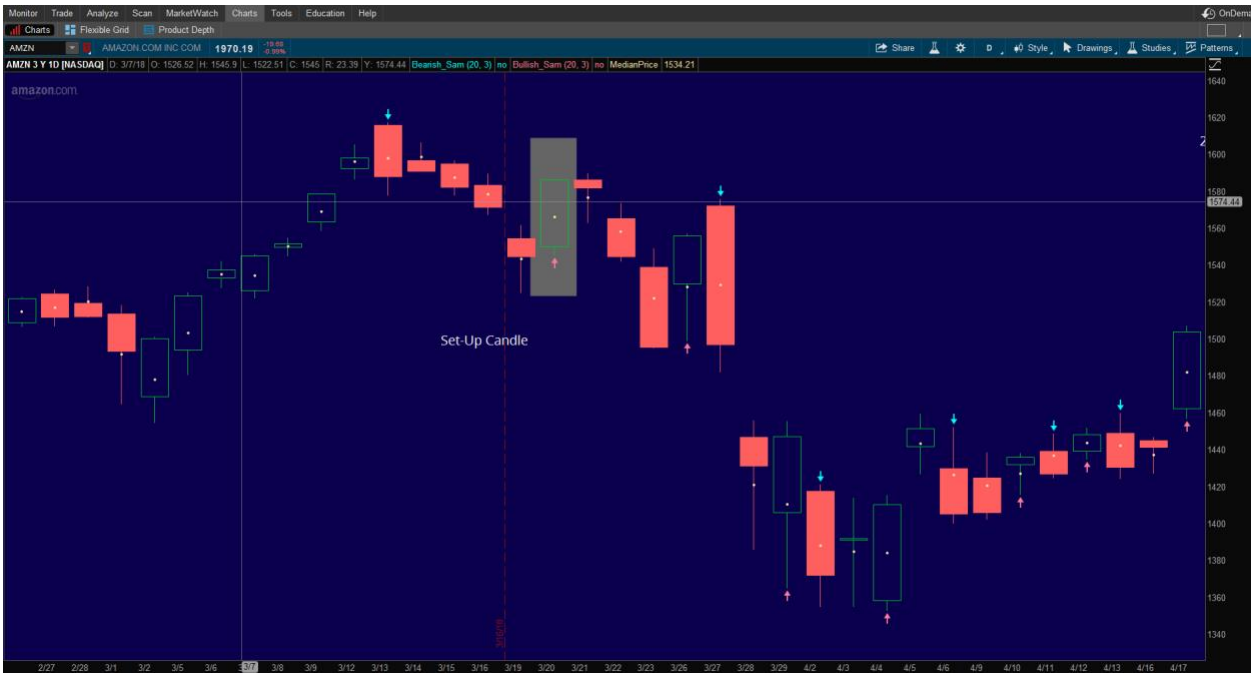
Case Study

AMZN the bullish monster of the last few years took a dive between 3/13/2018 and 4/4/2018 of about 265 points or about 16%

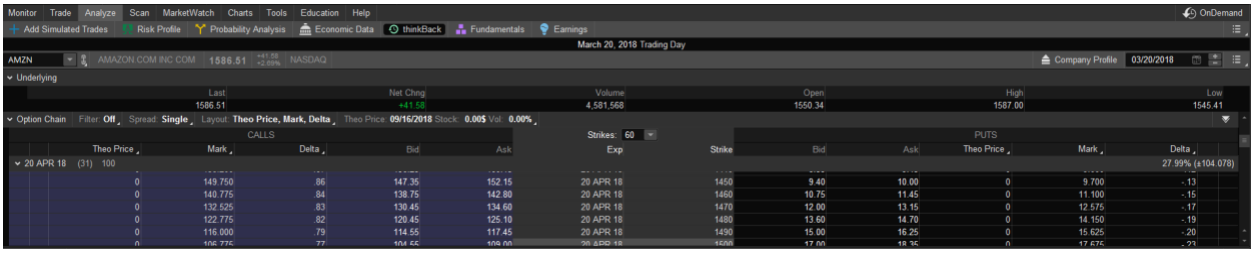
We had no business being long using Fibonacci Institute methodology since we were close to ultimate high.

