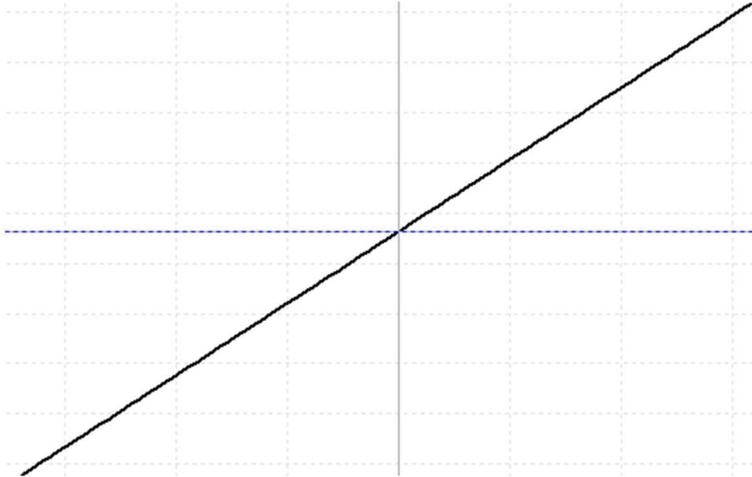


Collars

Introduction

Generic collar.

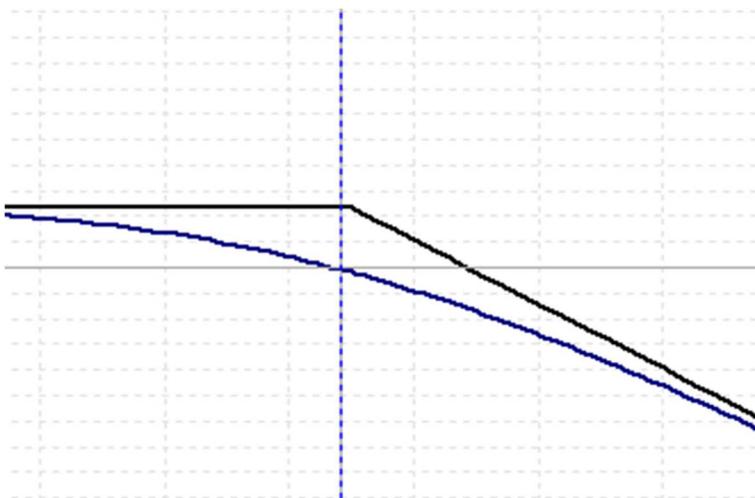
The basics of a long stock.



The owner of a long stock actually owns a portion of the underlying company or ETF. As such, owners will have voting rights, and if enough shares are held, they may have representation rights at board meetings. They also have rights to dividends if the company pays them, and some tax advantages if the dividends are franked.

From the options greek perspective, a single long stock is equivalent to holding an options position of 100 delta; however, there are no gamma, theta or vega equivalents, and so these impacts can be ignored.

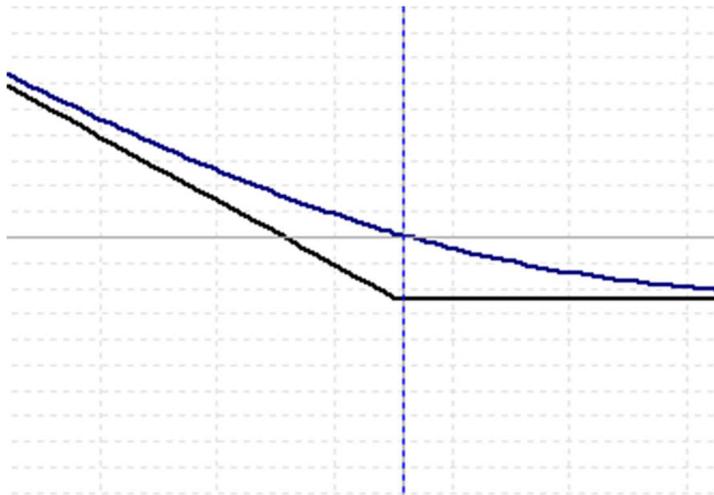
The basics of a short call.



The owner of a short call (call seller) has the obligation, but not the right, to sell the specified underlying, at the specified strike price, before the specified expiry date if the option is exercised.

From the options greek perspective, a short call has negative delta, negative gamma, positive theta, and negative vega.

The basics of a long put.



