

# Dynamic Option Strategy



The Dynamic Option Strategy embodies the idea of selling put indices and equity options against cash and collecting premium that seeks continuous 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 (OTM) puts collecting premiums as long as the price of the underlying security remains above the put strike price at expiration. Stocks may be assigned at a price lower than current market prices at the point of options placement. The put options are used as a tool to generate yield and potentially to acquire a stock at a lower price, which is the strike price of the option. Covered calls are used as a tool to exit assigned stocks and generate income in the interim. This strategy is designed for a long-term investor looking to potentially generate income from the collection of premium and/or to go long equity positions at a lower price 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.

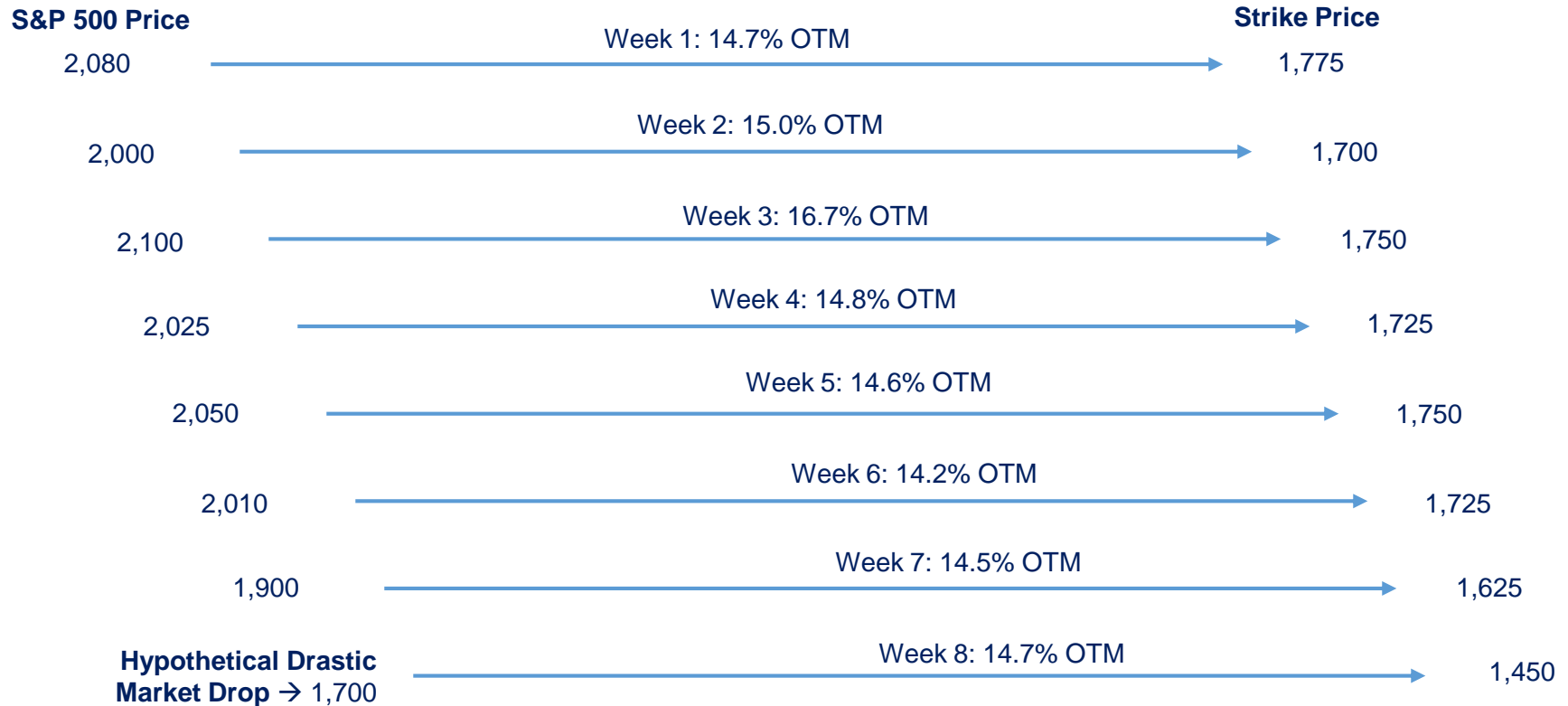
- Seeks to generate monthly income through option premium.
- Has high liquidity and stays mostly cash.
- Capable of generating yield in a bull market, stagnant market and within a range of heightened volatility.
- Strategy may use options to acquire and liquidate specific equity positions.
- Can better target the preferred acquisition and sale price of a stock.
- Can be applied as an options overlay over a long 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.
- The strategy focuses primarily on S&P 500 index options with low exposure to single equity options. S&P 500 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 stocks 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 initial positions are initiated by issuing puts with attractive strikes on the underlying security.
- 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 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 an option expires In The Money (ITM), portfolios may accept assignment and write covered calls against it 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 security assignments.

