

# Dynamic ETF Option Strategy





The Dynamic ETF Option strategy embodies the idea of selling ETF put options against cash and collecting premium that seeks consistent income stream for the portfolio. The approach targets income generation and lowered volatility than the broad market. The strategy involves selling out-of-the-money puts collecting premiums as long as the price of the underlying ETF remains above the put strike price at expiration. ETFs may be assigned at lower prices to their market prices at the point of options placement. The put options are used as a tool to acquire an ETF at a lower and pre-established price, which is the strike price of the option. Covered calls are used as a tool to exit assigned ETFs and generate income in the interim. This strategy is designed for a long-term investor looking to generate potential income from the collection of premium and/or to go long ETF positions at lower prices compared to their current trading prices. The strategy can only be implemented for taxable accounts; IRA accounts cannot utilize this strategy given the nature of put selling.



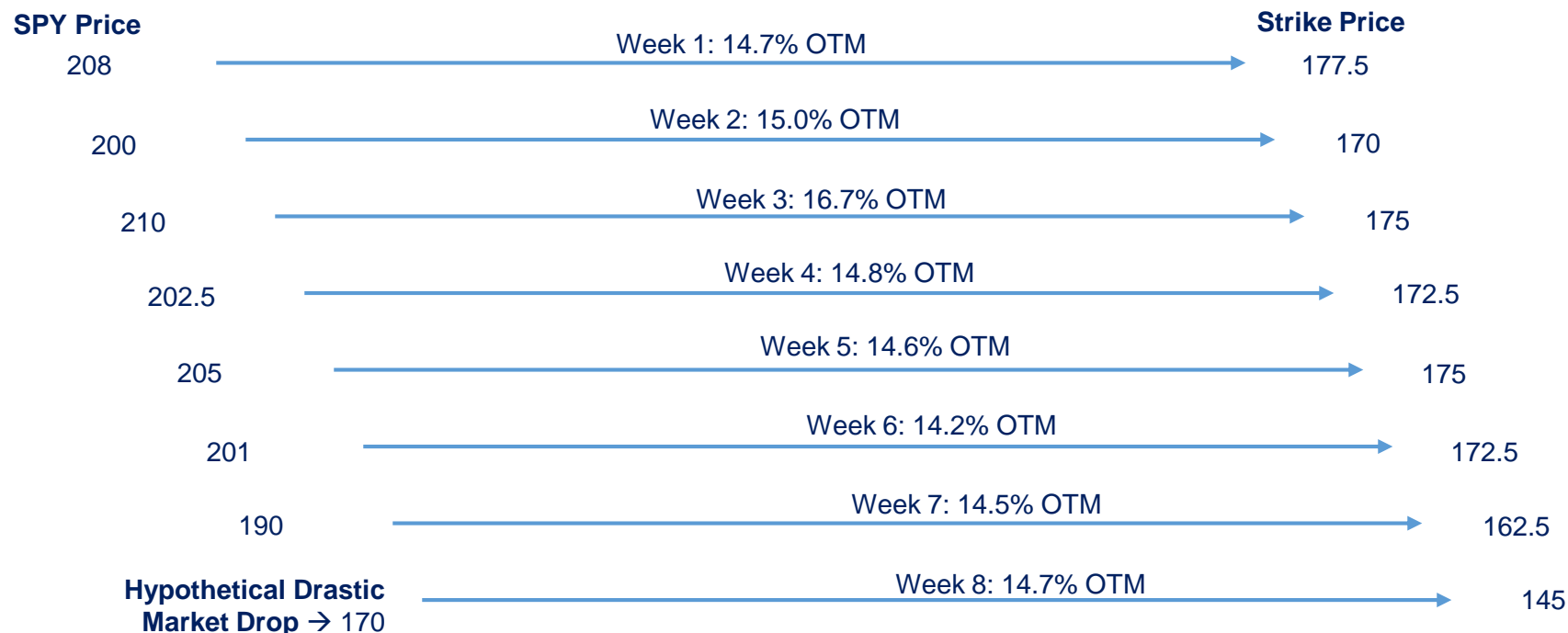
- Seeks to generate monthly income through selling option premium.
- Has high liquidity and stays mostly cash.
- Capable of generating yield in a bull market, stagnant market and within a range of heightened volatility.
- Strategy may use options to acquire and liquidate specific ETF positions.
- Can better target the preferred acquisition and sale price of an ETF.
- Can be applied as an options overlay over a long equity portfolio to enhance performance.
- Options get priced based on volatility. More volatility allows for potentially increased returns.
- We are always the options seller, never the options buyer unless we are hedging the portfolio.
- We focus on broad market mega-cap ETF options such as the SPDR S&P 500 ETF (SPY). S&P 500 ETF options allow for weekly options and premiums, and thus may potentially experience a compounding effect of weekly premiums.
- Risk may be mitigated with a broad, diversified index. Individual stocks can have drastic price movements but a basket of securities like the SPY would generally experience less fluctuation in volatile markets.