Assumed Trade:

We assumed that we took the following **long trade** at the closing price of 03/20/2018 of 1555.86 and used TOS ThinkBack to get the option prices.



Initial Long Trade @ 1586.51 on 03/20/2018 using “20APR18” expiring in 31 days:

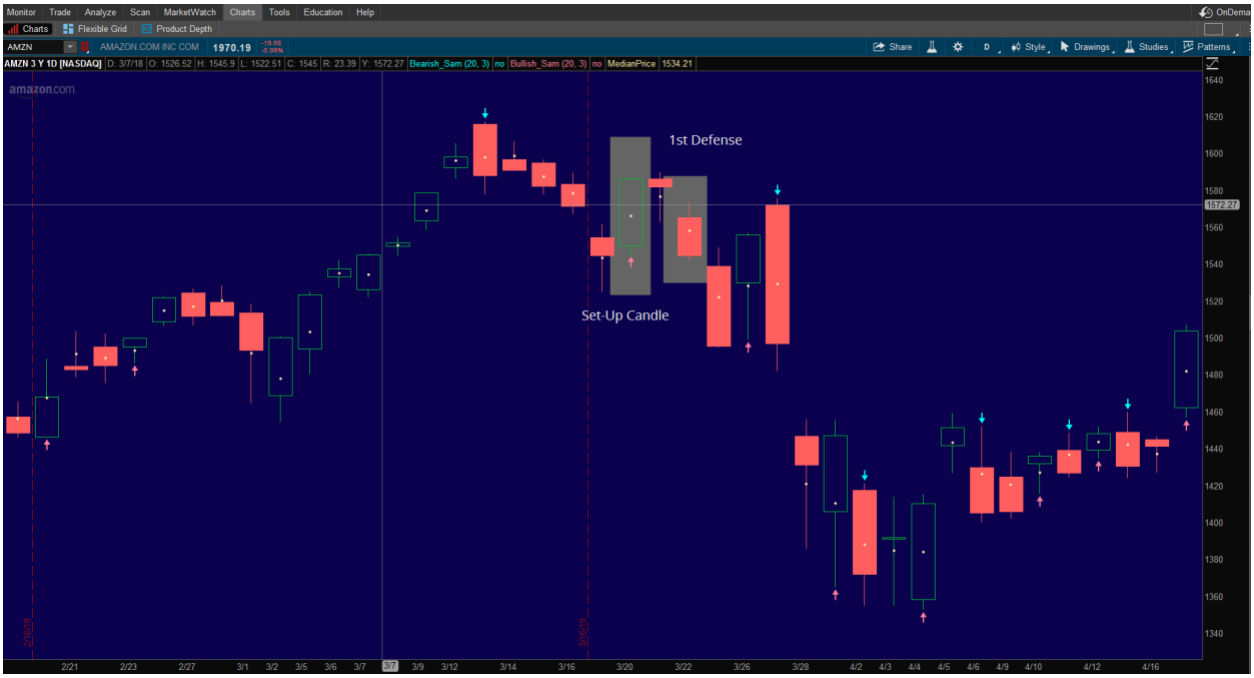


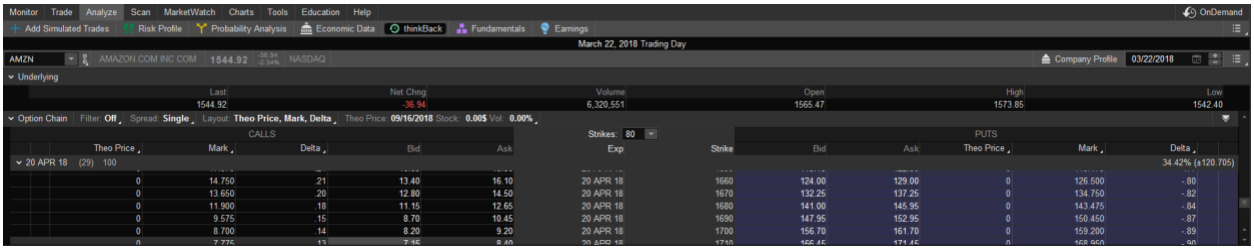
D20 Put: -1 Contract 1490 @ 15.625
D15 Put: 1 Contract 1460 @ 11.10

