

Sun City Summerlin Computer Club

\$ Internet Investing SIG \$

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February 18, 2021

SIG Meeting Schedule

- The Internet Investing SIG meets every other “even” month on the third Thursday morning at **9:30 AM**.
- Investing SIG Chat Line
 - *Subscribe: SCSCCInvestingSIG+subscribe@groups.io*
 - *Post: SCSCCInvestingSIG@groups.io*
- The next six session dates will be:
 - *April 15, 2021 – probably via webcast*
 - *June 17, 2021 – hopefully live in the classroom*
 - *August 19, 2021*
 - *October 21, 2021*
 - *December 16, 2021*
 - *February 17, 2022*

Fundamentals Review – October 15, 2020

- **Dollar strong against foreign currencies.**
 - *Oil still priced in dollars – still low at around **\$41.14** / barrel.*
 - *Stock indexes have been rising steadily; Nasdaq close to time highs.*
 - *Dow 30: **28,514**, S&P 500: **3489**, Nasdaq: **11387**, Gold: **\$1905**, Silver: **24.34**, Bitcoin: **\$11073**, EUR/USD: **1.175***
 - *S&P PE ratio is **35.7** vs 15.8 long term historical average.*
- **Key interest Rates Plunged then have rebounded:**
 - *10-year Treasury note - about **0.72%**; 30-year Treasury note - about **1.50%**.*
 - *30-year fixed mortgage – **2.94%**; 15-year fixed mortgage - **2.37%**.*
- **Federal Reserve Fed Funds remains at 0.0 – 0.25%.**
 - *Fed is massively buying U.S. Treasury debt; may be covertly buying stocks*
 - *Investors having to sell gold and bonds to raise cash for margin calls.*
- **Gov't Claims September US Job Unemployment was **7.9%**.**
 - *Despite the Coronavirus closures, this number has been improving.*
- **Official CPI Inflation Rate for September 2020 was **1.4%** / year**
 - *<https://www.usinflationcalculator.com/inflation/current-inflation-rates/>*
 - *LV Gasoline (**\$2.25** at Costco).*
 - *Federal Reserve has abandoned its 2% cap on inflation.*

Fundamentals Review – December 16, 2020

- **Dollar weakening against foreign currencies.**
 - *Oil still priced in dollars – still low at around **\$47.82** / barrel.*
 - *Stock indexes have been rising steadily; all close to time highs.*
 - *Dow 30: **30,155**, S&P 500: **3,701**, Nasdaq: **12,658**, Gold: **\$1,867**, Silver: **\$25.50**, Bitcoin: **\$20,769**, EUR/USD: **1.22***
 - *S&P PE ratio is **31.2** vs 15.8 long term historical average.*
- **Key interest Rates have been slowly rebounding:**
 - *10-year Treasury note - about **0.92%**; 30-year Treasury note - about **1.67%**.*
 - *30-year fixed mortgage – **2.82%**; 15-year fixed mortgage - **2.25%**.*
- **Federal Reserve Fed Funds remains at 0.0 – 0.25%.**
 - *Fed is massively buying U.S. Treasury debt; may be covertly buying stocks*
 - *Investors having to sell gold and bonds to raise cash for margin calls.*
- **Gov't Claims November US Job Unemployment was **6.7%**.**
 - *Despite the Coronavirus closures, this number has been improving.*
- **Official CPI Inflation Rate for November 2020 was **1.2%** / year**
 - *<https://www.usinflationcalculator.com/inflation/current-inflation-rates/>*
 - *LV Gasoline (**\$2.17** at Costco).*
 - *Federal Reserve has abandoned its 2% cap on inflation.*

Fundamentals Review – February 17, 2021

- Dollar weakening against foreign currencies.
 - Oil still priced in dollars – still low at around **\$61.43** / barrel.
 - Stock indexes have been rising steadily; all close to time highs.
 - Dow 30: **31,613**, S&P 500: **3,931**, Nasdaq: **13,966**, Gold: **\$1,775**, Silver: **\$27.41**, Bitcoin: **\$52,477**, EUR/USD: **1.204**
 - S&P PE ratio is **31.2** vs 15.8 long term historical average.
- Key interest Rates have been slowly rebounding:
 - 10-year Treasury note - about **1.30%**; 30-year Treasury note - about **2.06%**.
 - 30-year fixed mortgage – **3.193% Apr**; 15-year fixed mortgage - **2.623% Apr**.
- Federal Reserve Fed Funds remains at 0.0 – 0.25%.
 - Fed is massively buying U.S. Treasury debt; may be covertly buying stocks
 - Investors having to sell gold and bonds to raise cash for margin calls.
- Gov't Claims January US Job Unemployment was **6.3%**.
 - Despite the Coronavirus closures, this number has been improving.
- Official CPI Inflation Rate for January 2020 was **1.4%** / year
 - LV Gasoline (**\$2.55** at Costco).
 - Federal Reserve has abandoned its 2% cap on inflation.
- <https://www.zerohedge.com/markets/exposing-robinhood-scam-heres-how-much-citadel-paid-robinhood-buy-your-orders>

