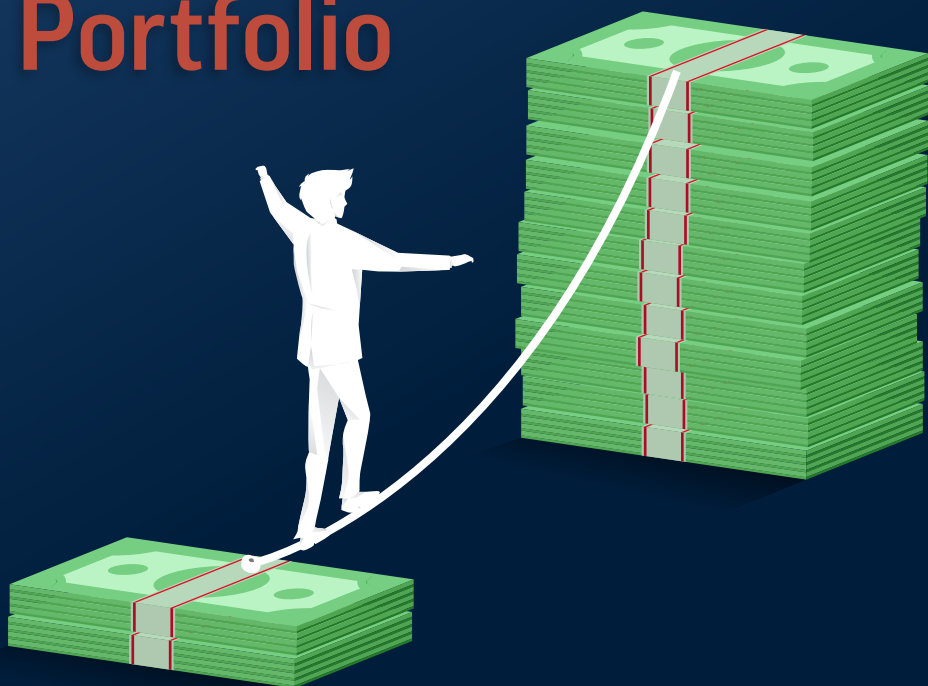


ASYMMETRIC RETURNS –

The Secret Key to a Winning Portfolio



MARK SEBASTIAN'S

PROFIT TAKEOVER

Asymmetric Returns – The Secret Key to a Winning Portfolio

Today, I'm going to introduce you to a top-secret Wall Street word: *asymmetry*.

They say there's beauty in symmetry – architecture, human faces. And symmetry may be easy on the eyes, but it's not easy on the wallet. Not when it comes to options trading, that is.

Think about it. You don't want to make the same amount of money that you risked – not if you can make more, that is. Put \$5 into a trade, get \$5 out? It's one way to save up, sure, but it's nowhere near the best.

With that record, Wall Street is maintaining its choke hold on your account... the same tight grip it's had for decades.

See, in the option pit, the ideal trade is one where you stand to potentially gain much more than you've risked. I'm talking 200%, 500%, even 1,000% gains. It's more attainable than it sounds – I spent years as a market maker at the Chicago Board Options Exchange, and I used to do it all the time.

That's what we call a positive asymmetric risk/reward profile, and it's one of Wall Street's favorite tricks.

But the strategy isn't just reserved for Wall Street guys. Not anymore, that is. See, the financial world as we know it is undergoing a massive shift.

A record-breaking 10 million new trading accounts were created by individual investors last year – that's regular traders just like you. And the influx of new traders is shooting trading volume to new highs, with an average of 14.7 billion trades a day in the first few months of 2021.

And for the first time, these individual traders are threatening to take down Wall Street's once-powerful ivory tower – one asymmetrical return at a time. So how do you do it?

Here's the secret – *cheap* options on *large-cap* stocks.

The organic beauty of options is that they essentially have *built-in* leverage. When you buy one share of a stock, that's all you own – one share of one stock. But a single option contract controls 100 shares of a stock at a fraction of the cost you'd pay to buy or short them outright.

What is an option?