- All positions are initiated by issuing puts with attractive strikes on the underlying ETF.
- Majority of puts expire within 1 to 2 months.
- The % distance Out of The Money (OTM) of put positions when opened is contingent upon volatility and overall market conditions. This calculation is based off a proprietary assessment that takes into consideration a wide array of factors such as institutional placement, organic floors and ceilings based on open interest, previous short-to-long term trading levels, historical extreme price movements around macro events, etc.
- In periods of lower volatility, the %OTM averages around 10% - 20%\*. In periods of higher volatility, like what the markets experienced in 2008 and early 2009, the %OTM can be as much as 40%\*.
- All puts, regardless of distance from the strike, typically have above an 80%\* likelihood of expiring OTM with the majority above 95%\*, based on the standard deviation of the underlying ETF.

\*Proprietary statistical analysis performed by the investment team.

- If an ETF option expires In The Money (ITM), portfolios may accept assignment and write covered calls against the assigned position to lower the buying average until the position recovers to or above the acquisition price, upon which liquidation will occur.
- We find avoiding assignment to be generally more efficient for the strategy, so the standard hedging procedure is to roll or hedge options that may get tested.
  - An example of a calendar roll of a short put position involves buying back the contract and rolling the exposure to a lower strike price at a further expiration. We attempt to do option rolls at a breakeven or credit basis, further increasing the cash buffers in the portfolio.
- In the event of a severe flash crash or an unpredictable severe binary global event, we will reduce exposure accordingly in an effort to not exceed 200% margin for ETF assignments.

