Dynamic S&P Options Strategy
Mastering the Art of Probability

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WhiteRiverGroup

My name is Andreas Diessbacher, principal trader of White River Group. I'd like to share with you an introduction to my newest program, the Dynamic S&P Options Strategy. I am very excited to introduce this program, and I believe you will see why after reading this presentation. I hope to give you a better understanding of the program's trading strategy, objectives, my research and background writing S&P options.

First a little background about one of my other programs, my Stock Index Option Writing Strategy, whose trading strategies are embodied in the Dynamic S&P Options Strategy. I believe the most flexible strategy for trading today's markets is selling options. Studies have shown that most people who buy options lose money. This is the primary reason I prefer to sell or write options as opposed to buying them. I believe one of the most attractive features of being an option writer is that I do not have to be precisely right in the direction of a market. The market can go up, down or sideways, and as long as it does not go beyond the strike price I choose to sell for a trade, I can still be profitable. Metaphorically speaking, I believe, writing options is like being an archer where all you have to do is hit the target to win as opposed to trading futures or stocks in which you have to be right in direction or hit the bull's eye to win.

My Stock Index Option Writing Strategy sells call and put options in the E-mini S&P 500 contract exclusively. I typically sell options that are two to four weeks from expiration. As of December 31, 2017, my Stock Index Option Writing Strategy was ranked in the top 10 CTA programs over the past 9 years according to Autumn Gold*. The program has averaged an annualized compounded return of around 12% per year; around 80% of months have been profitable with the worst historical peak to valley drawdown 19% which is less than half the 52% worst historical drawdown of the S&P 500. The risk of loss in futures and options trading is substantial. An investor can lose more than the initial investment. Past performance is not necessarily indicative of future results.

This presentation represents the opinion and research of Andreas Diessbacher with White River Group.
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*This material mentions services which rank the performance of commodity trading advisors. Please note that the rankings apply only to those CTAs who submit their trading results. The rankings in no way purport to be representative of the entire universe of commodity trading advisors. The material in no way implies that these results are officially sanctioned results of the commodity industry. Be advised that an individual cannot invest in the index itself and the actual rates of return for an individual program may significantly differ and be more volatile than the index.

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New Opportunities

In recent years, the CME Group has listed many new E-mini S&P options with weekly and end of month expirations. I believe that these new options can potentially mean new opportunities for investors. **The Dynamic S&P Options Strategy uses the same strategy as my Stock Index Option Writing Strategy; however, it sells options with a far shorter time frame, typically those that expire within one week (5 trading days).**

Program Description

The program seeks to exploit and capitalize on multibillion dollar stock funds buying puts very far away from the market to protect themselves in case of a stock market meltdown. **I mathematically compute the probability of such a large market move within a week's timeframe. I then sell options outside of this zone in an area I believe has an extremely high statistical probability of expiring worthless within one week.**

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My Research

I did an analysis of the S&P 500 stock market going back to 1987. I wanted to see the largest market corrections over all seven day periods. All of these would include no more than five trading days and a weekend (fewer trading days would be result of a holiday during that period). I divided the analysis into two categories. The first is when the market was above the 200 day moving average (a time when I would define the market as being in an uptrend, and the second when the market was below the 200 day moving average (a time when I would define the market as being in a downtrend).

Biggest S&P Point Moves Down When S&P was Above its 200 Day Moving Average

02/02/2018	2808.92	02/09/2018	2532.69	276 points
08/18/2015	2096.92	08/25/2015	1867.61	229 points
8/1/2011	1286.94	8/8/2011	1119.46	167 points
7/29/2011	1292.28	8/5/2011	1199.38	93 points
7/28/2011	1300.67	8/4/2011	1200.07	100 points
5/13/2010	1157.44	5/20/2010	1071.59	86 points
4/7/2000	1516.35	4/14/2000	1357.31	159 points
8/25/1998	1092.86	9/1/1998	978.87	114 points
8/24/1998	1088.13	8/31/1998	957.53	131 points

Biggest S&P Point Moves Down When S&P was Below its 200 Day Moving Average

11/13/2008	911.29	11/20/2008	752.44	159 points
10/20/2008	985.4	10/27/2008	848.92	137 points
10/3/2008	1099.23	10/10/2008	899.22	200 points
10/2/2008	1114.28	10/9/2008	909.92	205 points
10/1/2008	1161.06	10/8/2008	984.94	177 points
9/30/2008	1164.74	10/7/2008	996.23	168 points

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Analyzing the Research

Let us take a closer look at the data from my research on the previous slide. I will start with the analysis of the market that is above the 200 day moving average. Option pricing is dependent on overall market volatility. The way traders measure market volatility is by using the volatility index or the VIX. When the market is in an uptrend (when it's above the 200 day moving average), market volatility tends to be low, and thus the VIX as a measure of this volatility is low as well.

In these market conditions, I will typically sell puts for approximately 200 S&P points away from the current market price. Again with this trade, I believe that the market will not drop more than 200 points in five trading days or fewer. As a point of reference, 200 S&P points is the equivalent of approximately 1800 points in the Dow. **I believe this size of a move in that short of a time frame is an extremely unlikely event. As you can see above from our research since 1987, the market has not dropped that far when the market has been above its 200 day moving average. Past performance is not necessarily indicative of future results.**

Now let us take a look at the S&P 500 when the market was trading below the 200 day moving average.
As I mentioned before, this is when I would define the market as being in a down trend. In this type of market condition, I believe the market is more vulnerable to larger corrections over a shorter time frame. My research has shown this as well.

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What Hurts Stocks Can Help Option Writers

Market volatility and big down moves can cause substantial losses in both stocks and option writing. But unlike in stocks, volatility and big down moves can also potentially present attractive opportunities in my Dynamic S&P Options Strategy. As I mentioned before, the VIX is a measure of overall market volatility, and it also is a component of option pricing. When the VIX is higher, E-mini S&P 500 put options are also significantly more expensive. As a result, I am able to sell put options much further away from the current market. In my experience, with higher volatility, I would be able to sell puts 400 or more S&P points away from the current market price and receive the same premium I did 200 points away from the market when the market was above the 200 day moving average. **Again, these options will have only a week or less to go until expiration.**

You can compare the two charts and see that the market is far more likely to correct further in a week's period when the market is below the 200 day moving average. Most of the largest corrections since 1987 came during the financial crisis of 2008. But as you can see, even through that turbulent period, the largest market correction over a seven day period was 205 points. **With the volatility index (VIX) as high as it was, I believe I would have been able to sell puts over 500 points away from the current market price at that time. As you can see, volatility is not always a bad thing for an option trader.**

Let's take this one step further. With my research I looked at all seven day periods. The worst case scenario for me would be to sell puts and have a correction begin immediately after I sell them. Each day that passes during the week, the odds improve in my favor. Remember I only have to be right on where the market is not going for one week or less. Bear in mind while I looked at 27 years of data, there are no guarantees a larger market correction could not happen in the future. There is substantial risk of loss in trading futures and futures options.

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Mastering the Art of Probability

I believe speculative investing is all about mastering the art of probability. With the help of statistical analysis and mathematical computations, I have been able to provide attractive returns over the past 8 years to investors in my Stock Index Option Writing Strategy. Using essentially the same proprietary trading strategy as I do in my Stock Index Option Writing Strategy, except with much shorter periods until option expirations, I believe I also can provide suitable investors a realistic opportunity to achieve attractive risk adjusted returns in my Dynamic S&P Options Strategy. For more information about my stock index programs please contact your White River Group affiliated broker. The risk of loss in futures and options trading can be substantial. Past performance is not necessarily indicative of future results.

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