Planning (Guessing?) Ahead

- **Corona Virus will be around for a Long Time**
 - *Vaccine rolling out, slowly. Effectiveness & side effects unknown.*
 - *Will need masks, gloves, hand sanitizer and wipes for seniors, others at risk.*
 - *COVID-19 could mutate, require a new vaccine yearly.*
 - *“Lockdowns” in Nevada likely to continue.*
- **Paradigm Shift to Online Shopping & Telecommuting**
 - *Amazon, Walmart, UPS & Fedex will continue to benefit.*
 - *Many businesses will stay with “work at home” / web collaboration.*
 - *Microsoft, Google & Zoom will continue to benefit.*
 - *Demand for higher Internet performance will grow.*
- **Watch out for big tax hikes effective in 2022.**
 - <https://www.zerohedge.com/political/great-california-exodus-accelerates>
 - *\$5 to \$7 Trillion deficit potential for FY 2021; more in 2022.*
 - *Federal Reserve can't print money forever to pump the economy.*
 - *Watch out for higher Federal & State property (wealth) taxes.*
- **Probably see a recovery about Q3/2021**
 - *Look for a modest baby boom in early 2021.*
 - *Will spike housing demand, especially suburban & small-town.*
- <https://www.zerohedge.com/political/inflation-back-protect-yourself>

Listed Options (1) – Key Terminology

- 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 (2) – Where to Find Pricing

- Yahoo Finance Website: <https://Finance.Yahoo.com>
 - Look up the stock or ETF to display the Quote screen (e.g. IBM)
 - Click the Options link to display the options chain screen.
- The options chain will list open Call options first, then open Put options. The list is for a specified expiration date.
 - You can change the expiration date using a dropdown just above the list.

Contract Name	Last Trade Date	Strike ^	Last Price	Bid	Ask	Change	% Change	Volume	Open Interest	Implied Volatility
IBM210416C00060000	2021-01-29 9:45AM EST	60.00	60.70	62.90	63.30	0.00	-	1	0	57.81%
IBM210416C00065000	2021-01-04 10:45AM EST	65.00	59.25	52.55	56.40	0.00	-	-	7	0.00%
IBM210416C00085000	2021-01-22 10:26AM EST	85.00	33.00	38.10	38.30	0.00	-	20	65	44.87%
IBM210416C00090000	2021-01-26 2:06PM EST	90.00	31.70	33.10	33.35	0.00	-	40	29	40.33%
IBM210416C00095000	2021-01-22 3:44PM EST	95.00	23.58	28.15	28.30	0.00	-	2	14	33.06%
IBM210416C00100000	2021-02-08 1:30PM EST	100.00	23.25	23.05	23.30	+1.73	+8.04%	426	198	27.44%
IBM210416C00105000	2021-02-08 1:06PM EST	105.00	18.30	18.10	18.30	+1.90	+11.59%	380	203	22.02%
IBM210416C00110000	2021-02-08 12:45PM EST	110.00	13.38	13.10	13.35	+1.23	+10.12%	186	277	17.46%
IBM210416C00115000	2021-02-08 1:22PM EST	115.00	9.35	9.25	9.40	+1.08	+13.06%	43	724	20.33%
IBM210416C00120000	2021-02-08 1:29PM EST	120.00	6.16	6.05	6.20	+0.72	+13.24%	339	2,779	21.45%
IBM210416C00125000	2021-02-08 1:23PM EST	125.00	3.75	3.70	3.80	+0.46	+13.98%	1,298	6,229	21.99%
IBM210416C00130000	2021-02-08 1:14PM EST	130.00	2.22	2.13	2.20	+0.31	+16.23%	283	4,096	22.50%

Listed Options (3) – Basic Concepts

- **Listed Option Examples:**
 - Price is quoted *per share*; contract price is $100 \times \text{quoted price} + \text{commission}$
TD Ameritrade's option commission is \$.65 per contract;
e.g. The TDA commission for 5 contracts is $5 \times \$0.65 = \3.25
 - A CALL option for 100 shares of IBM at \$125 expiring April 16, 2021
Symbol: **IBM210416C00125000** Last: \$3.15 Ask: \$3.25 Cost: \$325 + \$.65
 - A PUT option for 500 shares of SPY at \$388 expiring April 16, 2021
Symbol: **SPY210416P00380000** Last: \$8.17 Ask: \$8.20 Cost: \$4100 + \$3.25
- **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 (4) – Examples

- **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 \$150 expiring March 19th*
 - *Symbol: **QCOM210319C00150000** Ask: \$5.35 Cost: \$5350 + \$6.50*
 - *If Qualcomm stock goes up \$40 to \$188 you gain about \$34,500*
 - *If Qualcomm stock goes up \$20 to \$168 you gain about \$14,500*
 - *If Qualcomm stock drops or stays at \$148, you lose about \$5360 if you hold the position until March 19th.*
- **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 \$240 expiring April 16th*
*Symbol: **MSFT210416P00240000** Ask: \$9.10 Cost: \$1820 + \$1.30*
 - *If MSFT drops \$20 / share, your PUT will increase by about \$20 / unit. You can sell the PUT (closing it) and pocket the short-term gain.*
*Net pretax gain on the option = $200 * (20 - 1.30) - 2 * 1.30 = \3023.10*

Listed Options (5) – Examples

- **Example: Generating Extra Income From a Holding**
 - *You hold 1000 shares of T (AT&T) yielding 7.2% dividend, price \$28.80
You want to keep the dividend flow and make some extra cash*
 - *Sell 10 CALLs for T at a strike price of \$31 expiring April 16, 2021*
 - *Symbol: **T210416C00031000** Bid: \$.28 Proceeds: \$280 - \$6.50*
 - *If T stock goes up \$2.20 to \$31 your T will likely be bought for \$31
Your gain on the option trade is: $1000 * .28 - \$6.50 = \273.50
You also realize, from the sale the shares, a gain of \$31,000 - your original cost*
 - *If T stays below \$31 until April 16, 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*

Tom's Recent Financial Moves

- ***Disclaimer: These are not recommendations! Your financial situation and market circumstances are likely different.***
- ***Bought 500 SPBO on 2-2 @35.59 (Improving yield)***
- ***Bought 500 PXX on 2-11 @20.525 (Improving yield)***

Open Discussion

Internet Investing SIG