# Sample Strategy Deployment Scenario

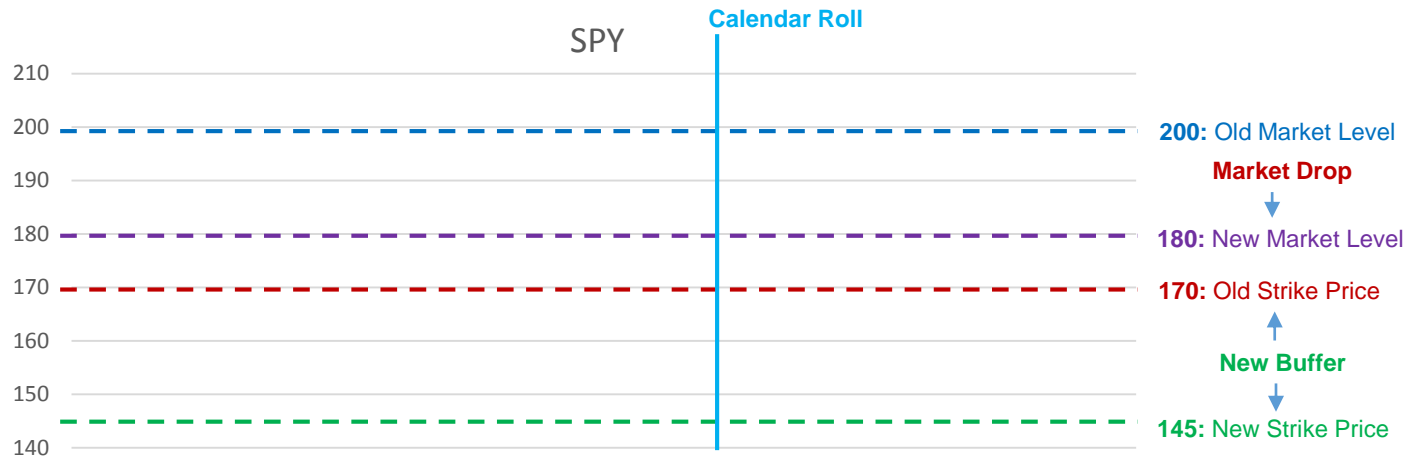


- Capital takes roughly 8 weeks to get fully deployed.
- A staggered exposure approach may provide enhanced risk management and attractive opportunities to capture gains if the market trends favorably.
- Strategy targets dynamic strike prices as the market goes up or down each week.
- Strategy starts to generate weekly income/premiums immediately and may fully realize the profit on the premiums after roughly 8 weeks when the option contracts start to expire.

The above is a hypothetical example developed by Elite Wealth Management for illustrative purposes only and there is no guarantee that this scenario will develop or that the strategy will be profitable.

# Risk Management Example (Calendar Roll)

**\$200** Current ETF Market Price  $\xrightarrow{15.0\%}$  (approximate out-of-the-money range)  $\xrightarrow{\text{Calendar Roll}}$  **\$170** Selected Strike Price



**\$180** New Market Level  $\xrightarrow{\text{Calendar Roll}}$  **\$170** Previous Strike Level  $\xrightarrow{14.7\%}$   $\xrightarrow{\text{Calendar Roll}}$  **\$145** New Strike Selection

- Consider a hypothetical high volatility scenario where the S&P 500 drops 10% in the span of two weeks.
- We would buy back the original strike price of 170 and move it to the 145 strike at a breakeven or credit further out in time. This is called a calendar credit or breakeven roll.
- The calendar roll to a further date creates a new buffer to stay ahead of the market drop.
- The market would then need to drop to the 145-150 range to test the new strike price.

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Below are the top 10 largest down gaps in history of the S&P 500 at the market open. We deploy our positions on average 2 to 2.5 times further than the largest historical opening gap in order to better mitigate against market shock events. The largest historical gaps are not significant enough to trigger a margin call and liquidate our positions with the risk management, margin parameters and buffers that we utilize.

<b>Top 10 Largest S&amp;P 500 Open Gaps</b>	
9/26/1955	-6.62%
6/26/1950	-5.38%
6/29/1950	-3.70%
4/18/1961	-3.61%
12/4/1950	-3.36%
2/9/1953	-3.09%
11/28/1950	-3.07%
10/21/1957	-2.93%
10/10/1955	-2.90%
10/3/1955	-2.70%

