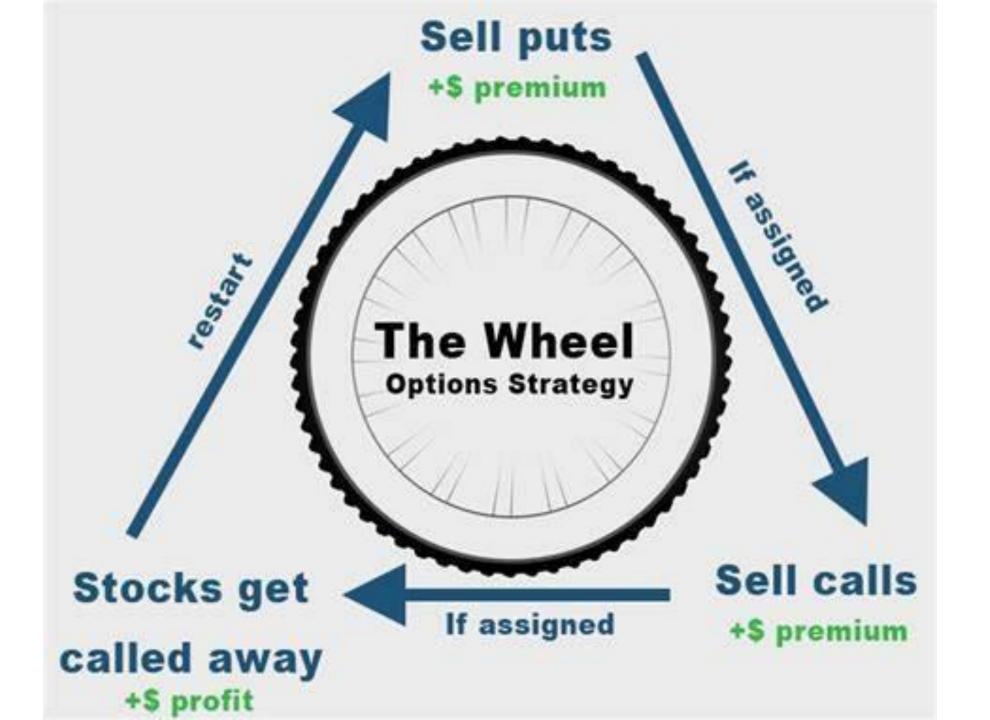
If contract \_\_\_\_\_ worthless, repeat the

• If contract \_\_\_\_\_, you'll get \_\_\_\_



## Combine Both to Make it a Wheel Strategy

So you create income every single month!





Module 7: Buying Options Properly

#### Buying vs. Selling Options



 Buying option – Buying a How To Make Money By Buying Options? Buy Put = \$\$\$ when share price goes Buy Call = \$\$\$ when share price goes

# Terminologies To Pay Attention To:

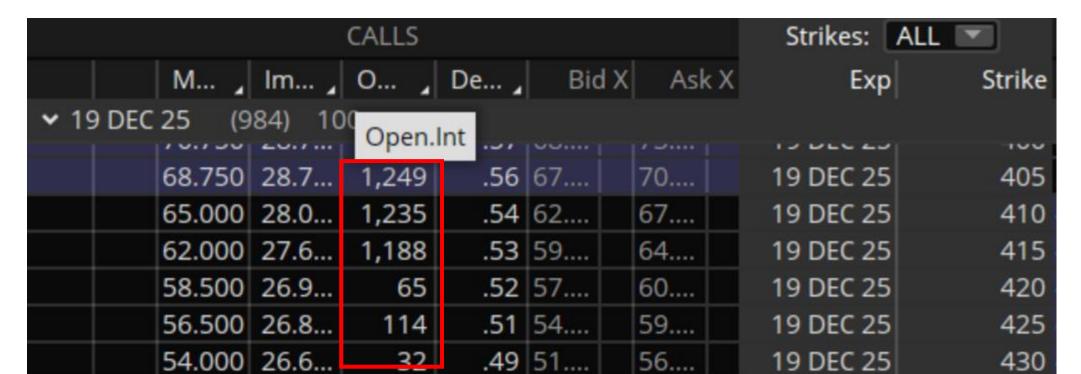
- Open \_\_\_\_\_
- The number of option contracts that are currently active
- \_\_\_\_\_\_ & Extrinsic Value
- Implied Volatility
- The degree of stock volatility



