

THE BULL



Highlights

- No technical analysis!
- No adjustments!
- Excellent trade for IRA accounts
- 73% win percentage

- +21.6% annual return (2002 – July 2013 YTD)
- +26.5% annual return, excluding 2008
- +3.5% S&P 500 annual return 2002 – 2013 YTD
(SPX: 1148 on 1/2/02 to 1606 on 6/28/13)
- +8.7% Russell 2000 annual return 2002 – 2013 YTD
(RUT: 489 on 1/2/02 to 977 on 6/28/13)

Guidelines

- Entry: 65 DTE / Underlying is Russell 2000 Index (RUT)
- Exit: 37 or 30 DTE; when back month is at 65 DTE, or position is down -\$250 per lot
- Max Loss: -\$250
- Approximate Planned Capital: \$2,750 per lot (\$3,000 - \$250 credit received)
- Sell 30 point bull put vertical. Short strike is strike closest to 10 Delta (i.e. 870) and long strike is 30 points lower (i.e. 840).
- If \$250 max loss is reached (i.e. in January) before back month (i.e. February) is at 65 DTE, go to sidelines and wait until 65 DTE to enter back month.

Example Position



Backtesting

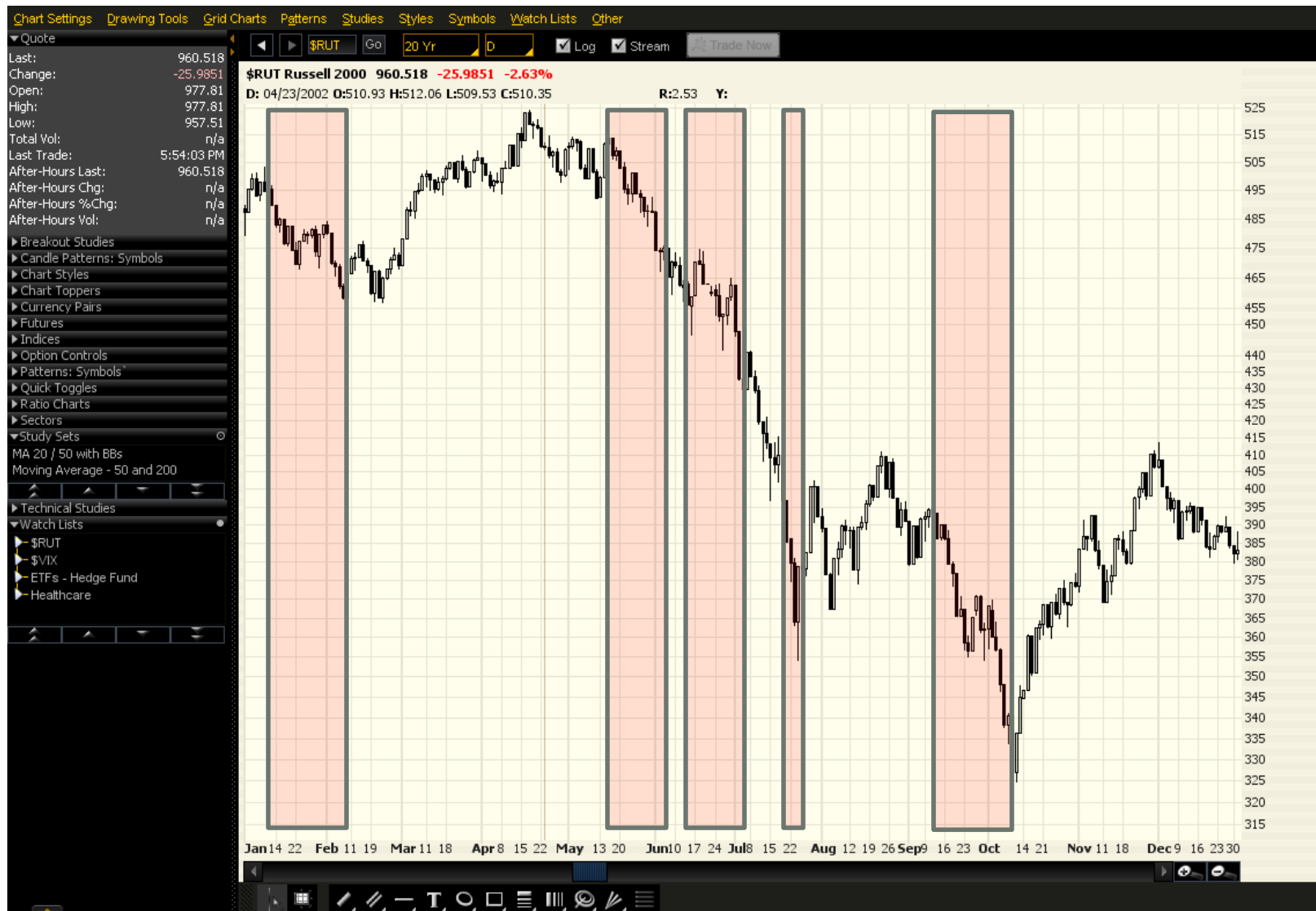
- Performed using OptionVue 7
- OptionVue Settings
 - Yates model
 - True Delta/Theta
 - Combine Put/Call Skews
- Dates: 2002 – July 2013 YTD
- See detail file for monthly results

ANNUAL REVIEW

2002

- 7 wins / 5 losses
- -16.3%
- RUT: -21.7% (489 to 383)
- Avg. Volatility: 25.4%(OV) / 27(VIX)
- Only losing year other than 2008
- Note: Shaded areas on price graphs denote losing months

2002



2003

- 10 wins / 2 losses
- +33.9%
- RUT: +45.4% (383 to 557)
- Avg. Volatility: 21.6%(OV) / 22(VIX)

