



Investor Education Conference

November 1 & 2, 2019
MGM Grand Las Vegas



**Giant LEAPS[®]: Simulating
Covered Calls with Long-term
Equity Anticipation Securities**

Cameron May
Education Coach



How to Use This Guide

This reference guide is a tool to assist you in your learning during and after the Investor Education Conference.

During the Conference

- Follow along with the presenter—the slides are in the guide.

After the Conference

- Continue using the guide as a reference of all you've learned.
- Review reference guides and slides from presentations you couldn't attend.
- Complete the tasks on the Apply What You've Learned and Continue Your Education slides to keep developing your investing skills.

Keep the Conversation Going

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Important Information

Supporting documentation for any claims, comparison, statistics, or other technical data will be supplied upon request.

Transaction costs (commissions and other fees) are important factors and should be considered when evaluating any trade.

\$0 commission applies to online U.S. exchange-listed stocks, ETFs, and options trades. \$0.65 per options contract fee applies to options trades, with no exercise or assignment fees. Orders placed by other means will have higher transaction costs.

Past performance of any security or strategy does not guarantee future results or success.

In order to demonstrate the functionality of the platform, we need to use actual symbols. However, TD Ameritrade does not make recommendations or determine the suitability of any security or strategy for individual traders. Any investment decision you make in your self-directed account is solely your responsibility.

Asset allocation and diversification do not eliminate the risk of experiencing investment losses.

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All investing involves risks, including risk of loss.

Options are not suitable for all investors as the special risks inherent to options trading may expose investors to potentially rapid and substantial losses. Carefully read the previously provided copy of *Characteristics and Risks of Standardized Options*.

Spreads, straddles, and other multiple-leg options strategies can entail substantial transaction costs, including multiple commissions, which may impact any potential return. Advanced options strategies often involve greater and more complex risk than single-leg options trades. Investors should also consider contacting a tax adviser regarding the tax treatment applicable to spreads and other multiple-leg options transactions.

The covered call strategy can limit the upside potential of the underlying stock position, as the stock would likely be called away in the event of substantial stock price increase. Additionally, any downside protection provided to the related stock position is limited to the premium received.

Important Information

Short options can be assigned at any time up to expiration regardless of the in-the-money amount.

Trades involving minimal potential benefit can also be significantly impacted by transaction costs.

Probability analysis results shown (such as the probability of an option expiring in the money) are theoretical in nature, not guaranteed, and do not reflect any degree of certainty of an event occurring.

Delta measures how sensitive an option is to changes in the price of the underlying asset.

Gamma measures how sensitive an option is to changes in the price of the underlying asset.

Vega measures how sensitive an option is to changes in the volatility of the underlying asset.

Theta measures how sensitive an option is to time decay.

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Today you'll learn to:

- Explain what a covered call is and its benefits and risks.
- Describe how a LEAPS option can be substituted in place of a stock position.
- Estimate the potential returns and risks of trading LEAPS diagonals.

What Is a Covered Call?

