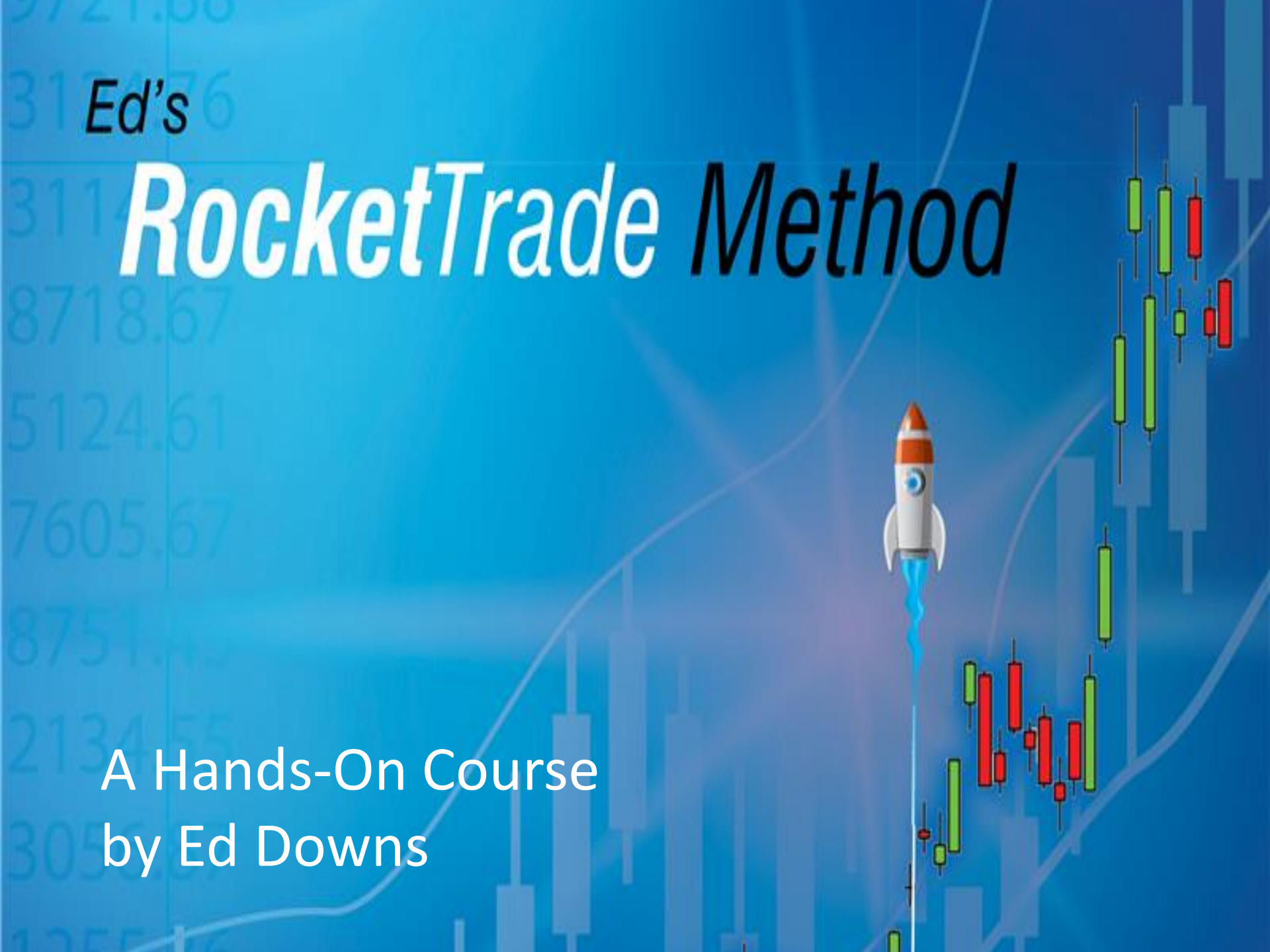

Ed's
RocketTrade Method
A Hands-On Course
by Ed Downs

Ed's

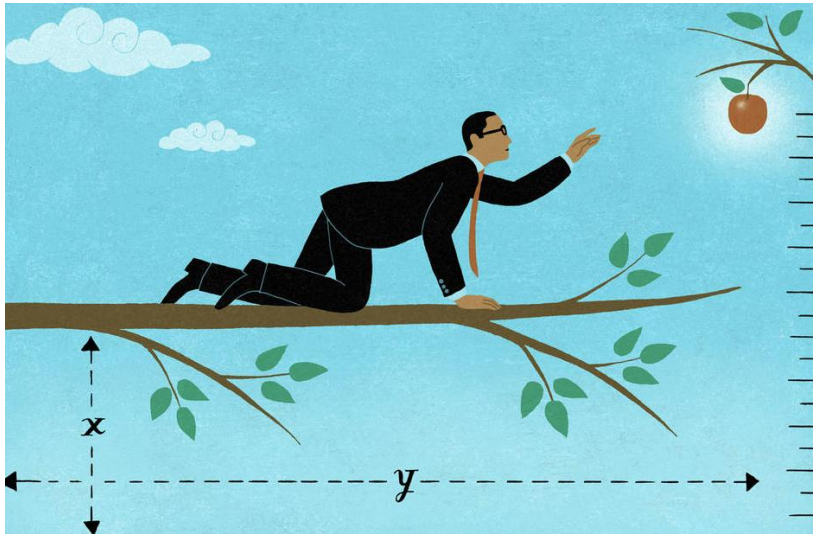
RocketTrade Method

Part III
Reducing Risk

Part 3 – Reducing Risk

Agenda:

- **Kinds of Risk:**
  Market versus Security Exposure
- **Ways to Diversify:**
  Accumulating Different Things.
- **Balancing Positions:**
  How to Play Both Sides of the Market
- **Hedging:**
  Using Options to Hedge Against Risk



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Kinds of Risk

The 3 Kinds of Risk

We want to protect our account from:

- Market Risk
- Technical Risk
- Allocation (Exposure) Risk

Market Risk

The Entire Market can Correct 10% or More in a Day

As it did with COVID-19

Technical Risk

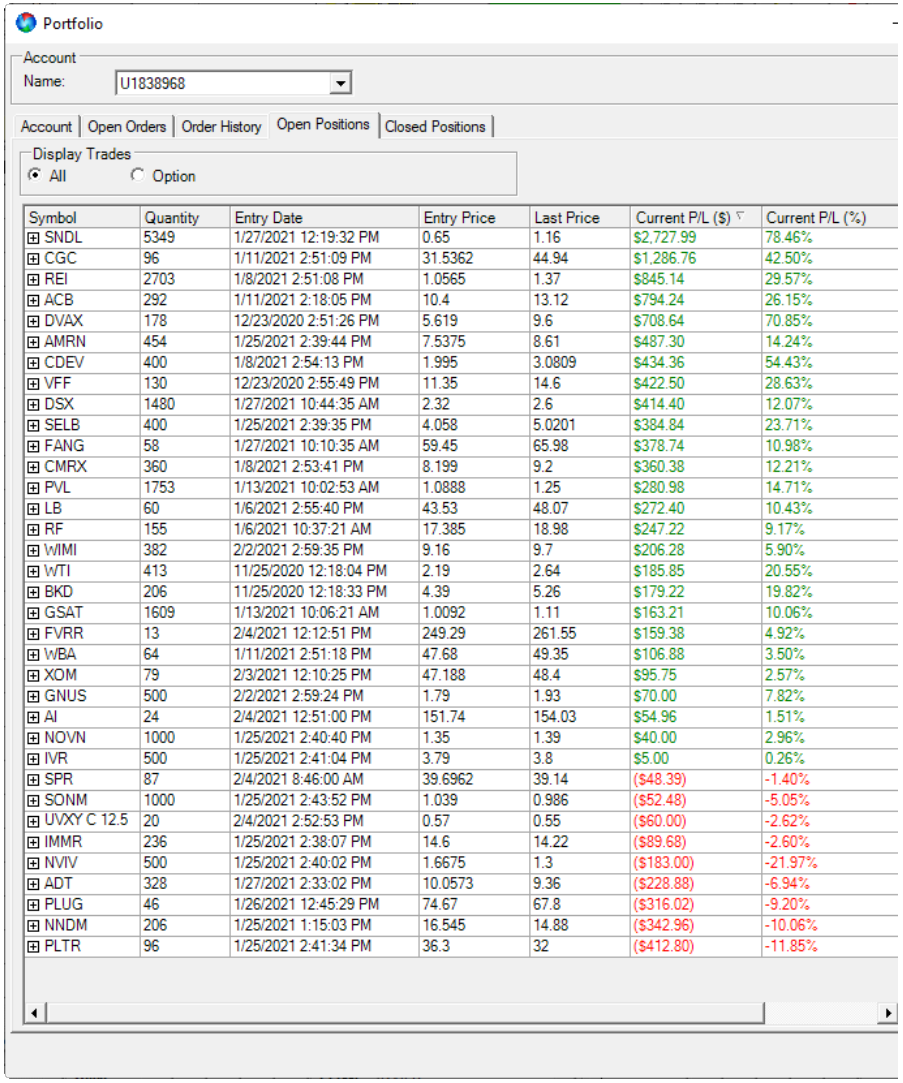
Proximity to Support and Resistance indicate Technical Risk (or opportunity, as with this Short Trade).

Allocation (Single Trade Exposure)

"Don't Put All Your Eggs in One Basket."

Many Trades with Small Allocation Means **No Single Trade** can Sink Your Account.

If Market Drops 10%
5% Trade – 0.5% Loss
2% Trade – 0.2% Loss



Symbol	Quantity	Entry Date	Entry Price	Last Price	Current P/L ($)	Current P/L (%)
SNDL	5349	1/27/2021 12:19:32 PM	0.65	1.16	$2,727.99	78.46%
CGC	96	1/11/2021 2:51:09 PM	31.5362	44.94	$1,286.76	42.50%
REI	2703	1/8/2021 2:51:08 PM	1.0565	1.37	$845.14	29.57%
ACB	292	1/11/2021 2:18:05 PM	10.4	13.12	$794.24	26.15%
DVAX	178	12/23/2020 2:51:26 PM	5.619	9.6	$708.64	70.85%
AMRN	454	1/25/2021 2:39:44 PM	7.5375	8.61	$487.30	14.24%
CDEV	400	1/8/2021 2:54:13 PM	1.995	3.0809	$434.36	54.43%
VFF	130	12/23/2020 2:55:49 PM	11.35	14.6	$422.50	28.63%
DSX	1480	1/27/2021 10:44:35 AM	2.32	2.6	$414.40	12.07%
SELB	400	1/25/2021 2:39:35 PM	4.058	5.0201	$384.84	23.71%
FANG	58	1/27/2021 10:10:35 AM	59.45	65.98	$378.74	10.98%
CMRX	360	1/8/2021 2:53:41 PM	8.199	9.2	$360.38	12.21%
