

THE KEVIN HAGGERTY
INNER CIRCLE
TRAINING PROGRAM

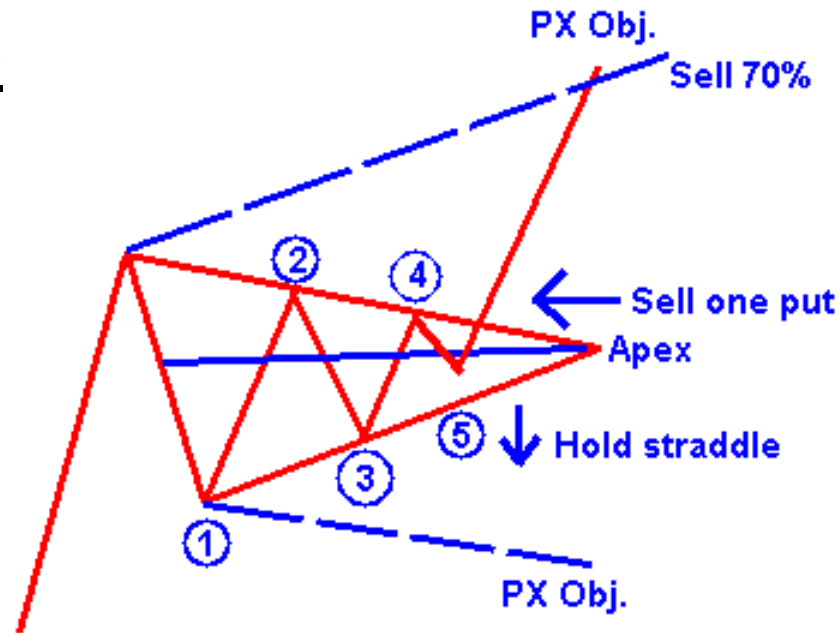
August 2nd, 2005

Option Strategies with Sequence

- A long straddle consists of a long call and long put with the same strike and expiration.
- The strategy is to sell one-half of the losing leg (put) on the breakout and then the remaining 50% on a pullback.
- In order to utilize the strategy, there must be at least two calls and two puts in the initial position to allow for the lifting of the losing leg on the breakout.
- The maximum risk on a straddle held to expiration is the total premium paid for both the calls and puts, but you are not going to do that because you expect an immediate move in the direction of the trend and will lift a leg on the breakout.

Option Strategies with Sequence

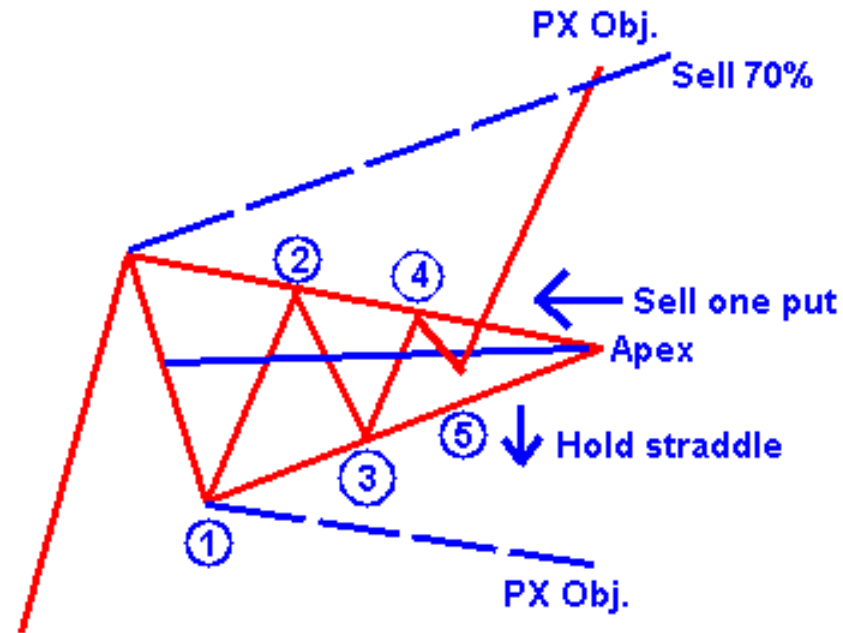
Symmetrical Triangle in an Uptrend



- The price objective is the parallel line level, or the height of the triangle at point 1.
- Sell 70% of the position at the price objective, and if there was no pullback, then that would be two calls and one put rather than two calls after having sold one put on the breakout and one put on a pullback.

Option Strategies with Sequence

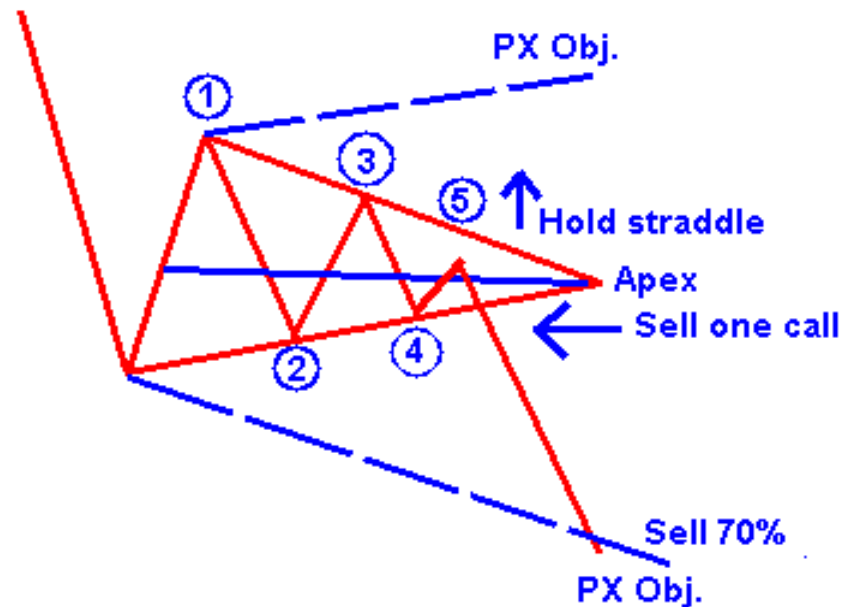
Symmetrical Triangle in an Uptrend



- If you don't use the option strategy and play the breakout with the cash instrument, then draw a line through the middle of the triangle from the APEX and use it as your stop line. If the triangle is too narrow for the apex line stop, then place it below the triangle or point 5 or 3, depending on the price difference. Be ready to take a second entry if stopped out on the first one. The failure and go from a triangle in the direction of the trend can be an explosive move.

