

**Excela Equities Trade Note: Recommendation**

20<sup>th</sup> September 2011

**XJO XMAS CONDOR CALENDAR CREDIT SPREAD**

**Quick Summary:**

- Sell 3850 OCT Put – Buy 3800 OCT Put
- Sell 4350 OCT Call – Buy 4400 OCT Call
  - 18 cent credit (Expiry: 20<sup>th</sup> October)
  
- Sell 4000 NOV Put – Buy 3950 NOV Put
- Sell 4450 NOV Call – Buy 4500 NOV Call
  - 26 cent credit (Expiry: 17<sup>th</sup> November)
  
- Sell 4100 DEC Put – Buy 4050 DEC Put
- Sell 4550 DEC Call – Buy 4600 DEC Call
  - 26 cent credit (Expiry: 15<sup>th</sup> December)

**Income Received:** If actioned today this trade would generate \$0.70 on 10 contracts or \$7000 gross.

**Projected Return**

**Breakeven** varies depending on where the market closes at each month's expiry.

**WIN**

**October Expiry:** If the market closes between 3850 & 4350 the OCT legs will expire worthless netting the October credit. The risk on the trade will be reduced from \$0.80 to \$0.30.

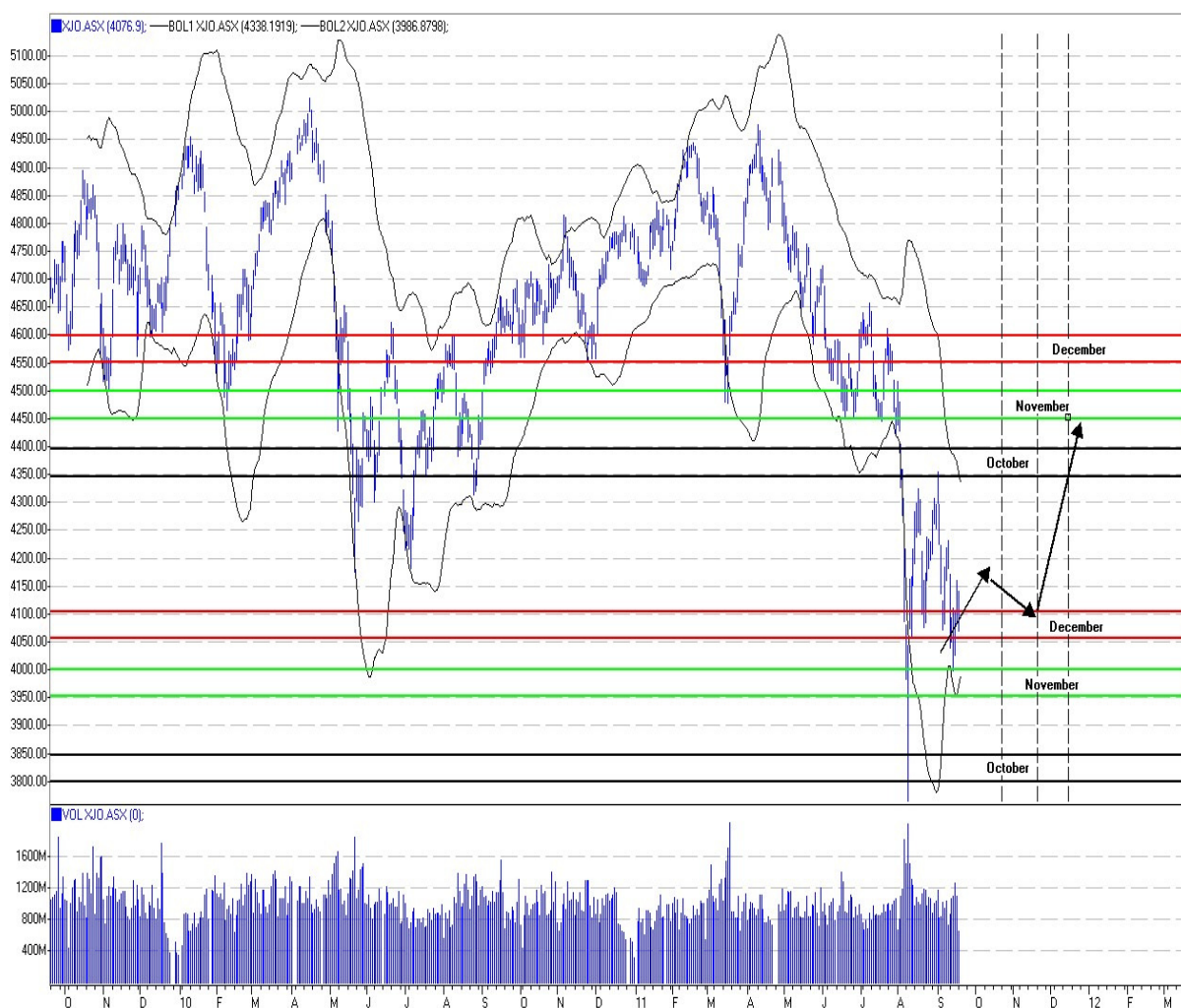
**November Expiry:** If the market closes between 4000 & 4450 the NOV legs will expire worthless netting the November credit. The risk on the trade will be removed, locking in a gross profit of \$0.20 or \$2000