PVL	1753	1/13/2021 10:02:53 AM	1.0888	1.25	$280.98	14.71%
LB	60	1/6/2021 2:55:40 PM	43.53	48.07	$272.40	10.43%
RF	155	1/6/2021 10:37:21 AM	17.385	18.98	$247.22	9.17%
WIMI	382	2/2/2021 2:59:35 PM	9.16	9.7	$206.28	5.90%
WTI	413	11/25/2020 12:18:04 PM	2.19	2.64	$185.85	20.55%
BKD	206	11/25/2020 12:18:33 PM	4.39	5.26	$179.22	19.82%
GSAT	1609	1/13/2021 10:06:21 AM	1.0092	1.11	$163.21	10.06%
FVRR	13	2/4/2021 12:12:51 PM	249.29	261.55	$159.38	4.92%
WBA	64	1/11/2021 2:51:18 PM	47.68	49.35	$106.88	3.50%
XOM	79	2/3/2021 12:10:25 PM	47.188	48.4	$95.75	2.57%
GNUS	500	2/2/2021 2:59:24 PM	1.79	1.93	$70.00	7.82%
AI	24	2/4/2021 12:51:00 PM	151.74	154.03	$54.96	1.51%
NOVN	1000	1/25/2021 2:40:40 PM	1.35	1.39	$40.00	2.96%
IVR	500	1/25/2021 2:41:04 PM	3.79	3.8	$5.00	0.26%
SPR	87	2/4/2021 8:46:00 AM	39.6962	39.14	($48.39)	-1.40%
SONM	1000	1/25/2021 2:43:52 PM	1.039	0.986	($52.48)	-5.05%
UVXY C 12.5	20	2/4/2021 2:52:53 PM	0.57	0.55	($60.00)	-2.62%
IMMR	236	1/25/2021 2:38:07 PM	14.6	14.22	($89.68)	-2.60%
NVIV	500	1/25/2021 2:40:02 PM	1.6675	1.3	($183.00)	-21.97%
ADT	328	1/27/2021 2:33:02 PM	10.0573	9.36	($228.88)	-6.94%
PLUG	46	1/26/2021 12:45:29 PM	74.67	67.8	($316.02)	-9.20%
NNDM	206	1/25/2021 1:15:03 PM	16.545	14.88	($342.96)	-10.06%
PLTR	96	1/25/2021 2:41:34 PM	36.3	32	($412.80)	-11.85%

