

Composite Gives a Little Back Amid Huge Volatility Earnings Eagle Top Performer

Stocks stormed out of the gate to start the fourth quarter, gaining nearly 6% in just two days. The Dow added 1600 points. It was the best two-day surge since April 2020. Optimism was flowing, based on the belief that the Fed would back off its rate-hike intentions.

But that all came crashing down on Friday, when a stronger-than-expected employment report (the unemployment rate tied a 50-year low) dashed hopes that the Fed would soften. The rate-hike trade was back on, and stocks plunged.

If you went away for the week and just looked at the final numbers, you'd assume that it was a quiet week. The average underlying move was a mere 1.3%, with the largest move logged by the iShares Russell 2000 ETF (IWM) at just 2.2%. Both the Invesco QQQ Trust ETF (QQQ) and Microsoft (MSFT) gained less than a percent. Nothing to see here, right?

Well, no. Stocks soared, then plunged to close with modest gains. As shown in the table below, the weekly price ranges of all underlyings were three to 13 times greater than the net weekly move. In fact, the underlyings gained an average of 6.7% to start the week and finished by plunging an average of 6.1%. And it shouldn't come as a surprise that historical volatilities (HV) took a huge jump, soaring an average of 17.5%. That's not a quiet week.

Underlying	High Price	Low Price	% Range	Net Move	Range/Net
IWM	176.08	165.25	6.6%	2.2%	2.9
SPY	379.46	359.21	5.7%	1.6%	3.6
QQQ	284.18	267.53	6.2%	0.7%	9.0
MSFT	250.58	233.17	7.5%	0.6%	13.0

We know the *10K Strategy* can handle some volatility (look at last week), but this week was a bit much. Fortunately, we were on the right side of the market's strong open on Monday. We made just three trades to open spreads in IWM, and the Composite gained around 1.5%. But we ended the day with negative deltas across the board, expecting the strength to reverse – or at least wane - on Tuesday.

That proved to be our undoing. Stocks spiked on Tuesday, with the underlyings gaining an average of 3.4%. We made 10 trades to close spreads and lower strikes in all portfolios. But there was little we could do to stop the onslaught, as the Composite fell nearly 5%.

Wednesday was the only restful day. Stocks finished mixed, and we made just four QQQ trades to raise delta. But we were well set up for a down day on Thursday, which turned out to be the Composite's best day. We made no trades, and the Composite

made it back to around breakeven for the week, which was impressive given Tuesday's disaster.

Heading into Friday, deltas were negative for every portfolio but *Honey Badger*. So, we were prepared for some downside. But not prepared enough to deal with an average underlying drop of -3.7%, especially for *Badger* and its positive delta. It was a day of scrambling, rolling out and the dreaded reversal trades. We made 22 trades, well more than half the week's total. The Composite fell about 1%, which frankly isn't too bad given the price action.

Pulling back for a broader look, the Composite fell less than a percent overall despite strong underlying volatility. Implied volatility (IV) fell 30% for QQQ, which is likely why *Honey Badger* suffered the most. Though IVs were mostly flat for the other underlyings, HVs spiked to drag the Composite IV/HV ratio from 143% to 115%.

We made 39 trades, which is about average given we had two short rollouts. But it underscores a continued restraint in trading given the huge underlying moves. We gained two spreads for the week, and cash dropped from 38% to 32%.

Despite the overall loss, I'm encouraged by the performance. Trading conditions for the *10K Strategy* were downright dismal, yet we managed to overcome a big loss on Tuesday to finish with a modest loss that put us just under breakeven for the year.

Deltas are mixed heading into next week. *Wiley Wolf* is a bit too bullish, while *Boomer's Revenge* is modestly bullish. On the other side, *Earnings Eagle* is slightly bearish, while *Honey Badger* has the lowest delta. A mixed open would help on Monday. That said, all eyes will be focused on Thursday's release of inflation data. That will likely keep stocks on edge, so it could be another grinding week.

Underspiced

Spice maker McCormick (MKC) reported earnings this week that had no sizzle. Revenue and earnings both missed expectations by more than a little. The CEO said that "supply chain challenges continued, and recovery of certain constrained materials has taken longer than expected." I'm not sure what that specifically means, but it doesn't sound good.

