

Hello,

We at Option Pit want to wish you a wonderful holiday season and a happy new year. Below are Andrew, Licia, and My own 'best idea' for 2020. I challenged each of us to come up with one idea we thought could lead the market in 2020 and this is what we came up with.

For next week I would like to invite YOU to submit your best idea as well. The one that performs the best through Q2 will receive a free ticket to the Option Pit Pro Summit (which looks like it's going to be in July-August time frame. Here is what I need:

1. Stock Name and Symbol
2. 100-500 words on why you like the stock
3. An 'option centric reason' for the specific option trade you selected
4. The Option Trade
5. Screen shot of the trade itself
6. Price Target
7. Risk Plan
8. Include a chart if you wish
9. Nothing overly complex, limit these trades to four legs
10. No pair trades

Thanks Again, Happy Holidays, and Happy New Year

Mark Sebastian, Andrew Giovinazzi, Licia Leslie

Andrew's Option Trade for 2020: WBA

It is no secret in Option Pit that I like Walgreens Boots as a long term investment. I am a long time owner and a buyer on dips. Right now there are some interesting currents going on that are noteworthy. I will explain my fundamental approach to stock picking and using options to help boost returns and reducing risk at the same time.

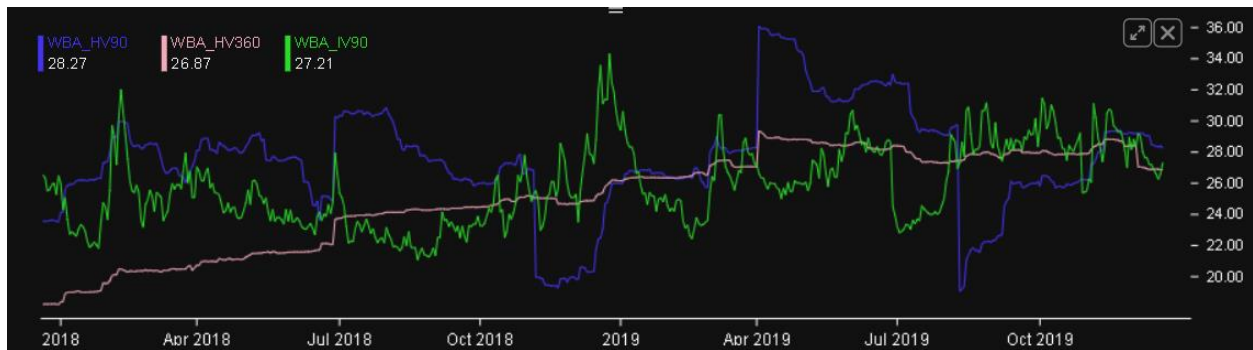
The fundamentals for WBA are in flux. Year over Year earnings are flat and WBA faces an uncertain future in drug distribution/pharmacy. WBA is a giant in this area and the extent AMZN hits margins in that space remains to be seen. The flip side is WBA is a strong company, massive retail footprint and trading at 9 P/E. 3.25% Dividend Yield is not too bad either.



2 YEAR WBA CHART

The opportunity now is the fundamental picture of value against the uncertainty of the future earnings flow. That is not really whole lot different for most of the other companies listed in the S&P 500. WBA seems to have a value floor around \$50 and a potential top around \$85 if the earnings stabilize and some growth multiple comes back. A 15 P/E, which is not a lot for WBA historically, get the name to \$90.

There is enough move potential in WBA now to set up an option trade based on the \$50 - \$90 range. Recently there was takeover speculation which drove the stock to mid-60s. After that WBA is back down to the high 50's and has not really participated in the rally to ATH's in SPX. I think it is cheap enough to warrant action selling put spreads into the next earnings cycle. In general I sell puts in stocks I want to own that the market has already disliked. This is simply a strategy for accumulating quality names for cheaper prices in the short run. NOT A SHORT TERM TRADE BUT AN INVESTMENT IN A STOCK.



Note the Green 90 Day implied volatility still pricey

When selling puts I look at the net economics of the sale. I want a certain yield, 1% per month minimum, for all in risk. Right now WBA implied volatility is a bit higher than normal because of the latent takeover speculation. My choice is moving out to April to grab a little more yield. WBA Apr17 55s yield about 1% per month and a 5 lot would yield enough to buy a 50 level call 3 months out if the premium comes in. I am using 50 as my risk line here so I assume a risk of about 2.50 in real terms. The easiest thing selling puts is to assume that the stock will be delivered and you can live with the dividend yield.

The second choice would be to just buy 1 WBA Apr17 50 calls and write upside contracts against it. There is only a \$1 of extrinsic value in the WBA Apr17 50 calls and \$800 controls \$5700 of upside. Any kind of upside moves and the risk reward for the straight \$50 call is quite good. I will assume the risk to \$50 and decide down the road to write calls. In the meantime the \$5100 stays in cash as the SPX decides how to get through the 1st quarter.