Covered Call

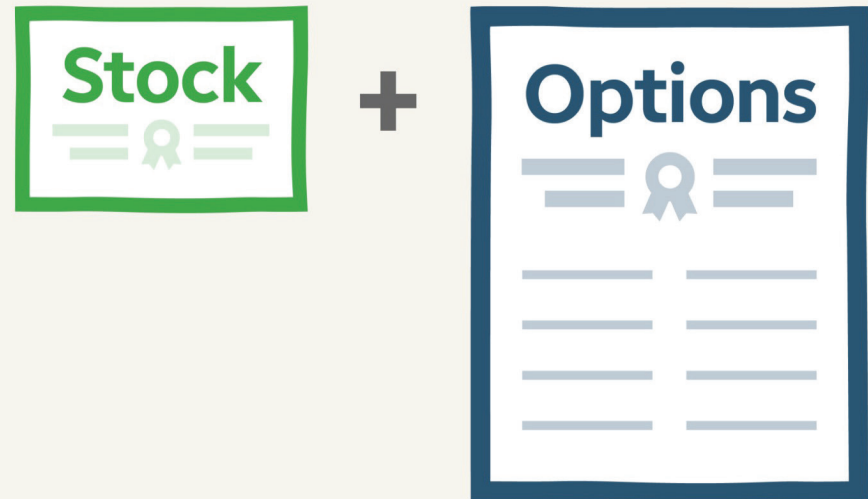
Options



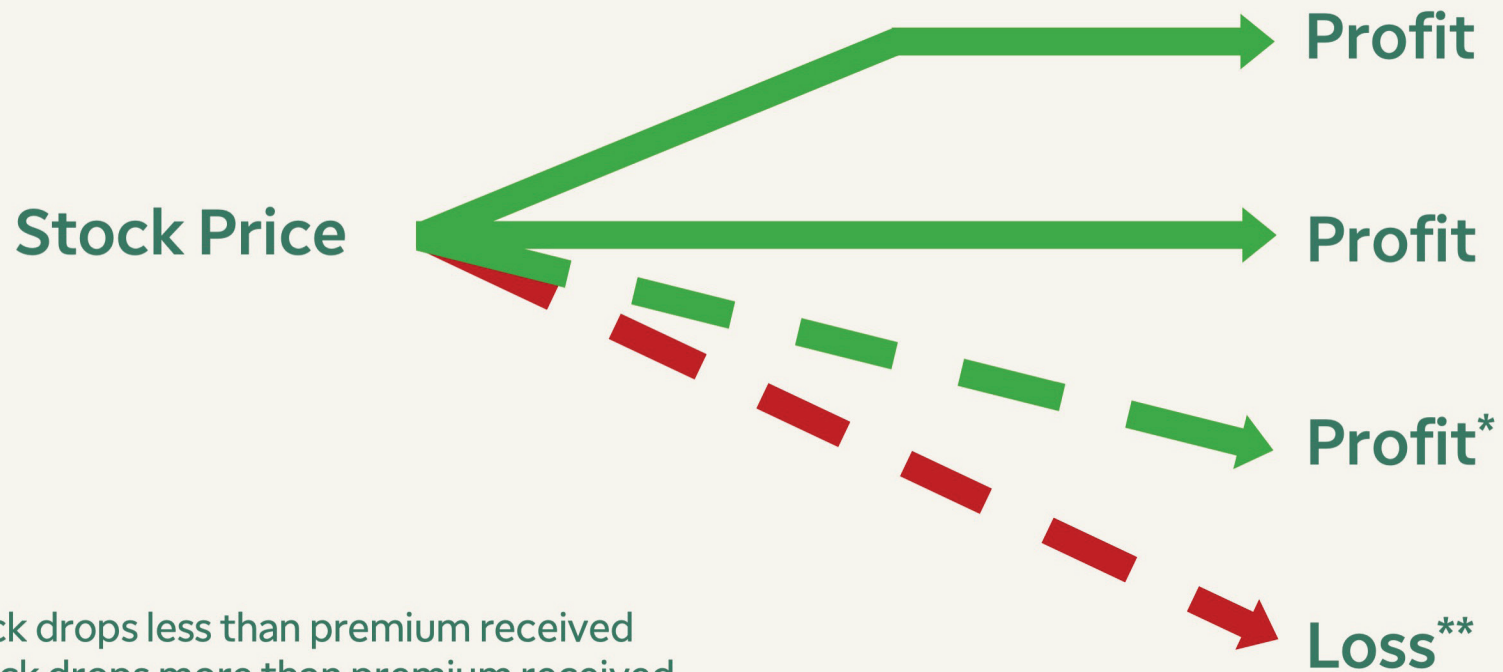
- You own at least 100 shares of stock.
- You sell at least one standard call option against your stock.
- You collect premium in exchange for the right for someone to buy your stock.