Source: Yahoo Finance



## Quantitative/Technical

### Factors Assessed to Determine Probable ETF Price Range:

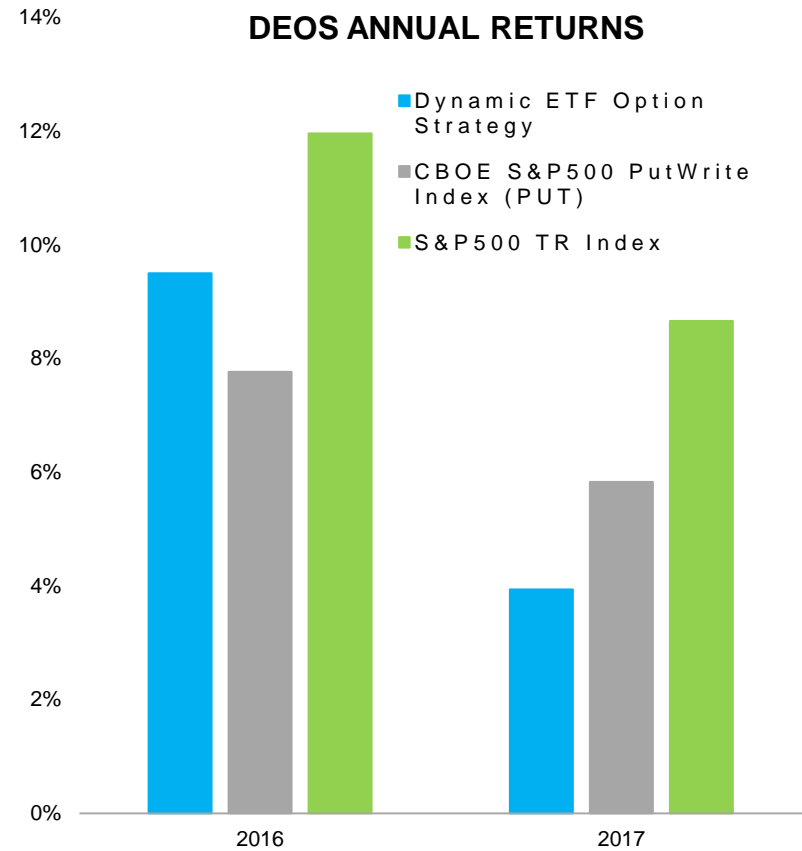
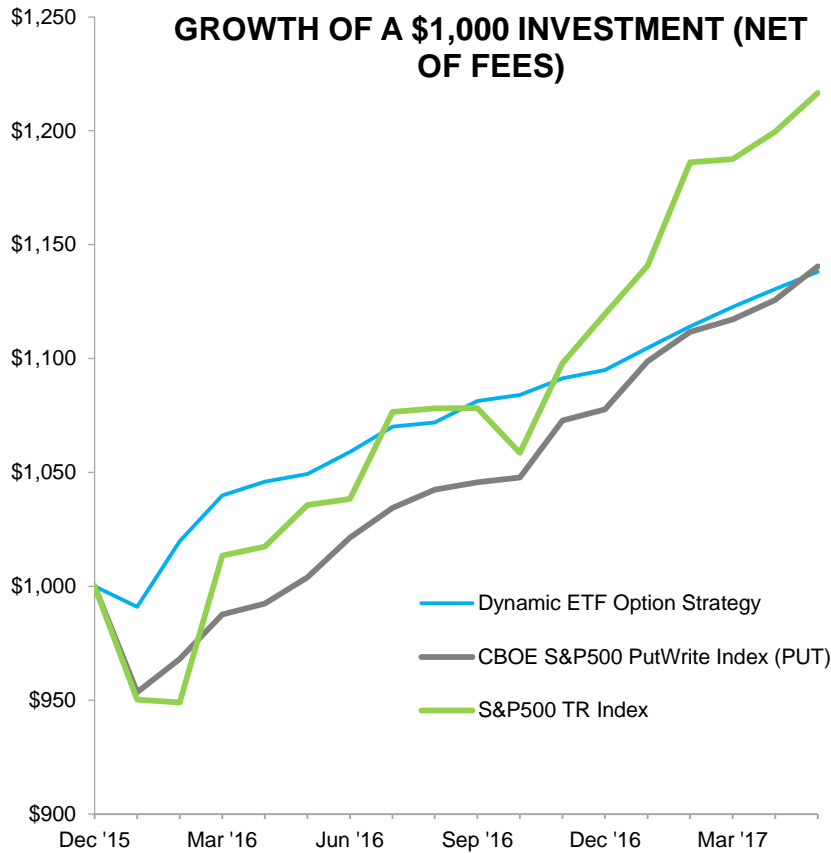
- Common graphical indicators, e.g. support and resistance levels, moving averages, breakouts, etc. We also look at how the ETF has moved relative to the overall market during systemic upturns/downturns.
- Is the ETF currently on an upward or downward trend?
- Put options with >80%\* probability of expiring Out of The Money (OTM) based on the last 52-week trading range. Majority of positions land >95%\* probability of expiring OTM.
- Changes in insider and institutional company holdings.