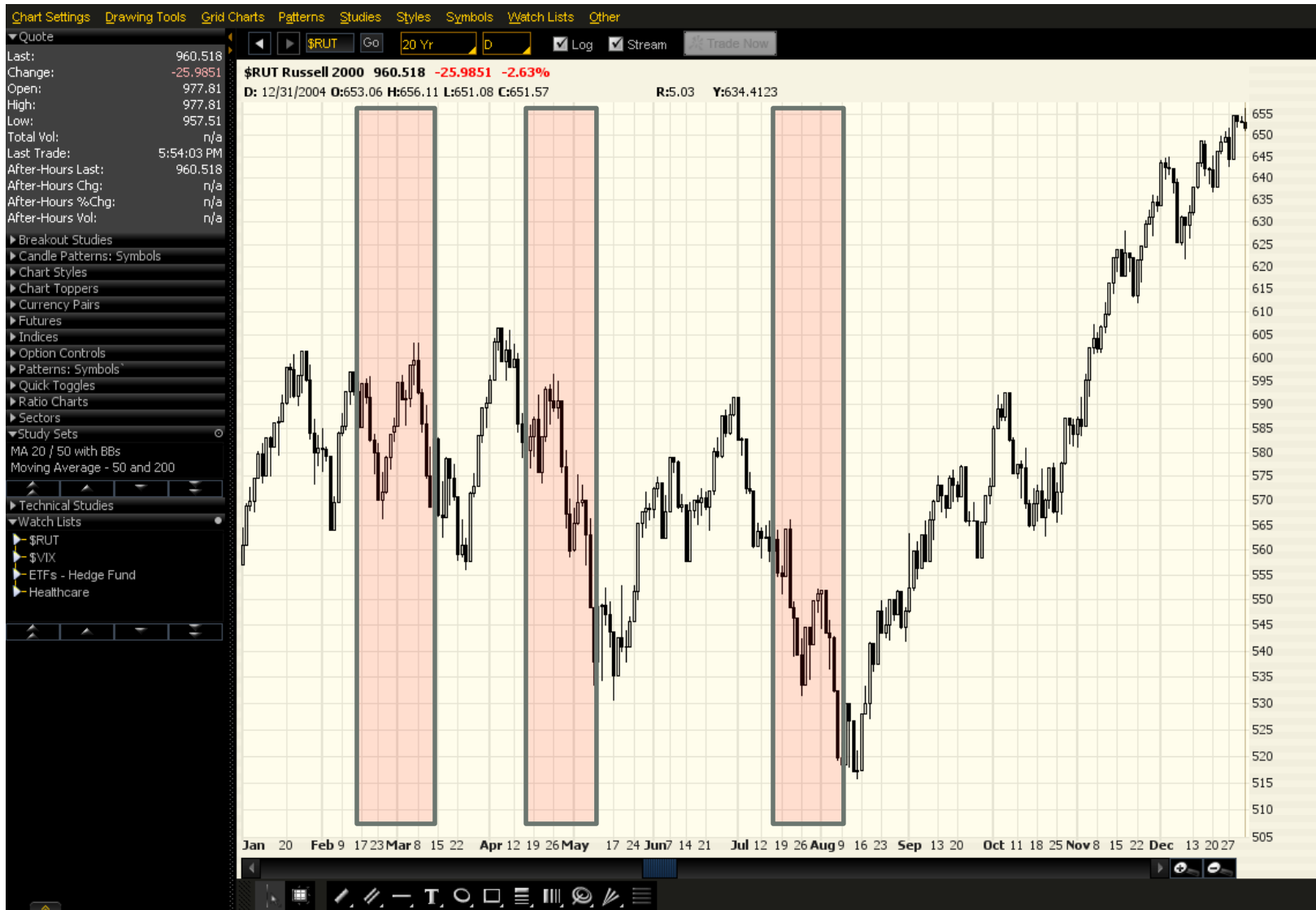
2003



2004

- 9 wins / 3 losses
- +28.7%
- RUT: +17.1% (557 to 652)
- Avg. Volatility: 22.5%(OV) / 15(VIX)

