Case Study

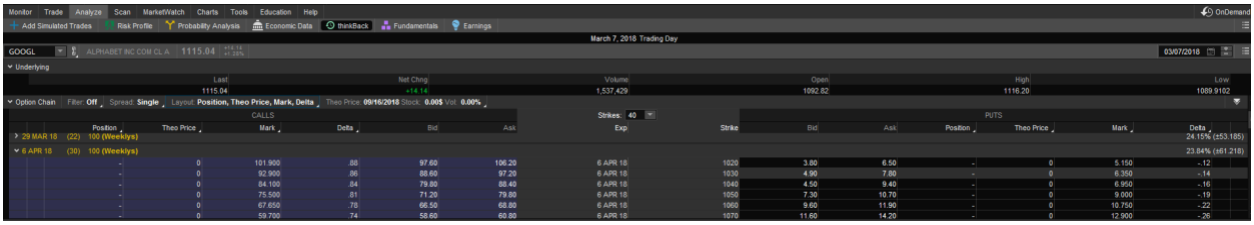
GOOGL made a major correction a dive between 3/12/2018 and 3/28/2018 of about 194 points or about 16%

We took a long set up on 3/7/2018 that reached target but for the sake of demonstration, we shall assume that we did not get out and will ride and defend the down move.

Assumed Trade:

We assumed that we took the following **long trade** at the closing price of 03/07/2018 of 1115.04 and used TOS ThinkBack to get the option prices.

Initial Long Trade in 03/07/2018 using “6APR18” expiring in 30 days:



D20 Put: -1 Contract 1050 @ 9

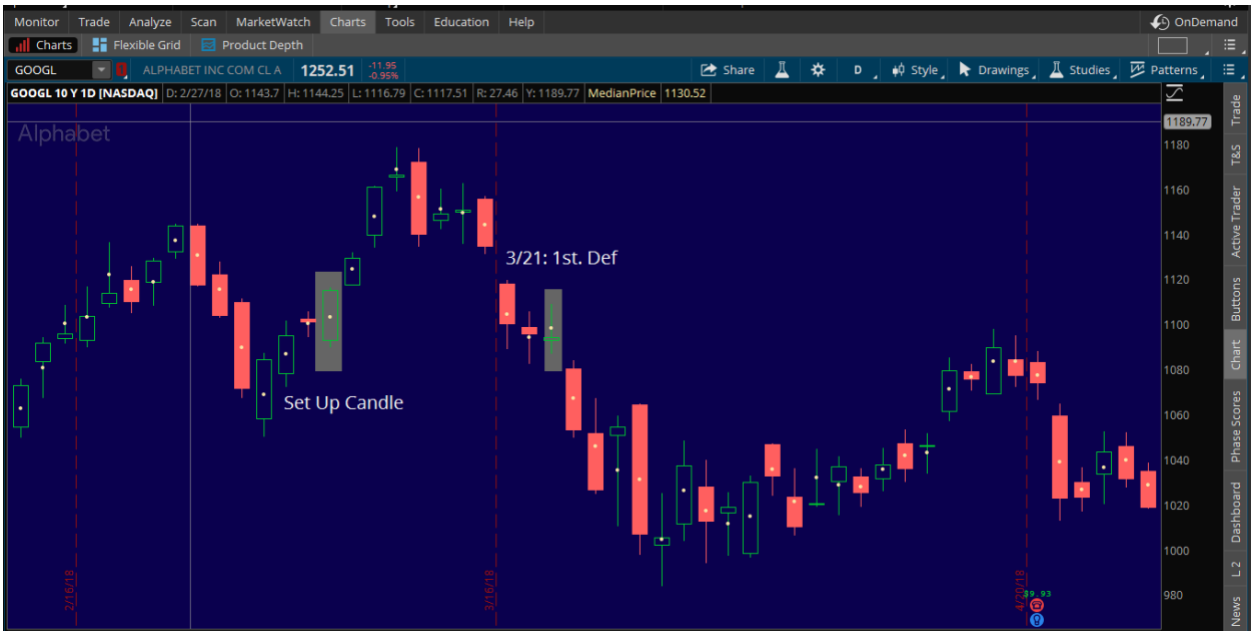
D15 Put: 1 Contract 1030 @ 6.35

Credit = 1*100*(9-6.35) = 265

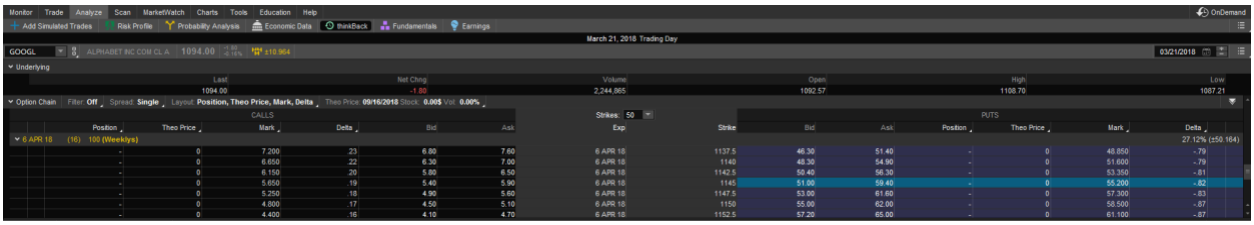
Expected move was 61.2 points

We made target to the upside but kept the trade to demonstrate the defense strategy

The trade went against us on 3/21/2017



First Defense on 3/21/2018 and let's take it at the closing price of 1094 by buying D20-D15 CCS



D20 Call: -1 contract 1140 @ 6.65

D15 Call: 1 contract 1150 @ 4.8

Credit = 1*100*(6.65-4.8) = 185

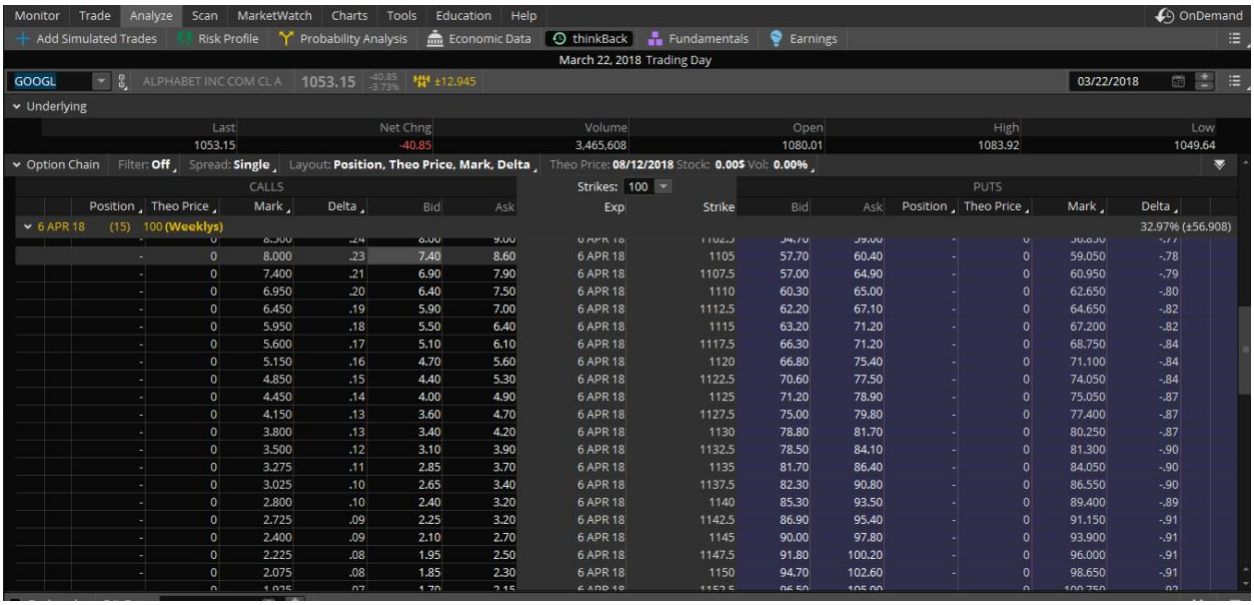
Expected move has decreased to 50.2 which is normal since we only have 16 days till expiration.

On 3/22/2018 our short put price of 1050 was hit and we had to take our 2nd line of defense.

We took the closing price of 3/22/2018 since we closed at 1053.15 and that's close enough.

Expected move has now increased to 56.9 because of the down day.