Option Strategies with Sequence

Symmetrical Triangle in a Downtrend



- The breakout in the direction of the primary trend should have a volume increase.
- The initial straddle position of the at-the-money call and put should have at least two months remaining to expiration because you are looking for an immediate move, but in other situations, using a straddle, I would use a minimum of three months to expiration.
- The initial position should be put on Delta Neutral or else with a fractional bias in the direction of the primary trend.

Option Strategies with Sequence

Example

Call Delta .45

Put Delta .55

$$55/45 = 1.222$$

Position -- Delta Neutral

	<u>Delta</u>
Long 11 calls x .45 = +495	
Long 9 puts x .55 = -495	

Option Strategies with Sequence

Position

$$\begin{array}{r} \text{Delta} \\ \text{Long 10 calls x .45} = +450 \\ \text{Long 10 puts x .55} = \underline{-550} \\ -100 \quad \text{Short bias} \end{array}$$

- In the uptrend, you want it Delta Neutral or else a long bias.

$$\begin{array}{r} \text{Long 10 calls x .45} = +450 \\ \text{Long 8 puts x .55} = \underline{-440} \\ +10 \quad \text{Long Bias} \end{array}$$

Note: Long 9 puts @ .55 delta would be a -495 delta total, and the position would have a short bias of -45, so that would not work if the primary trend is up.

Option Strategies with Sequence

- Implied volatility has a significant effect on option prices, but not a major impact for directionally biased vertical spreads, such as long the lower strike call and short the higher strike call, as in a bull call spread.
- In the case of a straddle held for a longer period of time, it could have a significant impact, so you must be aware of where the implied volatility is relative to its historical and recent highs and lows.
- It is always better to be long option premium at the low end of the IV scale. It is possible to be profitable after you lift a leg and the implied volatility also expands the option premium, increasing the return on the trade.

Option Strategies with Sequence

Key Point: This strategy is just an example of one way to play a continuation breakout in the direction of the trend using an option strategy. You should not use any option strategies unless you are qualified and understand the basics of options and are qualified according to your brokerage firm's guidelines.

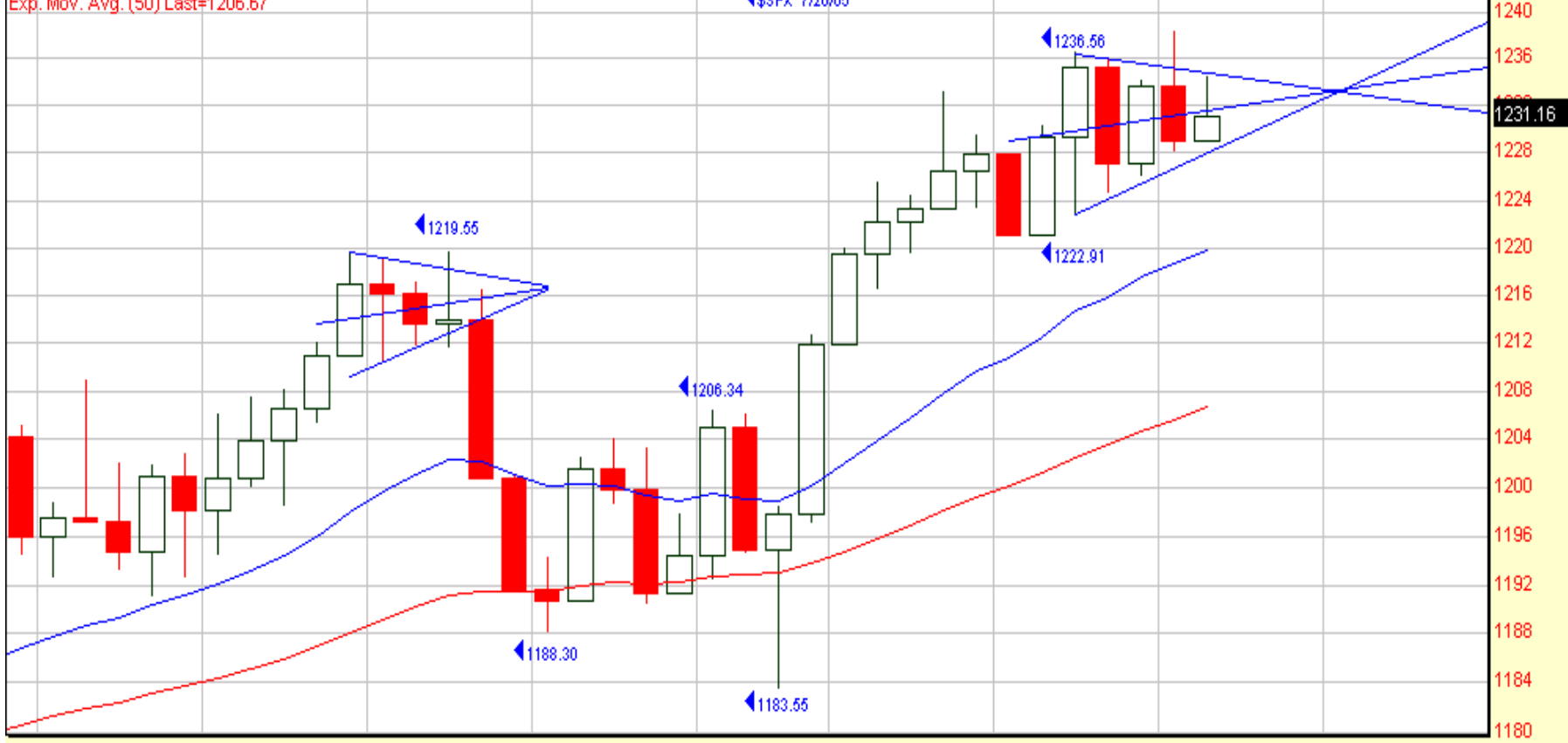
If you get a good education in options, it will greatly enhance your ability to play many different market scenarios with a lower risk profile.