The Covered Call

- Obligation to sell
- 100 shares
- Strike
- Premium
- Expiration
- Transferable



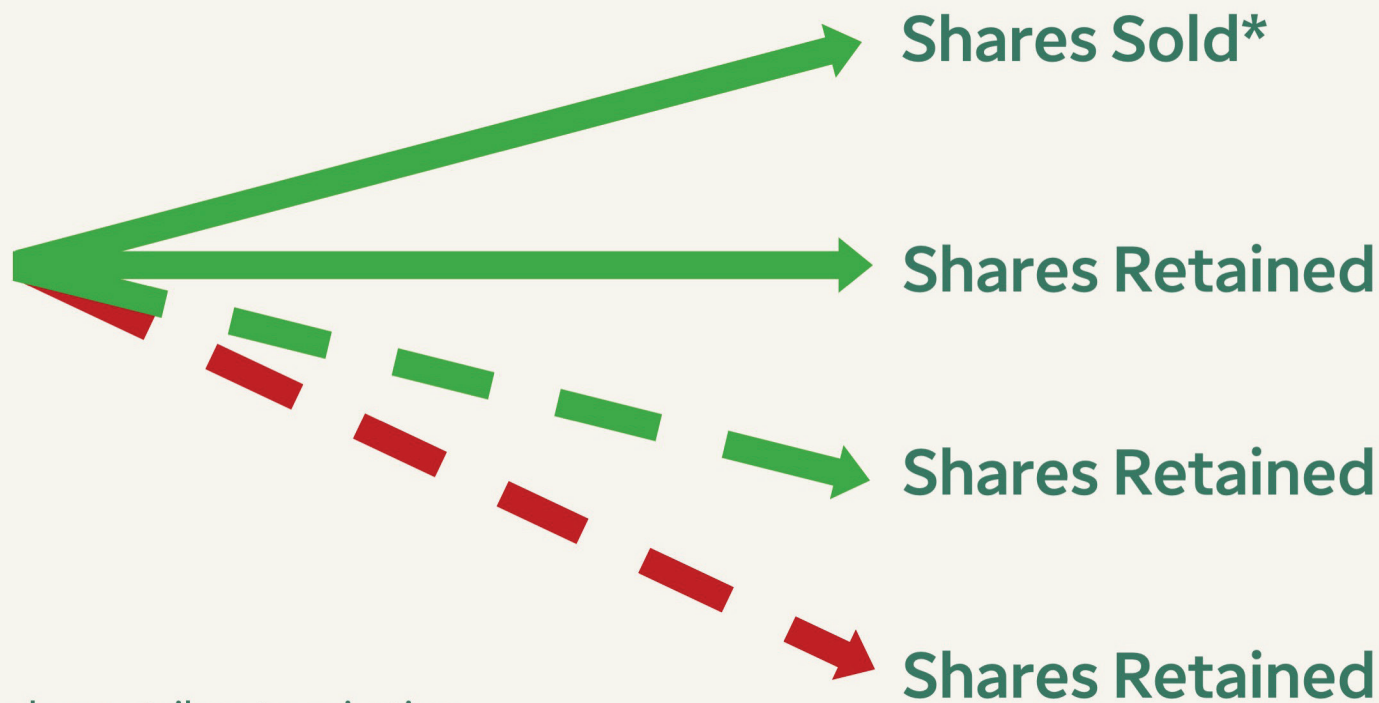
What Might Happen to the Covered Call? Profit or Loss?



*If stock drops less than premium received

**If stock drops more than premium received

What Might Happen to the Shares?



*If stock is above strike at expiration

What Are LEAPS?

- LEAPS stands for Long-term Equity AnticiPation Securities.
- LEAPS are simply options with longer-term expiration dates. Generally, options are considered LEAPS if they're more than nine months from expiration and expire in January.
- Because of the long-term expiration, LEAPS have lower leverage and less daily time decay than near-term options. This is one reason LEAPS might be used as an alternative to owning shares in a covered call trade.

Simulating a Covered Call Using LEAPS

- Pick an underlying stock
- Pick a long-term option (LEAPS) to buy
- Pick a short-term call option to sell
- Place the trade
- Consider rolling your short option when...



The graphic shows a document titled "Investing Plan" with a dark blue border. Below the title are six horizontal lines, each consisting of two parallel bars, representing a table or list of items.

Investing Plan

Rolling strategies can entail substantial transaction costs, including multiple commissions, which may impact any potential return. You are responsible for all orders entered in your self-directed account.

Pick a Stock

Sample watch list criteria

Investing Plan



Sample Watch List Criteria:

- Current Price >\$20
- Volume Range >500,000
- Technical Strength: Uptrend
- Fundamental Strength: Revenue Growth >Avg
- Fundamental Strength: EPS Growth >Avg
- Fundamental Strength: ROE >Avg

Pick an Option to Buy

Potential considerations

- Align time to expiration with technical expectations
- Longer-term LEAPS offer more potential rolls but are more expensive
- Higher-delta LEAPS react more like stock but are more expensive
- Delta may also help anticipate degree of leverage
- Higher open interest may indicate greater liquidity



The graphic shows a document titled "Investing Plan" with a dark blue border. Below the title are six horizontal lines, representing a list or table of contents.