Close the call side for realized profit and sell another D20-D15 call credit spread for a credit.



Close call side for realized profit.

1 contract 1140 @ 2.8

-1 contract 1150 @ 2.075

Debit = 1*100*(2.8-2.075) = 72.5

Realized Gain = 185-72.5 = 112.5

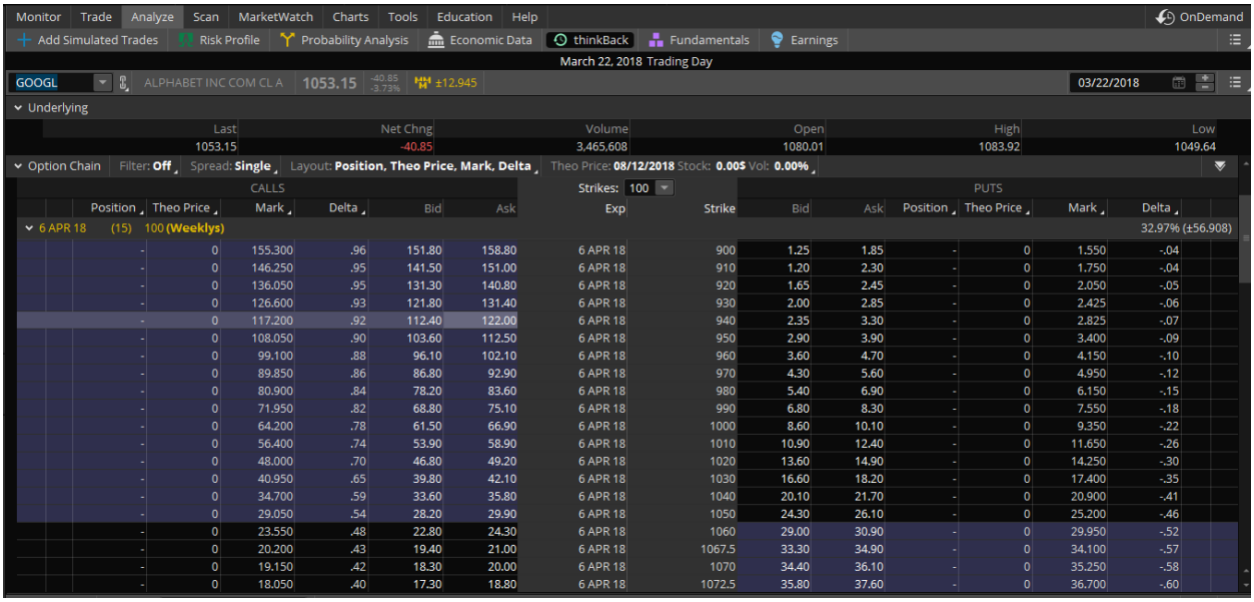
Sell new D20-D15 Call CS

D20 Call: -1 contract 1110 @ 6.950

D15 Call: 1 contract 1120 @ 5.15

Credit = 1*100*(6.95-5.15) = 180

We shall close the 1050 negative put option and replace it with a new D30-D10 put credit spread.



Buy back the short 1050 put

1 Contract 1050 @ 25.2

Debit = 1*100*25.2 = 2520

Realized Loss = 1*100*(25.2-9) = 1620

Sell new D30-D10 Put CS

D30 Put: -2 Contract 1020 @ 14.25

Credit = 2*100*14.25 = 2,850

D10 Put: 1 Contract 960 @ 4.15

Debit = 1*100*4.15 = 415

Credit = 2,850– 415 = 2,435

Please note that the credit received (2,435) was less than the debit of 1050 put we bought back (2,520) but it is close enough.