S&P 500 Index 1231.16 0.00 0.00%

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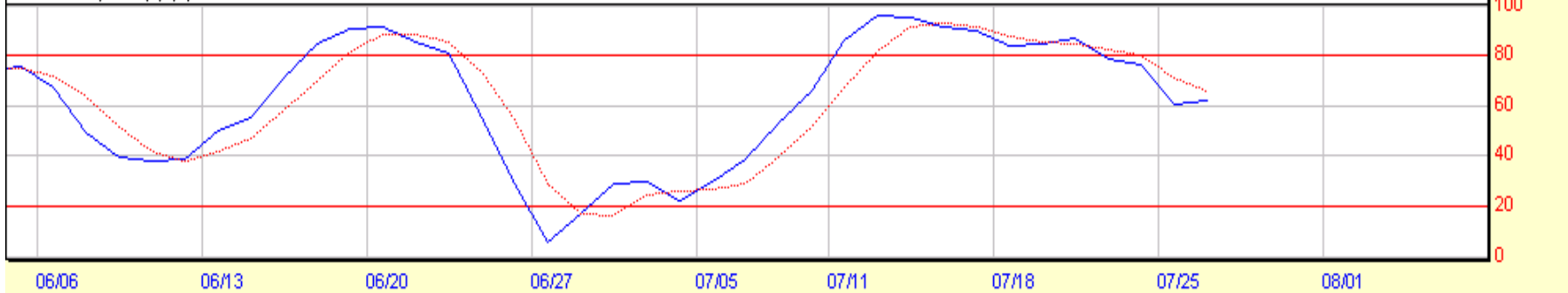
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◀\$SPX 7/26/05



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Stochastic, Full (8,3,3)



S&P 500 Index 1243.72 0.00 0.00%

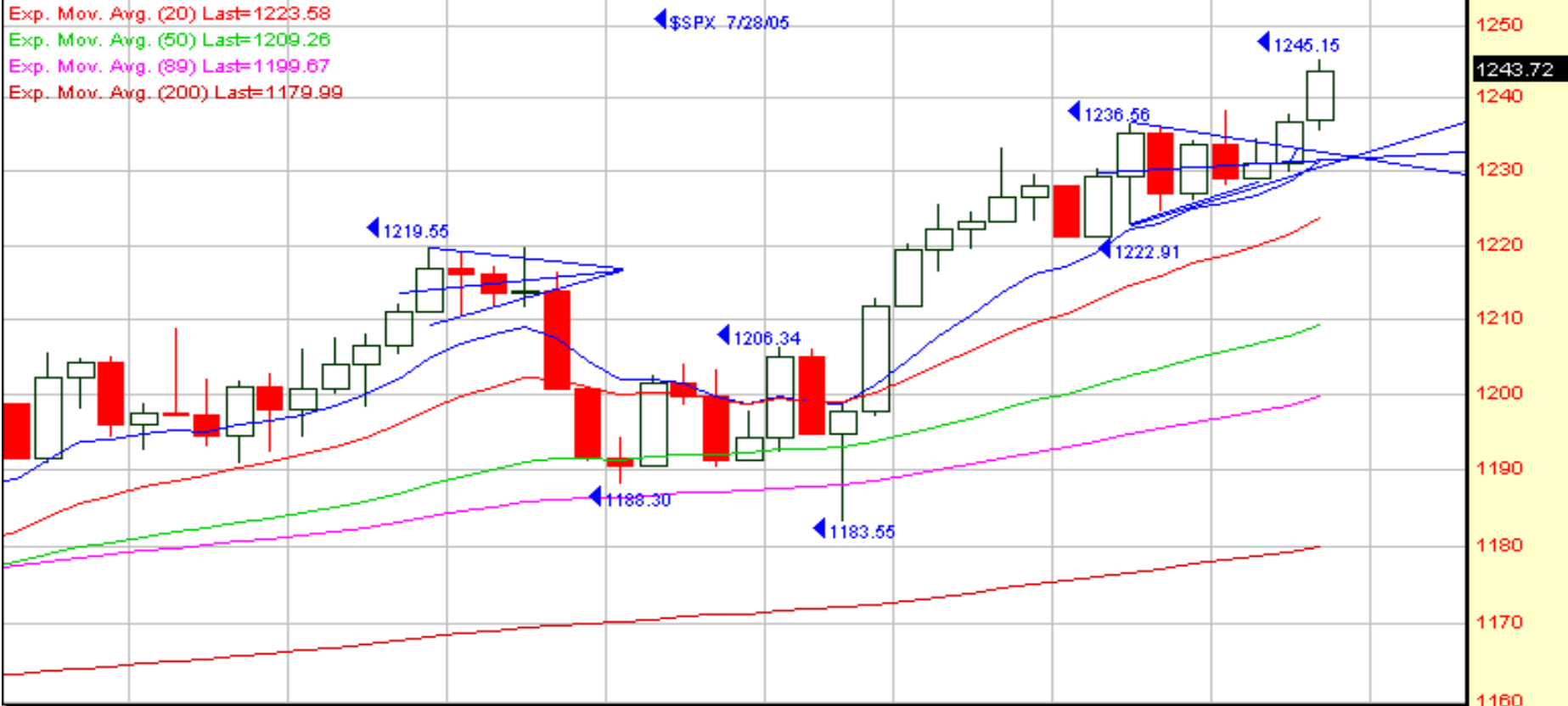
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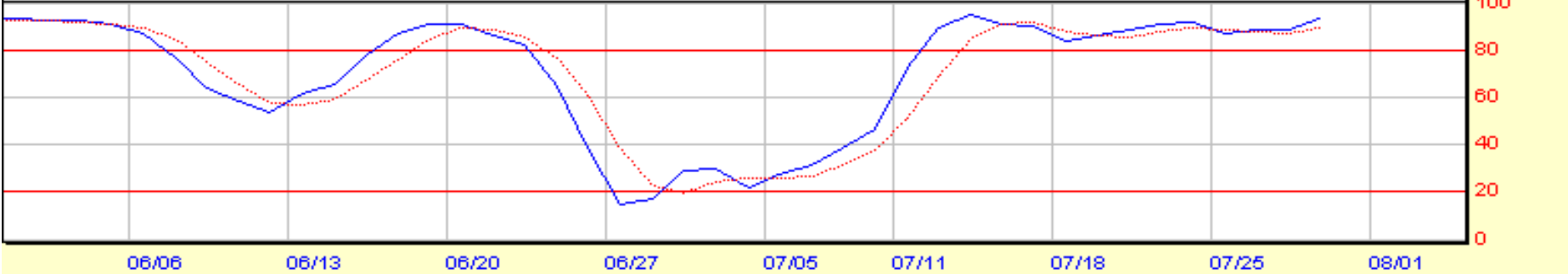
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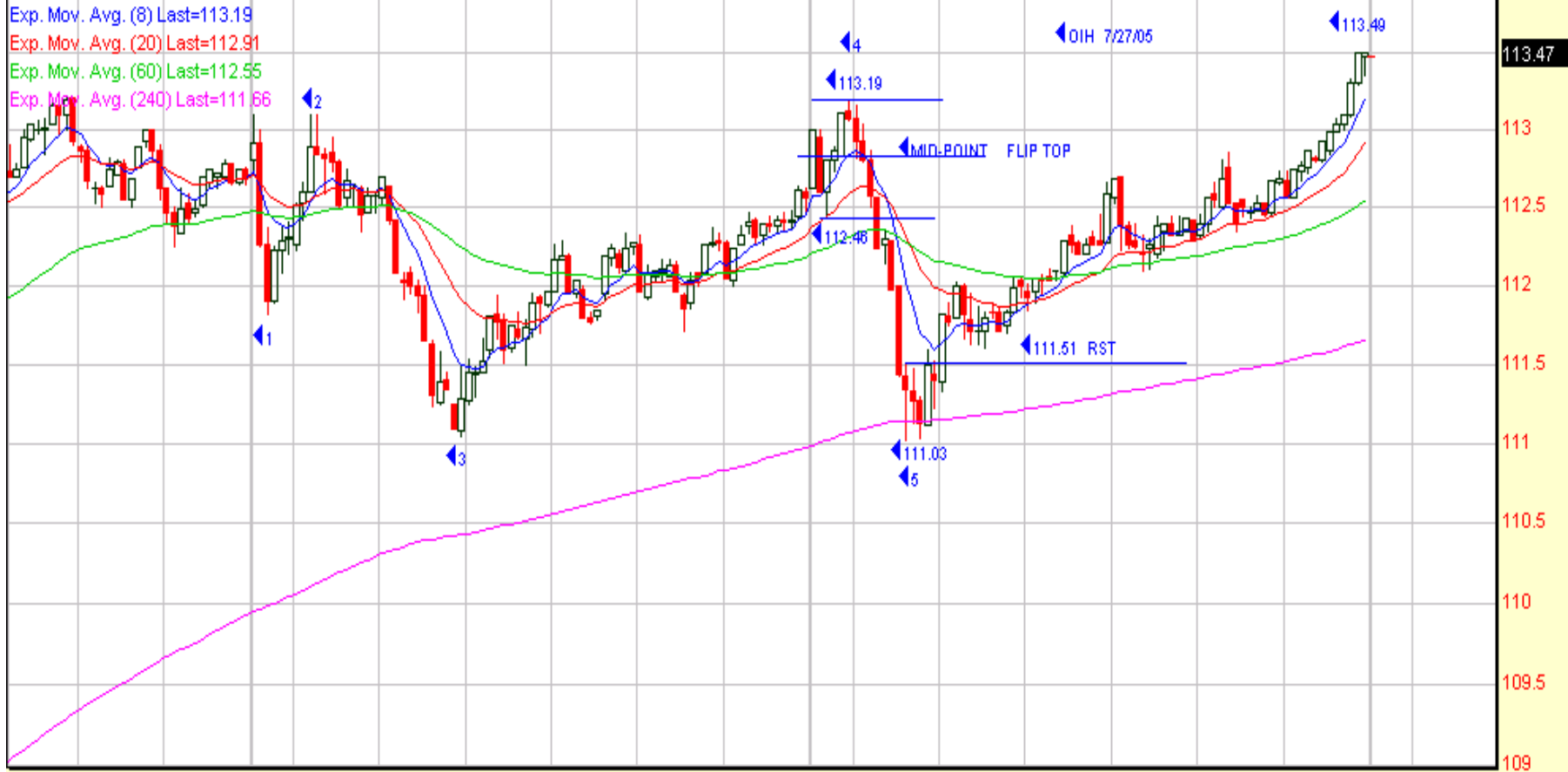