#### Open Interest (OI)

The number of option contracts which are \_\_\_\_\_

• The \_\_\_\_\_ the open interests, the easier it is to get a \_\_\_\_\_ price



#### Implied Volatility

Ideal situation to buy options:

- Low implied volatility ( )

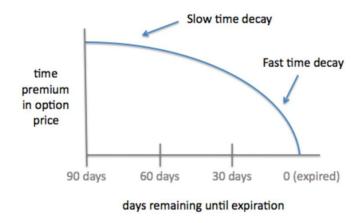
- If generally above 30% then at the lower end of the implied volatility range

<b>∨</b> Watchlist   To	p 1%	<del>2</del> 2	
Symbol	Last	Impl Vol	Volume <b>☆</b>
AAPL 😲 🚭 😃	162.03	30.70%	47,716,882
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ASHR	29.89	23.98%	3,419,199
GXC	81.89	31.57%	10,841
KWEB	30.09	46.30%	12,068,679

#### Extrinsic & Intrinsic Value (EV & IV)

Options Premium = Extrinsic Value + Intrinsic Value

- Extrinsic Value (Time Value)
- The value of the contract that deteriorates over time
- Value drops at accelerating rate nearer to expiry date



- Intrinsic Value (True value of the contract)
- The profit gain when contract is exercised. Hence the true worth of the contract.

- Ideally, we want our option contracts to have:
- Long expiry date (\_\_\_\_\_days) so that time decays slowly
- More intrinsic value than extrinsic value > Contract is safer

# Summary

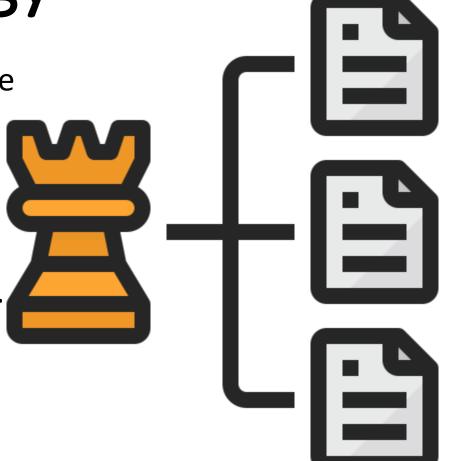
Ideal option contract to buy:

- Low implied volatility (<\_\_\_\_%)</li>
- High Open Interest (\_\_\_\_\_\_ the better)
- Intrinsic Value vs extrinsic value (More on this later)
- Longest Expiry Dates (>\_\_\_\_\_ days)

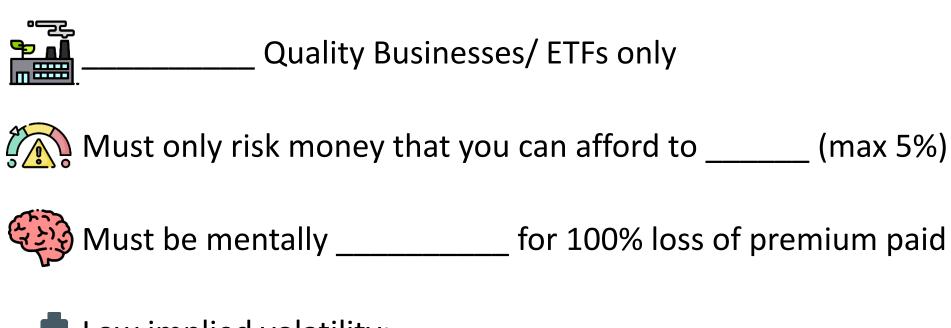


## The Leap Call Strategy

- Buy a call option with \_\_\_\_\_ expiry date
- Capital at risk = Total premium \_\_\_\_\_
- Pros:
- Leveraged \_\_\_\_\_ without leverage \_\_\_\_\_
- Cons:
- Potential \_\_\_\_\_ loss of premium paid
- Time is \_\_\_\_\_ you