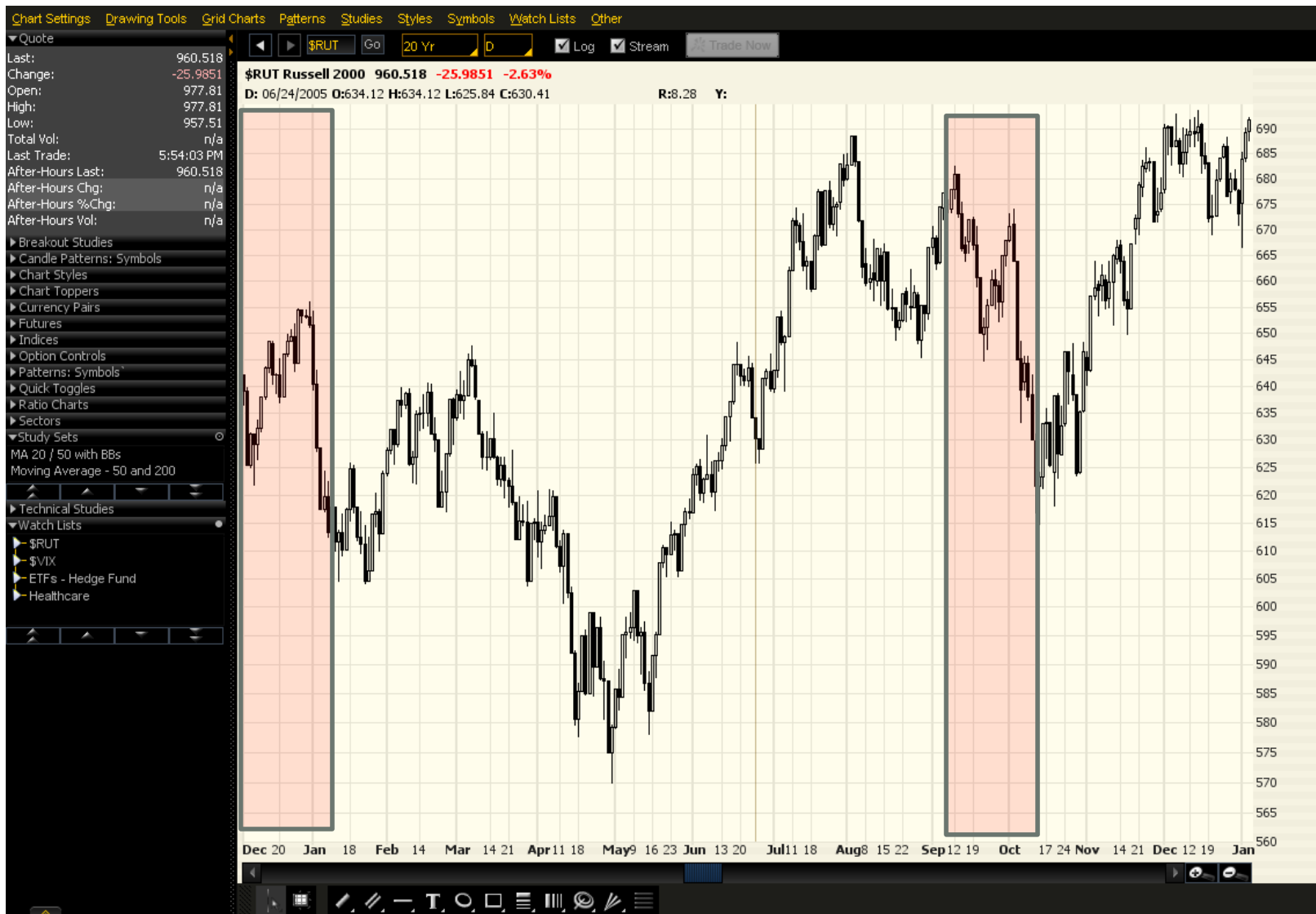
2004



2005

- 10 wins / 2 losses
- +29.2%
- RUT: +3.2% (652 to 673)
- Avg. Volatility: 18.2%(OV) / 13(VIX)

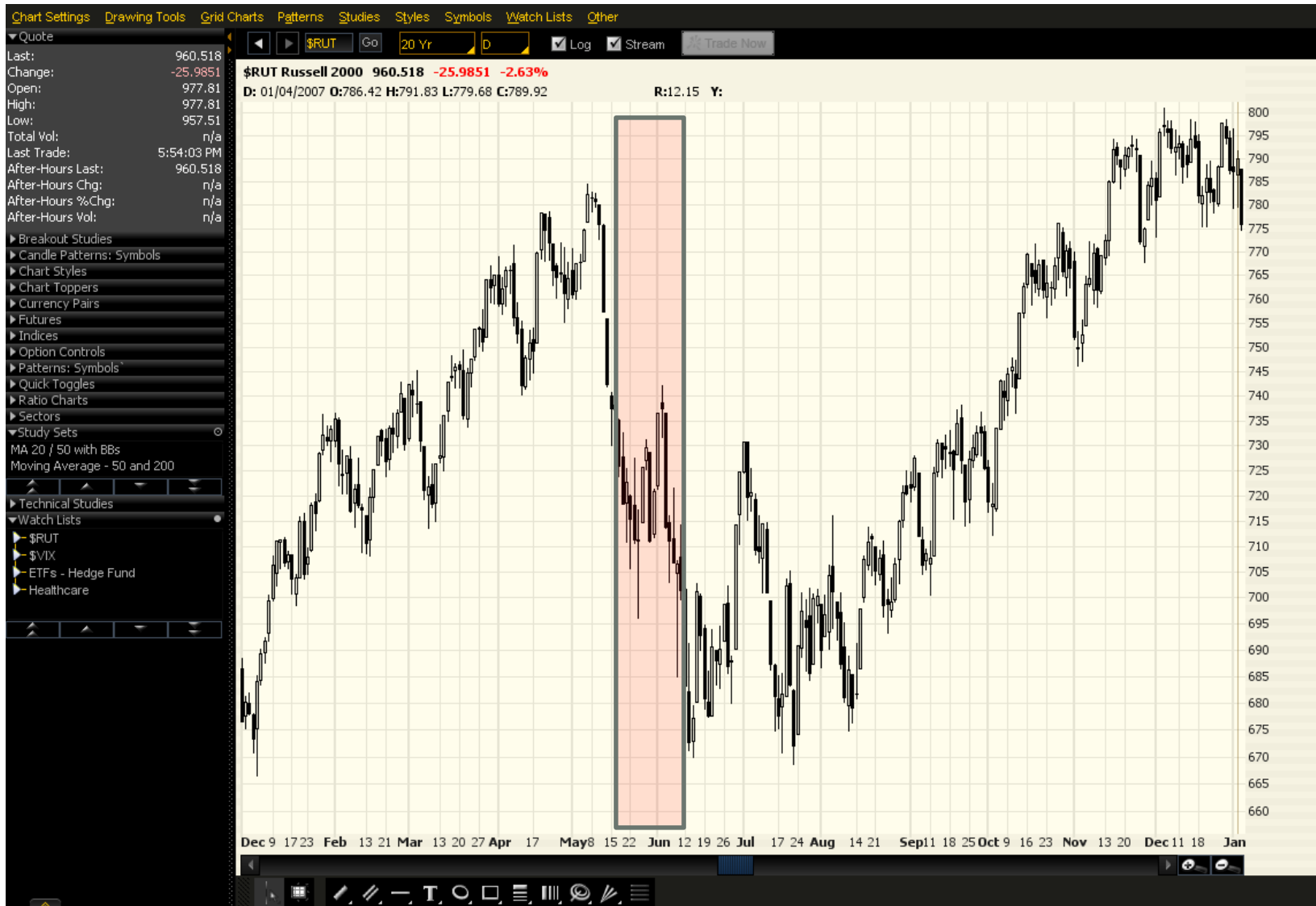
2005



2006

- 11 wins / 1 loss
- +45.8%
- RUT: +16.6% (673 to 788)
- Avg. Volatility: 20.0%(OV) / 13(VIX)