Credit = 1*100*(15.625-11.10) = 452.5

Expected move was 104 points

The trade went against us on 3/22/2018. Let's take first defense at the closing price of 1544.92



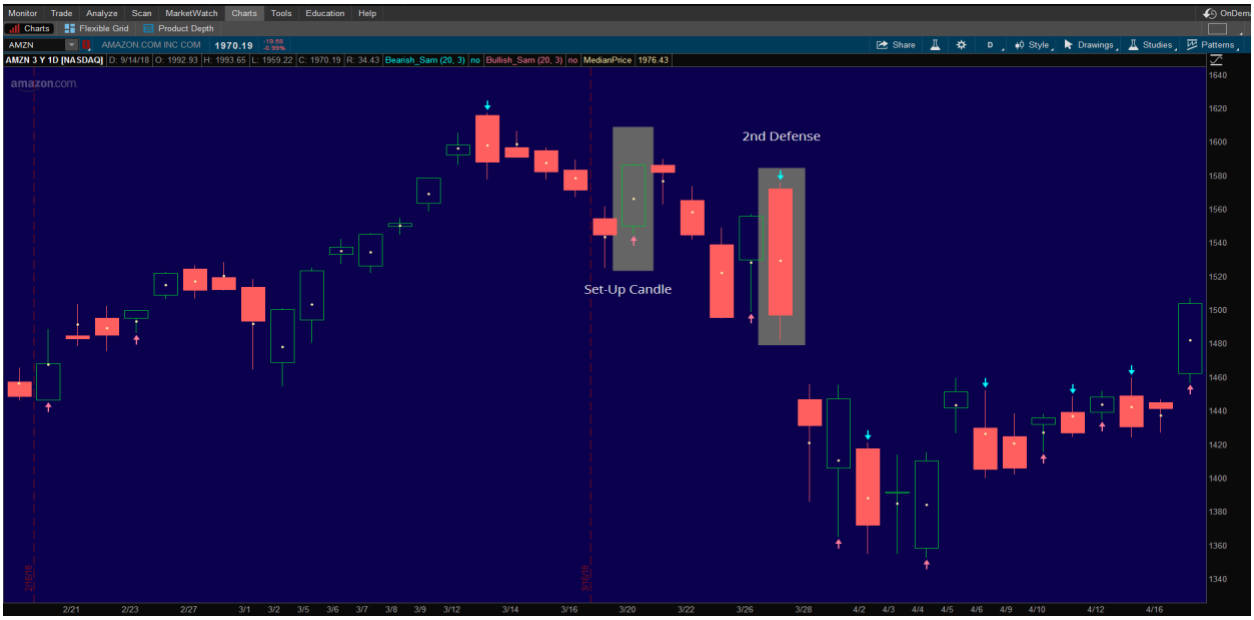


D20 Call: -1 contract 1670 @ 13.65
D15 Call: 1 contract 1700 @ 8.7

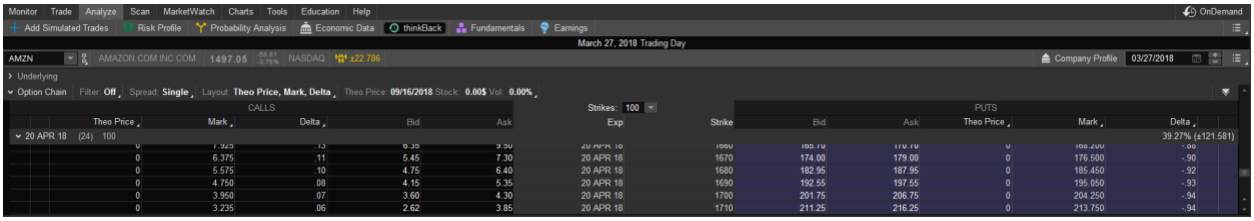
Credit = 1*100*(13.65-8.7) = 495

Expected move 120 points.

