

PALOS

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Palos Weekly Commentary

Issue No. 15 | APRIL 11 2019

Options Corner

By Robert Mendel

No One likes any tragedies so there will be no jokes here, but I am in the business of opportunities, so here goes. Most of you may have heard about the issues facing the Boeing 737 MAX 8 planes after two separate accidents. The planes have since been grounded and with it comes what I think will be a potential short term hit to the earnings. There is now negative sentiment with the momentum players all but gone. I do think they figure this mess out and I am betting it will be sooner rather than later. Despite that, I don't think the stock will appreciate very much in the short run and I am willing to bet it will trade in a range for now. So, this is what I did. With Boeing trading at \$391 on Friday April 5th, I sold 5 May 17 \$420 calls for \$4.55. Why did I go for a call that was \$29 out of the money? Simply put I wanted room in case the company fixed its problem sooner rather than later resulting in the stock taking off (sorry, that was my only pun here). For this trade I can be wrong by the \$29 I mentioned above and still maximize my profit of \$4.55. And I could be wrong by \$33.55 (420+4.55-391) and still not lose any money. So that's good.

On another note, who likes robotic instruments that help doctors perform surgeries? I do. And when the stock is still compelling to me, I jump in. This is what I did. With Intuitive Surgical (NASDAQ: ISRG), the maker of the Davinci machine, trading \$561.26 on March 28, I bought 200 shares and sold the April 5 \$565 calls for \$6.40 bringing my net cost to \$554.86. But the stock ran a little quicker than I thought it would and had to roll if I wanted to stay in. And I did for one week to April 12. But because I thought there could be a pullback, I stayed with the same strike of 565 and did it for a net credit of \$2.90. (11.80 on the buy and 14.70 on the sale) My cost was now lowered to \$551.97 (554.86-2.90) Of course the stock is now at \$586 so a roll will have to be done again. But even though the stock was above my strike and was going for less upside, I was still able to roll at favorable terms. Thing is I don't even mind staying with the same strike and taking extra cash because it afforded me more downside protection in case of a pullback. And there is bound to be one sometime. So, take the trade above. Even though the stock was \$577 (11.80 above my strike) the rollover still yielded me over a half a percent for the week or 26.7% annualized (2.90/565/7x365). I expect a similar return this week or even slightly better since the volatility is higher because of the impending earnings release on April 18. Let's see what happens...

ISRG US	200.0000	586.02	117,204.00	561.26	112,251.00	03/28/19	4,953.00
ISRG US 04/12/19 C565	-2.0000	23.50	-4,700.00	14.70	-2,940.00	04/05/19	-1,760.00

On that note I am hungry so will say goodbye.

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