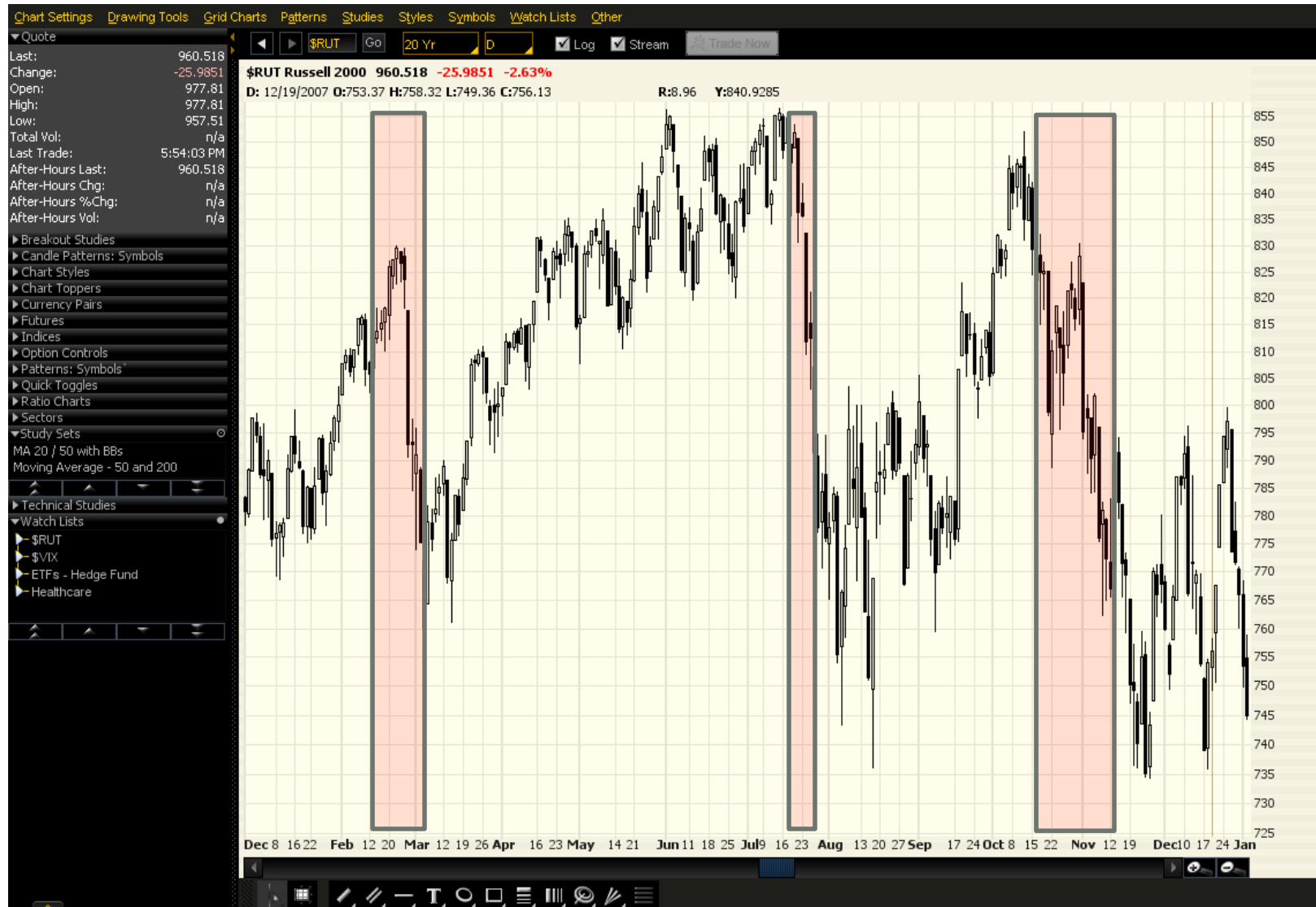
2006



2007

- 9 wins / 3 losses
- +23.2%
- RUT: -2.8% (788 to 766)
- Avg. Volatility: 21.4%(OV) / 18(VIX)

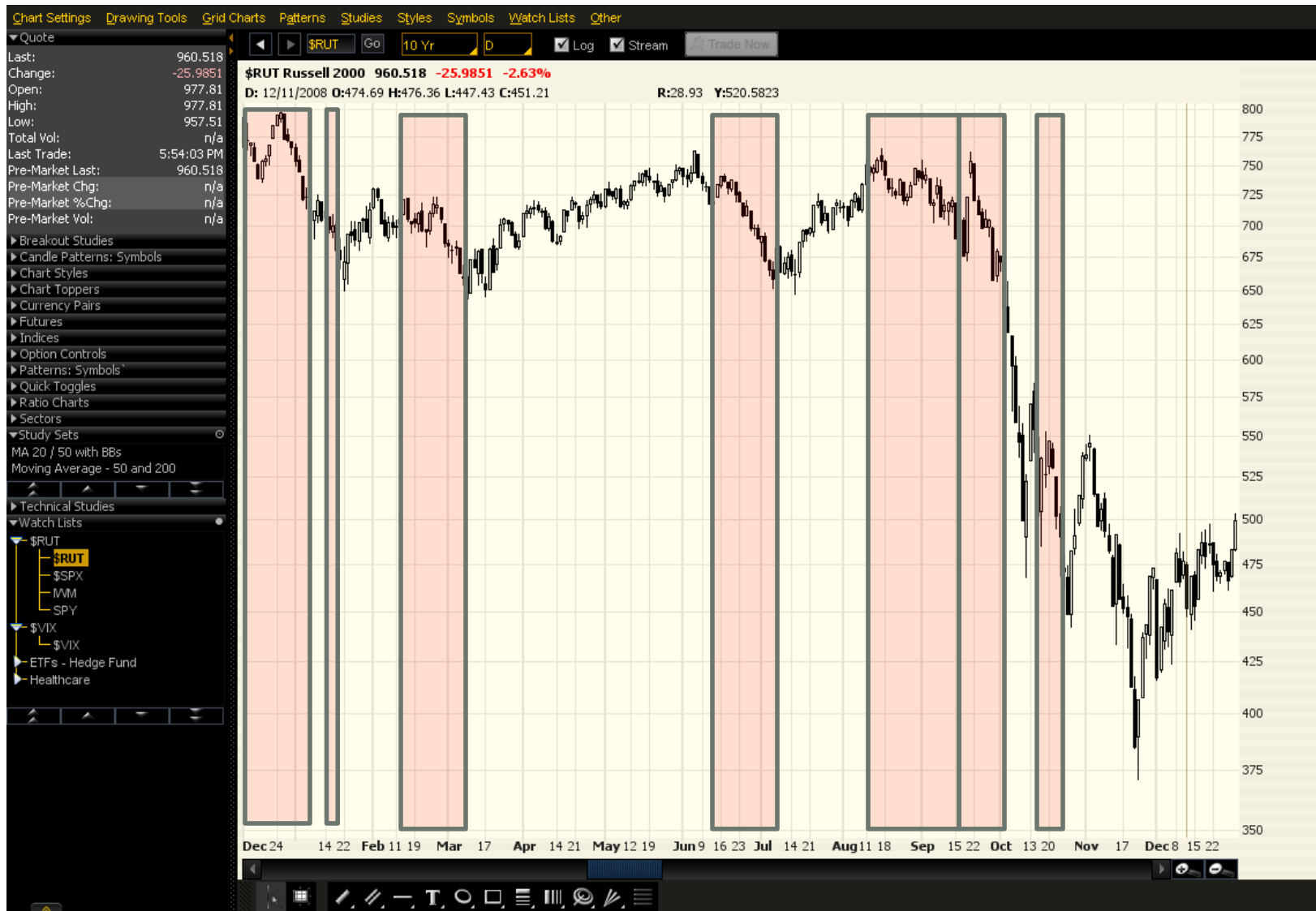
2007



2008

- 5 wins / 7 losses
- -31.2%
- RUT: -34.9% (766 to 499)
- RUT Range: 800 to 371 / -429 / -54%
- Avg. Volatility: 33.1%(OV) / 34(RVX)
- Only losing year other than 2002
- “The financial crisis of 2007–2008, also known as the Global Financial Crisis and 2008 financial crisis, is considered by many economists to be the worst financial crisis since the Great Depression of the 1930s. It resulted in the threat of total collapse of large financial institutions, the bailout of banks by national governments, and downturns in stock markets around the world.” (Source: Wikipedia)

