

Dynamic Futures Option Strategy





The Dynamic Futures Option Strategy embodies the idea of selling options against cash and collecting premium as a continuous income stream for the portfolio. The strategy focuses on selling out-of-the-money (OTM) options on S&P 500 e-mini futures contracts, however, other types of futures contracts may also be engaged opportunistically. The approach targets income generation and lowered volatility than the broad market. The strategy involves selling OTM options collecting premiums as long as the price of the underlying securities remain OTM at expiration. Futures contracts may be assigned at a price lower than current market prices at the point of options placement. Put options are used as a tool to generate yield and potentially acquire futures contracts at lower and pre-established prices, which is the strike price of the option. Call options are also used as a tool to generate additional yield and to potentially exit assigned futures contracts. This strategy is appropriate for a long-term investor looking to generate income from the collection of premium and/or to go long futures positions at lower prices than their current market prices. The strategy can only be implemented for taxable accounts; IRA accounts cannot utilize this strategy given the nature of options selling.



- Seeks to generate monthly income through 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 futures positions.
- Can better target the preferred acquisition and sales price of a futures contract.
- Options get priced based on volatility. More volatility generally allows for potentially increased returns.
- We are always the options seller, never the options buyer unless we are hedging the portfolio.
- The strategy focuses primarily on S&P 500 index e-mini futures contracts. Index 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 securities can have drastic price movements but a basket of securities like the S&P 500 index would generally experience less fluctuation in volatile markets.

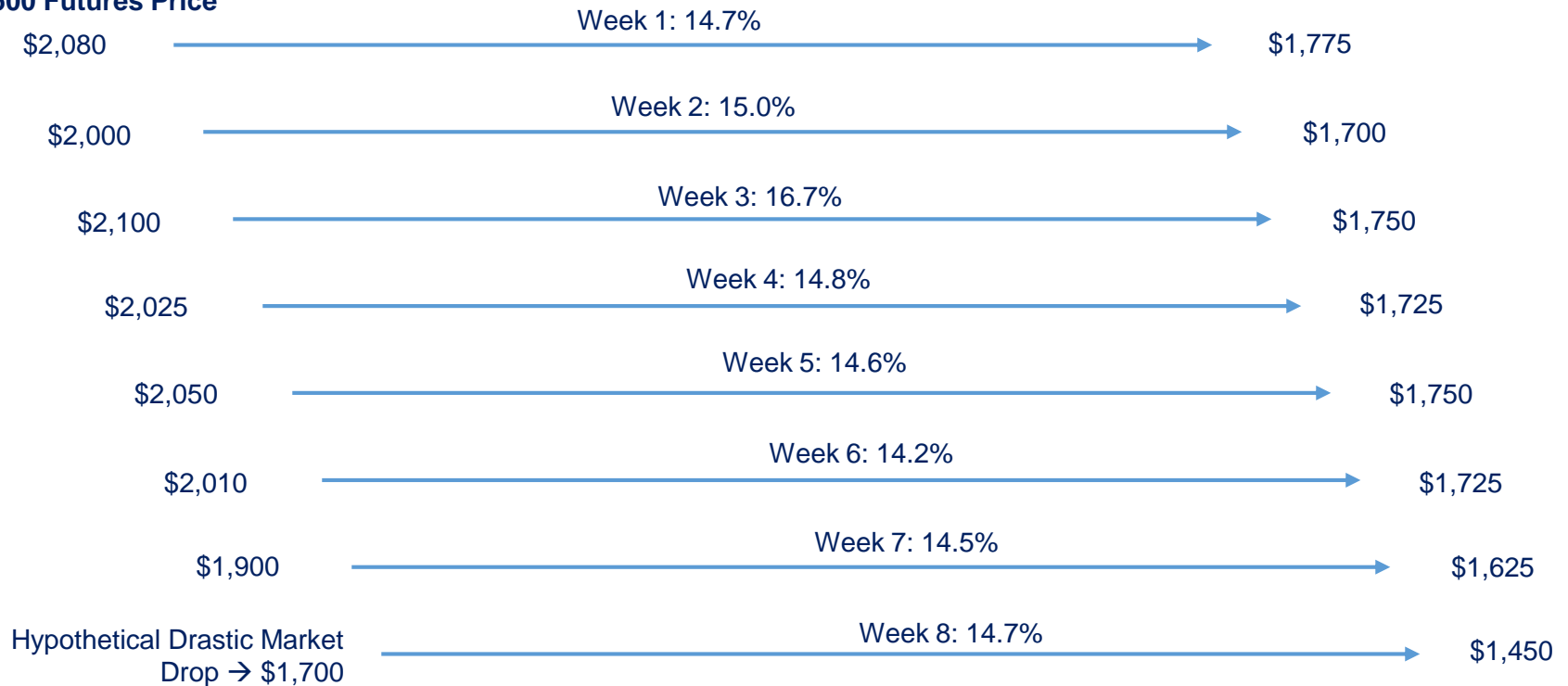
- All positions are initiated by issuing options with attractive strikes on the underlying futures contracts.
- Majority of options expire within 1 to 2 months.
- The % distance Out of The Money (OTM) of options positions when opened is contingent upon volatility and overall market conditions. This calculation 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 options, regardless of distance from strike, typically have above an 80%* likelihood of expiring OTM with the majority above 95%*, based on the standard deviation of the underlying security.