Stochastic, Full (14,3,3)



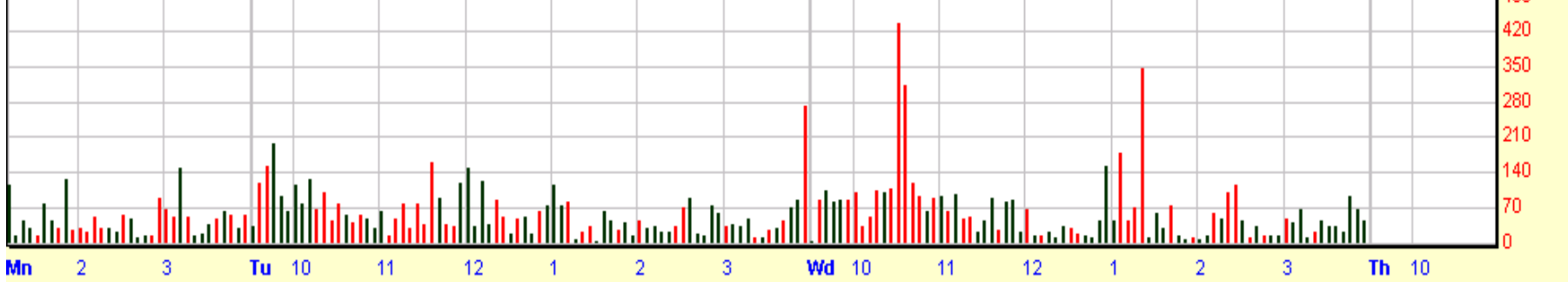
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Exp. Mov. Avg. (60) Last=112.55
Exp. Mov. Avg. (240) Last=111.66



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Volume (Thousands)