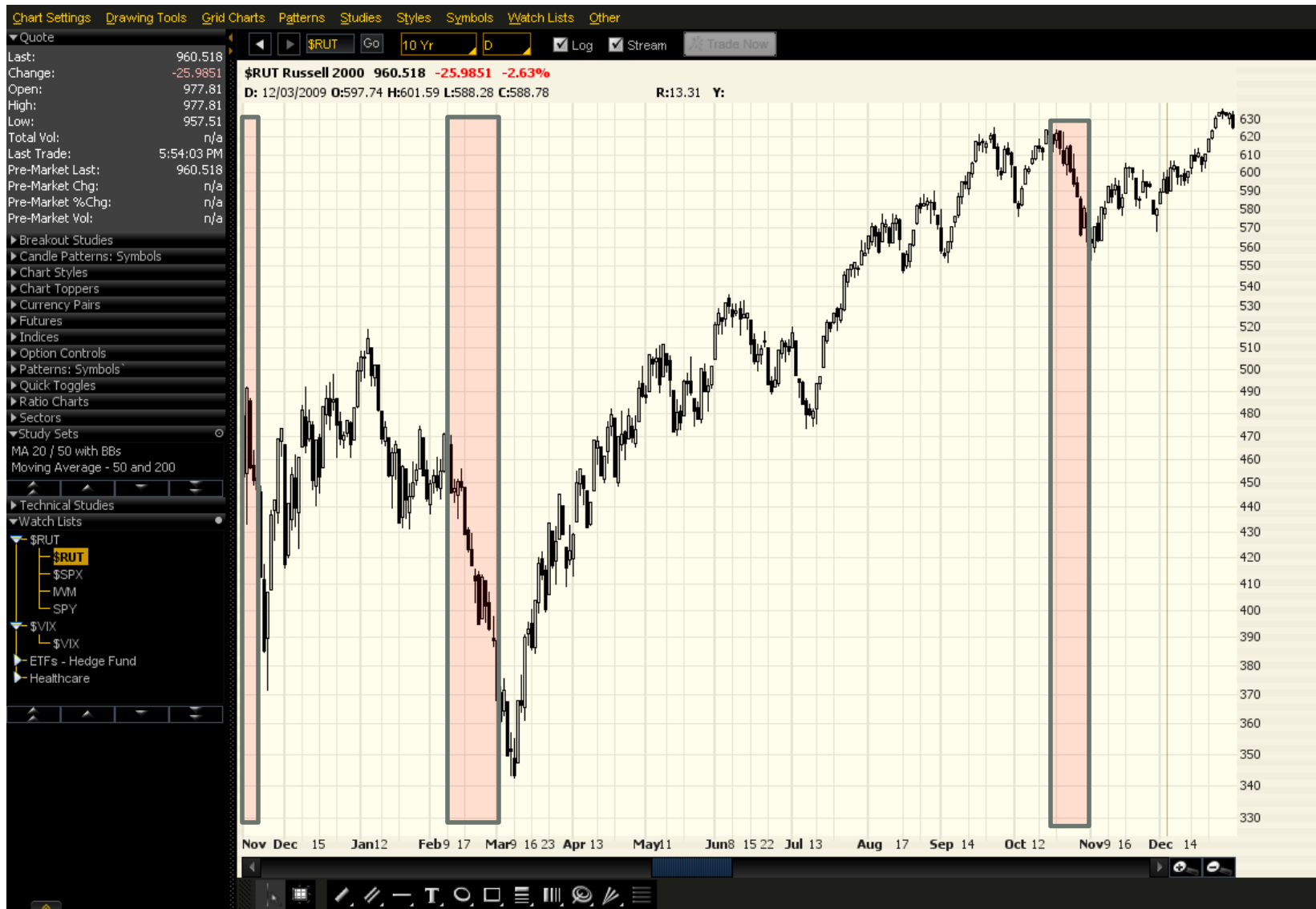
2008



2009

- 9 wins / 3 losses
 - +32.2%
 - RUT: +25.3% (499 to 625)
 - Avg. Volatility: 42.1%(OV) / 44(RVX)
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- Great year despite elevated volatility
 - 2009 average volatility higher than 2008, however, volatility was dropping in 2009 as market recovered

