

Sun City Summerlin Computer Club

\$ Internet Investing SIG \$

Tom Burt
June 16, 2022

SIG Meeting Schedule

- The Internet Investing SIG meets every month on the third Thursday morning at **9:30 AM**.
 - *2022 looks to be a very volatile year. Suggest we alternate a month of free form Q&A / discussion or a guest speaker with my current format with topical material.*
- Investing SIG Chat Line
 - *Subscribe: [SCSCCInvestingSIG+subscribe@groups.io](https://groups.io/join/SCSCCInvestingSIG)*
 - *Post: [SCSCCInvestingSIG@groups.io](https://groups.io/g/SCSCCInvestingSIG)*
- The upcoming session dates will be:

July 21, 2022
August 18, 2022
September 15, 2022
October 20, 2022
November 17, 2022
December 15, 2022

January 19, 2023
February 16, 2023
March 16, 2023
April 20, 2023
May 18, 2023
June 15, 2023

Fundamentals Review – March 16, 2022

- Dollar weakening against foreign currencies.
 - Oil (WTI) – still priced in dollars –around **\$94.93** / barrel.
 - Stock indexes have been rising steadily; but are now well off recent all-time highs.
 - Dow 30: **34,063**, S&P 500: **4,358**, Nasdaq: **13,437**, Russell 2K: **2,031**, Gold: **\$1,928**, Silver: **\$25.23**, Bitcoin: **\$41,136**, EUR/USD: **1.103**
 - S&P PE ratio is **24.6** vs 15.97 long term historical average.
- Key interest Rates have been slowly rebounding:
 - 10-year Treasury note - about **2.188%**; 30-year Treasury note - about **2.459%**.
 - 30-year fixed mortgage – **3.90% Apr**; 15-year fixed mortgage - **3.06% Apr**.
- Federal Reserve Fed Funds raised to 0.25% – 0.50%. Expect more rate hikes soon.
- Gov't BLS Claims February US Job Unemployment was **3.9%**.
 - This number has been improving, but many workers staying on government payments.
- Official February 2022 Inflation Rates (YoY) were CPI **7.9%**, PPI **10.0%**
 - <https://www.usinflationcalculator.com/inflation/current-inflation-rates/>
 - LV Gasoline (**\$4.59** at Costco).
 - Federal Reserve has totally abandoned its 2% cap on inflation.

Fundamentals Review – April 20, 2022

- Dollar weakening against foreign currencies.
 - Oil (WTI) – still priced in dollars –around **\$94.93** / barrel.
 - Stock indexes have been choppy; but are now well off recent all-time highs.
 - Dow 30: **34,063**, S&P 500: **4,358**, Nasdaq: **13,437**, Russell 2K: **2,031**, Gold: **\$1,928**, Silver: **\$25.23**, Bitcoin: **\$41,136**, EUR/USD: **1.103**
 - S&P PE ratio is **24.6** vs 15.97 long term historical average.
- Key interest Rates have been slowly rebounding:
 - 10-year Treasury note - about **2.188%**; 30-year Treasury note - about **2.459%**.
 - 30-year fixed mortgage – **3.90% Apr**; 15-year fixed mortgage - **3.06% Apr**.
- Federal Reserve Fed Funds raised to 0.25% – 0.50%. Expect more rate hikes soon.
- Gov't BLS Claims February US Job Unemployment was **3.9%**.
 - This number has been improving, but many workers staying on government payments.
- Official March 2022 Inflation Rates (YoY) were CPI **8.5%**, PPI **11.2%**
 - <https://www.usinflationcalculator.com/inflation/current-inflation-rates/>
 - LV Gasoline (**\$4.59** at Costco).
 - Federal Reserve has totally abandoned its 2% cap on inflation.