## Requirements



- Low implied volatility:
- Below \_\_\_\_\_
- If stock implied volatility is generally high, then lower end of the implied volatility range

## **Execution Steps**

- 1. Select Call Option To \_\_\_\_\_
- 2. \_\_\_\_ away the Call Option when:
- Underlying asset change trend
- Contract has \_\_\_\_\_ months / \_\_\_\_ days left to expiry
- 3. Repeat

## How to Select Call Options to Buy

days

#### 2 Areas to Focus:

- Expiry Date (Contract Duration)
- Non-negotiable. Needs to be AT LEAST

- Open Interests
- Dictates whether you should prefer buying Call options

## ITM/ATM/OTM Characteristics

- In The Money (ITM) call options:
- Options have intrinsic value (which acts as the price floor)
- Contract retains some value if share price stays flat at expiry
- Profit as long as share price goes up
- \_\_\_\_\_ premiums payable per contract
- At The Money (ATM) / Out of The Money (OTM) Call Options:
- Options have 0 intrinsic value
- Options have no price floor (All open for negotiation)
- Contract will lose 100% if share price stays flat at expiry
- Needs the share price to rally within 1.5 years to profit
- \_\_\_\_\_ premium payable per contract

## When to Select ITM/ATM/OTM

- Select ITM Calls when:
- Open Interest are generally \_\_\_\_ (\_\_\_\_)
- Premiums payable <5% of portfolio

- Select ATM/OTM Calls when:
- Open Interest are generally \_\_\_\_ (\_\_\_\_\_
- Have very strong conviction of a big upside within 1 year (above breakeven share price)

### Selecting Strike Price for ITM Call Options

• \_\_\_\_\_ Value > \_\_\_\_\_ Value

Focus on strike prices with high open interests (>100)

Can execute with prudent portfolio sizing

#### Selecting Strike Price for ATM/OTM Call Options

Focus on strike prices with \_\_\_\_\_ open interests (\_\_\_\_\_)

Execute with prudent portfolio sizing



# Example 1

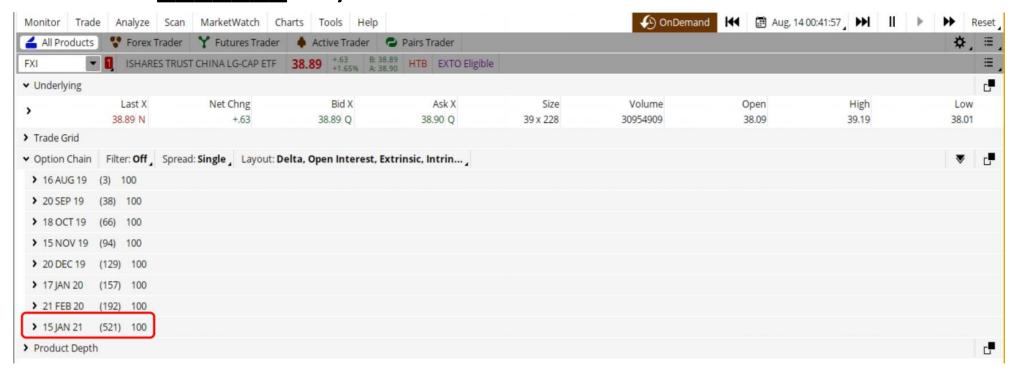
ETF

# Step 1: Check Implied Volatility



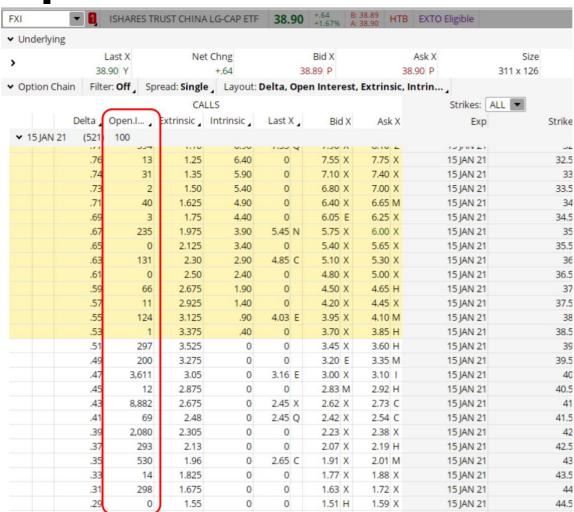
### Step 2: Go For Longest Expiry Date

- Go to contract with expiry date.
- Minimum days.