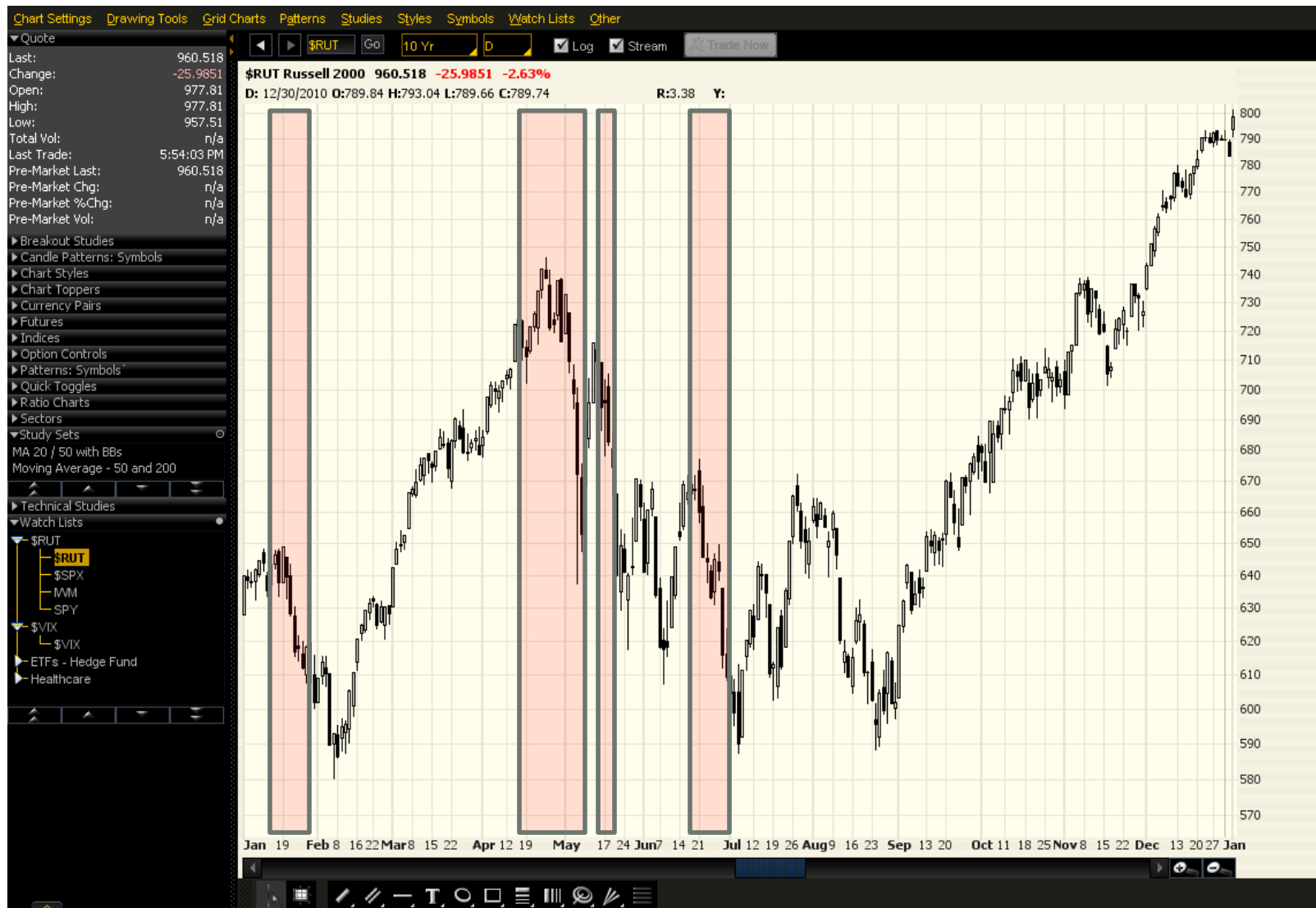
2009



2010

- 8 wins / 4 losses
- +19.2%
- RUT: +24.8% (628 to 784)
- Avg. Volatility: 27.0%(OV) / 29(RVX)

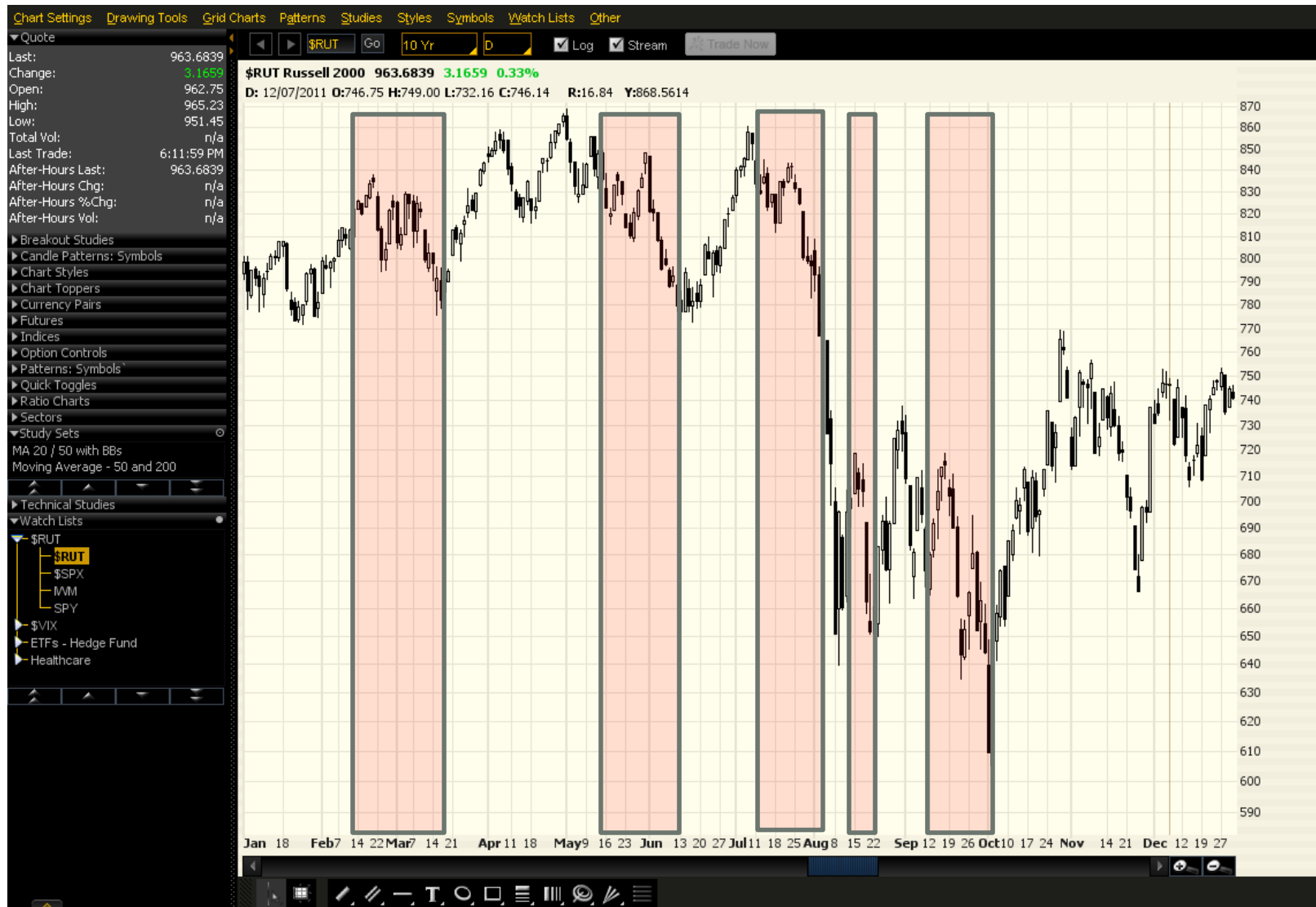
2010



2011

- 7 wins / 5 losses
- +14.0%
- RUT: -6.7% (794 to 741)
- Avg. Volatility: 28.2%(OV) / 30(RVX)