Allocation (Beta Exposure)

Low-Priced Stocks are more volatile (they move more!)

Another way to say this is their Beta is High

Beta Should be Inverse to Allocation

B <= 1.0	100% of Normal Trade Allocation
B > 1.0 and B <= 2.0	50% of Normal Trade Allocation
B > 2.0 and B <= 3.0	30% of Normal Trade Allocation

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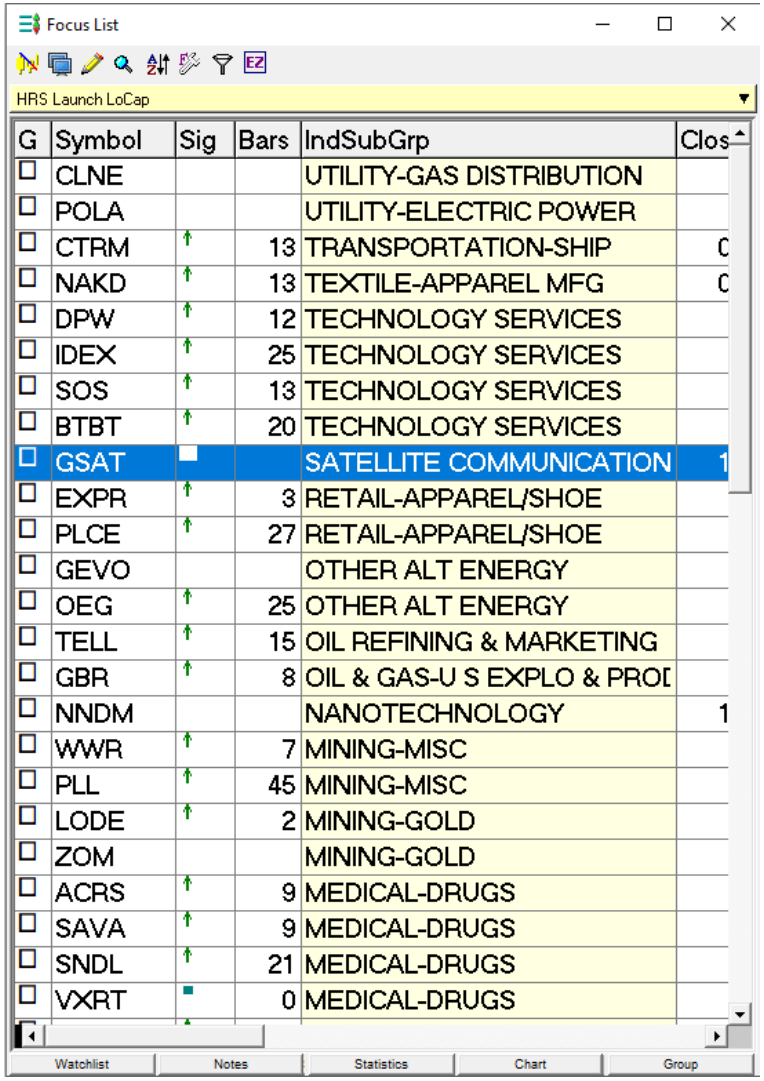
Diversify Using Industry Groups