The stock reacted with a brief burst on Thursday, but eventually finished lower. This shouldn't be a surprise, though, as the stock has been in a pronounced decline since mid-August. The downtrend has covered more than 20%, pulling MKC to its lowest level since the COVID crash in early 2020. Moreover, the descent has been perfectly contained by the 20-day moving average, which hasn't allowed a single close above it since Aug. 23.

Note that the short call of our spread sits at 75, one point below the 20-day. However, the current rate of descent will pull the trendline below this level within the next few days. Thus, the stock will have to break above the moving average in order to move the short call into the money.



If you agree that MKC will continue to decline under the weight of the 20-day (blue line), consider the following trade that relies on the stock staying below \$75 (red line) through expiration in six weeks:

**Buy to Open the MKC 18 Nov 80 call (MKC221118C80)
 Sell to Open the MKC 18 Nov 75 call (MKC221111C75) for a credit of \$1.45
 (selling a vertical)**

VERTICAL	SELL	-1	MKC 18 NOV 22	75	CALL	1.50
	BUY	+1	MKC 18 NOV 22	80	CALL	CREDIT

This credit is \$0.05 less than the mid-point price of the spread at Friday's \$73.44 close. Unless MKC sags quickly, you should be able to get close to that price.

The commission on this trade should be no more than \$1.30 per spread. Each spread would then yield \$143.70. This trade reduces your buying power by \$500, making your net investment \$356.30 per spread (\$500 - \$143.70). If MKC closes below \$75 on Nov. 18, both options will expire worthless and your return on the spread would be 40% (\$143.70/\$356.30).

Underlying Stock Price and IV Changes For Week Ending: 10-8-22

	last week	this week	change	%change
DIA	\$287.30	\$292.97	\$5.67	2.0%
IWM	\$164.92	\$168.61	\$3.69	2.2%
IWM Short IV	31.4	36.8	5.40	17.2%
IWM Long IV	28.5	33.4	4.90	17.2%
MSFT	\$232.90	\$234.24	\$1.34	0.6%
MSFT Short IV	37.4	37.9	0.50	1.3%
MSFT Long IV	38.4	37.9	-0.50	-1.3%
MU	\$50.10	\$52.91	\$2.81	5.6%
QQQ	\$267.26	\$269.10	\$1.84	0.7%
QQQ Short IV	37.8	38.4	0.60	1.6%
QQQ Long IV	35.0	35.0	0.00	0.0%
SPY	357.18	362.79	5.61	1.6%
SPY Short IV	31.4	29.2	-2.20	-7.0%
SPY Long IV	28.5	28.5	0.00	0.0%
VIX	31.62	31.36	-0.26	-0.8%

Summary of Portfolios

October 8, 2022

Portfolio	Start Value	Current Value	% Weekly Change	% YTD Change
Boomer's Revenge	\$10,000	\$13,336	+3.3%	+33.4%
IWM Underlying	\$222.45	\$168.61	+2.2%	-24.2%
Earnings Eagle	\$10,000	\$5,035	+3.7%	-49.7%
SPY Underlying	\$474.96	\$362.79	+1.6%	-23.6%
Honey Badger	\$10,000	\$9,506	-8.8%	-4.9%
QQQ Underlying	\$397.85	\$269.10	+0.7%	-32.4%
Wiley Wolf	\$10,000	\$11,988	-0.3%	+19.9%
MSFT Underlying	\$336.32	\$234.24	+0.6%	-30.4%
Total	\$40,000	\$39,864	-0.9%	-0.3%

Overbought/Oversold as of October 8, 2022:

- S&P 500 (SPY) – 27.2 (Neutral)
- Dow Jones (DIA) – 26.7 (Neutral)
- Russell 2000 (IWM) – 31.0 (Neutral)
- NASDAQ 100 (QQQ) – 23.1 (Neutral)