**December Expiry** If the market closes between 4100 & 4550 the DEC legs will expire worthless netting the entire premium.

**Risk on Trade:** **Exposure** of \$0.80 or \$8,000 + brokerage

**Trade Timeframe:** 3 months, giving the market a 12.5% range to trade in - Goldman Sachs has stated a December target of 4400 on the XJO.

**Time to Act:** NOW. Today. This trade won't be available long – **Call (07) 3308 1808**



## Trade Explained

We have seen exceptional volatility since August mainly due to the European debt crisis, ratings agencies downgrades and the overall fear gripping market participants. As a result of this fear entering the market gold has continued to make fresh record highs, with investors selling down risk assets and parking funds into more typical safe haven investments such as gold and treasuries. Ironic, how investors see US treasuries as a safe haven given the strife their economy is in.

We feel that this risk aversion and overall panic is on its last legs, with volatility due to decrease should markets settle down. Additionally we hold a neutral to bullish bias into year end, with the expectation the characteristic “Christmas rally” will unfold, aligning the XJO for a move back to 4500 by year end.

We believe the above presents an opportunity to sell 3 Index condors for the next 3 months out to December, adjusting the sold ranges upwards each month so as to cater for our neutral to bullish view.

Given our view that volatility is likely to decrease, our recommendation is to implement all 3 condor’s immediately to take advantage of higher current volatility and maximizing the premium received, rather than waiting month-on-month and receiving less for the combined put and call spreads.

At this stage the trade is somewhat of a “set and forget” approach, but will be actively managed with action to be taken where required, given and major announcements or movements in the market.

## Trade Execution:

- Sell 3850 OCT Put – Buy 3800 OCT Put
- Sell 4350 OCT Call – Buy 4400 OCT Call
  - 18 cent credit
  
- Sell 4000 NOV Put – Buy 3950 NOV Put
- Sell 4450 NOV Call – Buy 4500 NOV Call
  - 26 cent credit
  
- Sell 4100 DEC Put – Buy 4050 DEC Put
- Sell 4550 DEC Call – Buy 4600 DEC Call
  - 26cent credit

## Credit Received

Total credit received = 70c

**(.70 cents\* 1000) \* 10 contracts = \$7,000**

### Maximum Risk

The **maximum risk** on this trade is 80 cents per contract or \$8000 if the full 10 contracts were traded. This would occur if the XJO level was above or below the bought legs at each expiry. The risk-reward is approx 53/47, that is, on 10 lots; risk \$8000 to make \$7000 (not including commissions, gst and ACH cost to deal)

The **breakeven** on the trade varies depending on where the market closes at each month's expiry.

As each monthly condor expires worthless, the risk-reward improves substantially in the investor's favour due to the time decay affecting the later legs.

**\*\*NB: Prices are indicative of time when note was prepared and are subject to change; trade size may be adjusted to suit personal risk appetite; all calculations do not factor in commissions, GST or ACH costs.**

### Important Information

Index options are **European Style Options**; they cannot be exercised early and expire on expiry date based on the OPIC (Opening Price Index Calculation) at around 10.30am on expiry day.

If the options are in the money (loss scenario), they will be automatically cash adjusted, that is, you will not be liable for additional commission charges.

The position can be closed out to take profit or reduce risk **at any time** throughout the period

### Margin Requirements

Blue chip stock can be used as margin cover; therefore no cash is required to implement the trade.

Margin requirements will be somewhat neutral and maximum risk limited as the market can only finish in one spot, i.e. the index can't simultaneously close @ 3800 & 4600 in the same month.

**To participate in this trade please contact your Excela broker on (07) 3308-1808 (Opt # 1)**



## excela equities **TRADE NOTE**

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