A contract that gives the buyer the right, but not the obligation, to buy or sell an underlying asset at a specified price (strike price) by a specified date (expiration date).

*Right to *buy*: Call Option

*Right to *sell*: Put Option

One way to capitalize on that leverage is by simply buying a call if you're bullish or a put if you're bearish. The most money a simple call or put buyer can lose is the initial premium paid for the option contract itself. But the profit potential is unlimited.

Capped risk and the potential for a big payday? That's exactly why you want to make positive asymmetric returns. And it's exactly why Wall Street has been secretly doing it for decades while they told you to put your money in slow-moving mutual funds and ETFs. But banking these returns is simple. Take a look...

Say XYZ is trading at \$50. You buy an at-the-money XYZ call option for \$2.00 at the \$50 strike price. You know the option is “at-the-money,” or ATM, because the strike price is the same as the stock price:

	Calls	Puts
At-the-Money (ATM)	Strike = Stock	Strike = Stock
In-the-Money (ITM)	Strike < Stock	Strike > Stock
Out-of-the-Money (OTM)	Strike > Stock	Strike < Stock

Now, your initial call premium will actually be \$200, since each option contract controls 100 shares.

$\$2.00 \times 100 = \200 , got it? But remember: That \$200 will always be cheaper than purchasing 100 shares of XYZ outright. With XYZ at \$50, 100 shares would run you \$5,000. And that’s *leverage*.

If the underlying stock sinks south of \$50, the strike price, before your option expires, then your option will be considered “out-of-the-money,” or OTM, and you could lose your entire \$200 investment.

But what if XYZ caught on to some Reddit buzz and rocketed to \$75?



That \$50 strike call would now have \$25 in something called *intrinsic value*. See, an option’s value is made up of two factors: *time value* and *intrinsic value*.

Time value is determined by the amount of time the option has until expiration. The closer an option is to its expiration date, the less time value it has, meaning the cheaper the option is.

Intrinsic value, on the other hand, is dependent upon the price of the underlying asset. If an option is OTM, then it has no intrinsic value. If it's in-the-money (ITM), however, then you can find the intrinsic value by taking the difference between the stock's price and the ITM call strike.

Stock Price: \$75
- Strike Price: \$50

Intrinsic Value: \$25

The intrinsic value is \$25. Now, you can turn around and cash in your \$200 calls for *at least* \$2,500. Remember: One contract is equal to control over 100 shares. So \$25 of intrinsic value directly translates to \$25 X 100 shares, or \$2,500. And depending on the time the option has until expiration, you could potentially make even more than that.

That's what Wall Street refers to as a "10-bagger" – or making more than 10X your initial investment. The perfect example of a positive asymmetric return. It's something the big institutions do all the time – and in this example, you just did it too. With a simple call or put option, you can beat Wall Street at its own game.

Take the now-famous **AMC Entertainment Holdings Inc.** (NYSE:AMC), for example. On January 20, 2021, the February 19 \$5 calls were just \$0.30, or \$30 for control over 100 shares.

By purchasing a call, you were only risking \$30. If **AMC** shares didn't rocket above \$5 by the February 19 expiration, that's all you would've lost.

INVESTOR'S REPORT

Snapshot for Wednesday January 20, 2021

AMC	2.97	-0.09 -2.94%	IV30	185.90	-28.66 -13.3...	IV60	IV90	HV10	HV20	HV30	HV60	
						187.81	187.33	140.42	115.94	123.47	147.69	
						-27.60	-21.75	1.90	0.38	-0.07	-0.10	
Jan22(W) AMC	Jan29(W) AMC	Feb05(W) AMC	Feb12(W) AMC	Feb19 AMC	Feb26(W) AMC	Mar19 AMC	Jun18 AMC					
223.88 iv	208.18 iv	191.59 iv	199.83 iv	185.88 iv	194.31 iv	187.84 iv	186.40 iv					
-94.16	-47.89	-42.16	-27.45	-26.64	-31.63	-27.90	-10.10					
OI	Volume	Delta	IV	Bid	Ask	Strike	Bid	Ask	IV	Delta	Volume	OI
5482	4423	30.73	221.74	0.28	0.29	AMC Feb19 5	2.18	2.53	217.50	69.94	18	2111

AMC \$5 strike calls expiring February 19, as of January 20, 2021.