\*Proprietary statistical analysis performed by the investment team.

## Quantitative/Fundamentals

### Factors Effecting Position Exposure Levels

- ETFs consisting of companies with positive P/E ratios over the last four quarters.
- Focus on ETF baskets of companies with increasing revenue/decreasing debt.
- Positive long-term outlook. ETF holdings products/services have long-term value.
- Strong balance sheets.
- We look at the range of news reports and releases over the last 3-6 months while assessing upcoming events, e.g. earning reports, litigations, FDA announcements, corporate events, etc.



The performance shown is of a strategy consisting of all discretionary accounts using this investment strategy. There is a \$30,000 minimum account size required for inclusion in the strategy. New funds or accounts are added to the strategy upon the first full month of investment and closed funds or accounts are removed from the composite upon the last full month of investment. **Past performance is no guarantee of future results.** Performance returns for periods of less than one year are not annualized. The performance figures contained herein are provided net of 1% management fees basis, reflecting the deduction of investment management fees, as well as brokerage or other commissions and expenses. It is not possible to invest directly in an index. Index performance does not reflect charges and expenses and is not based on actual advisory client assets. Index performance does include the reinvestment of dividends and other distributions. The performance includes the reinvestment of dividends and other corporate earnings and is calculated in US dollars. Please see the Dynamic ETF Option Strategy Disclosures for additional strategy performance information.

# Dynamic ETF Option Strategy Performance and Statistics



# ELITE WEALTH MANAGEMENT

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD Net Returns		
													Dynamic ETF Option Strategy	PutWrite Idx (PUT)	SP500TR
2017	0.88%	0.86%	0.76%	0.70%	0.68%								3.94%	5.83%	8.66%
2016	-0.89%	2.90%	1.97%	0.58%	0.32%	0.93%	1.05%	0.17%	0.87%	0.25%	0.68%	0.33%	9.50%	7.77%	11.96%

## Statistics (Net of Fees)

Standard Deviation (Monthly):	0.79%	May Return:	0.68%
Standard Deviation (Annualized):	2.73%	YTD Return:*	3.94%
Downside Deviation (Monthly):**	0.28%	Average Monthly Return:	0.77%
Downside Deviation (Annualized):**	0.96%	Highest Month:	2.90%
Sharpe Ratio (Monthly):**	0.66	Lowest Month:	-0.89%
Sharpe Ratio (Annualized):**	2.29	% of Positive Months:	94.12%
Sortino Ratio (Monthly):**	1.86	Maximum Drawdown:	-0.89%
Sortino Ratio (Annualized):**	6.43	Longest Winning Streak:	16 Months
Alpha (Monthly):***	0.34%	Longest Losing Streak:	1 Month
Alpha (Annualized):***	4.13%		
Beta:***	0.33	Compounded Monthly Return:	0.76%
Correlation Coefficient:***	0.65	Compounded Annual Return:	9.57%
R-squared:***	0.42	Cumulative Return:	13.82%

\*YTD Through May 2017 \*\*Based on Risk Free Rate (RFR) at 3.0% \*\*\*Calculated Against PUT Index

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## Retail

<b>Minimum Investment</b>	\$10,000
<b>Management Fee</b>	1.0%
<b>Lockup Period</b>	None
<b>Redemptions</b>	Daily
<b>Contributions</b>	Daily
<b>Capital Account Reporting</b>	Daily
<b>Location</b>	Onshore
<b>Structure</b>	Separately Managed Account

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- Next \$50M = 0.55% Annually
- Anything over \$150M = 0.50% Annually

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