On 3/27/2018 our short put price of 1490 was hit and we had to take our 2nd line of defense. Let's take it at the closing price of 1497.05



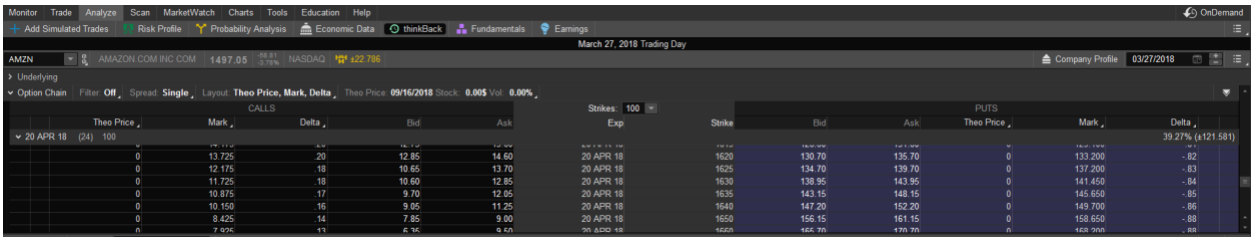
Close the call side for realized profit and sell a new D20-D15 CCS.



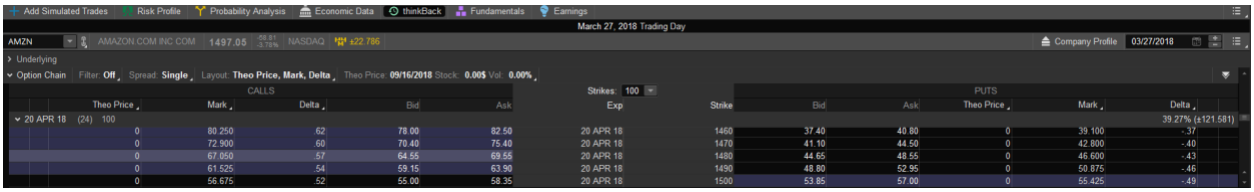
1 contract 1670 @ 6.375
-1 contract 1700 @ 3.95

Debit = 1*100*(6.375-3.95) = 242.5

Realized Gain = 495-242.5 = 252.5

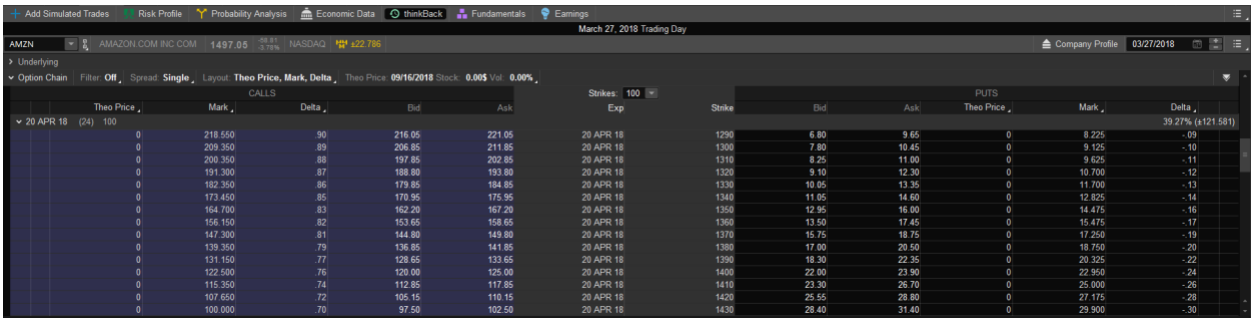


Sell new D20-D15 Call CS
D20 Call: -1 contract 1620 @ 13.725
D15 Call: 1 contract 1650 @ 8.425
Credit = 1*100*(13.725-8.425) = 530



Buy back the short 1490 put
1 Contract 1490 @ 50.875
Debit = 1*100*50.875 = 5,087.5

