

Sun City Summerlin Computer Club

Internet Investing SIG

Tom Burt

August 15, 2019

SIG Meeting Schedule

- The Internet Investing SIG meets every other “even” month on the third Thursday morning at **9:30 AM**.
- The next six meeting dates will be:
 - *October 17, 2019*
 - *December 19, 2019*
 - *February 20, 2020*
 - *April 16, 2020*
 - *June 18, 2020*
 - *August 20, 2020*

Fundamentals Review – June 20, 2019

- Dollar has strengthened a bit against foreign currencies.
 - Oil still priced in dollars – down to around **\$54.40** / barrel.
 - Stock indexes back to very topy levels from December lows
 - Dow 30: **26,504**, S&P 500: **2926**, Nasdaq: **7987**, Gold: **1358**, Bitcoin: **9107**
 - S&P PE ratio is **21.7** vs 15.7 long term historical average
 - Defense stocks (ITA) up. Healthcare (XLV) up, Big Tech (QQQ) up.
- Key interest Rates Down Significantly:
 - 10 year Treasury note - about **2.03%**; 30 year Treasury note - about **2.54%**.
 - 30 year fixed mortgage - **3.91%**; 15-year fixed mortgage - **3.16%**
- Federal Reserve raised Fed Funds (Dec 19) by .25% to 2.25-2.5%.
 - Fed now says they MAY CUT Fed Funds rate in July.
 - Fed has supposedly ended selling off lots of U.S. Treasury debt.
 - Foreign corporations & money managers again buying U.S. Debt.
- Gov't Claims May US Job Unemployment at a low **3.6%**.
 - BLS just makes up (estimates) numbers, so can't really know.
- Official 2019 CPI Inflation Rate as of May was **1.8%** / year
 - LV Gasoline (**\$2.85** at Costco)
 - Medical care & insurance is NOT cheap
 - Restaurant meals up \$1 - \$3 per person

Fundamentals Review – August 15, 2019

- Dollar has strengthened a bit against foreign currencies.
 - Oil still priced in dollars – down to around **\$55.04** / barrel.
 - Stock indexes about 7% off recent highs
 - Dow 30: **25,479**, S&P 500: **2840**, Nasdaq: **7774**, Gold: **\$1525**, Bitcoin: **\$10,155**
 - S&P PE ratio is **21.1** vs 15.7 long term historical average
 - All stock sectors down. Bonds up.
- Key interest Rates Down Significantly:
 - 10-year Treasury note - about **1.58%**; 30-year Treasury note - about **2.03%**.
 - 30-year fixed mortgage - **3.52%**; 15-year fixed mortgage - **3.01%**
- Federal Reserve cut Fed Funds in July by .25% to 2.0 - 2.25%.
 - Fed likely to cut Fed Funds rate further this year – could see 1.75%.
 - Fed has ended selling off U.S. Treasury debt.
 - Foreign corporations & money managers again buying U.S. Debt (safety).
- Gov't Claims July US Job Unemployment at a Low **3.7%**.
 - BLS just makes up (estimates) numbers, so can't really know.
- Official 2019 CPI Inflation Rate as of July was **1.8%** / year
 - LV Gasoline (**\$2.79** at Costco)
 - <http://www.in2013dollars.com>

Recent Interesting News Hyperlinks

- **\$6 Trillion Pension Bailout**
 - <https://www.zerohedge.com/news/2019-07-25/6-trillion-pension-bailout-coming>
- **How Negative Interest Rates Work**
 - <https://www.zerohedge.com/news/2019-08-02/i-explain-mrshorseman-mechanics-negative-interest-rates>
- **Market Risk Masked by Share Buybacks**
 - <https://www.zerohedge.com/news/2019-08-10/do-investors-realize-how-much-risk-theyre-taking>
- **What's In the New "SECURE" Act**
 - <https://bottomlineinc.com/blogs/aging-for-beginners/are-you-financially-secure-what-the-new-retirement-legislation-could-mean-to-you>
- **Crypto Comparison - Bitcoin vs Libra**
 - <https://www.pcmag.com/news/369418/crypto-comparison-why-bitcoin-and-libra-are-vastly-differen>

Listed Options – Key Terminology (1)