Transocean Inc 57.38 0.00 0.00%

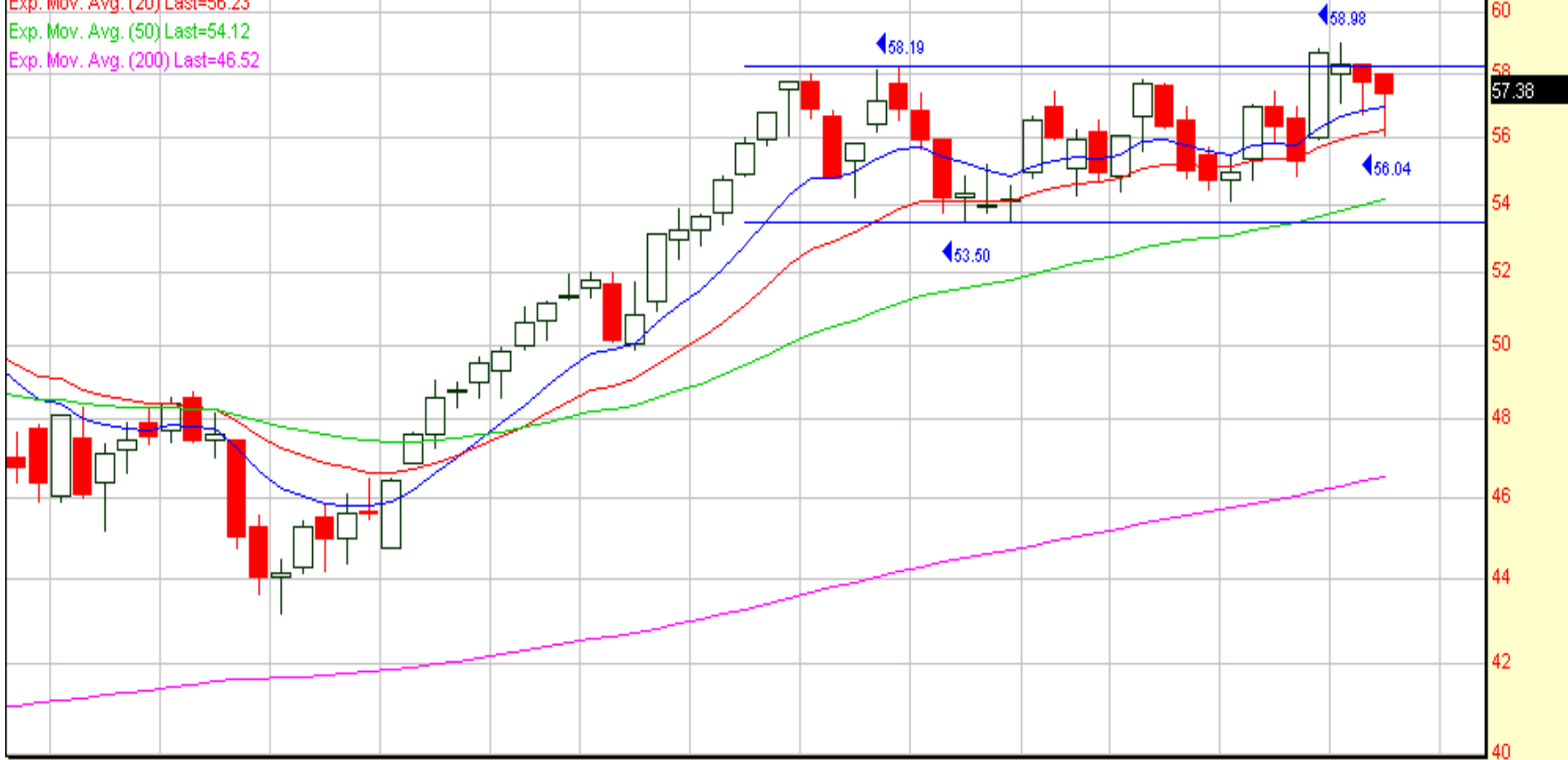
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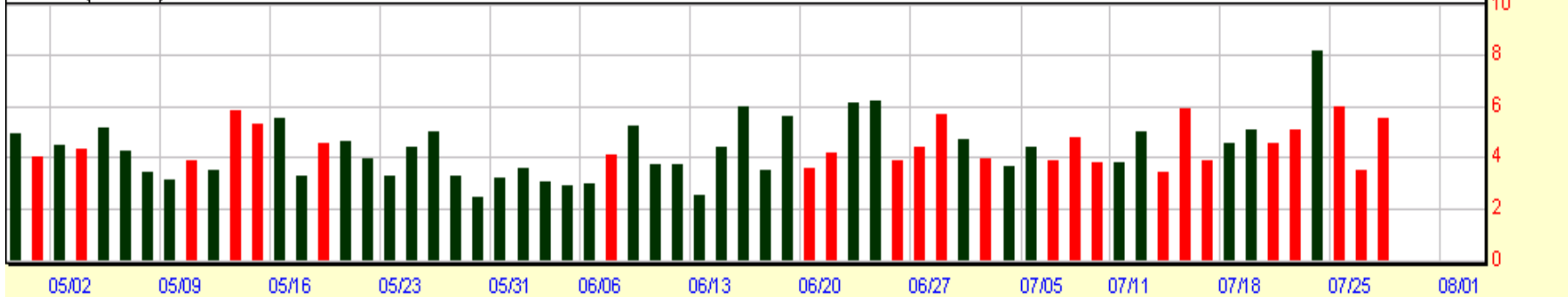
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← RIG 7/27/05



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Volume (Millions)

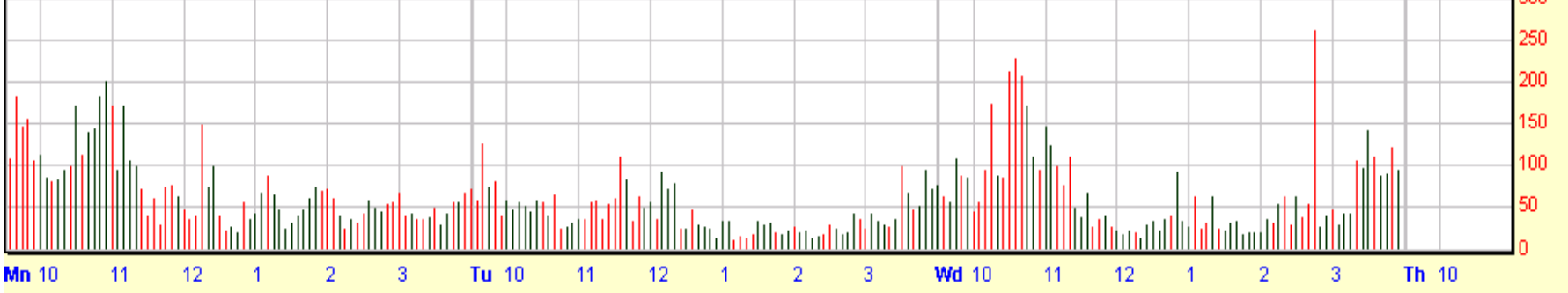


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 Exp. Mov. Avg. (240) Last=57.33