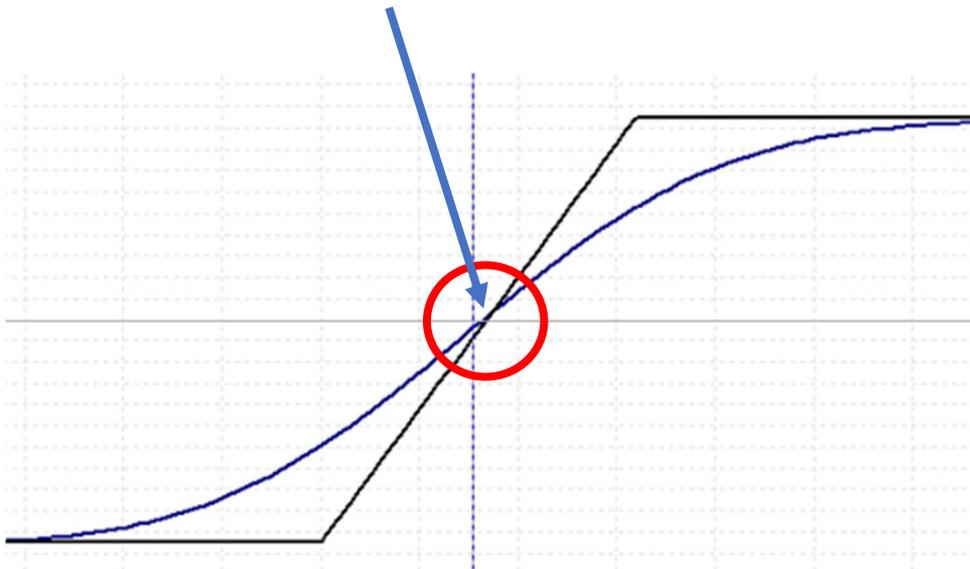
The owner of a long put (put buyer) has the right to sell the specified underlying, at the specified strike price, before the specified expiry date.

From the options greek perspective, a long put has negative delta, positive gamma, negative theta, and positive vega.

Generic facts about collars.

- Although simply called a collar, they are in fact a “spread”, as they have multiple legs.
- Collars, by default, are used on long stock; however, creative traders may collar short stock.
- Stock is purchased or held in lots of 100, then puts are bought, and calls are sold.
- The options are placed in the same expiry date, generally about 30 – 90 DTE.
- The long put is purchased to protect the stock, generally a little OTM.
- The short call is sold to fund the put, generally equidistant from the put.
- A collar is a synthetic vertical spread.
- The bullish side of the trade will have limited profit, capped by the short call strike.
- The other side of the trade will have limited loss, protected by the long call strike.
- Since collars contain both bought and sold options, the greeks are mitigated.
- If the collar is considered to be balanced, then the stock is at the nexus point.
- Delta will be positive.
- Gamma, Theta and Vega will be neutral when first constructed.

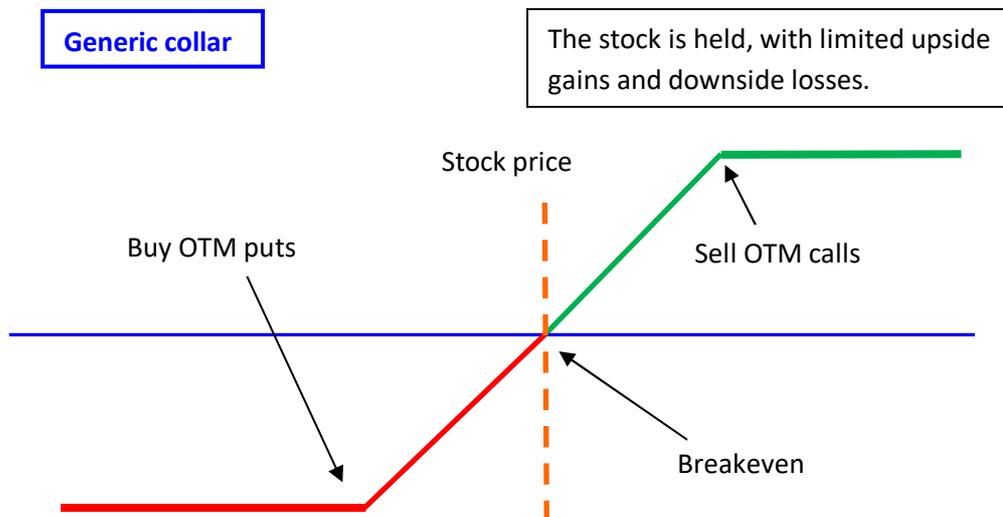
The nexus point is where the today curve crosses the expiry curve.



Generic collar structure

The following instructions are for a generic collar strategy.