*Proprietary statistical analysis performed by the investment team.

- If the underlying futures option expires In The Money (ITM), portfolios will accept assignment and write covered calls against the futures contract 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 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 security assignments.

Sample Strategy Deployment Scenario

S&P 500 Futures Price

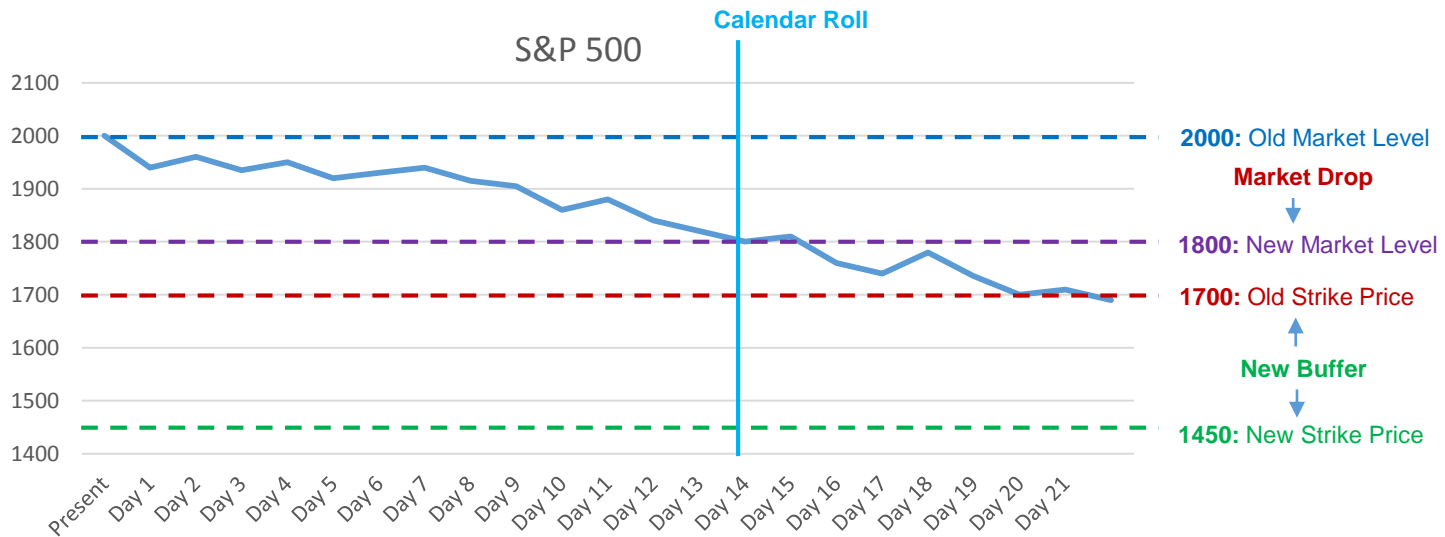


- Capital takes roughly 8 to 10 weeks to get fully deployed.
- A staggered exposure approach may provide enhanced risk management and attractive opportunities to capture gains if the market trends favorably.
- Strategy targets dynamic strike prices as the market goes up or down each week.
- Strategy starts to generate weekly income/premiums immediately and may fully realize the profit on the premiums after roughly 8 - 10 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)

\$2,000 Current Market Price (approximate out-of-the-money range) → **\$1,700** Selected Strike Price



\$1,800 New Market Level → **\$1,700** Previous Strike Level → **14.7%** Calendar Roll → **\$1,450** 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 1,700 and move it to 1,450 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 1,450-1,500 range to test the new strike price.