Realized Loss = 1*100*(50.875-15.625) = 3,525

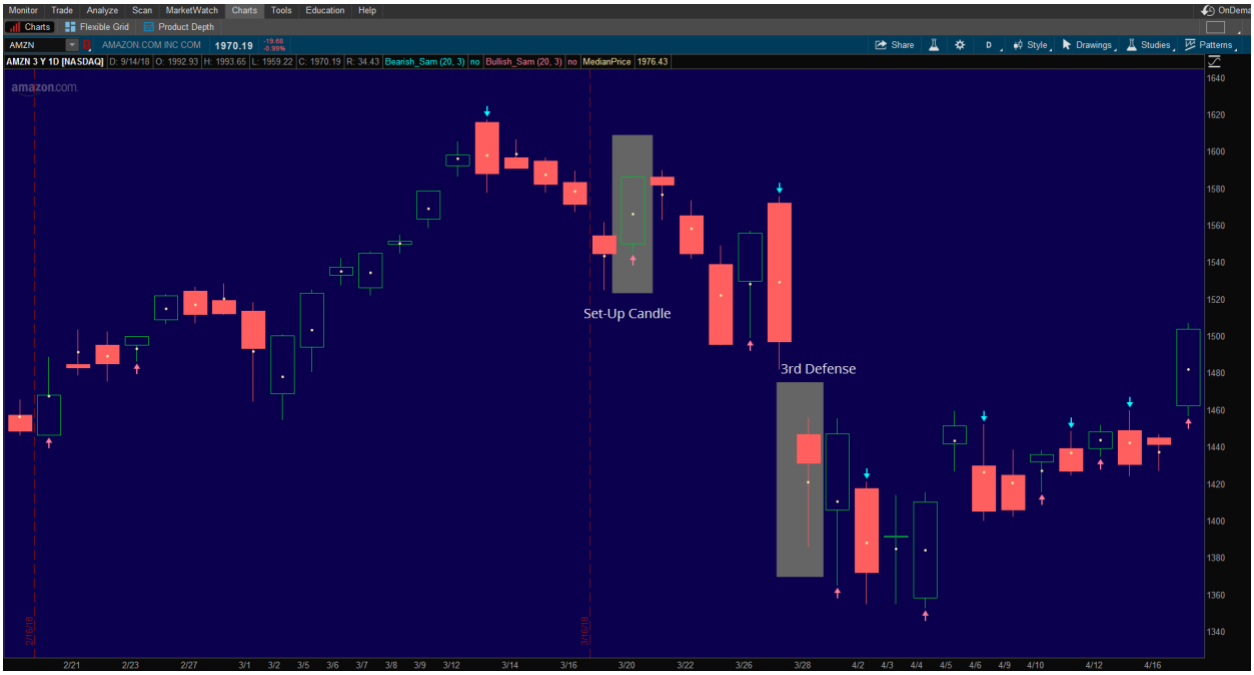


Sell new D30-D10 ratio spread.

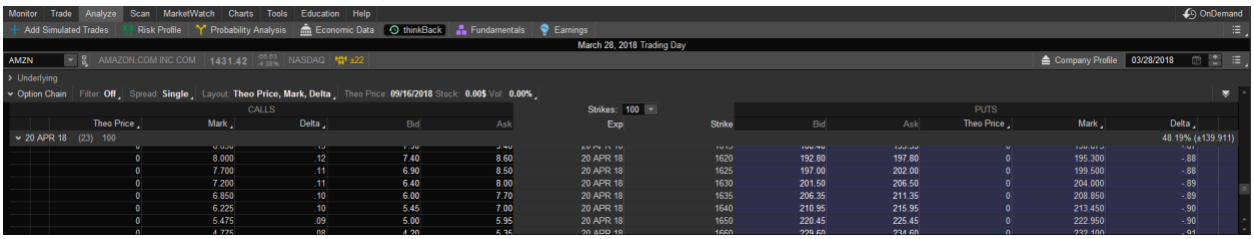
D30 Put:	-2 contract 1430@ 29.9
	Credit = 2*100*29.9 = 5,980
D10 Put:	1 contract 1300 @ 9.125
	Debit = 1*100*9.125 = 912.5

Credit = 5,980-912.5 = 5,067.5

On the very next day 3/28/2018 our short put price of 1430 was hit and we had to take our 3rd line of defense. Let's take it at the closing price of 1431.32



Close the call side for realized profit and don't sell a new CCS since we have moved way down and a rip your face retracement rally in unavoidable.