## Step 3: Check Open Interest

- Options for this stock generally has high
   Open interest
- Therefore, you can choose to buy either ITM/ATM/OTM Call Options
- Assuming \$10k Capital. Choose ITM if premiums paid <5% of capital</li>
- Choose ATM/OTM ONLY if you are confident of a large upside within 1.5 years

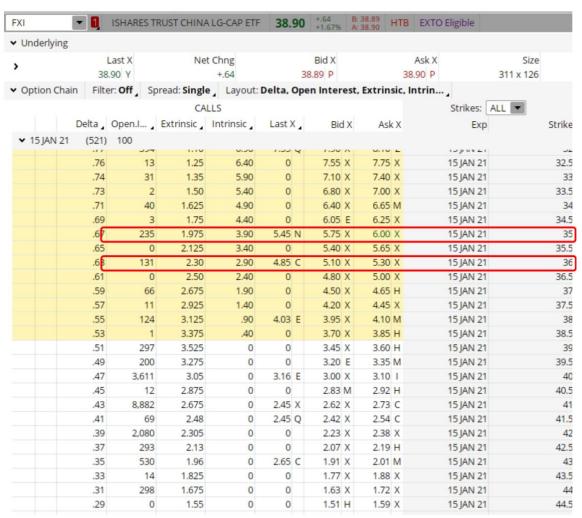


# Step 4a: Buying ITM Calls

Intrinsic Value > Extrinsic Value

Exceptionally High Open Interests

• < \_\_\_\_% of portfolio</pre>



# Step 4b: Buying ATM/OTM Calls

Focus on contracts with exceptionally high open interests

Calculate breakeven share price.

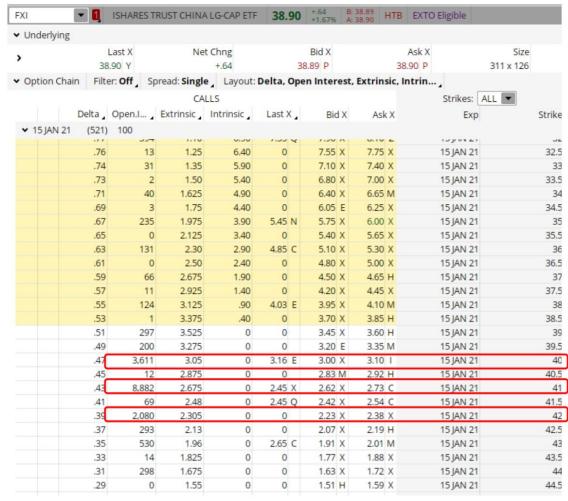
Strike 40 breakeven: 43.16

Strike 41 breakeven: 43.45

Strike 42 breakeven: 44.38

 Choose breakeven strike price which you are confident share price can hit and go beyond (Stock's valuation)