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Below are the top 10 largest down gaps in history for 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 historical gaps are not significant enough to trigger a margin call and liquidate our positions with our risk management, margin parameters and buffers that we utilize.

Top 10 Largest S&P 500 Open Gaps	
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

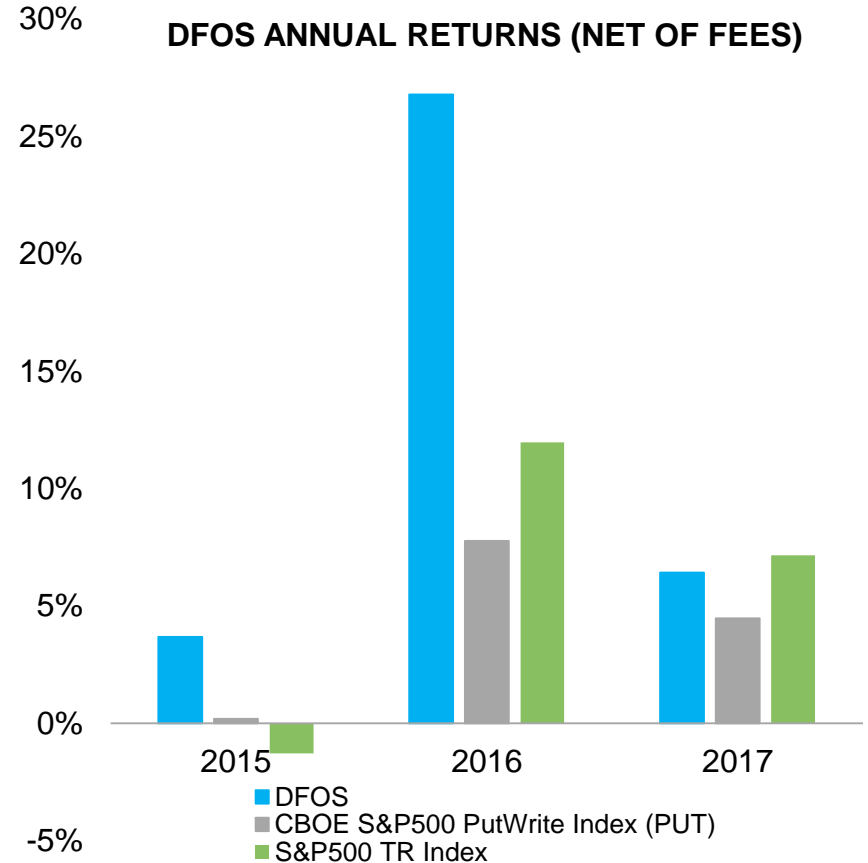
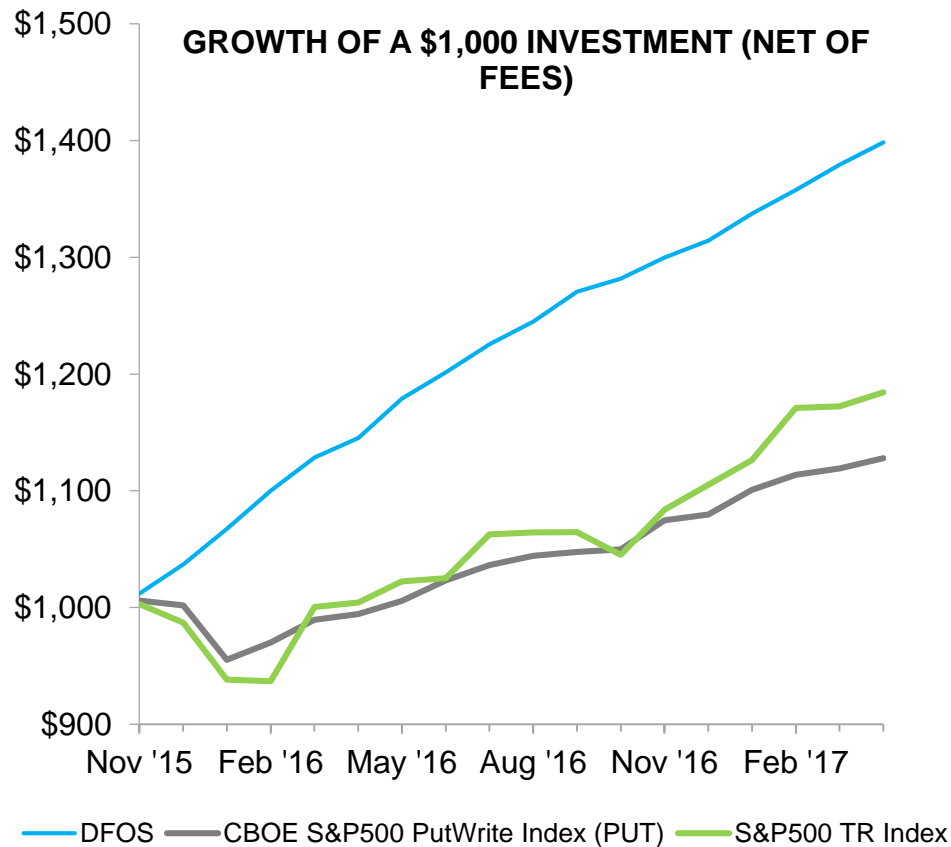
Quantitative/Technical