1 contract 1620 @ 8
-1 contract 1650 @ 5.475

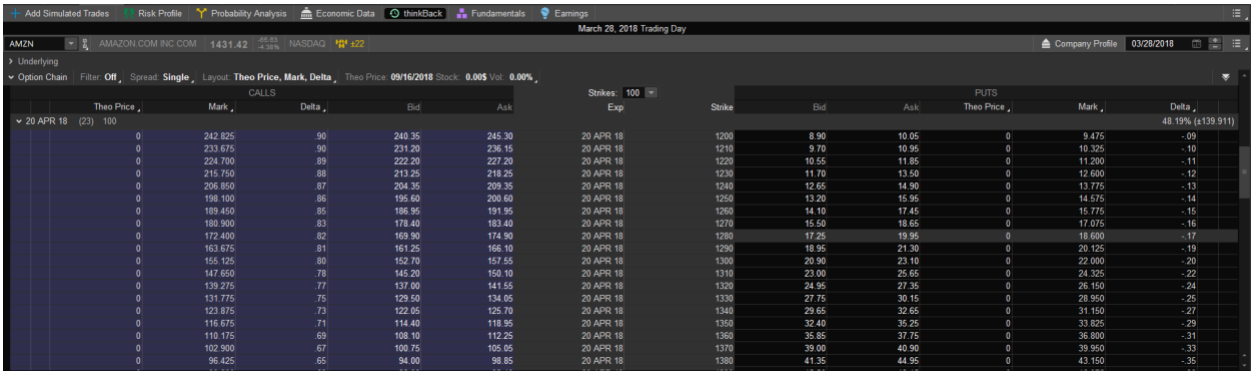
Debit = 1*100*(8-5.475) = 252.5

Realized Gain = 530-252.5 = 277.5

Buy back the short 1430 put
2 Contract 1430 @ 63.525
Debit = 2*100*63.525 = 12,705

Realized Loss = 2*100*(63.525-29.9) = 6,725

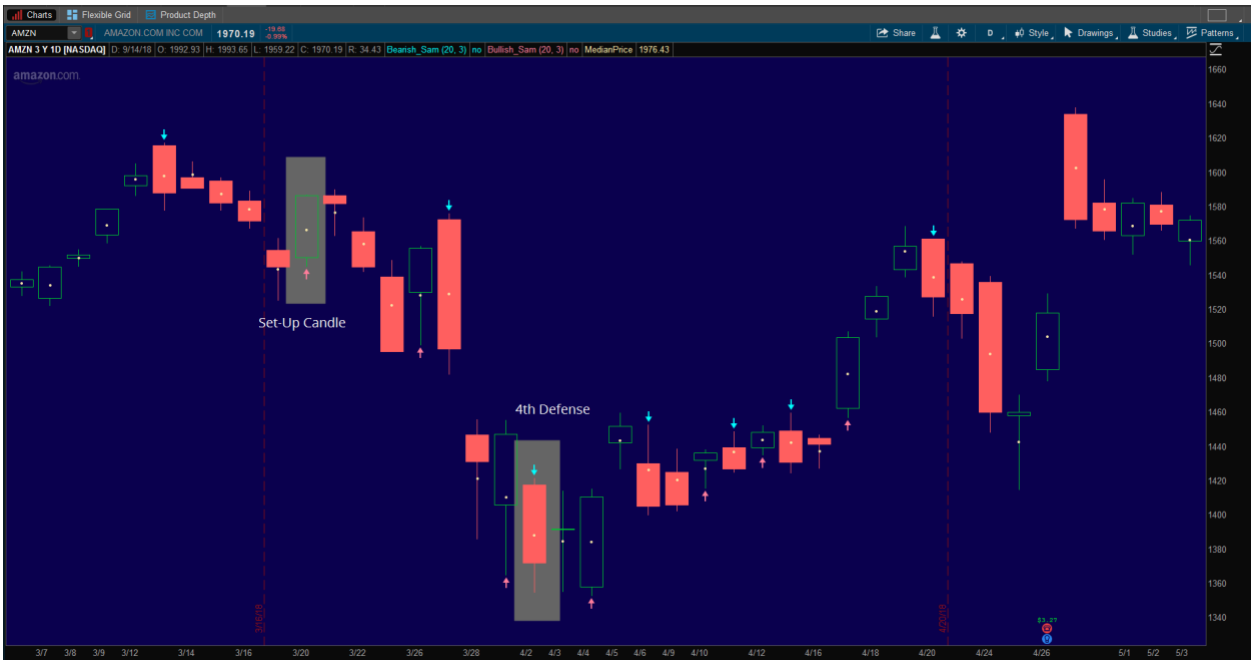
Sell new D30-D10 put ratio spread.