Fundamentals Review – June 16, 2022

- Dollar very strong against foreign currencies.
 - Oil (WTI) – still priced in dollars –around **\$115.83** / barrel.
 - Stock indexes have been choppy; but are now far off recent all-time highs.
 - Dow 30: **30,669**, S&P 500: **3,790**, Nasdaq: **11,099**, Russell 2K: **1,731**, Gold: **\$1,836**, Silver: **\$21.69**, Bitcoin: **\$21,877**, EUR/USD: **1.044**
 - S&P PE ratio is **24.6** vs 15.97 long term historical average.
- Key interest Rates have been rising sharply:
 - 2-year Treasury – about **3.21%**; 10-year Treasury - about **3.40%**; 30-year Treasury - about **3.33%**.
 - 30-year fixed mortgage – **5.89% Apr**; 15-year fixed mortgage - **4.99% Apr**.
- Federal Reserve Fed Funds raised to 1.00% – 1.25%. Expect more rate hikes soon.
- Gov't BLS Claims May US Job Unemployment was **3.6%**.
 - This number has been improving, but many workers staying on government payments.
- Official May 2022 Inflation Rates (YoY) were CPI **8.6%**, PPI **10.8%**
 - <https://www.usinflationcalculator.com/inflation/current-inflation-rates/>
 - LV Gasoline (**\$5.09** at Costco).
 - Federal Reserve has totally abandoned its 2% cap on inflation.

Planning (Guessing?) Ahead

- **Corona Virus (Omicron) latest new strain – contagious, but not virulent.**
 - *Long term effectiveness & side effects of vaccines unknown (concerns growing).*
 - *Booster shots proving ineffective against the Omicron variant.*
 - <https://www.healthdata.org/covid/covid-19-vaccine-efficacy-summary>
 - *COVID-19 is mutating; “breakthrough infections” occurring; could require regular vaccine boosters.*
- **Paradigm Shift to Online Shopping, Telecommuting, Tele-meetings and Tele-medicine**
 - *Amazon, Walmart, UPS, Fedex, Microsoft, Google & Zoom & will continue to benefit.*
 - *Many businesses will stay with “work at home” / web collaboration. If not, workers will leave.*
 - *Demand for higher Internet performance will grow. T-Mobile, Verizon and AT&T rolling out 5G.*
- **Watch out for big federal and state tax hikes effective in 2022 (could still happen)**
 - *\$5 Trillion or more (bills pending) deficit potential for 2022 and beyond (could still happen).*
 - *Federal Reserve just announced faster rate of tapering off buying Federal debt.*
 - *Watch out for higher Federal & State property (wealth) taxes.*
- **Business recovery occurring now into H2/2022 (but labor shortage may impact that)**
 - *Housing demand & prices high, especially suburban & small-town. Builders can’t get construction materials. Mortgage rates rising.*
- **Inflation Surging – Supply chains disrupted, Fed money pumping**
 - <https://thehill.com/opinion/finance/589775-heres-why-inflation-numbers-are-about-to-get-worse>

News Bits & Bytes

- A few good investment suggestions ...
 - [Winning Strategies for Cautious Investors / Bottom Line Inc](#)
- Best Crypto Exchanges ...
 - <https://www.techrepublic.com/article/best-crypto-exchange>
- Tom, This might be an interesting subject to touch on Thursday at the Investing Sig ... Bill West
Want to lock in a greater-than-8% return with U.S. Treasuries over the next 12 months?
 - <https://www.marketwatch.com/story/the-silver-lining-of-surging-inflation-i-bond-yields-should-climb-above-9-11649784459>
 - https://www.marketwatch.com/story/which-investment-is-a-better-inflation-hedge-tips-or-i-bonds-11624287213?mod=search_headline&mod=article_inline

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 + \0.65
 - 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 (and Future) Financial Moves

- ***Disclaimer: These are not recommendations! Your financial situation and market circumstances are likely different.***
- ***Bought 100 JP Morgan (JPM) – Bought too soon; may buy more.***
- ***Bought 100 TIP ETF (TIP) – About 8% yield TTM***
- ***Assessing Blackrock Capital (BKCC) – 9.7% yield, but ... iffy history, prospects***
- ***Considering adding to holdings in AAAU and SLV (Inflation protection)***
- ***Bond yields are rising (i.e. prices are falling) – may add to bond ETF holdings after first wave of Fed rate hikes.***
- ***Looking at Utilities, Uranium miners, Copper, Robotics / Automation / AI***
 - ***Move to electric vehicles will increase demand for electric power everywhere.***
 - ***No way to meet demand with renewables (wind, solar), so nuclear will see a resurgence.***
 - ***Flight from high-tax northern blue states to the south will increase demand for power there.***
 - ***Electric vehicles and utility transmission lines require lots of copper.***

Open Discussion

Internet Investing SIG