Factors Assessed to Determine Probable Underlying Futures Contract Price Range:

- Common graphical indicators, e.g. support and resistance levels, moving averages, breakouts, etc. We also look at how the underlying futures contract has moved and its pricing behavior during systemic upturns/downturns.
- Is the futures contract currently on an upward or downward trend?
- 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 institutional flow.

*Proprietary statistical analysis performed by the investment team.

Dynamic Futures Option Strategy – Proprietary Account



Performance presented is net of all fees, commissions and expenses. Past performance is not necessarily indicative of future results. Proprietary account information is shown because investment in DFOS takes approximately 60 days to gain full position exposure. As such, returns for new clients will differ from other accounts trading the strategy until fully integrated. Please refer to the Disclosure Document at <http://elitewm.com/wp-content/Dynamic-Futures-Option-Strategy-Disclosure-Document.pdf> for additional information. Index comparisons are presented for evaluation purposes, as indices are generally not available as directly investible products.

Dynamic Futures Option Strategy – Proprietary Account

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD Net Returns			
													DFOS Proprietary Account	CBOE PutWrite (PUT)	S&P500 Index	S&P500 TR Index
2017	1.76%	1.57%	1.60%	1.40%									6.41%	4.47%	7.16%	
2016	2.95%	3.06%	2.59%	1.47%	2.96%	1.91%	2.00%	1.59%	2.05%	0.88%	1.41%	1.12%	26.77%	7.77%	11.96%	
2015											1.19%	2.46%	3.68%	0.18%	-1.70%	

Statistics (Net of Fees)

Standard Deviation (Monthly):	0.67%	April Return:	1.40%
Standard Deviation (Annualized):	2.31%	YTD Return:*	6.41%
Downside Deviation (Monthly):**	0.00%	Average Monthly Return:	1.88%
Downside Deviation (Annualized):**	0.00%	Highest Month:	3.06%
Sharpe Ratio (Monthly):**	2.45	Lowest Month:	0.88%
Sharpe Ratio (Annualized):**	8.49	% of Positive Months:	100.00%
Sortino Ratio (Monthly):**	N/A	Maximum Drawdown:	N/A
Sortino Ratio (Annualized):**	N/A	Longest Winning Streak:	18 Months
Alpha (Monthly):***	1.68%	Longest Losing Streak:	0 Months
Alpha (Annualized):***	22.13%	Compounded Monthly Return:	1.88%
Beta:***	-0.11	Compounded Annual Return:	25.06%
Correlation Coefficient:***	-0.25	Cumulative Return:	39.86%
R-squared:***	0.06		

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

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Dynamic Futures Option Strategy – Client Composite

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD Net Returns		
													DFOS Client Composite	CBOE S&P500 PutWrite Index (PUT)	S&P500 TR Index
2017	1.54%	1.35%	1.46%	1.42%									5.90%	4.47%	7.16%
2016					-0.01%	1.62%	1.34%	1.41%	1.71%	0.47%	1.50%	1.01%	9.40%	8.58%	10.04%

Statistics (Net of Fees)