Very Overbought - an RSI reading of greater than or equal to 85.0

Overbought - greater than or equal to 75.0

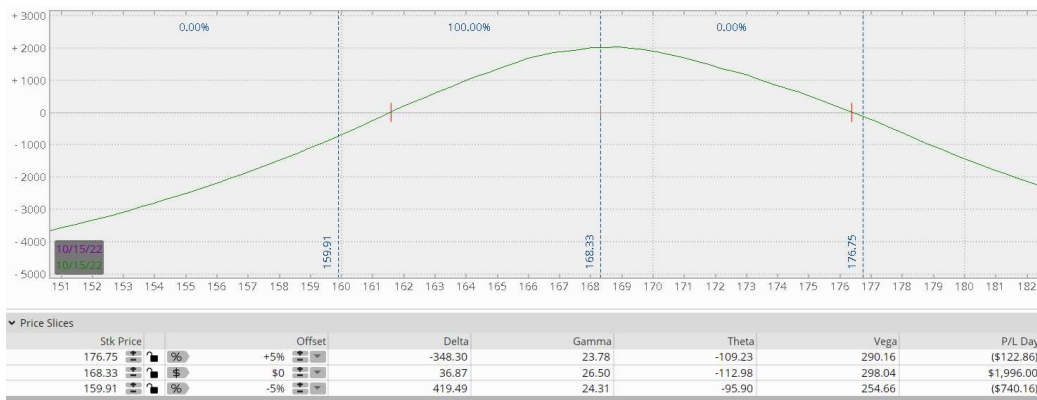
Neutral - between 30.0 and 75.0
 Oversold - less than or equal to 30.0
 Very Oversold - less than or equal to 20.0

Summary of *Boomer's Revenge* Portfolio We started this portfolio at the beginning of 2020 using the *10K Strategy* on SPY, but the extreme volatility (the greatest it has been for several decades), the option prices were just not high enough to handle the size of the daily and weekly price changes. On April 13, we switched to using PayPal (PYPL) as the underlying when the portfolio was worth \$4982. We lost money when PYPL rose more than 3 times its average recent move after earnings. We closed out the positions and switched to earnings play on Home Depot (HD) on May 9, when the portfolio was worth \$4,470. We traded HD throughout the remainder of 2020, gaining 12%. In late December, we closed out all HD positions and switched the Target (TGT) positions from *Earnings Eagle* to this portfolio. The portfolio was reset to \$10,000 to start 2021. We switched to the iShares Russell 2000 ETF (IWM) in April 2021. The portfolio was reset to \$10,000 to start 2022.

Boomer's Revenge									
Portfolio Gain since 1/1/22 = +33.4%									
#	Option	Strike	Symbol	Price	Total	Delta	Gamma	Theta	
-1	14Oct22	P	162	IWM221014P162	\$1.10	(\$110)			
-1	14Oct22	P	164	IWM221014P164	\$1.61	(\$161)			
-2	14Oct22	P	166	IWM221014P166	\$2.26	(\$451)			
-1	14Oct22	C	167	IWM221014C167	\$4.17	(\$417)			
-1	14Oct22	P	168	IWM221014P168	\$3.08	(\$308)			
-2	14Oct22	C	169	IWM221014C169	\$3.07	(\$614)			
-1	14Oct22	P	170	IWM221014P170	\$4.07	(\$407)			
-1	14Oct22	C	171	IWM221014C171	\$2.16	(\$216)			
-1	14Oct22	C	173	IWM221014C173	\$1.43	(\$143)			
-1	14Oct22	C	175	IWM221014C175	\$0.89	(\$89)			
-1	14Oct22	C	177	IWM221014C177	\$0.53	(\$53)			
1	18Nov22	C	166	IWM221118C166	\$9.27	\$927			
1	18Nov22	C	167	IWM221118C167	\$8.67	\$867			
1	18Nov22	C	169	IWM221118C169	\$7.55	\$755			
1	18Nov22	P	170	IWM221118P170	\$8.10	\$810			
1	18Nov22	C	172	IWM221118C172	\$6.02	\$602			
1	18Nov22	P	174	IWM221118P174	\$10.20	\$1,020			
1	18Nov22	C	175	IWM221118C175	\$4.69	\$469			
1	18Nov22	P	176	IWM221118P176	\$11.38	\$1,138			
1	16Dec22	P	164	IWM221216P164	\$7.47	\$747			
1	16Dec22	C	165	IWM221216C165	\$11.73	\$1,173			
2	16Dec22	P	166	IWM221216P166	\$8.25	\$1,650			
1	16Dec22	C	170	IWM221216C170	\$8.86	\$886			
				Cash	\$5,261	20	-31	\$211	
1	Total Account Value				\$13,336	0.1%			
									Annualized ROI at today's net Theta: 545%

Results for the week: With IWM (at \$168.61) up \$3.69 (2.2%) for the week, the portfolio gained \$426, or +3.3%. Boomer's posted its fourth winning week of the past five, pushing it to another 2022 high. The gain came despite IWM having the week's largest net move, while IV dropped 6%. We made just seven trades, three of which were spread additions using December longs. Cash took a hit, as expected, dropping to 39%.