Industry Groups

By Adding IndSubGroup to the Focus List, we can determine if we are entering too many positions in any correlated group.

(We can also use it to see if there is consensus in any group, improving our odds on a single trade.)



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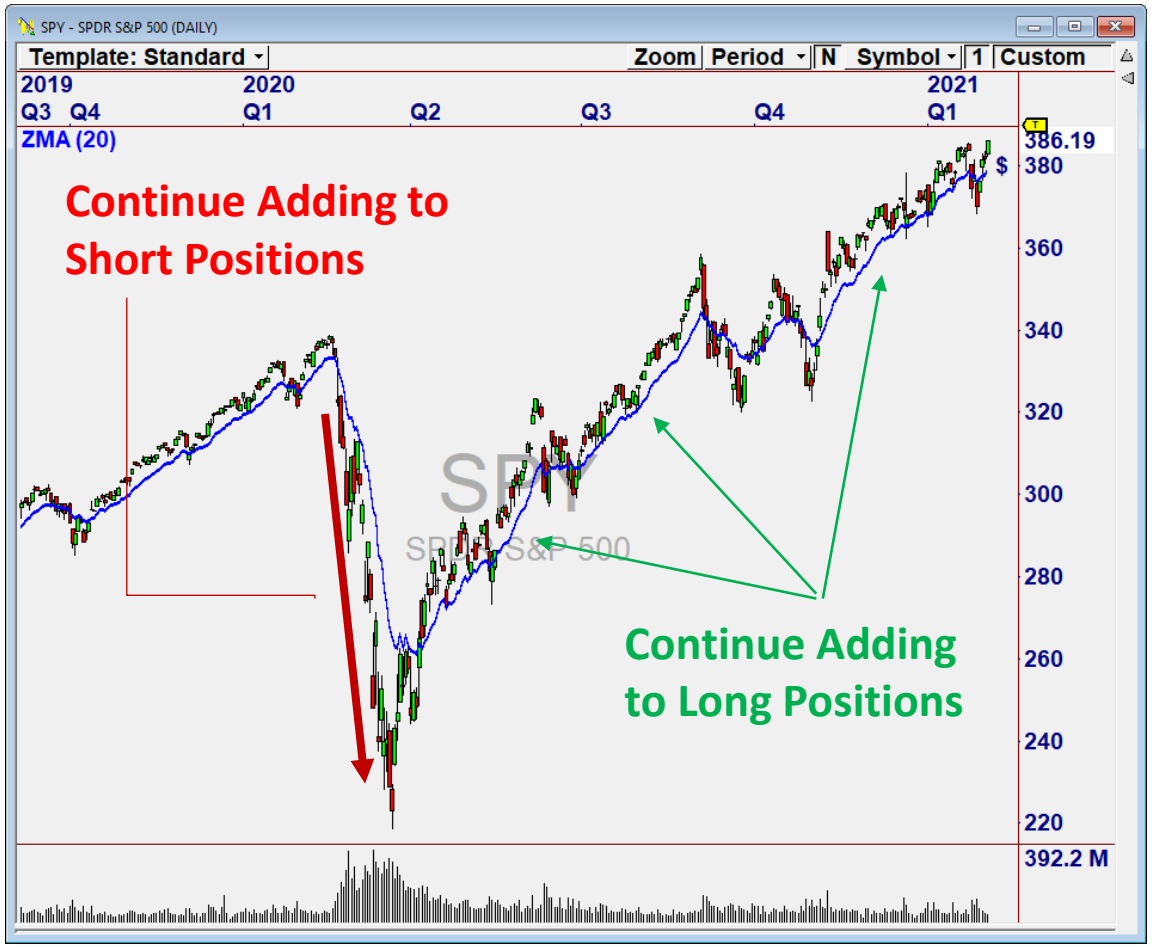
Balancing Positions