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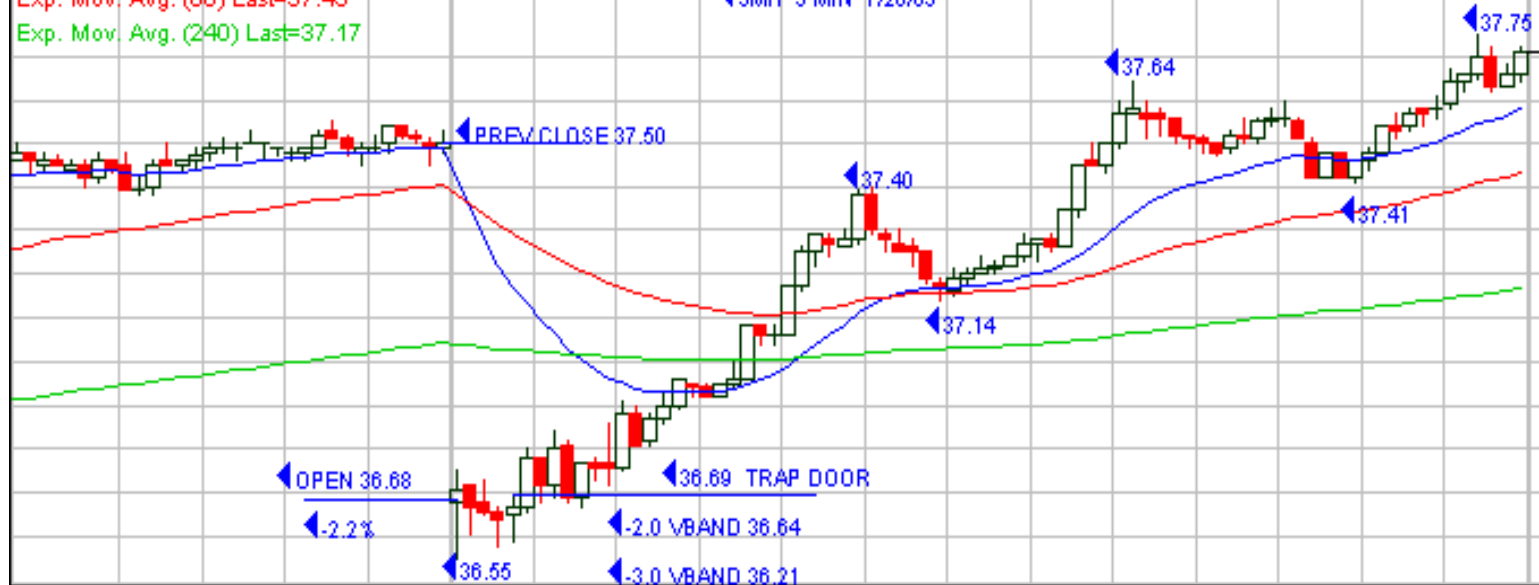
Volume (Thousands)



SEMICONDUCTOR HLDRS TR 37.71 0.21 0.56%

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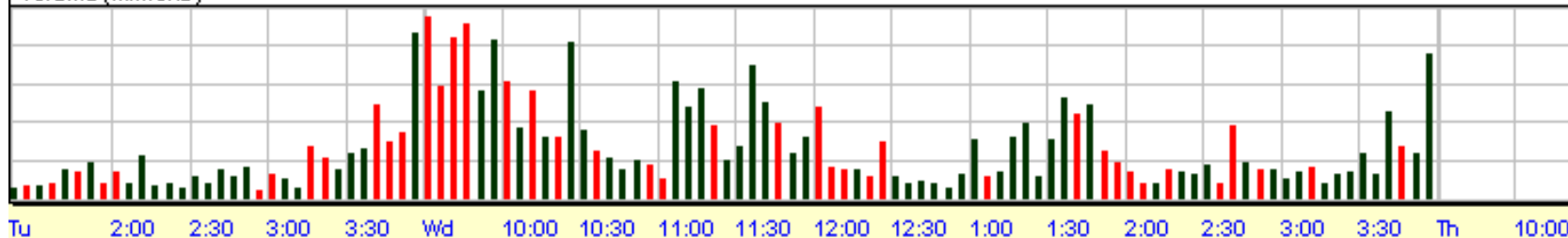
SMH 5 MIN 7/20/05



37.71
37.6
37.5
37.4
37.3
37.2
37.1
37
36.9
36.8
36.7
36.6
36.5

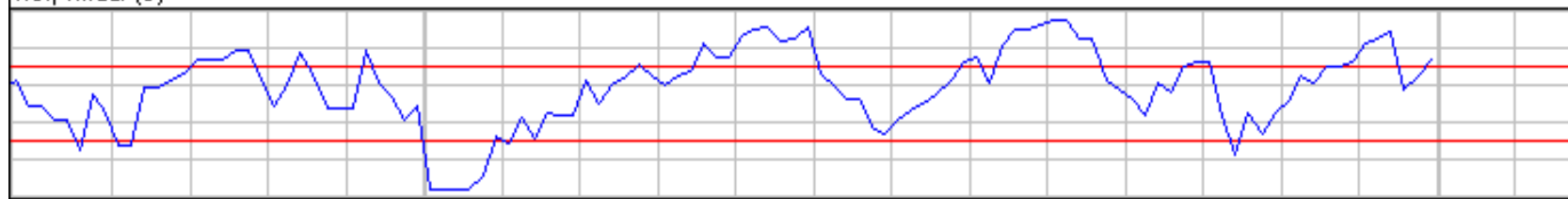
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Volume (Millions)



1.25
1
0.75
0.5
0.25
0

RSI, Wilder (5)



100
80
60
40
20
0

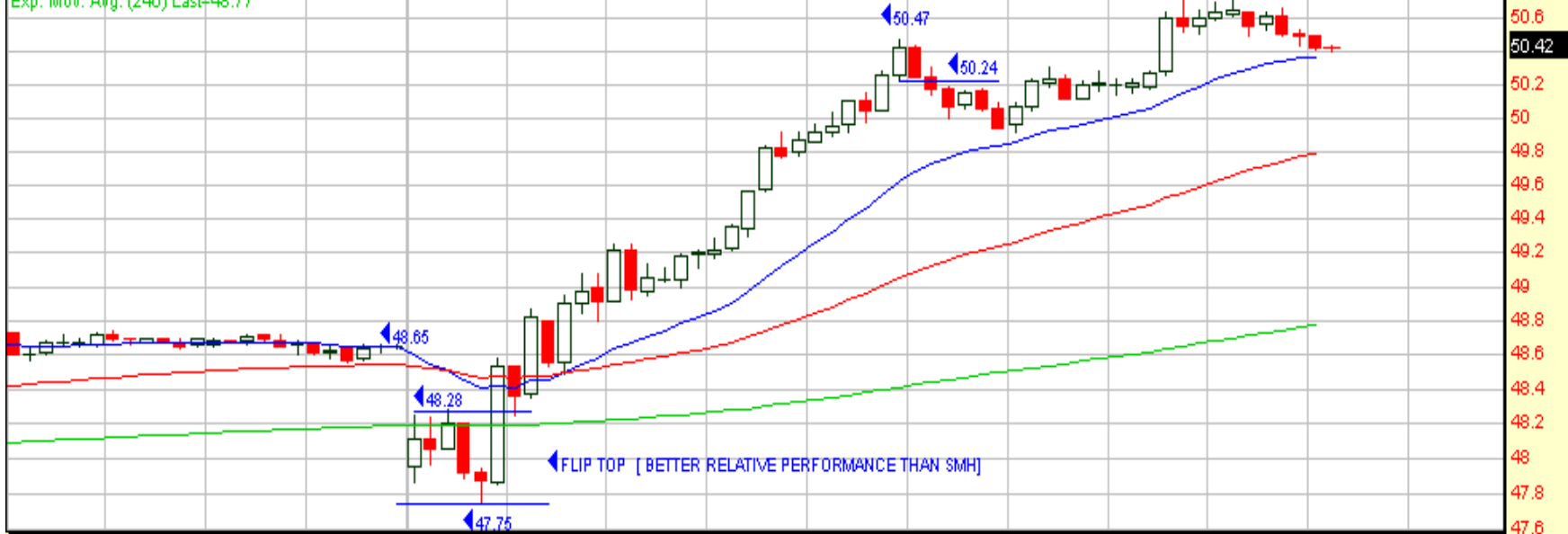
KLA-TENCOR CORP-(Nasdaq NM) 50.42 1.77 3.64%