Boomer's has a modestly positive delta heading into Monday. This is a rollout week that will include rolling out the remaining eight November longs to December. Given the robust cash level, we should be able to add a spread or two.

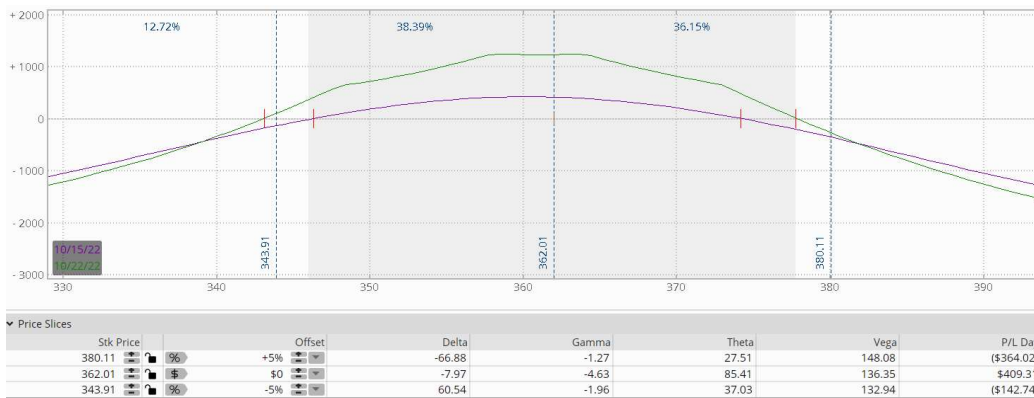


Summary of Earnings Eagle Portfolio This portfolio started 2021 with a strategy that capitalizes on the higher prices that usually exist for options that expire shortly after an earnings announcement. However, with stocks moving more than average after earnings, the portfolio struggled. We switched to the 10K Strategy in mid-September, using the SPDR S&P 500 ETF (SPY) as the underlying. The portfolio was reset to \$10,000 to start 2022.

Earnings Eagle							Portfolio Gain since 1/1/22 = -49.7%		
#	Option	Strike	Symbol	Price	Total	Delta	Gamma	Theta	
-1	21Oct22 P	348	SPY221021P348	\$3.16	(\$316)				
-1	21Oct22 P	358	SPY221021P358	\$6.08	(\$608)				
-1	21Oct22 C	364	SPY221021C364	\$7.59	(\$759)				
-1	21Oct22 C	373	SPY221021C373	\$3.71	(\$371)				
1	18Nov22 P	363	SPY221118P363	\$13.48	\$1,348				
1	18Nov22 C	364	SPY221118C364	\$13.80	\$1,380				
1	16Dec22 P	348	SPY221216P348	\$11.62	\$1,162				
1	16Dec22 C	373	SPY221216C373	\$12.81	\$1,281				
			Cash	\$1,918	-6	-3	\$56		
0	Total Account Value			\$5,035	-0.1%				
			Annualized ROI at today's net Theta:				391%		

Results for the week: With SPY (at \$362.79) up \$5.61 (1.6%) for the week, the portfolio gained \$181, or +3.7%. Eagle claimed the week's top spot for percentage gain. There were seven trades, which is about normal for a rollout week. We made just one adjusting trade, preferring instead to close and then reopen spreads to keep delta in check. Cash moved up to 38% even though we extended two longs to December. The spread count stayed at four.

Eagle's delta is mildly negative heading into Monday. Adding a spread is doubtful, since we need to roll out the two remaining longs (we may use this as an adjustment device). Note that the purple line in the P/L chart shows the profit potential for next week, while the green line shows the potential through 21 Oct expiration.