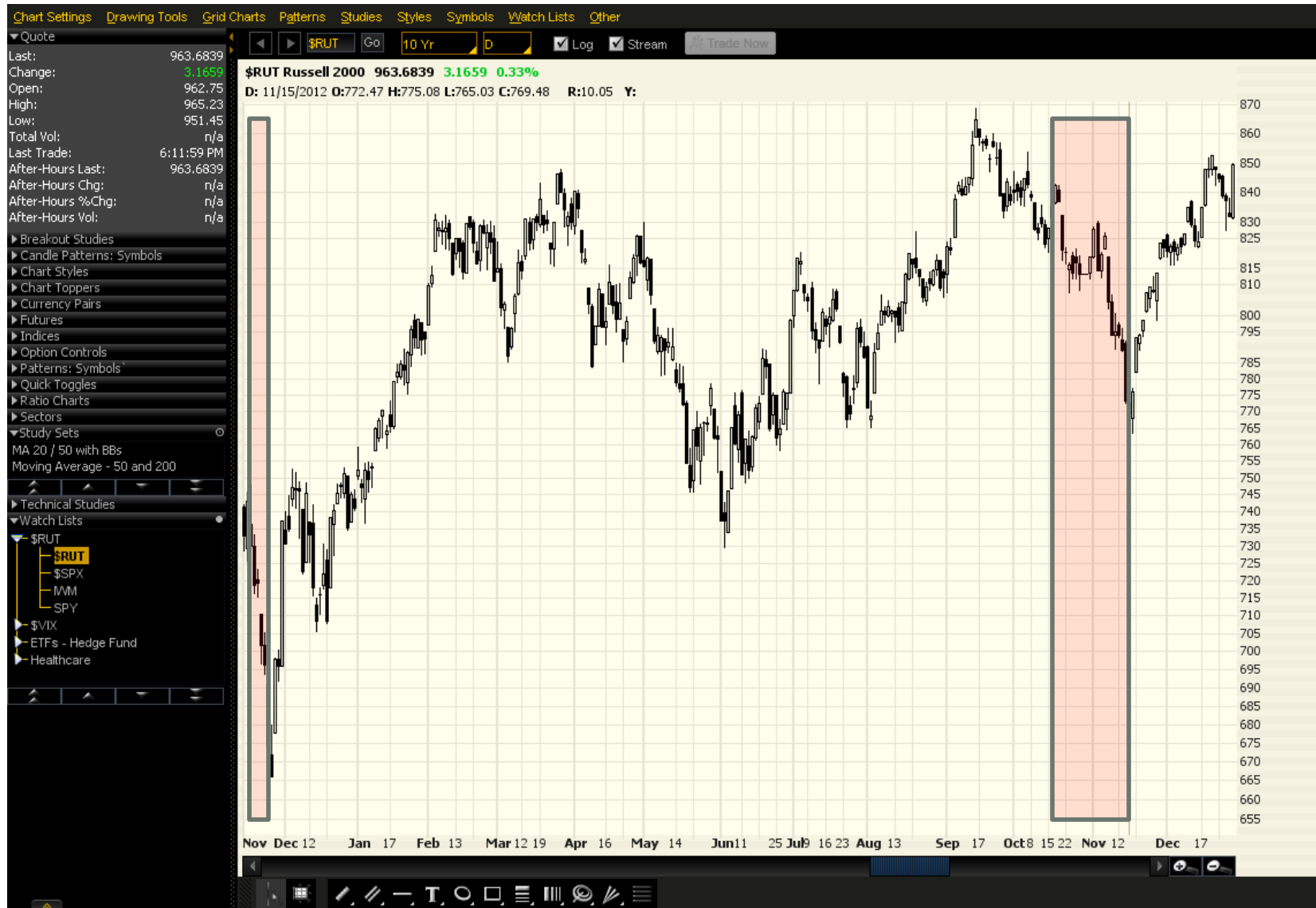
2011



2012

- 10 wins / 2 losses
- +40.2%
- RUT: +13.0% (751 to 849)
- Avg. Volatility: 24.1%(OV) / 26(RVX)