The way to take advantage of higher volatility in the options is buying a more in the money call and writing (selling) and upside calls against it or just selling put spreads for desired yields.

For 2020

Buy 1 WBA Apr17 50 call or

Sell 5 WBA Apr17 55/40 put spreads

Licia's 2020 Option Trade: UBER

UBER is my stock pick for the year 2020. This decision is not based on the financial numbers or the fundamentals. I am choosing Uber as a consumer. I love Uber! My friends love Uber! Our kids love Uber! The ability to get a ride, at any time, from anywhere to anywhere, in a matter of minutes, from your phone is the epitome of living in the 21st century.

Uber stock debuted on the NYSE May 10, 2019 at \$42.10. Less than two months later it traded \$47.23 and since August has been drifting lower. It traded its low of \$25.58 on November 6th. Today Uber is trading \$30.00.

Even after several negative stories this week, Uber has managed to trade above \$29. In my opinion, these were pretty bad stories.

1. Uber settled their sexual harassment and retaliation charge paying \$4.4 million.
2. Their ex-CEO has dumped 90% of his shares in the last six weeks, about \$2.5 billion worth; although two board directors had been buying stock in November.
3. Yesterday, Germany hit Uber again, with a stricter regulatory ban. Germany had banned Uber back in 2015 and the ride service found ways around that particular regulation. Last month they lost their license to operate in London.
4. Today, California lawmakers want to force Uber to make their drivers employees vs sub-contractors.

I believe Uber had trouble initially getting started in Chicago due to the taxi drivers' protesting. After paying for medallions, the city forced them to purchase, which at one time were valued at \$400,000 but are now around \$30,000, you cannot blame them. If Uber can overcome these similar obstacles here, I think they will have the wherewithal to get back into all these European markets and eventually operate more freely there. Let the free market trade! Municipalities need to stop taxing everything for revenue and stop regulating! Stop spending! Sorry.



My trade idea is to sell the Jun 26/21 put spread and collect \$1.25. Not sure how accurate, but my CS IV in these puts is showing 45 and 47.

You could also buy the Mar 31 calls and pay \$2.20. IV is showing 42.

The HV30 is 32 and the IV30 is 40. The chart shows this IV as the lowest Uber has had, but we must remember Uber has only been trading since May. Therefore, my first choice would be to sell the put spread.

Mark's Option Trade for 2020: BA

I have to admit it; I am a believer in the Dogs of the Dow Theory. What are the Dogs of the Dow Theory? It states that the stocks that do the worst in one year will be leaders the following year. Let's face it, this approach tends to work. AAPL had a TERRIBLE 2018 ending the year down about 15%. In 2019, AAPL was the best performing Dow stock along with Microsoft. AAPL is up about 100% in 2019 at this point, just incredible.



I also like to take advantage of news driven names. A news cycle can cause all types of problems for a stock. Take Target for instance. Last year, Target had a MASSIVE data breach that absolutely CRUSHED the stock taking it below 60 bucks a share on its 2018 lows. Here we are again, the stock is now up will over 100% on the year and appears to have more upward trajectory:



So, heading into 2020, I want to get into a name that is having a terrible year and it's completely driven by news. That stock is Boeing, BA.

Boeing has all kinds of problems, I would argue the biggest problem they have is management. They probably need to fire the CEO. At WORST they need to hire someone to be a Quality Control Czar because what is going on with the 737 Max is embarrassing. The 737 is single handedly crushing the stock. SOMEONE needs to be held responsible for what has caused:

1. Loss of Life
2. More Loss of Life
3. LOTS of problems that, in the long run, matter WAY less than number 1 and 2.

The actions have cost them the trust of the market place. Even the staunchest defenders of the 737 have to cringe at what is going on right now. I mean the FAA is borderline in the TANK for Boeing and will not certify the Max Jet.

I haven't even gotten into the issues they had with the rocket launch last week.

The point is BA has been CRUSHED by news.



News cycles end, then stocks come out stronger. I think BA will have a similar outcome and thus I like owning long dated calls in BA. The issue is premium IS expensive.



This is especially true for upside calls that are long dated. I would be a seller of BA upside calls to help finance my ATM call purchase a year out.

The Jan 2021 340-440 call spread is going to cost about \$25. If BA gets back to its all-time high this year, the 100 point call spread will pay out 3 to 1 on risk. I think I have a really good chance to make 100% return on my dollars in under 6 months, ESPECIALLY if BA makes the kind of management decisions that need to be made.

Trade: buy to open 1 BA Jan21 340 call for \$34.00 sell to open 1 BA Jan21 440 call at \$9.00

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