

Ophir Gottlieb (00:00):

This is an instructional video on how to use stop losses when using the option back tester. We'll use a simple example. We'll look at selling puts on Apple avoiding earnings over the last two years, every week, and we'll just focus on the 50 delta. Here are the results. Over the last two years, selling a naked put on Apple has returned 21.7%. What we can do now is put in a stop-loss coming down to the close trade when section, you can lose much more than a hundred percent when selling a put, which is to say you can lose much more than the premium you received. So let's try and put a stop-loss on this. To reduce the risk, we'll try a 70% stop loss, which says that if we sold a put at a dollar, if it ever went up to a dollar 70, we would simply exit the position.

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And here are the results. If we reopen the short, put the next day after we're stopped out so we can see the return has actually gotten worse, which in certain sense makes sense, we're taking less risk, we would expect a lower return. But in fact, the trade machine gives you much more power than that. Rather than opening up a new short put immediately, what we can do is wait a week and then open it up at the normal time. Here are those results we simply select at normal time. Now we see a staggering result. Selling puts in Apple while avoiding earnings every two years while putting a stop-loss in and opening at the normal time after the stop is triggered, returned 69%. Whereas the normal implementation returned at just 21% and using a stop-loss, but opening immediately returned just 13%. This is the power of understanding the stock dynamics and how the stock dynamics affect the options.

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Let's look at another example. Now with Disney, we can see that selling a put in Disney over the last three years every week and avoiding earnings while putting a stop-loss in has returned 102%. But understanding the stock dynamics of Disney and how they're different than Apple allows us to implement our Stop-loss differently. When Apple's stock goes down, it tends to go down with momentum. That is, it goes down consecutively. Disney, in fact, does not actually have that stock dynamic. We can test that by seeing the result of opening our short put immediately. That is the next day after a stop loss is hit, and now we see the results. We went from a 100% gain to a 150% gain, still using a Stop-loss, but just understanding the stock dynamics of Disney in this case reopening. Our short put after we get stopped out the next day is better than waiting the full week to reopen it. This has been a demonstration of the closed trade when section of the CML Vis Option Back Tester trade Machine. Thanks for watching.