POSITION: -1 Call contract 1110 @ 6.950

1 Call contract 1120 @ 5.15

1 Put contract 1030 @ 6.35

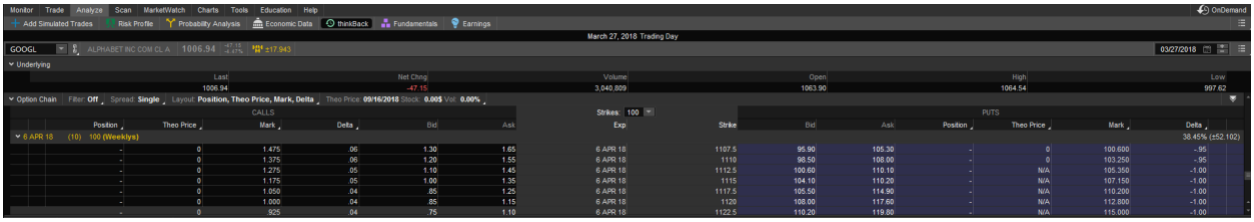
-2 Put contract 1020 @ 14.25

1 Put contract 960 @ 4.15

Our put short strike was hit again on 3/26/2018 but bounced right back so we will take our 3rd defense at the Closing price on 3/26 that was 1006.94 which is close

enough for this demonstration.

Close the call side for a profit.



- Close call side for realized gain.
  1 contract 1110 @ 1.375

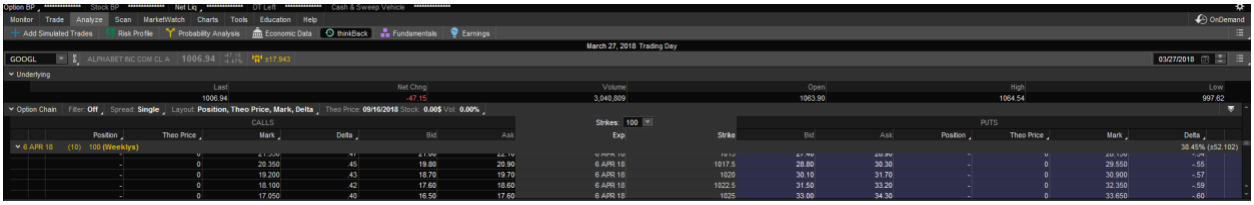
  -1 contract 1120 @ 1

  Debit = 1*100*(1.375-1) = 37.5

Realized Gain = 180-37.5 = 142.5

We shall no longer buy Call Credit Spread since GOOGL has moved way down and a rally is unavoidable.

We shall close the 1020 short put and replace it with a new D30-D10 put credit spread.



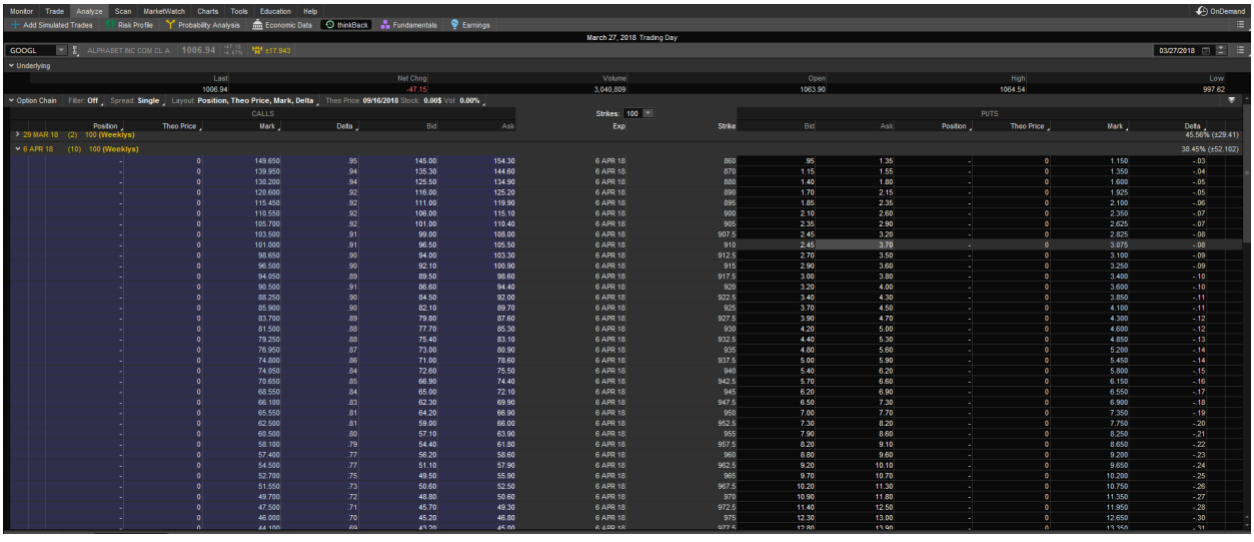
Buy back the short 1020 put

2 Contract 1010 @ 30.9

Debit = 2*100*30.9 = 6,100

Realized Loss = 2*100*(30.9-14.25) = 3,330

Please note that 1020 put is now D57 and about $15 in the money.