D30 Put: -4 contract 1360@ 36.8
Credit = 4*100*36.8 = 14,720
D10 Put: 2 contract 1210 @ 10.325
Debit = 1*100*10.325 = 2,065

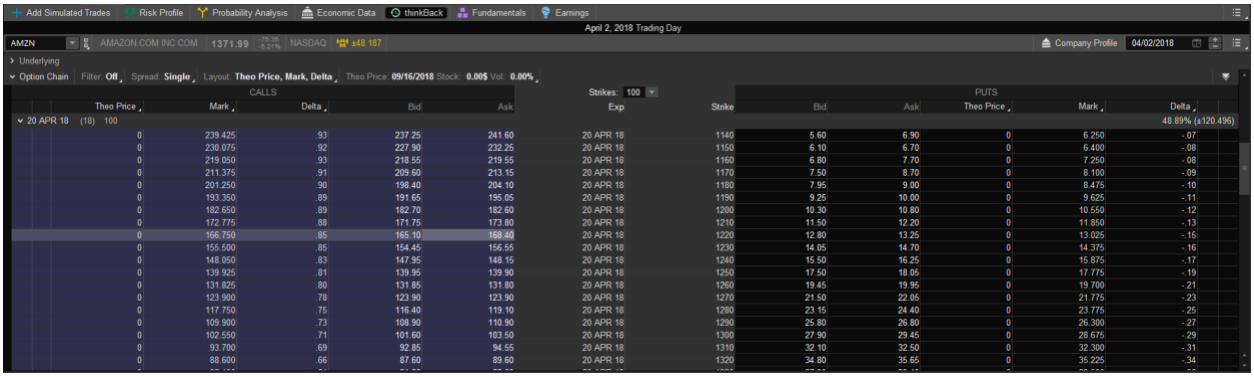
Credit = 14,720-2,065 = 12,655

I wish we were done but that move was one of the worst down move in the last few years. On 4/2/2018 our short put price of 1360 was hit and we had to take our 4th line of defense. Let's take it at the closing price of 1371.99



Buy back the short 1360 put
4 Contract 1360 @ 50.10
Debit = 4*100*50.1 = 20,040

Realized Loss = 4*100*(50.10-36.8) = 5,320



Sell new D30-D10 put ratio spread.

D30 Put: -8 contract 1310@ 32.3

Credit = 8*100*32.3 = 25,840

D10 Put: 4 contract 1180 @ 8.475

Debit = 4*100*8.475 = 3,390

Credit = 25,840-3,390 = 22,450

Finally our short put price held and we don't have to take any more defenses and here is our position consisting of only puts.

1 Contract 1460 @ 11.10

-8 contract 1310@ 32.3

1 contract 1300 @ 9.125

2 contract 1210 @ 10.325

4 contract 1180 @ 8.475

We would have had many opportunity to close the trade at breakeven or better but since we have no risk to the upside we can just ride it till expiration with the hope that we will close between 1460 and 1310 so we can make some extra profit.

The trade would have expired worthless on 4/20/2018 since the closing price of 1527.49 was higher than all of our put strikes.

Results:

1 Contract 1460 @ 11.10

Realized loss = 1*100*11.10 = 1,110

-8 contract 1310@ 32.3

Realized Gain = 8*100*32.3 = 25,840

1 contract 1300 @ 9.125

Realized loss = 1*100*9.125 = 912.5

2 contract 1210 @ 10.325

Realized loss = 2*100*10.325 = 2,065

4 contract 1180 @ 8.475

Realized loss = 4*100*8.475 = 3,390

Total = 252.5-3525+277.5-6725-5320-1110+25840-912.5-2065-3390 = +3,322.5

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