Standard Deviation (Monthly):	0.51%	April Return:	1.42%
Standard Deviation (Annualized):	1.77%	YTD Return:*	5.90%
Downside Deviation (Monthly):**	0.08%	Average Monthly Return:	1.23%
Downside Deviation (Annualized):**	0.26%	Highest Month:	1.71%
Sharpe Ratio (Monthly):**	1.94	Lowest Month:	-0.01%
Sharpe Ratio (Annualized):**	6.71	% of Positive Months:	91.67%
Sortino Ratio (Monthly):**	N/A	Maximum Drawdown:	-0.01%
Sortino Ratio (Annualized):**	N/A	Longest Winning Streak:	11 Months
Alpha (Monthly):***	1.03%	Longest Losing Streak:	1 Month
Alpha (Annualized):***	13.09%	Compounded Monthly Return:	1.23%
Beta:***	0.19	Compounded Annual Return:	15.85%
Correlation Coefficient:***	0.26	Cumulative Return:	15.85%
R-squared:***	0.07		

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

Performance presented is net of all fees, commissions and expenses. Past performance is not necessarily indicative of future results. Proprietary account information is shown because investment in DFOS takes approximately 60 days to gain full position exposure. As such, returns for new clients will differ from other accounts trading the strategy until fully integrated. Client Composite includes all client accounts actively participating in the strategy. Please refer to the Disclosure Document at <http://elitewm.com/wp-content/Dynamic-Futures-Option-Strategy-Disclosure-Document.pdf> for additional information. Index comparisons are presented for evaluation purposes, as indices are generally not available as directly investible products.

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Retail

Minimum Investment	\$55,000
Management Fee	1.0% annual
Lockup Period	None
Redemptions	Daily
Contributions	Daily
Capital Account Reporting	Daily
Location	Onshore
Structure	Separately Managed Account*

*Accounts are opened and titled in the name of the investor.

Institutional

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- Next \$50M = 0.55% Annually (Excludes DFOS, which charges 1% annually.)
- Anything over \$150M = 0.50% Annually (Excludes DFOS, which charges 1% annually.)

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PAST PERFORMANCE IS NOT NECESSARILY INDICATIVE OF FUTURE RESULTS. Proprietary account information is shown because investment in DFOS takes approximately 60 days to gain full position exposure. As such, returns in the client composite will differ from those in the proprietary composite. Client accounts that are in the strategy longer than 60 days will approximately match the proprietary results. Please refer to the Disclosure Document at <http://elitewm.com/wp-content/Dynamic-Futures-Option-Strategy-Disclosure-Document.pdf> for additional information.

The CBOE S&P 500 PutWrite Index (PUT) tracks the performance of a hypothetical investment strategy (PUT strategy) that overlays short S&P 500 puts over a money market account. The number of puts is set to collateralize the exposure to S&P 500 downturns. Studies have found that short option strategies, and especially short put strategies, appear to generate high risk-adjusted returns. Reasons cited for the excess returns are the negative risk-premium garnered by volatility, and, in the case of puts, the high demand for portfolio protection. For more information on the PUT Index and the studies described, please visit the website www.cboe.com/put or send an e-mail to institutional@cboe.com.

The Standard & Poor’s 500 Index (S&P 500) is an index of 500 stocks seen as a leading indicator of U.S. equities and a reflection of the performance of the large cap universe, made up of companies selected by economists. The S&P 500 is a market value weighted index and one of the common benchmarks for the U.S. stock market.

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FUTURES OPTIONS RISK—Options or options on futures contracts give the holder of the option the right to buy (or to sell) a position in a security or in a contract to the writer of the option, at a certain price. They are subject to correlation risk because there may be an imperfect correlation between the options and the securities markets that cause a given transaction to fail to achieve its objectives. The successful use of options depends EWM’s ability to correctly predict future price fluctuations and the degree of correlation between the options and securities markets. Options are also particularly subject to leverage risk and can be subject to liquidity risk. . The number of puts is set to collateralize the exposure to S&P 500 downturns. This design provides higher leverage than the BXM strategy, and it can also capture the potentially “rich” premia of S&P 500 put options documented in several academic studies. These studies have found that short option strategies, and especially short put strategies, appear to generate high risk-adjusted returns. Reasons cited for the excess returns are the negative risk-premium garnered by volatility, and, in the case of puts, the high demand for portfolio protection. For more information on the PUT Index, please visit the website www.cboe.com/put or send an e-mail to institutional@cboe.com. The Standard & Poor’s 500 Index (S&P 500) is an index of 500 stocks seen as a leading indicator of U.S. equities and a reflection of the performance of the large cap universe, made up of companies selected by economists. The S&P 500 is a market value weighted index and one of the common benchmarks for the U.S. stock market.