Except in reality, you wouldn't have lost a penny. Because AMC enjoyed what I like to call a "meme stock" surge with help from some Reddit buzz – and a week later, on January 27, the stock had skyrocketed from about \$3 to just under \$20.

Remember what I said about leverage? Well, the value of those \$5 strike call options – you know, the ones that would've run you just \$30 – those now carried about \$15 in intrinsic value and boasted a \$15.50 sticker price... meaning that call could be sold for \$1,550.

In one week, you could've turned \$30 into \$1,550 – a 5,000%-plus gain and an incredible asymmetrical return.

The kind of return individual investors never would have seen five or 10 years ago. But it's the kind of gain that's available to traders like you today – the kinds of profits I'm going to help you achieve.

Snapshot for Wednesday January 27, 2021

AMC	19.90	14.94 301.21%	IV30	724.33	373.49 106.4...	IV60	IV90	HV10	HV20	HV30	HV60	
						504.29	446.47	677.22	501.25	426.48	323.40	
						203.86	164.52	501.10	352.00	278.66	165.46	
Jan29(W) AMC	Feb05(W) AMC	Feb12(W) AMC	Feb19 AMC	Feb26(W) AMC	Mar05(W) AMC	Mar19 AMC	Jun18 AMC					
1385.47 iv	1236.41 iv	1056.66 iv	889.15 iv	724.09 iv	694.97 iv	521.69 iv	346.32 iv					
1012.02	857.40	663.84	549.67	371.34	356.90	216.32	96.97					
OI	Volume	Delta	IV	Bid	Ask	Strike	Bid	Ask	IV	Delta	Volume	OI
31631	17267	70.09	2.00	15.00	15.80	AMC Feb19 5	1.20	1.25	527.76	5.20	6521	10597

AMC \$5 strike calls expiring February 19, as of January 27, 2021.

INVESTOR'S REPORT

And the higher **AMC** shares climbed, the more those call buyers stood to gain.

Now, a 5,000% gain like that is relatively rare. But even if you're banking less than that, as long as your returns stay asymmetric, you'll still be able to enjoy Wall Street-level gains over and over again.

Consider oil-and-gas stock **BP plc** (NYSE:BP), which was trading just shy of \$23 on February 19, 2021. With a month left until expiration, **BP's** March 19 \$25 calls, which were just \$2 OTM, cost about \$0.35, or \$35.

Snapshot for Friday February 19, 2021

BP	22.87	0.41 1.83%	IV30	40.53	-0.24 -0.59%	IV60	IV90	HV10	HV20	HV30	HV60	
						41.23	42.49	52.12	48.78	45.77	49.30	
						-0.82	-0.60	-0.77	-0.47	-1.60	0.10	
Feb19 BP	Feb26(W) BP	Mar05(W) BP	Mar12(W) BP	Mar19 BP	Mar26(W) BP	Apr01(W) BP	Apr16 BP					
58.85 iv	33.57 iv	38.13 iv	39.38 iv	40.15 iv	41.47 iv	41.14 iv	41.06 iv					
19.72	-3.77	-2.72	-1.12	-0.55	0.28	-0.39	-0.88					
OI	Volume	Delta	IV	Bid	Ask	Strike	Bid	Ask	IV	Delta	Volume	OI
10562	1231	23.49	41.43	0.33	0.35	BP Mar19 25	2.44	2.50	40.34	77.18	8	502

BP \$25 strike calls expiring March 19, as of February 19, 2021.

Less than a week later, on Thursday, February 25, **BP** shares had shot to \$25.59, putting the \$25 calls just ITM – making the trade *asymmetrical*.

The calls now went for around \$1.35, or \$135. Minus the initial premium paid for the option, that trader made about \$100... all while risking a measly \$35.

