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

PUT | CALL

Break Even   Strike Price   Break Even

| +$30 | -$30 |

90   100   130   160   170

Stock Price

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)

AAPL PRICE	AAPL STOCK	AAPL SOLD PUT	AAPL BOUGHT CALL
$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
$130	$0.00	+$3,000	-$3,000
$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.