- Sell new D30-D10 Put CS

  D30 Put: -7 Contract 975 @ 12.650

  Credit = 7*100*12.650 = 8,855

  D20 Put: 5 Contract 920 @ 3.6

  Debit = 5*100*3.6 = 1,800

  Credit = 8,855 – 1,800 = 7,055

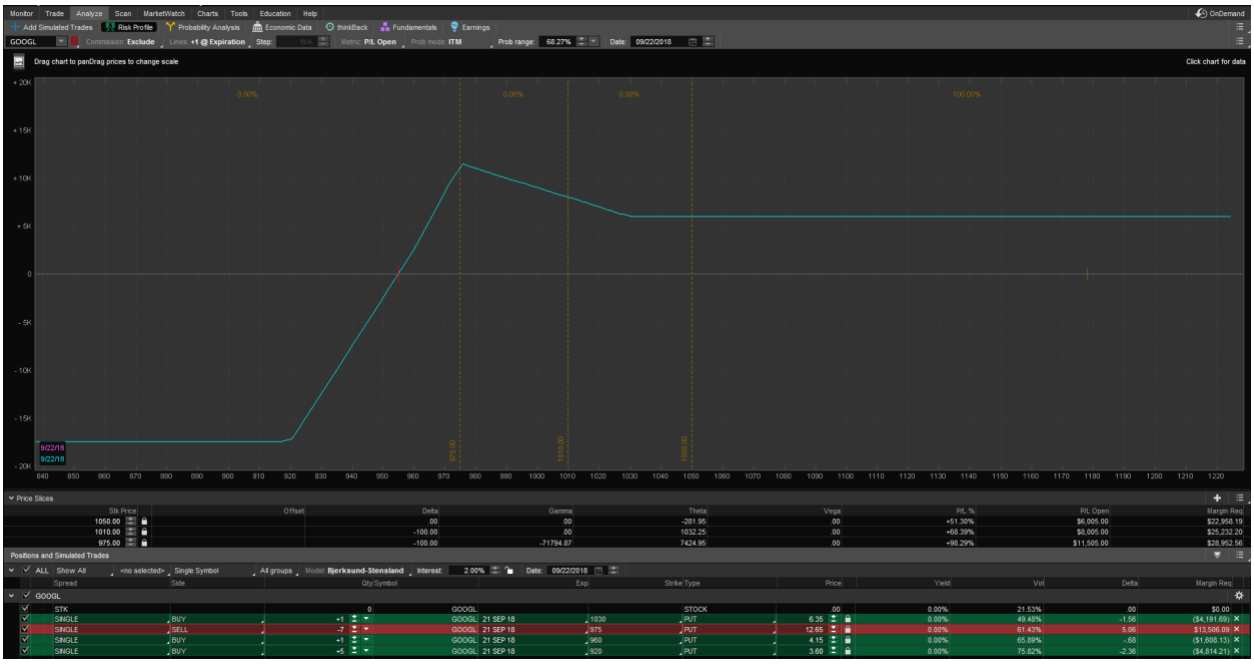
Let me take this opportunity to show how will this position look on the analyze tab by creating similar position today.

POSITION: 1 Put contract 1030 @ 6.35

-7 Contract 975 @ 12.650

1 Put contract 960 @ 4.15

5 Contract 920 @ 3.6



Our short strike was never hit and we would have various chances to close the trade at profit with a retracement but for the sake of this example, let's assume that we kept the trade till expiration.

Expiration was on 4/6/2018 at 1009.95

Long Put 1030 closed a little over $20 in the money so we shall assume that we sold the option for 20.

Realized Gain = 1*100*(20-6.35) = 1,365

Short put 975 is out of the money and expires worthless.

Realized Gain = 7*100*12.650 = 8,855

Long put 960 is out of the money and expires worthless

Realized Loss = 1*100*4.15 = 415

Long put 920 is out of the money and expires worthless

Realized Loss = 5*100*3.6 = 1,800

Total = 112.5-1,620+142.5-3,330+1,365+8,855-415-1,800= +3,310

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