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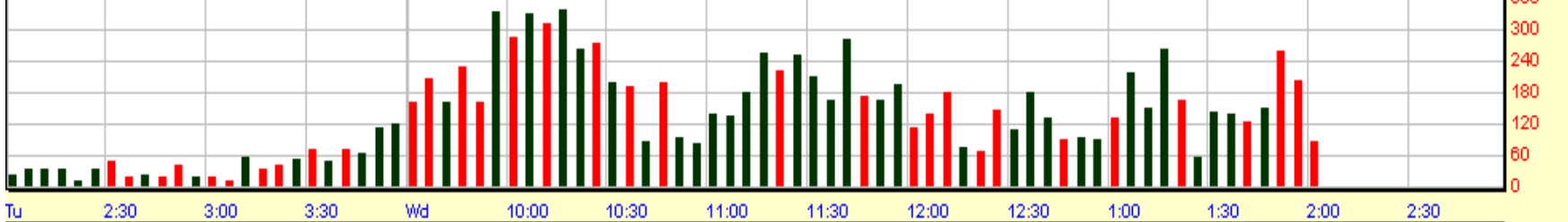
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KLAC 5 MIN 7/20/05

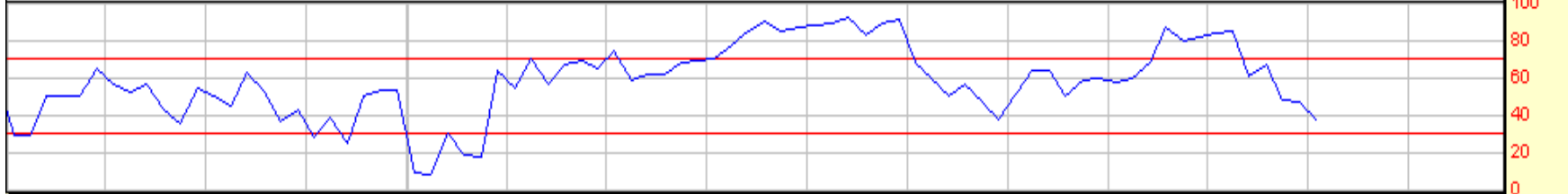


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Volume (Thousands)



RSI, Wilder (5)