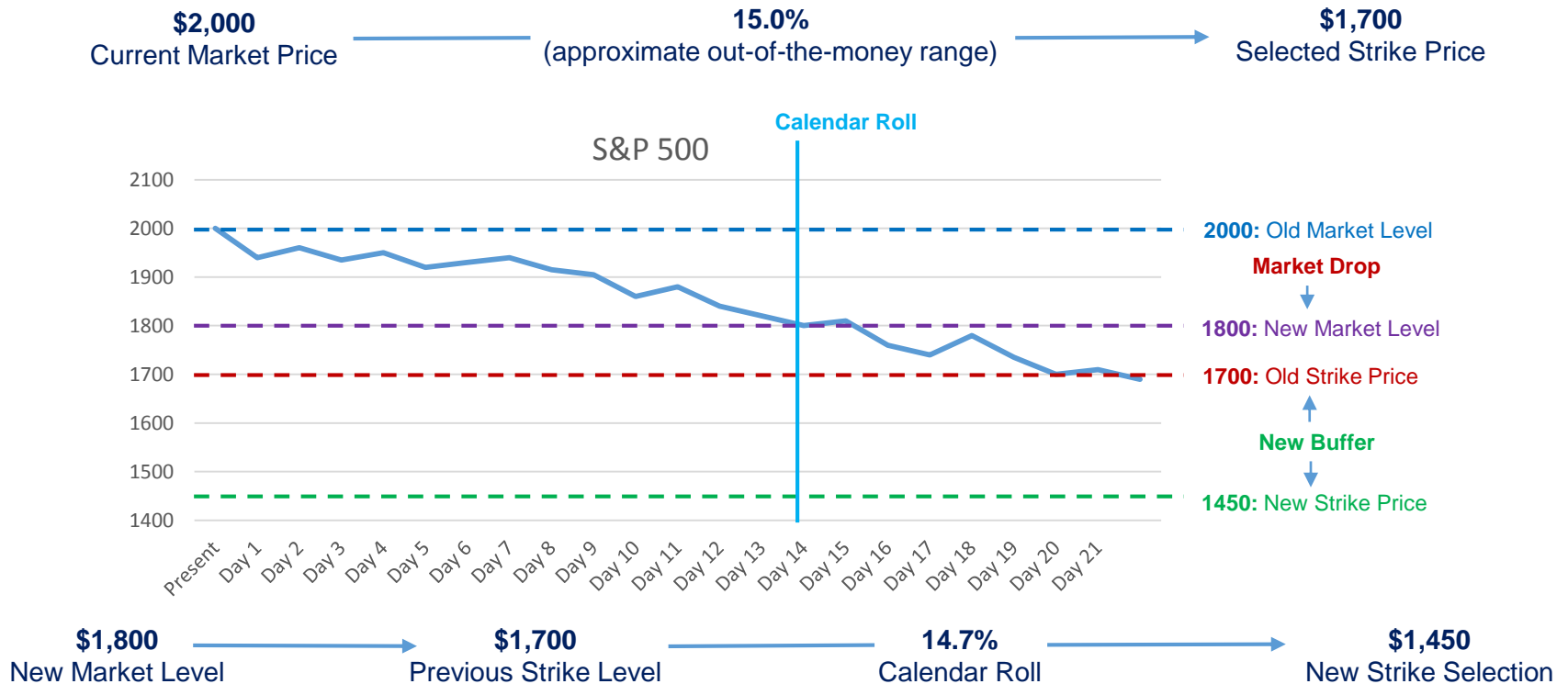
# Sample Strategy Deployment Scenario



- 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 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)



- 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 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.

<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 Stock or Index Price Range:

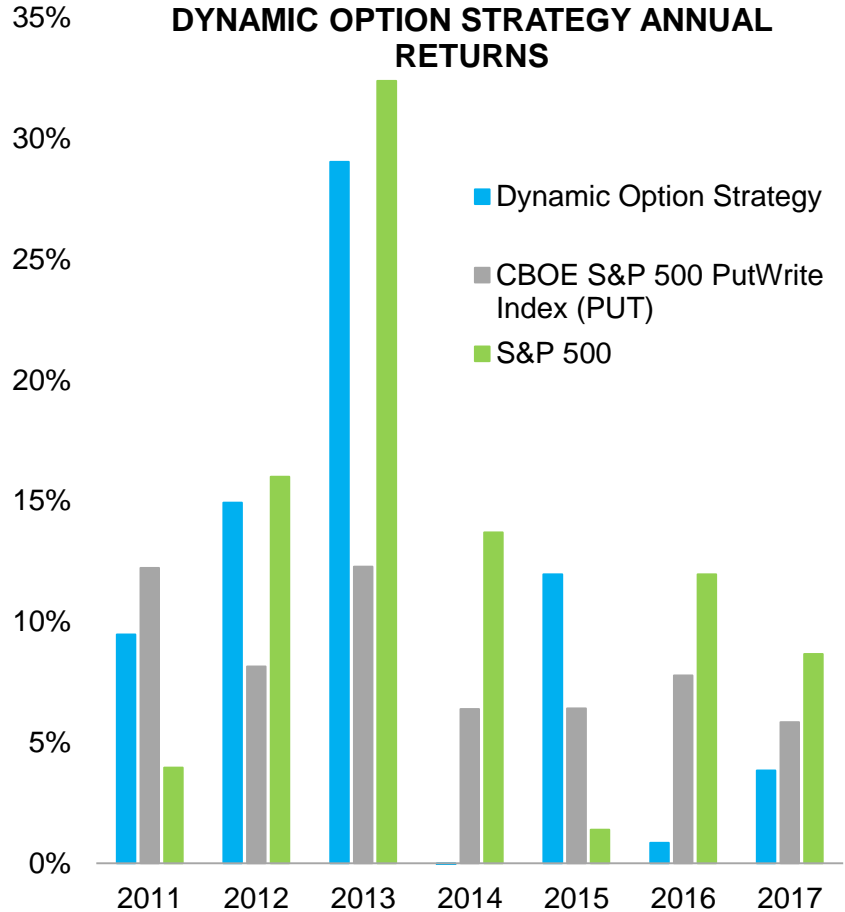
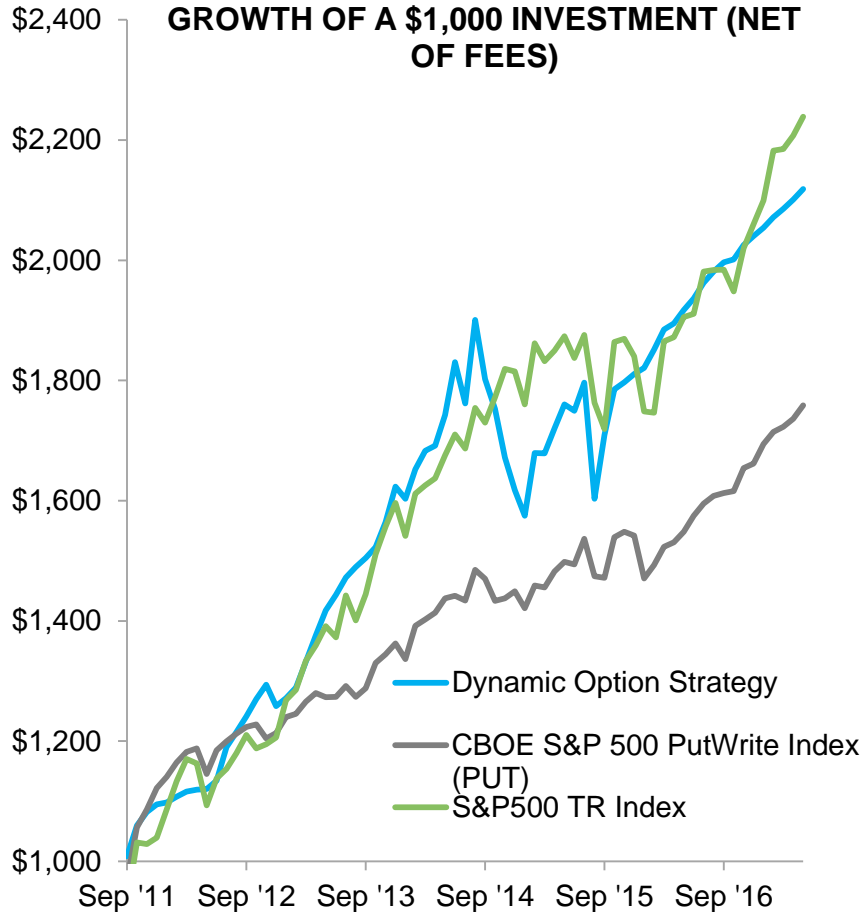
- Common graphical indicators, e.g. support and resistance levels, moving averages, breakouts, etc. We also look at how the stock or index has moved relative to the overall market during systemic upturns/downturns.
- Is the stock or index currently on an upward or downward trend?
- Put options with >80%\* 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

- Companies with positive P/E ratios over the last four quarters.
- Focus on companies with increasing revenue/decreasing debt.
- Positive long-term outlook. Company's products/services have long-term value.
- Strong balance sheet.
- 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 \$110,000 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 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 Options Strategy Disclosures for additional strategy performance information.