Long vs. Short Exposure

You can use Moving Averages to adjust Long vs. Short Exposure.

Use Normal Stops but **Replace Trades** in the Direction of the Market



Using the 20-Period ZMA

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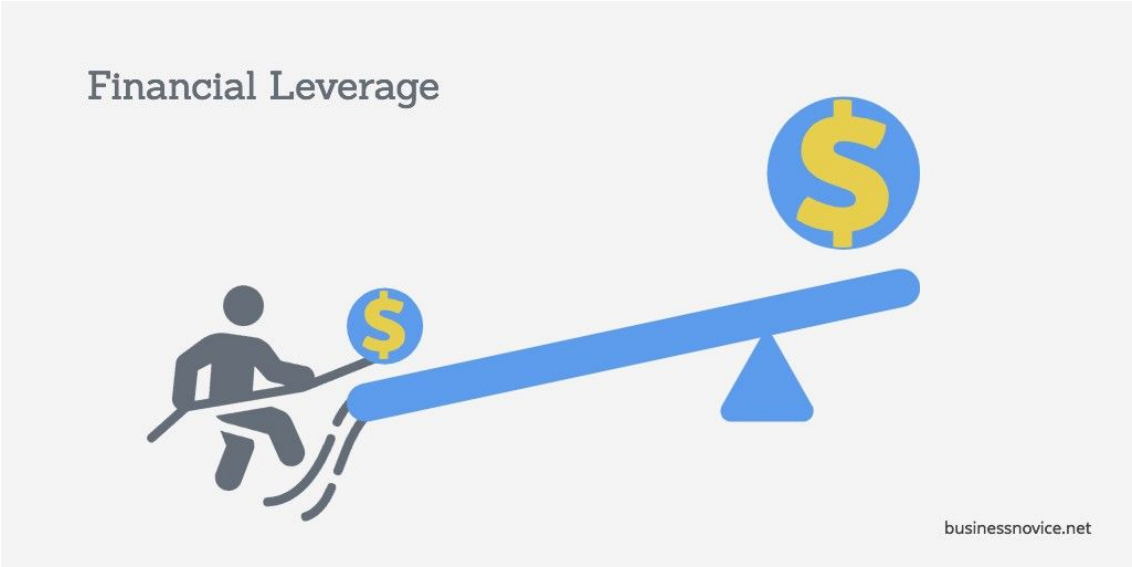
RocketTrade Method

Hedging

Why Hedge with Options?

A Small Option Position can hedge a much larger account.

IRA's do not allow short sales but with a **special election**, can allow option purchases.



What is UVXY?

"The ProShares Ultra VIX is designed to return 150% of the return of short-term VIX futures."

When Volatility increases, so does VIX.

UVXY amplifies the moves.

	A	B	%
SPY	337 →	240	29%
UVXY	11 →	110	900%

We can use UVXY to counter market risk.

Comparing Various Moves

When to Hedge

A Hedge Can be Applied at all times.

But if you want to TIME the Hedge…

UVXY forming a solid Support Level and Trading Range is a typical precursor to a market move.

