

## **PUTS**

**AAPL is selling for \$130 a share.**

**Imagine a line that starts at \$90 and ends at \$130.**

**This is the put side.**

**Put buyers and sellers trade on this line.**

**The put buyer is a bear, betting AAPL will go down.**

**The put seller is a long-term bull, betting AAPL will be up two years from now.**

**The put seller promises to pay for any loss in 100 shares of AAPL between now and two years from now.**

**The put buyer pays the seller \$30 a share (\$3,000) in exchange for the promise.**

## **CALLS**

**Imagine another line that starts at \$130 and goes to \$190.**

**This is the call side.**

**Call buyers and sellers trade on this line.**

**The call buyer is a bull, betting AAPL will go up (a lot) in the next two years.**

**The call seller is a bear, betting AAPL will go down.**

**The call seller promises to pay for any gain in 100 shares of AAPL between now and two years from now.**

**The call buyer pays the seller \$30 a share (\$3,000) in exchange for the promise.**

# WHAT IS A SYNTHETIC LONG?

A SYNTHETIC LONG IS THE COMBINATION OF TWO BULLISH OPTIONS, A SOLD PUT AND A BOUGHT CALL, BOTH AT THE SAME STRIKE PRICE AND BOTH WITH THE LONGEST POSSIBLE EXPIRATION DATE

## AAPL SYNTHETIC LONG EXAMPLE

AAPL Price = \$130 a Share (100 Shares = \$13,000)

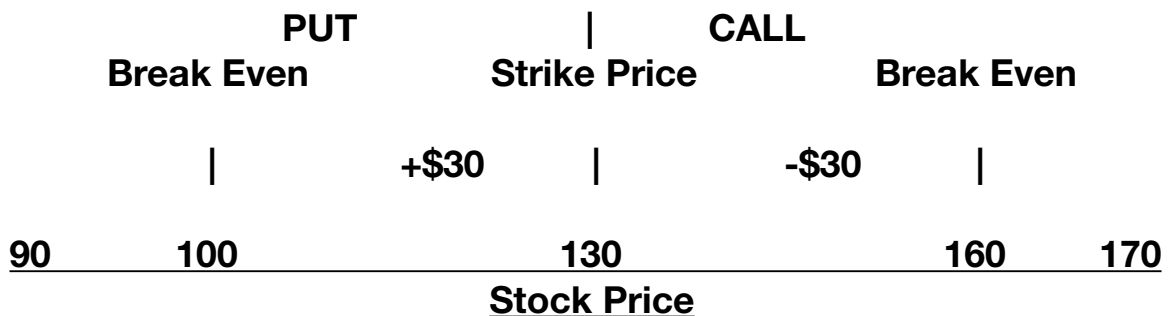
Option Strike Price = \$130

Option Duration = Two Years

Sold Put Price = +\$30 a Share (Gain +\$3,000)

Bought Call Price = -\$30 a Share (Cost -\$3,000)

## SYNTHETIC LONG



**COMPARING GAIN/LOSS OUTCOMES  
AFTER TWO YEARS**

- Buying 100 AAPL shares for \$130 a share (Cost = \$13,000)
- Selling a two-year \$130 AAPL put for \$30 (Gain = +\$3,000)
- Buying a two-year \$130 AAPL call for \$30 (Cost = -\$3,000)

| <u>AAPL<br/>PRICE</u> | <u>AAPL<br/>STOCK</u> | <u>AAPL<br/>SOLD PUT</u> | <u>AAPL<br/>BOUGHT CALL</u> |
|-----------------------|-----------------------|--------------------------|-----------------------------|
| \$0.00                | -\$13,000             | -\$10,000                | -\$3,000                    |
| \$60                  | -\$7,000              | -\$4,000                 | -\$3,000                    |
| \$70                  | -\$6,000              | -\$3,000                 | -\$3,000                    |
| \$90                  | -\$4,000              | -\$1,000                 | -\$3,000                    |
| \$100                 | -\$3,000              | \$0.00                   | -\$3,000                    |
| \$110                 | -\$2,000              | +\$1,000                 | -\$3,000                    |
| \$120                 | -\$1,000              | +\$2,000                 | -\$3,000                    |
| <u>\$130</u>          | <u>\$0.00</u>         | <u>+\$3,000</u>          | <u>-\$3,000</u>             |
| \$140                 | +\$1,000              | +\$3,000                 | -\$2,000                    |
| \$150                 | +\$2,000              | +\$3,000                 | -\$1,000                    |
| \$160                 | +\$3,000              | +\$3,000                 | \$0.00                      |
| \$170                 | +\$4,000              | +\$3,000                 | +\$1,000                    |
| \$180                 | +\$5,000              | +\$3,000                 | +\$2,000                    |
| \$190                 | +\$6,000              | +\$3,000                 | +\$3,000                    |
| \$200                 | +\$7,000              | +\$3,000                 | +\$4,000                    |

## **SYNTHETIC-LONG STRATEGY**

- 1. Only buy or sell the longest term options available.**
- 2. Only trade large-caps that have a long history of innovation.**
- 3. Choose steady growth stocks, not volatile stocks.**
- 4. Be 90 percent certain growth will continue.**
- 5. Have a thesis for each stock – a long-term trend or advantage.**
- 6. Set up the trade when the market or a great stock is correcting.**
- 7. Always sell the put first.**
- 8. In the early stage of a major correction, only sell puts.**
- 9. Buy calls when the market is nearing a bottom.**
- 10. Sell more puts than you buy calls.**