- **Online Tutorial**
 - <https://www.investopedia.com/options-basics-tutorial-4583012>
- **Listed Options are standardized contracts bought & sold on the stock exchanges through your broker**
 - *Right to BUY (CALL) or SELL (PUT) 100 shares of an underlying Stock or ETF at a specified price any time up to a specified expiration date*
- **Strike Price**
 - *Buy (CALL) / Sell (PUT) price of the underlying stock / ETF for this option contract*
- **Expiration Date**
 - *The date after which the option contract can no longer be exercised*
- **Underlying Stock or ETF**
 - *The actual stock or ETF to which the CALL or PUT option is linked*
- **“In the Money” – Having some intrinsic value + time value**
 - *A CALL option whose strike price is below the current market price*
 - *A PUT option whose strike price is above the current market price*
- **“Out of the Money” – Having NO intrinsic value, only time value**
 - *A CALL option whose strike price is above the current market price*
 - *A PUT option whose strike price is below the current market price*
- **Premium – Total cost of the option**
 - *Includes the amount you’re paying (or getting) for time and risk*

Listed Options – Basic Concepts (2)

- **Listed Option Examples:**
 - Price is quoted **per share**; contract price is $100 * \text{quoted price} + \text{commission}$
TD Ameritrade's option commission is \$6.95 + \$.75 per contract;
e.g. The TDA commission for 5 contracts is $\$6.95 + 5 * \$0.75 = \$10.70$
 - A CALL option for 100 shares of IBM at \$135 expiring September 27, 2019
Symbol: **IBM190927C00135000** Last: \$5.30 Ask: \$4.20 Cost: $\$420 + \7.70
 - A PUT option for 500 shares of SPY at \$285 expiring September 27, 2019
Symbol: **SPY190927P00285000** Last: \$5.80 Ask: \$6.48 Cost: $\$3240 + \10.70
- **Options Offer Leverage While Bounding Risk**
 - Control 100 shares of a stock / ETF for a small fraction of the full price
 - Option price moves in concert with the price of the underlying stock / ETF
E.g. if stock goes up \$10, the option goes up about \$10
 - Can't lose more than the cost of an option (if they expire unexercised)
unless selling "naked" (uncovered) CALLs (Don't try it!).
- **Options are a "Wasting Asset"**
 - Worth less as time remaining to exercise (buy or sell the stock) grows short
 - Most options positions are closed out by selling (or buying) the option back
- **Option trading volumes are often low**
 - Can be harder to get the desired price, especially for longer expirations

Listed Options – Basics (3)

- **Example: Simple Speculative Leveraged Trade**
 - *You think Qualcomm (chip maker) will go up a lot as 5G rolls out*
 - *Buy 10 CALLs for QCOM at a strike price of \$70 expiring November 15th*
 - *Symbol: **QCOM191115C00070000** Ask: \$5.00 Cost: \$5000 + \$14.45*
 - *If Qualcomm stock goes up \$40 to \$110 you gain about \$35,000*
 - *If Qualcomm stock goes up \$20 to \$90 you gain about \$15,000*
 - *If Qualcomm stock drops or stays at \$70, you lose about \$5000 if you hold the position until November 15th.*
- **Example: Simple Hedge Against a Drop in a Stock**
 - *Buy a PUT option for the number of shares you hold at a STRIKE price close to the current market value, expiring 6 weeks to 3 months out*
 - *E.g. Buy two PUTs on MSFT to sell at \$135 expiring September 27th*
*Symbol: **MSFT190927P00135000** Ask: \$4.80 Cost: \$960 + \$8.45*
 - *If MSFT drops \$20 / share, your PUT will increase by \$20 / unit.*
You can sell the PUT (closing it) and pocket the short-term gain.
*Net pretax gain on the option = $200 * (20 - 4.80) - 2 * 8.45 = \3023.10*

Listed Options – Basics (4)

- **Example: Generating Extra Income From a Holding**
 - *You hold 1000 shares of T (AT&T) yielding 5.9% dividend, price \$34.09. You want to keep the dividend flow and make some extra cash*
 - *Sell 10 CALLs for T at a strike price of \$35 expiring September 13, 2019*
 - *Symbol: **T190913C00035000** Bid: \$.38 Proceeds: \$380 - \$14.45*
 - *If T stock goes up \$.91 to \$35 your T will likely be bought for \$35
Your gain on the option trade is: $1000 * .38 - \$14.45 = \365.55
You also realize \$35000 – your original cost from the sale the shares*
 - *If T stays below \$35 until September 13, the option expires and you keep the \$365.55 pre-tax gain from the option. You can then sell another “**Covered Call**” and repeat*
- **Conclusions:**
 - *Listed options can be used as insurance (a hedge)*
 - *Listed options can be used to speculate without BIG risks (leverage)*
 - *Listed options take some mathematical skill (or a good trading program)*
 - *Volatile markets can make profitable options trading difficult
(Computer algorithms are way ahead of ordinary human traders)*
 - *There are more exotic options trades (see the tutorial) – not easy for small players to make money*

Open Discussion