Investing Plan

Pick an Option to Sell

Potential considerations



The graphic shows the words "Investing Plan" in a large, bold, blue font. Below the text are two columns of horizontal lines, representing a checklist or a list of items. The entire graphic is enclosed in a dark blue, hand-drawn style border.

Investing Plan

- Too little time on contract may make premium too low
- Too much time on contract may slow theta decay
- Higher-delta options offer larger premiums but carry greater risk of assignment
- Lower-delta options have lower risk of assignment but offer smaller premiums
- Higher open interest may indicate greater liquidity

Place the Trade

- Buy a LEAPS call option and sell the shorter-term call at the same time
- Or, buy a LEAPS call option and wait for resistance to sell the shorter-term call

A graphic of a document titled "Investing Plan" with a dark blue border. The title is in a large, bold, dark blue font. Below the title are six horizontal lines, each consisting of two parallel bars, representing a table or list of items.

Investing Plan

Roll Your Options

Investing Plan



- Consider rolling the short call if you've accomplished most of the potential gain
- Consider rolling four to 10 days before expiration to reduce assignment risk
- When selecting a new option, consider re-evaluating your expected area of resistance
- If price is trading above your short strike, consider rolling your position to the next expiration at a higher strike

What Happens at Short Expiration If...

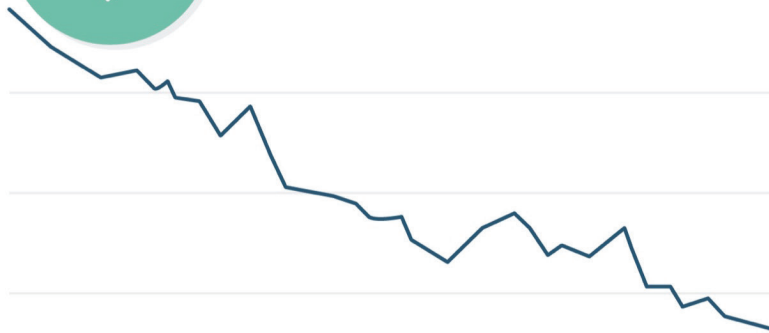
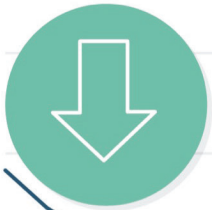
Stock price has risen above your short call's strike?



- Short call is assigned (creating short stock position).
- Short call premium is retained.
- Long call may be retained.
- Long call likely has unrealized gain.

What Happens at Short Expiration If...

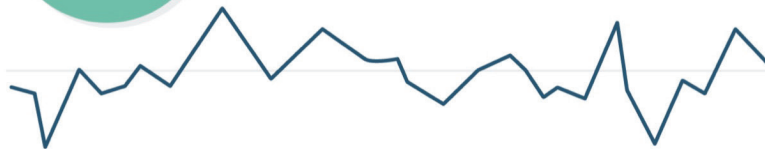
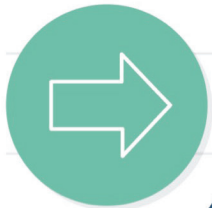
Stock price falls below the long call strike?



- Short call likely expires worthless.
- Short premium is retained.
- Long call may be retained.
- Long call likely has unrealized loss.

What Happens at Expiration If...

Stock price closes between long and short strikes?



*Short options can be assigned at any time up to expiration regardless of the in-the-money amount.

- Short call likely expires worthless.
- Short premium is retained.
- Short premium is retained at expiration regardless of whether option is assigned or not.
- Long call may be retained.
- Long call may have unrealized gain or loss.

Today you learned to:

- Explain what a covered call is and its benefits and risks.
- Describe how a LEAPS option can be substituted in place of a stock position.
- Estimate the potential returns and risks of trading LEAPS diagonals.





 @CMay_TDA

Continue Your Education

- Join me in my “Managing an Options Portfolio” webcast Friday mornings @ 9:30 ET