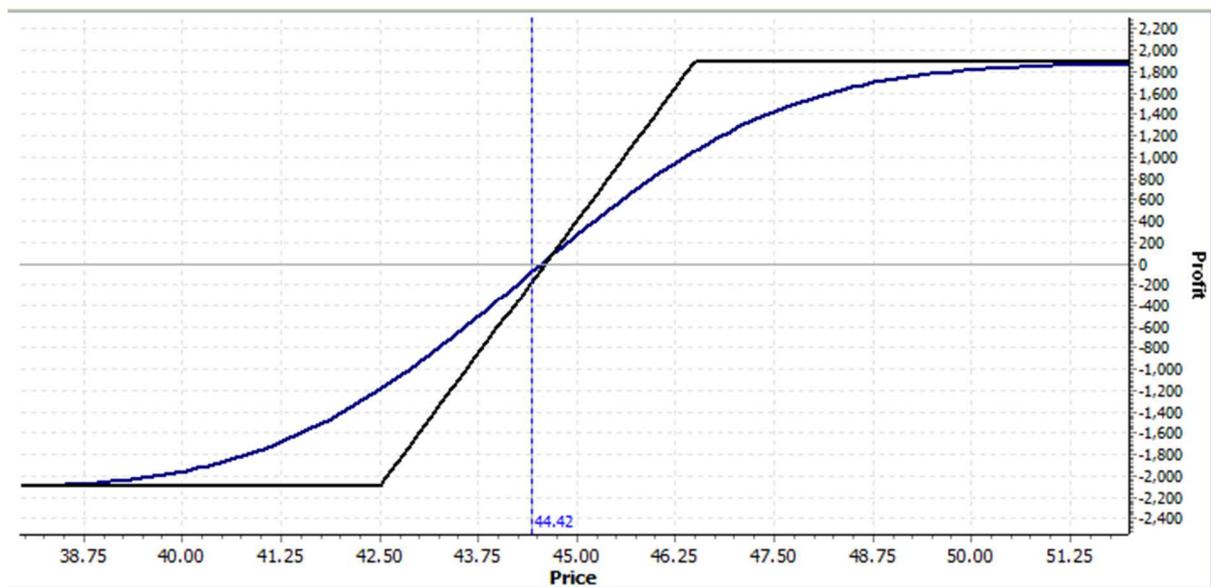
- Own or purchase a stock with a long-term bullish prognosis.
- The stock is to be held in lots of 100 so that the options protection can match the holding.
- Select the expiry for both legs to suit your required duration; collars can be traded to expiry.
- Buy OTM puts, one or two strikes out, in adequate numbers to fully protect the stock.
- Sell the same number of calls, one or two strikes OTM; the premium is to pay for the puts.



Example:

On 27 January 2017, YHOO is \$44.42, and has been steadily increasing in value for several months. On this date, the weekly chart shows LBR MACD bullish strength and a crossover of some relevant moving averages. The trader takes a long-term bullish view on the stock and expects some steady immediate growth. A dynamic collar is selected.

- Buy 1000 YHOO Stock (1000 stock will need 10 options contracts)
- Buy 10 YHOO Feb 17 42.50 (OTM) Put (about \$2.00 below the stock)
- Sell 10 YHOO Feb 17 46.50 (OTM) Call (about \$2.00 above the stock)



Generic collar.

The straight lines in the above picture represent the risk graph of the trade at the date of expiry, with the underlying value on the horizontal axis and the options value on the vertical axis.

The bending dark blue line is called the “today curve”, and it represents the options value as the underlying changes in value.

The light blue vertical line is the “price line” and it shows the current underlying price. For instance, if the underlying price increased (bullish) then the price line would move to the right and you could read the options value on the today curve.

Building this collar is acceptable, as the collar has a equal distance between the stock and the maximum loss and maximum profit. It has been built using options that will expire in one month, and the next collar will be reset then. This one month time frame allows the trader to build a new, more appropriate, collar, or to close the trade using the rights and obligations provided by the options.

Further details.

The collar can be managed in several ways, but generally, if the stock rallies, a decision has to be made regarding the short call. If the call is ITM at expiry then the stock will be sold to the call buyer at the call strike price. If the stock drops then a decision has to be made regarding the long put. If the put is ITM at expiry then your rights will be exercised by the broker/clearing house and the stock will be sold for the put strike price. If the stock has remained between the strikes then all options will expire worthless and the trader is left with the stock.

For generic collar details, watch webinar 170301 (1 March, 2017).

For historical examples of several generic collars, watch webinar 170308 (8 March, 2017).

The lazy collar system trades at expiry each month, and the trader will simply roll the options in expiry week so as to set a new collar. Or the trader may exercise their options, or even let the trade go through to expiry, thus leaving the broker/clearing house to close the trade if any options are ITM.

For Lazy collar details, watch webinar 170315 (15 March, 2017) and see the lazy collar ruleset.

The dynamic collar system requires the trader to set a series of GTC orders with their broker so as to automatically roll the options as the stock moves around. When the stock makes pullbacks, it is an opportunity to buy more stock with the proceeds of the long put, as long as the original long-term bullish prognosis remains.

For Dynamic collar details, watch webinar 170322 (22 March, 2017) and see the dynamic collar ruleset.

Another system, the Mastering Wealth collar, is really a synthetic reverse calendar trade.

To create the Mastering Wealth collar, the trader owns the stock and buys ATM puts in the front month and then sells ATM calls in a further out month. This effectively creates wings that will profit from any stock move. If the trade is left unattended, then the puts will expire and the trader may be left with a covered call strategy, or a naked call if the stock is taken away by an ITM put.

For Mastering Wealth collar details, watch webinar 170419 (19 April, 2017).