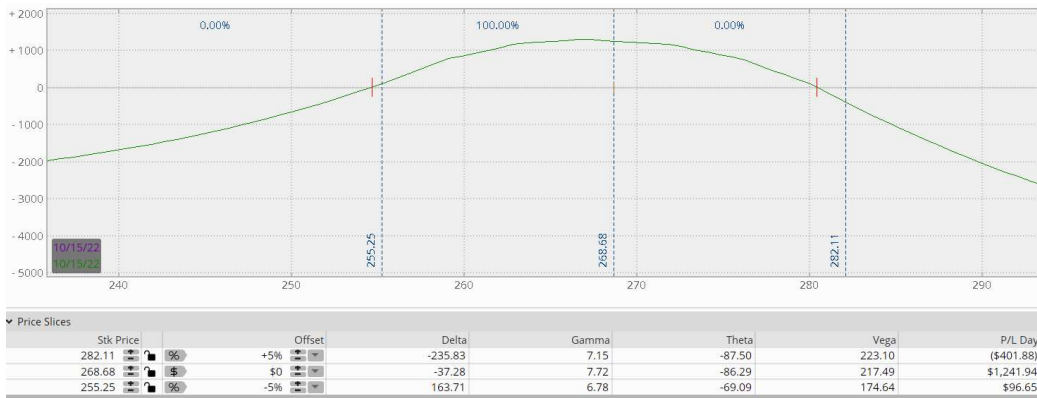
Summary of Honey Badger Portfolio This portfolio is based on the 10K Strategy and has used several underlyings. The portfolio was reset to \$10,000 for 2021 and continued to use the 10K Strategy with the Invesco QQQ Trust ETF (QQQ) as the underlying. Honey Badger gained 13.5% in 2021. The portfolio was reset to \$10,000 to start 2022.

Honey Badger							-4.9%		
Portfolio Gain since 1/1/22 =							Delta	Gamma	Theta
#	Option	Strike	Symbol	Price	Total	Delta	Gamma	Theta	
-1	07Oct22 C	287	QQQ221007C287	\$0.01	(\$1)				
-1	14Oct22 P	259	QQQ221014P259	\$1.93	(\$193)				
-1	14Oct22 P	263	QQQ221014P263	\$3.02	(\$302)				
-1	14Oct22 P	267	QQQ221014P267	\$4.54	(\$454)				
-1	14Oct22 C	272	QQQ221014C272	\$4.07	(\$407)				
-1	14Oct22 C	276	QQQ221014C276	\$2.55	(\$255)				
-1	14Oct22 C	280	QQQ221014C280	\$1.47	(\$147)				
1	18Nov22 C	272	QQQ221118C272	\$11.51	\$1,151				
2	18Nov22 P	272	QQQ221118P272	\$13.65	\$2,729				
1	18Nov22 P	280	QQQ221118P280	\$18.02	\$1,802				
1	16Dec22 C	276	QQQ221216C276	\$12.93	\$1,293				
1	16Dec22 C	280	QQQ221216C280	\$11.06	\$1,106				
				Cash	\$3,183	-26	-7	\$138	
-1	Total Account Value				\$9,506	0.3%			

Annualized ROI at today's net Theta: 495%

Results for the week: With QQQ (\$269.10) up \$1.84 (+0.7%) for the week, the portfolio lost \$921, or -8.8%. Honey Badger put an abrupt halt to a stellar two-week run. The loss dropped the portfolio back into the red for the year. Too much scrambling to get delta in line resulted in 18 trades, the most in two months. Plus, we had some reversals that always hurt, as did a 30% plunge in QQQ's IV index. We dropped two spreads, yet the cash increase was minimal. We did roll out two longs to December.

Badger has the most negative delta to start the new week. We may add a spread back, though it will be costly since we'll need to use December longs.



Summary of Wiley Wolf Portfolio This portfolio uses the 10K Strategy with MSFT as the underlying and rolling out the short options by four weeks (except around earnings). Long options are generally 2-3 months out. The portfolio gained 120% in 2019, 309% in 2020 and 6.6% in 2021.