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD Net Returns		
													DOS	PutWrite Index (PUT)	S&P500 TR Index
2017	0.67%	0.86%	0.67%	0.73%	0.85%								3.84%	5.83%	8.66%
2016	0.55%	1.67%	1.81%	0.54%	1.17%	1.01%	1.34%	0.95%	0.77%	0.25%	1.20%	0.73%	12.66%	7.77%	11.96%
2015	-2.63%	6.62%	-0.03%	2.47%	2.32%	-0.61%	2.70%	-10.76%	6.59%	4.45%	0.66%	0.79%	11.96%	6.40%	1.38%
2014	-1.25%	3.06%	1.87%	0.51%	3.02%	5.04%	-3.73%	7.88%	-5.18%	-2.75%	-4.62%	-3.25%	-0.35%	6.38%	13.69%
2013	1.06%	1.41%	3.33%	3.30%	3.00%	1.83%	2.01%	1.17%	1.03%	1.19%	2.73%	3.76%	29.04%	12.28%	32.39%
2012	0.33%	0.85%	0.76%	0.28%	0.10%	1.24%	4.92%	2.10%	2.17%	2.33%	1.87%	-2.78%	14.92%	8.14%	16.00%
2011									0.86%	5.04%	2.16%	1.14%	9.47%	12.22%	3.96%

## Statistics (Net of Fees)

Standard Deviation (Monthly):	2.77%	May Return:	0.85%
Standard Deviation (Annualized):	9.60%	YTD Return:*	3.84%
Downside Deviation (Monthly):**	1.83%	Average Monthly Return:	1.13%
Downside Deviation (Annualized):**	6.35%	Highest Month:	7.88%
Sharpe Ratio (Monthly):**	0.32	Lowest Month:	-10.76%
Sharpe Ratio (Annualized):**	1.11	% of Positive Months:	84.06%
Sortino Ratio (Monthly):**	0.46	Maximum Drawdown:	-17.14%
Sortino Ratio (Annualized):**	1.59	Longest Winning Streak:	21 Months
Alpha (Monthly):***	0.46%	Longest Losing Streak:	5 Months
Alpha (Annualized):***	5.67%		
Beta:***	0.71	Compounded Monthly Return:	1.09%
Correlation Coefficient:***	0.53	Compounded Annual Return:	13.95%
R-squared:***	0.28	Cumulative Return:	111.87%

\*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>	\$110,000
<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

## Institutional

Elite's fee schedule for white labeled services where independent third party investment managers utilize Elite's investment platform/infrastructure through Interactive Brokers, and Elite is responsible for trading and allocations:

- Up to \$100M = 0.60% Annually
- Next \$50M = 0.55% Annually
- Anything over \$150M = 0.50% Annually

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The performance for the period September 2011 through January 2014 was achieved while Mr. Lennil was the Chief Investment Officer (“CIO”) with his prior firm, Exagroup, Inc. (“Exagroup”) . While Mr. Lennil, was not affiliated with Elite Wealth Management during that time period, the accounts that comprise the performance of DOS were managed on behalf of clients of Elite Wealth Management as he was the sole portfolio manager for all client accounts managed while employed at Exagroup. There was a 15% performance fee up until November 2014 that is now eliminated.

Dynamic Option Strategy (“DOS”) Risk Disclosure Statement: All investments include a risk of loss that clients should be prepared to bear. The principal risks of the Elite Wealth Management strategies are disclosed in the publicly available Form ADV Part 2A. Options carry a high level of risk and are not suitable for all investors. Certain requirements must be met to trade options in your account. If you are interested in margin lending (a loan to purchase securities that is secured or collateralized by securities in your account) or option trading, please visit <http://www.optionsclearing.com/about/publications/character-risks.jsp> to read the Options Disclosure Document titled "Characteristics and Risks of Standardized Options", or call the Interactive Brokers, LLC (“IB”) office @ 1-877-442-2757 for a current copy, before considering any option transaction.

Statistics Definitions can be viewed at <http://elitewm.com/analytics>. Sources: Yahoo Finance, Hedge Connection, Chicago Board of Exchange.

SEE IMPORTANT DISCLOSURE STATEMENT: <http://elitewm.com/wp-content/EWM-Options-Risk-Disclosure>

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