ARGENTUM
Asset Management Inc.

CASE STUDY 4: STRATEGIC MARKET ENTRY USING OPTIONS

Strategic Market Entry

For this strategy, the Argentum team would actively sell listed put options from the universe of stocks the client is likely to purchase. The strategic entry strategy has a higher probably of finishing in the money (ITM) on the puts than the Income Generation strategy. This strategy is especially attractive after a sell off since there would higher volatility, hence more premium and a lower entry price on the underlying. The entry price for the client is more attractive than an outright market purchase since premium is generated from the sale of the put.

There are several risks to this strategy.

- The risk that the underlying stock trades higher than the strike causing a missed opportunity, however the premium would still be retained by the client.
- The other risk is Market Risk which occurs if the underlying stock depreciates below the option strike price. In this case, a loss may occur on the option position greater than the upfront premium received and we will be obligated to buy the underlying stock at a price above the current market (at the strike price).
- Another risk of listed options (American options) is that the buyer is allowed to exercise at any time up to the expiration date and the seller (us) can be forced to purchase at any time.

A put option is an option contract giving the owner the right, but not the obligation, to sell a specified amount of an underlying security at a specified price within a specified time. This is the opposite of a call option, which gives the holder the right to buy shares.