Wiley Wolf (MSFT)									
Portfolio Gain since 1/1/22 = +19.9%									
#	Option	Strike	Symbol	Price	Total	Delta	Gamma	Theta	
-1	21Oct22 P	220	MSFT221021P220	\$2.21	(\$221)				
-1	21Oct22 P	225	MSFT221021P225	\$3.33	(\$333)				
-1	21Oct22 P	230	MSFT221021P230	\$4.78	(\$478)				
-1	21Oct22 C	235	MSFT221021C235	\$6.78	(\$678)				
-1	21Oct22 P	235	MSFT221021P235	\$6.88	(\$688)				
-1	21Oct22 C	237.5	MSFT221021C237.5	\$5.43	(\$543)				
-1	21Oct22 C	240	MSFT221021C240	\$4.08	(\$408)				
-1	21Oct22 P	240	MSFT221021P240	\$9.33	(\$933)				
-1	21Oct22 C	242.5	MSFT221021C242.5	\$3.15	(\$315)				
-1	21Oct22 P	245	MSFT221021P245	\$12.63	(\$1,263)				
-1	21Oct22 C	250	MSFT221021C250	\$1.27	(\$127)				
-1	21Oct22 P	250	MSFT221021P250	\$16.60	(\$1,660)				
-1	21Oct22 C	255	MSFT221021C255	\$0.64	(\$64)				
1	18Nov22 P	240	MSFT221118P240	\$14.68	\$1,468				

1	18Nov22	P	245	MSFT221118P245	\$17.43	\$1,743			
1	18Nov22	C	250	MSFT221118C250	\$5.43	\$543			
1	18Nov22	P	250	MSFT221118P250	\$20.65	\$2,065			
1	18Nov22	C	255	MSFT221118C255	\$4.05	\$405			
1	18Nov22	P	255	MSFT221118P255	\$23.93	\$2,393			
1	16Dec22	P	220	MSFT221216P220	\$8.90	\$890			
1	16Dec22	P	225	MSFT221216P225	\$10.50	\$1,050			
1	16Dec22	C	230	MSFT221216C230	\$17.73	\$1,773			
1	16Dec22	P	235	MSFT221216P235	\$14.58	\$1,458			
3	16Dec22	C	240	MSFT221216C240	\$12.28	\$3,683			
				Cash	\$2,226	53	-11	\$115	
0	Total Account Value				\$11,988	0.4%			
									Annualized ROI at today's net Theta: 338%

Results for the week: With MSFT (at \$234.24) up \$1.34 (+0.6%) for the week, the portfolio lost \$40, or -0.3%. Wiley Wolf had an odd week. Performance was essentially flat for the week, even though MSFT had the largest hi-lo range of any underlying. We made seven trades, which is on the high side for a non-rollout week. Four were vertical adjustments, one was a spread add and two were long rollouts. Cash continued to fall, hitting 19% by week's end.

Wolf once again has the highest delta of any portfolio heading into the new week. New spreads are unlikely since we have six longs to roll into December. Note that the purple line in the P/L chart shows the profit potential for next week, while the green line shows the potential through 21 Oct expiration.



Thought-Provoking Quote of the Week: "If you don't know where you are going, you will probably end up somewhere else." ~ Laurence J. Peter

Humorous Quote of the Week: "Crime does not pay ... as well as politics." ~ Alfred E. Newman

A Selection from Oxymoronica: Paradoxical Wit and Wisdom from History's Greatest

Wordsmiths, by Mardy Grothe (HarperCollins, 2004). “The best cure for insomnia is to get a lot of sleep.” ~ W. C. Fields

Selection from Subscriber Robert’s Email: Eagles may soar, but weasels don't get sucked into jet engines.

Paraproskian of the Week: (Paraprosdokians are figures of speech in which the latter part of a sentence or phrase is surprising or unexpected and frequently humorous): I'm supposed to respect my elders, but it's getting harder and harder for me to find one now.

Oxymoron of the Week: Friendly fire

Selection from Neverisms, by Dr. Mardy Grothe: When ordering a drink at a bar, “Never say ‘When you get a chance.’ That grates on bartenders’ nerves. ‘Hi’ works best.” ~ Joe Kita

Selection from Rules of Thumb, by Tom Parker (Workman Publishing, 2008): Mapping Out Personal Space: Americans stand just far enough apart when talking that, arms extended, they could insert their thumbs in each other’s ears.

A Thought from Subscriber Robert’s Senior Mind: How to prepare Tofu:

1. Throw it in the trash.
2. Grill some Meat.

Thoughtful Pun of the Week: No matter how much you push the envelope, it'll still be stationery.

Yes, life is indeed good, and like options, has an expiration date, but you don’t know when it is coming, so it is important to savor every minute (and cherish those around you).

Happy Trading,

Terry