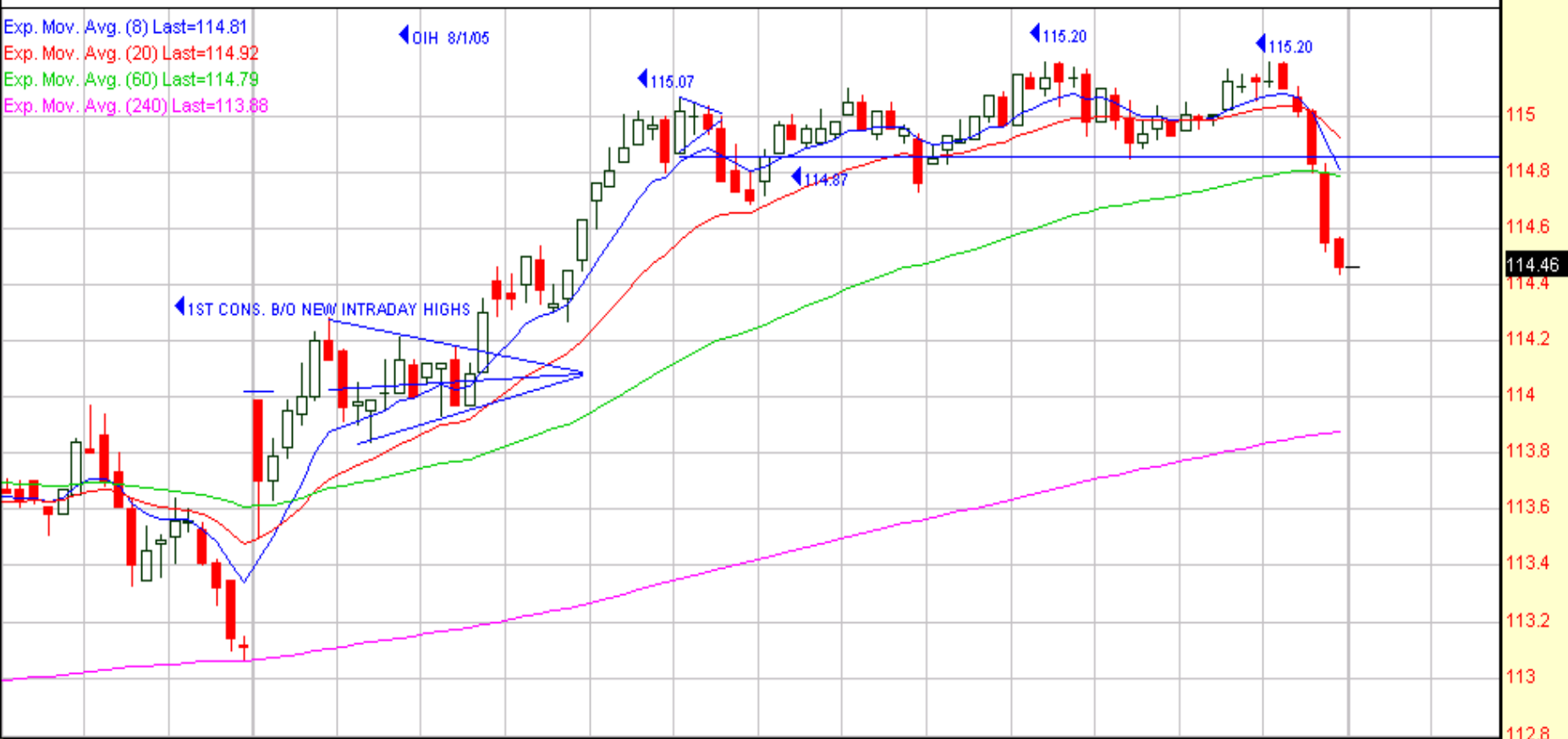
S&p 500 Index 1234.18 0.00 0.00%

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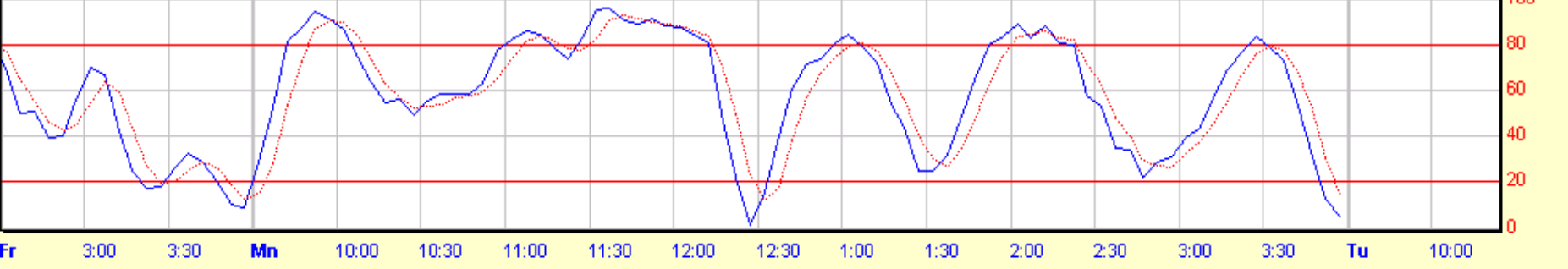
OIL SERVICE HOLDERS TR 114.46 1.35 1.19%

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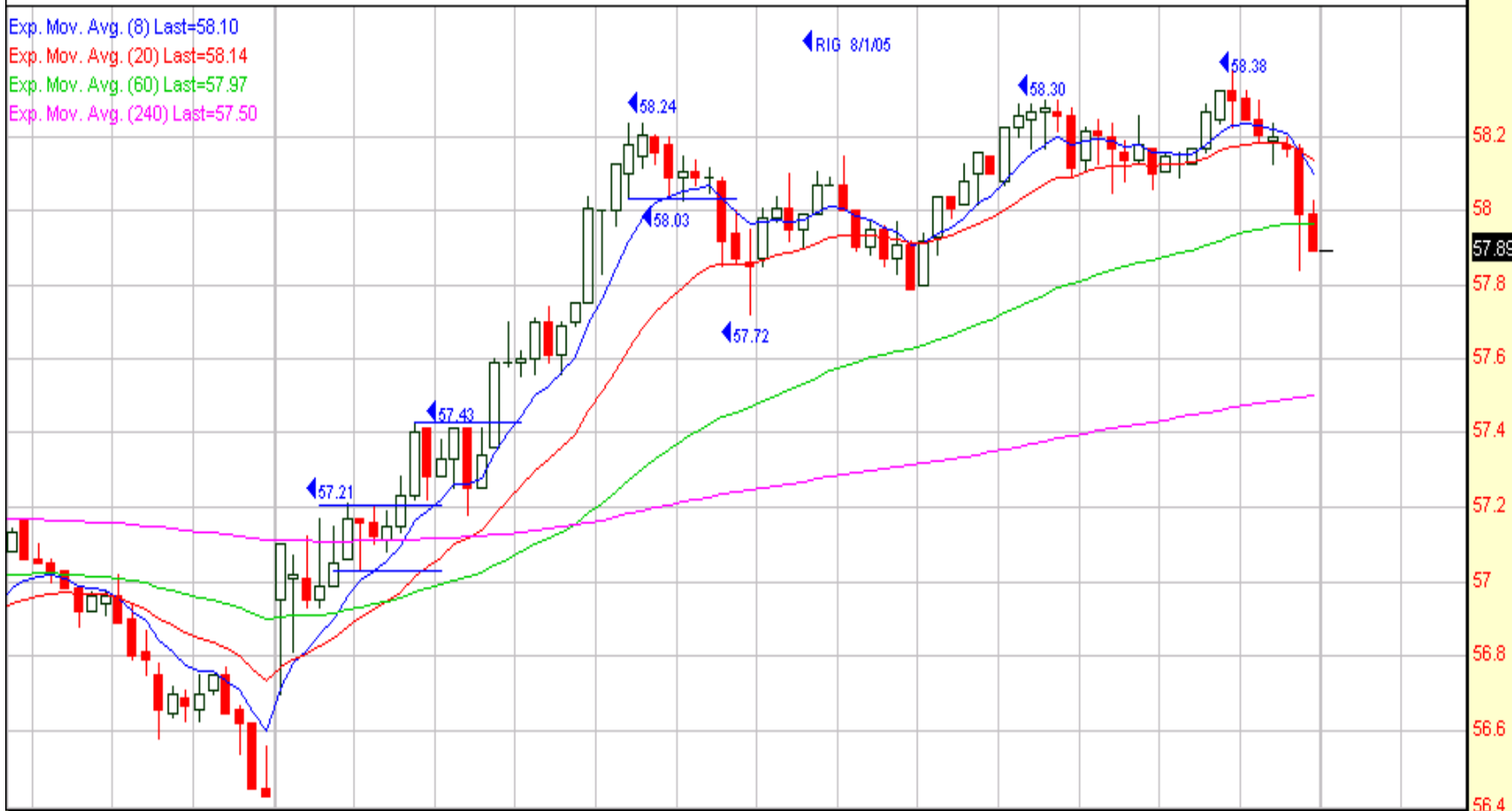


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Stochastic, Full (8,3,3)

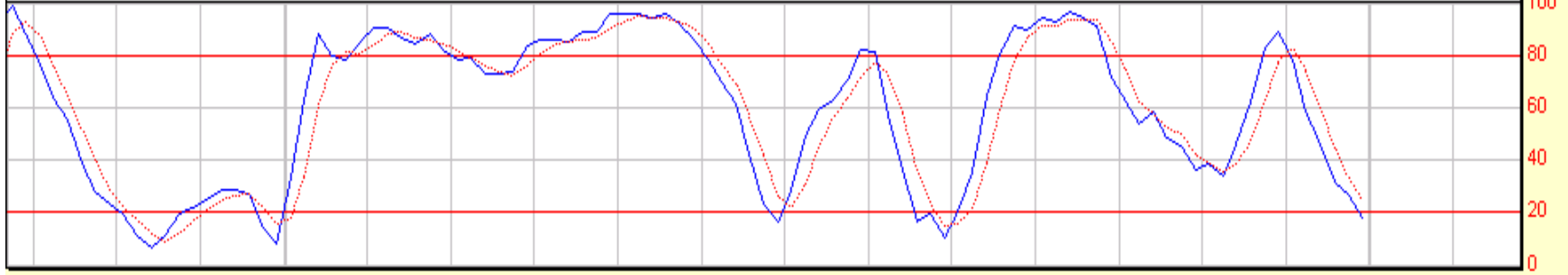


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Exp. Mov. Avg. (240) Last=57.50



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Stochastic, Full (8,3,3)



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