Snapshot for Thursday February 25, 2021

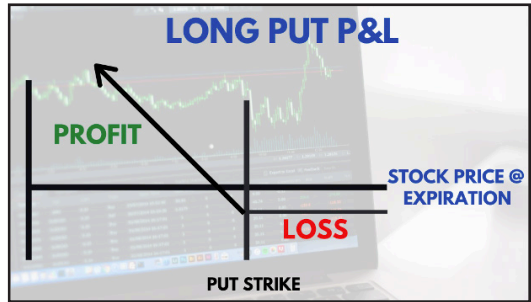
BP	25.59	0.29 1.15%	IV30	42.88	1.45 3.50%	IV60	IV90	HV10	HV20	HV30	HV60	
						42.45	43.20	46.35	51.09	47.80	47.54	
						1.18	1.34	-1.51	-0.39	-0.45	-0.11	
Feb26(W) BP	Mar05(W) BP	Mar12(W) BP	Mar19 BP	Mar26(W) BP	Apr01(W) BP	Apr09(W) BP	Apr16 BP					
48.00 iv	46.45 iv	43.15 iv	43.50 iv	42.89 iv	42.84 iv	42.01 iv	41.99 iv					
2.44	6.50	1.25	2.16	1.46	1.06		1.05					
OI	Volume	Delta	IV	Bid	Ask	Strike	Bid	Ask	IV	Delta	Volume	OI
9047	3473	60.84	41.78	1.26	1.44	BP Mar19 25	0.79	0.86	46.01	39.69	332	585

BP \$25 strike calls expiring March 19, as of February 25, 2021.

Oh, and those **BP** calls eventually ballooned to over \$2, or \$200.

Imagine booking asymmetrical gains like that over, and over, and over again. With so many new traders in the market, *you can*. And get this – you don't even need the market to go up to do it.

The asymmetric pendulum also swings in the favor of bearish option buyers.



For instance, **Apple Inc.** (Nasdaq:AAPL) was trading around \$135 on February 12. The \$130 puts with a week until expiration were going for around \$0.32, or \$32.

Remember: When you buy a put, that essentially means you're betting the underlying stock will go *down*. That means buyers of these puts expected **AAPL** shares to drop beneath the \$130 level by the close on Friday, February 19.

Snapshot for Friday February 12, 2021													
AAPL 135.37 0.24 0.18%		IV30 28.38 -1.71 -5.68%		IV60 31.29	IV90 33.81	HV10 17.10	HV20 31.19	HV30 31.90	HV60 29.52				
				-1.36	0.19	-9.57	-0.63	-0.10	-0.03				
Feb12(W) AAPL 48.98 iv 24.22	Feb19 AAPL 21.87 iv -3.02	Feb26(W) AAPL 24.83 iv -2.51	Mar05(W) AAPL 26.62 iv -2.17	Mar12(W) AAPL 28.02 iv -1.93	Mar19 AAPL 29.26 iv -1.61	Mar26(W) AAPL 29.98 iv -1.57	Apr01(W) AAPL 30.81 iv -1.90						
OI	Volume	Delta	IV	Bid	Ask	Strike	Bid	Ask	IV	Delta	Volume	OI	
68497	7679	99.02	12.59	5.60	5.80	AAPL Feb19 130	0.31	0.33	27.51	14.02	11547	36317	

AAPL \$130 strike puts expiring February 19, as of February 12, 2021.

Good news for them: **AAPL** did, in fact, breach the strike price in time. The stock dropped to \$129 and change on February 18 – putting the put ITM and shooting the price up to \$0.95, or \$95.

That's a 220% asymmetrical return in six days.