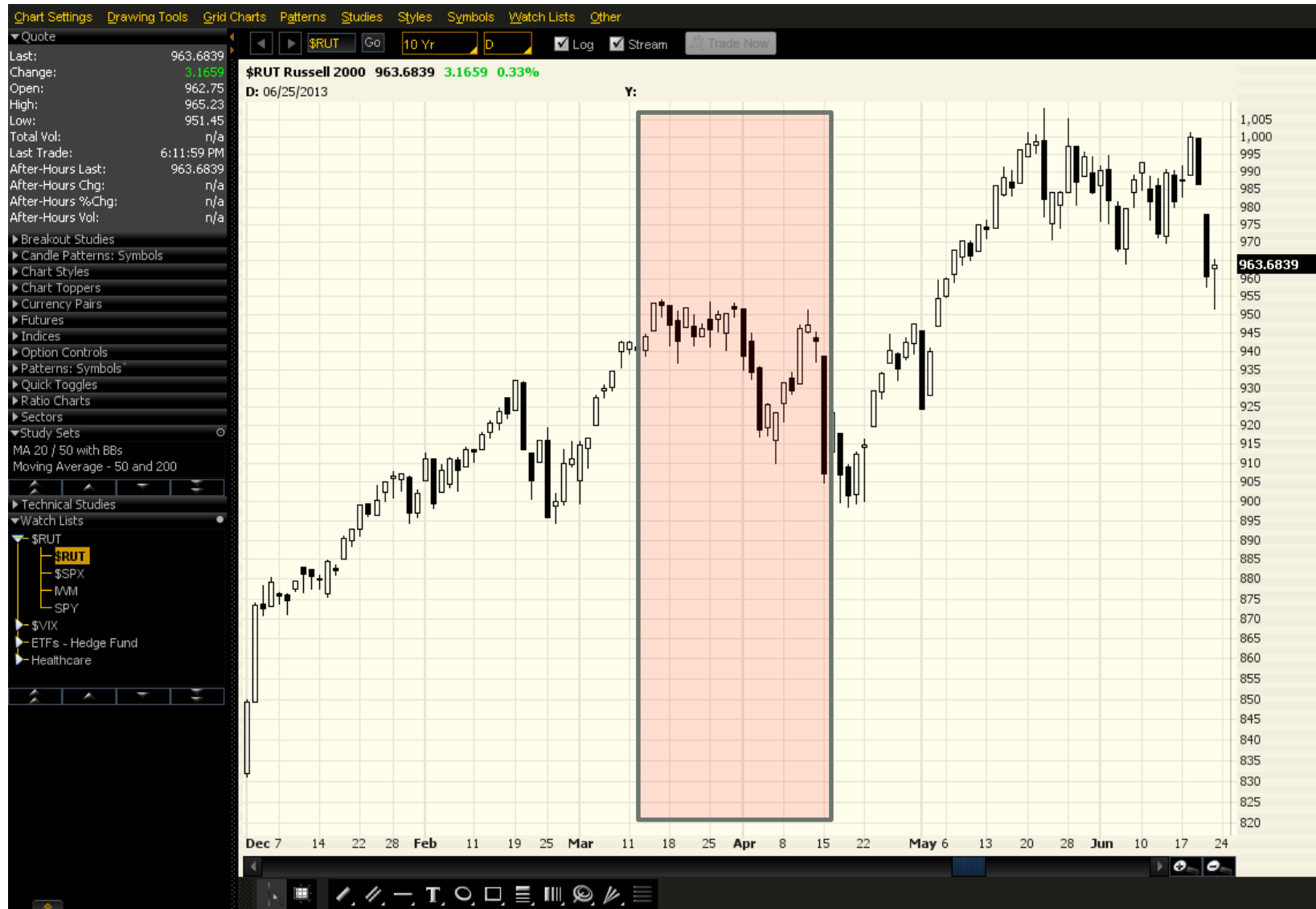
2012



2013 YTD

- 6 wins / 1 loss
- +30.9%
- RUT: +15.1% (849 to 977)
- Avg. Volatility: 17.2%(OV) / 19(RVX)

2013 YTD



Summary

	Wins	Losses	Annual Return	RUT	Volatility		
					OV	VIX	RVX
2002	7	5	-16.3%	-21.7%	25.4%	27	-
2003	10	2	33.9%	45.4%	21.6%	22	-
2004	9	3	28.7%	17.1%	22.5%	15	-
2005	10	2	29.2%	3.2%	18.2%	13	-
2006	11	1	45.8%	16.6%	20.0%	13	-
2007	9	3	23.2%	-2.8%	21.4%	18	-
2008	5	7	-31.2%	-34.9%	33.1%	33	34
2009	9	3	32.2%	25.3%	42.1%	31	44
2010	8	4	19.2%	24.8%	27.0%	23	29
2011	7	5	14.0%	-6.7%	28.2%	24	30
2012	10	2	40.2%	13.0%	24.1%	18	26
2013 YTD	6	1	30.9%	14.8%	17.2%	14	19

Note: VIX annual average volatility calculated using daily close prices

Expectancy Ratio Defined

There are many ways to measure the performance of a fund, a manager, or a strategy. Referencing “average annual returns” doesn’t provide enough information to make an investment decision. The reason an average annual return isn’t sufficient is because this doesn’t tell us what draw down or volatility was required to achieve that return.

If a strategy can double the returns of the stock market but uses double the risk to do so... then we can simply buy a double levered ETF to achieve the same results. Expectancy takes into account the losses as well as the gains to provide a risk adjusted measurement for what you can “expect” for each dollar of draw down you experience.

The formula is: (the average win multiplied by the number of wins) divided by (the average loss multiplied by the number of losses). This measurement is able to effectively compare one strategy that experiences dozens of small losses with a handle of big wins with another strategy that has a 90% success rate with an occasional big draw down.

Technically anything with an expectancy greater than 1.0 is a profitable strategy. An Expectancy of 1.5 means there has been \$1.50 of return for every \$1 of drawn down.

Source: Andrew Falde, Lessthanrandom.com

Expectancy Ratio

Avg Win	\$ 155.11	# of Wins	101	\$ 15,666
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Avg Loss	\$ 230.16	# of Losses	38	\$ 8,746
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Expectancy Ratio				1.79
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OTHER

Characteristics of Winners

- 73% win percentage
- Avg winner: \$155.11 / +5.6% (\$2,775 Capital)
- Longest winning streak: 10 months (2012)
- Avg price move: +3.5%
- Volatility decrease: -5.6%

Characteristics of Losers

- 27% loss percentage
 - Avg loser: -\$230.16 / -8.3% (\$2,762 Capital)
 - Longest losing streak: 4 months (2008 - 2009)
 - Avg price move: -7.2%
 - Volatility increase: +25.4%
 - Short Deltas go from 10 to 21
-
- Smaller moves early / big moves late in cycle
 - Less forgiving when volatilities are low, but low vol years are good years!
 - Performance in losing years not as harsh as holding underlying.

Other

- Is there a volatility level that would prohibit entry? No.
Unless you are an expert in predicting volatility swings, I believe you are better off entering every month regardless of what the market is doing. When volatilities go up, they also come down. Obviously if the market is crashing you may wait a day or two past 65 DTE to enter.
- Can I time my entries so that I enter on down days? What if there is a huge up day at 65 DTE, am I better off waiting until there is a down day? You can, and I believe that it is better to enter on a down day rather than on an up day, however, there are tradeoffs and for backtesting I simply took the trade at 1:30pm Central at 65 DTE. Tradeoffs include potentially chasing the market up for a few days when you would have been better off taking the trade at 65 DTE.

Other

- What if I don't enter the third month after two losers? I believe you are better off trading through the losing months. You know the Expectancy Ratio so let it play out and don't get in the way. Other than in the middle of the 2008 financial crisis (four consecutive losing months), this trade only loses three consecutive months. If you trade through and lose month three, then you're going to make it up when you win month four. For simplicity, continue trading. If the trade loses in month four, then something significant is going in the markets and you will know it. Then consider going to the sidelines.
- Interestingly, there were never just two straight losing months; two always turned into three. What if after two straight losing months you went to the sidelines until the trade wins? You would miss out on the loss in month three, but you would also miss out on the win in month four. In my opinion you are better off biting the bullet and trading through. Keep it simple!

Key Principles

- Enter 'The Bull' option trade every month!
- Always know where the \$250 max loss point is and strictly observe the \$250 max loss!
- Keep it simple!