• < 5% of portfolio



#### How to Profit? – When share price goes up

\$556.86									
	Description			Qty	Trade Price	Close Price	Close Value	P/L Open	P/L % ❖
	ISHARES TRUST CHINA LG-CAP ETF			+13	38.25	42.835	\$556.86	\$59.61	+11.99%
	OVERALL TOTALS						\$556.86	\$59.61	+11.99%
\$2,762.50	A								
Option Code		Exp	Strike Type	Exp	Qty	Trade Price	Close Price	P/L Open	P/L % ❖
FXI FXI	/210115C36	15 JAN 21	36 CALL	15 JAN 21	+1	4.75	8.125	\$337.50	+71.05%
FXI FXI	/210115C40	15 JAN 21	40 CALL	15 JAN 21	+2	2.79	5.20	\$482.00	+86.38%
FXI FXI	/210115C41	15 JAN 21	41 CALL	15 JAN 21	+2	2.42	4.55	\$426.00	+88.02%
								\$1,245.50	+82.10%
	\$2,762.50 Opt FXI FXI: FXI FXI:	Description ISHARES TRUST CHIN OVERALL TOTALS \$2,762.50	Description ISHARES TRUST CHINA LG-CAP ETF OVERALL TOTALS  \$2,762.50  Option Code	Description ISHARES TRUST CHINA LG-CAP ETF OVERALL TOTALS  \$2,762.50  Option Code	Description   Qty	Description   Qty   Trade Price   ISHARES TRUST CHINA LG-CAP ETF   +13   38.25	Description   Qty   Trade Price   Close Price   ISHARES TRUST CHINA LG-CAP ETF   +13   38.25   42.835   OVERALL TOTALS     S2,762.50     Exp   Strike Type   Exp   Qty   Trade Price   FXI FXI210115C36   15 JAN 21   36 CALL   15 JAN 21   +1   4.75   FXI FXI210115C40   15 JAN 21   40 CALL   15 JAN 21   +2   2.79	Description   Qty   Trade Price   Close Price   Close Value   SHARES TRUST CHINA LG-CAP ETF   +13   38.25   \$556.86   \$556.8	Description   Qty   Trade Price   Close Price   Close Value   P/L Open   SHARES TRUST CHINA LG-CAP ETF   +13   38.25   42.835   \$556.86   \$59.61   \$556.86   \$59.61   \$2,762.50

- Stock ROI 11.99%
- Strike 36 (ITM Call Option) ROI: 71.05%
- Strike 40 (OTM Call Option) ROI: 86.38%
- Strike 41 (OTM Call Option) ROI: 88.02%

# Example 2

ETF

# Step 1: Check Implied Volatility



### Step 2: Go For Longest Expiry Date

- Go to contract with \_\_\_\_\_ expiry date.
- 500 days.

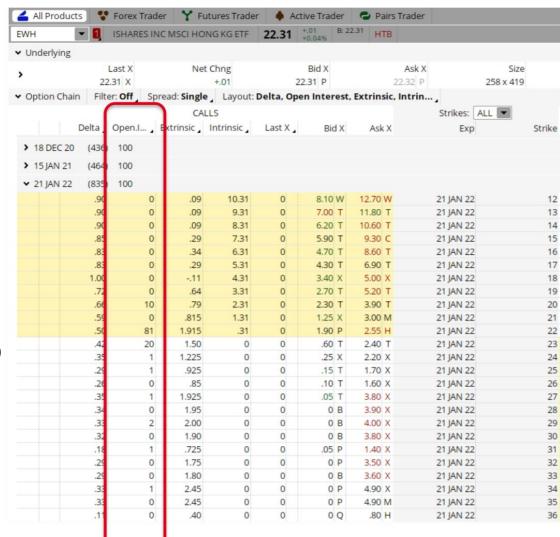


Step 3: Check Open Interest

EWH generally has low open interest

More favourable to invest in ITM Call
 Options

 Avoid ATM/OTM call options. Harder to negotiate for favourable premium to pay

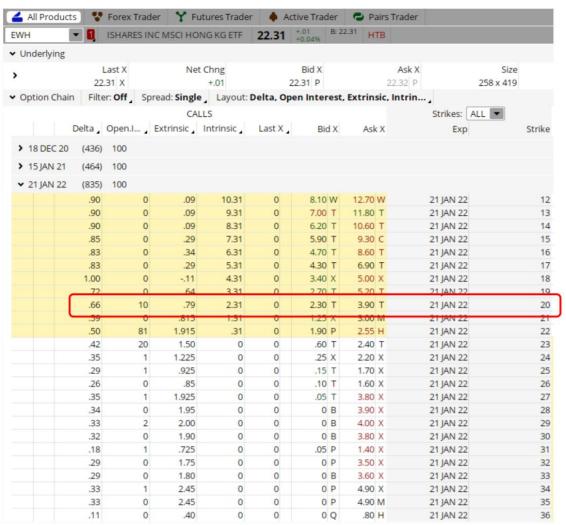


# Step 4: Buying ITM Calls

Intrinsic Value > Extrinsic Value

Exceptionally High Open Interests

• < \_\_\_\_% of portfolio



#### **IMPORTANT**

Non-Negotiable Items for Call Options:

- Time:
- You want as much time as possible
- MINIMUM \_\_\_\_ days
- Portfolio Sizing:
- Be aware of your \_\_\_\_\_
- DO NOT EXCEED \_\_\_\_\_ of portfolio

### Do we set Stop Loss?

\_\_\_\_\_ of the premium paid

How To \_\_\_\_\_ Make Millions \_\_\_\_ with Options Even Though Your Capital is \_\_\_\_\_ 4 or 5 Figures?

Bull and bear facts1

Average gain in bull market: +153.71%

Average length of bull market: 55.1 months

Average loss in bear market: -34.33%

Average length of bear market: 11.7 months



#### Bull market

A prolonged market period in which an investment has prices that **rise** faster than the historical average. Typically characterized by a stock market rise of at least 20% from its previous low.<sup>2</sup>



#### Bear market

A prolonged market period in which an investment has prices that **fall**. Typically characterized by a stock market that has fallen at least 20% from its previous high.<sup>2</sup>





# The Options Investing Framework

• The A-I-M Analysis System

Portfolio Strategy





#### Portfolio Risks

- The Risk for any investment is the potential loss of capital
- To control risk, we control/limit the potential loss of capital
- ✓ \_\_\_\_\_ Strategy = strike price x 100 shares premiums
- ✓ \_\_\_\_\_ Strategy = cost of 100 shares premiums
- ✓ \_\_\_\_\_ Strategy = premiums paid



# Portfolio Allocation

- Ideal allocation for each stock: \_\_\_\_\_%
- Maximum allocation for each stock: \_\_\_\_\_%
- Maximum capital allowed for Leap Call: \_\_\_\_\_\_%
- This \_\_\_\_\_% can be divided among many different Leap Call positions



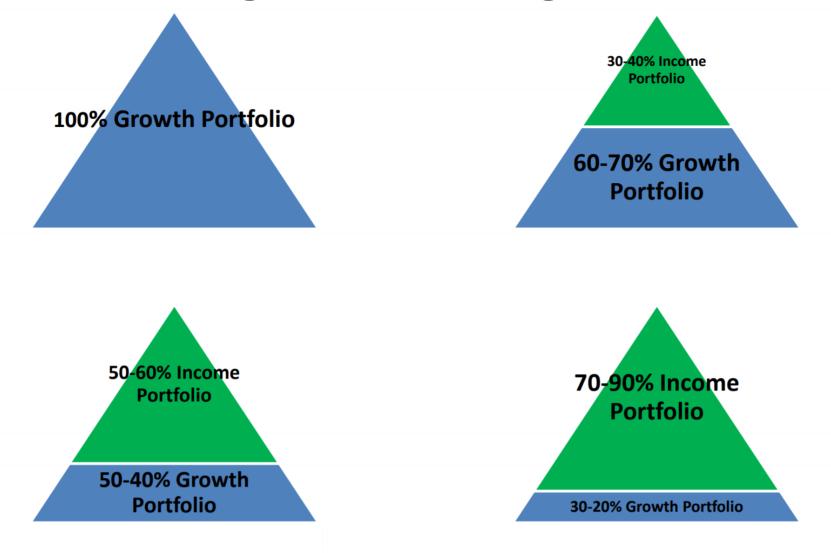


# 2 Types of Portfolio

- Portfolio
- Strong growing Companies
- ❖ Leap Calls
- **❖** Ultimate Bull
- ❖ Make It Rain
- Portfolio
- **❖** Dividend Companies
- ❖ Selling Put/Call Options
- ❖ Gatling Gun



#### Portfolio Changes According To Preference



•The journey that you're taking is not all about money. It's about the freedom that comes with it.

•It's the freedom to not have to work for money.

•It's the freedom to have your money work for you.

# Don't Wish For It, Work For It.