Snapshot for Thursday February 18, 2021													
AAPL		129.71	-1.13 -0.86%	IV30		31.26	0.78 2.57%	IV60	IV90	HV10	HV20	HV30	HV60
								32.64	35.12	19.03	30.10	31.65	29.91
								0.57	0.62	0.06	-2.04	-0.10	0.07
Feb19	Feb26(W)	Mar05(W)	Mar12(W)	Mar19	Mar26(W)	Apr01(W)	Apr16						
AAPL	AAPL	AAPL	AAPL	AAPL	AAPL	AAPL	AAPL						
30.13 iv	29.10 iv	29.94 iv	30.41 iv	31.21 iv	31.56 iv	31.69 iv	32.39 iv						
2.78	0.60	0.85	0.72	0.74	0.69	0.56	0.48						
OI	Volume	Delta	IV	Bid	Ask	Strike	Bid	Ask	IV	Delta	Volume	OI	
74974	167351	45.24	31.12	0.65	0.71	AAPL Feb19 130	0.88	0.99	26.85	55.61	27252	44530	

AAPL \$130 strike puts expiring February 19, as of February 18, 2021.

Not too shabby for risking \$32, eh? And again, the lower AAPL shares sank before the options expired, the more the put buyer stood to gain.

With this knowledge of options anatomy and asymmetric returns, you could have set yourself up for an incredible home run on any of those stocks. But these are just three examples in a sea of opportunities – and as more and more new traders join the ranks, those opportunities are multiplying. In fact, they're just getting started.

Now, it's easy to think to yourself, *"I think this stock is going higher. I'm going to buy the cheapest call option and start searching for a private island to buy with my winnings..."*

But that would be a mistake – one that Wall Street would probably let you make but one that I won't. Because the cheapest options usually have two things in common:

1. They're far from the current stock price, meaning they're deep out-of-the-money (OTM).
2. They have very little time left until expiration.

While an option may cost pennies, in order to make any real money, you'd need those shares to make a huge move in the right direction and fast. In other words, you'd need volatility on your side.

But you can make sure it is *before* you buy an option. That's where *implied volatility* (IV) comes into play. Instead of broader market swings, IV refers to the volatility of an option itself, lending itself directly to the contract's intrinsic value – and therefore price.

Here's an example...

Recently, **Verizon Communications Inc.** (NYSE:VZ) was trading around \$55.50. Call options with 10 days to expiration and a \$57 strike cost about \$0.20, or \$20 a pop for control over 100 shares. Less than a week prior, **VZ** had been above \$57.

These calls were incredibly cheap – but why? Well, because the implied volatility had dropped, which in turn allowed these calls to fall to a price where the risk/reward profile was extremely favorable. Remember when I said that you want to stay away from cheap options that are too far OTM? Well, these were just \$0.20, and they were only about 2.5% OTM.

At the same time, **Ford Motor Company** (NYSE:F) was trading for \$12.70 per share. And the \$13.50 strike calls were also \$0.20. But these calls were \$0.80 OTM (\$13.50-\$12.70), which is a full 6%. And both the **VZ** and the **F** options had the same amount of time until expiration.

These two calls were the same price. But one was cheap, and one was not. You'd need less than a 3% move to win in **VZ**. To win in **F**, you'd need an 8% move. As you can see, "inexpensive" doesn't always mean "cheap." And implied volatility can be the distinguishing factor between the two.

Understanding the risk/reward profile here is key. And remember: To bank a positive asymmetric return, your reward needs to be higher than your risk. That's why our goal is to make our risk as small as we can.

To capitalize on positive asymmetric strategies like long call or put options, it takes a lot more than luck. In order to put Wall Street's tricks in your own trading arsenal, you want longevity in this game.

Do you want to take over Wall Street and put the financial power in your hands? Then follow me in *The Profit Takeover*.

The "retail revolution," as it's been called, isn't just a blip – it's a movement, and it's one that's going to last.

In the simplest terms, more winning trades than losing trades doesn't necessarily equate to more profits – or any profits, for that matter. If you're risking too much, it could take *just one loser* to wipe out your gains completely.

But if you implement strategies with positive asymmetric returns and know what to look for when selecting your strikes, you can maximize the inherent leverage that options provide – and start using one of Wall Street's biggest secrets against it in *The Profit Takeover*.

Until next time,

A handwritten signature in black ink that reads "Mark Sebastian". The signature is fluid and cursive, with a long horizontal stroke at the end.

Mark Sebastian
Volatility Specialist

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