UVXY Options 2-3 Weeks Out

Option Chain for UVXY

UVXY

Wk 02/05/21 | Wk 02/12/21 | Feb 21 | Wk 02/26/21 | Wk 03/05/21 | Wk 03/12/21 | Mar 21 | Wk 03/26/21 | Jun 21 | Sep 21 | Jan

Calls

Strike	Last	Bid	Ask	TheoLast	Vol	OpInt	Delta	Theta	Gamma	IV	LastTraded
10.00	0.99	0.99	1.00	0.9126	2,983	3,778	0.57	-0.03	0.17	1.102008	2/4/2021 3:42:
10.50	0.86	0.86	0.88	0.7329	3,400	2,273	0.50	-0.03	0.16	1.210835	2/4/2021 3:43:
11.00	0.76	0.75	0.77	0.5981	3,978	5,614	0.44	-0.04	0.14	1.310822	2/4/2021 3:40:
11.50	0.68	0.67	0.68	0.4978	1,145	1,989	0.39	-0.04	0.13	1.401935	2/4/2021 3:42:
12.00	0.60	0.61	0.62	0.4232	3,472	7,583	0.34	-0.04	0.12	1.479636	2/4/2021 3:41:
12.50	0.55	0.55	0.56	0.3677	518	1,707	0.31	-0.04	0.11	1.549224	2/4/2021 3:42:
13.00	0.50	0.50	0.51	0.3262	3,057	10,662	0.28	-0.04	0.10	1.622068	2/4/2021 3:32:
13.50	0.45	0.46	0.47	0.2951	243	2,071	0.26	-0.04	0.09	1.680368	2/4/2021 3:29:
14.00	0.40	0.42	0.43	0.2621	623	2,440	0.23	-0.04	0.09	1.733197	2/4/2021 3:30:
14.50	0.36	0.39	0.40	0.2112	105	855	0.21	-0.04	0.08	1.790811	2/4/2021 3:04:

Puts

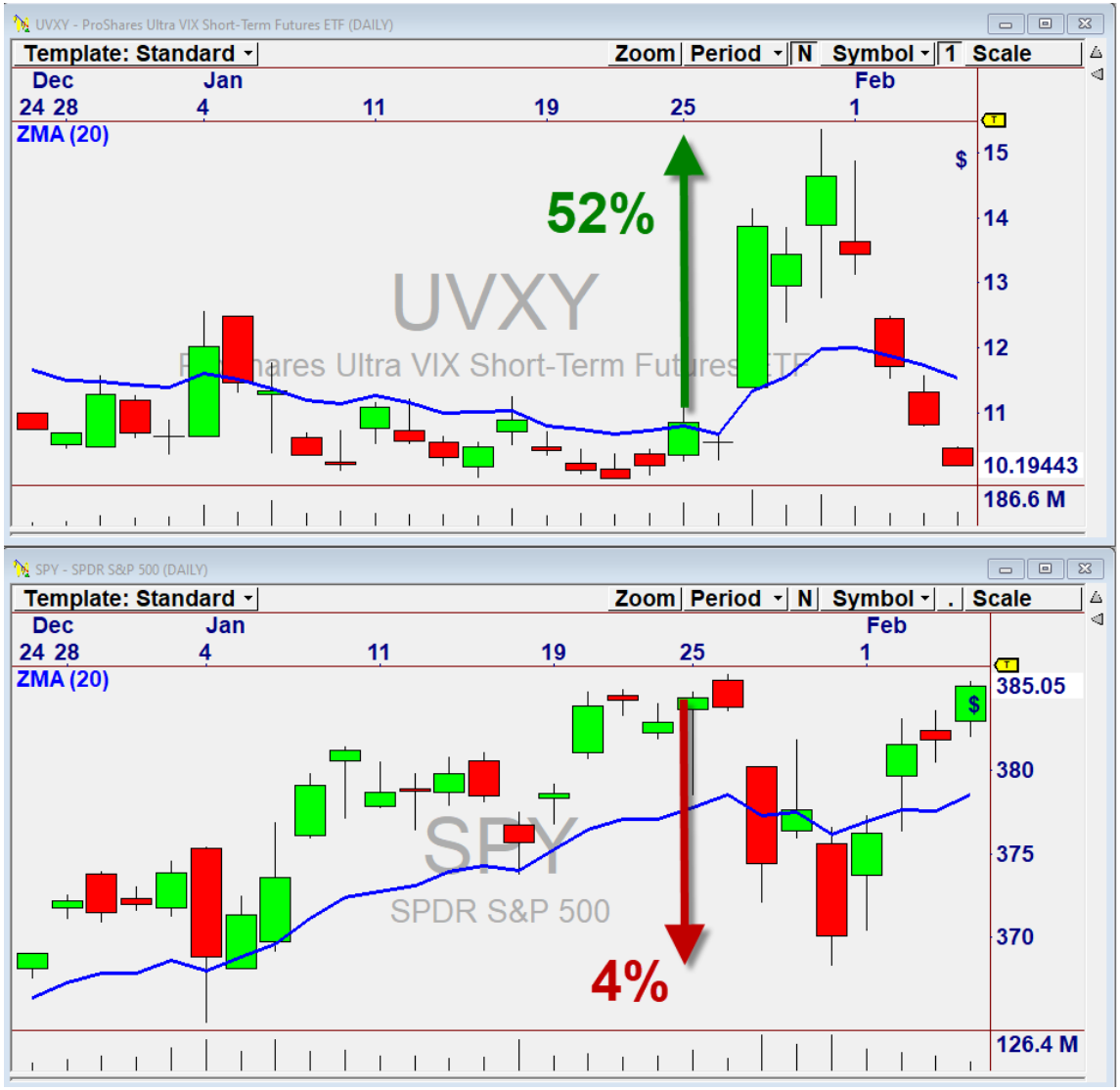
Strike	Last	Bid	Ask	TheoLast	Vol	OpInt	Delta	Theta	Gamma	IV	LastTraded
11.50	1.93	2.00	2.01	1.7642	138	1,129	-0.61	-0.04	0.13	1.395871	2/4/2021 3:14:
11.00	1.60	1.58	1.59	1.3626	703	2,390	-0.56	-0.04	0.14	1.311046	2/4/2021 3:43:
10.50	1.20	1.18	1.19	0.998	678	4,365	-0.50	-0.03	0.16	1.211047	2/4/2021 3:38:
10.00	0.81	0.81	0.82	0.682	3,513	5,972	-0.43	-0.03	0.17	1.089922	2/4/2021 3:43:
9.50	0.49	0.48	0.50	0.426	3,039	2,120	-0.33	-0.02	0.18	.964458	2/4/2021 3:43:
9.00	0.24	0.24	0.25	0.2375	2,203	7,002	-0.22	-0.02	0.16	.863082	2/4/2021 3:43:
8.50	0.09	0.09	0.10	0.1155	1,202	1,386	-0.12	-0.01	0.12	.786745	2/4/2021 3:43:
8.00	0.02	0.02	0.03	0.0483	320	10,604	-0.04	0.00	0.06	.699377	2/4/2021 3:43:
7.50	0.02	0.01	0.02	0.0174	93	1,329	-0.02	0.00	0.03	.779450	2/4/2021 3:26:
7.00	0.03	0.02	0.03	0.0057	2	2,537	-0.03	0.00	0.03	1.015345	2/4/2021 3:26:

Last Updated: 2/4/2021 2:44:01 PM Last Quote: 2/4/2021 2:44:01 PM Stay on Top Lock Symbol Close

Feb 12.5 Call . . . $0.56 (Ask)

UVXY vs. SPY – Week of 1/25

Recent Example Shows the 10x Relationship Perfectly.



Call Purchase

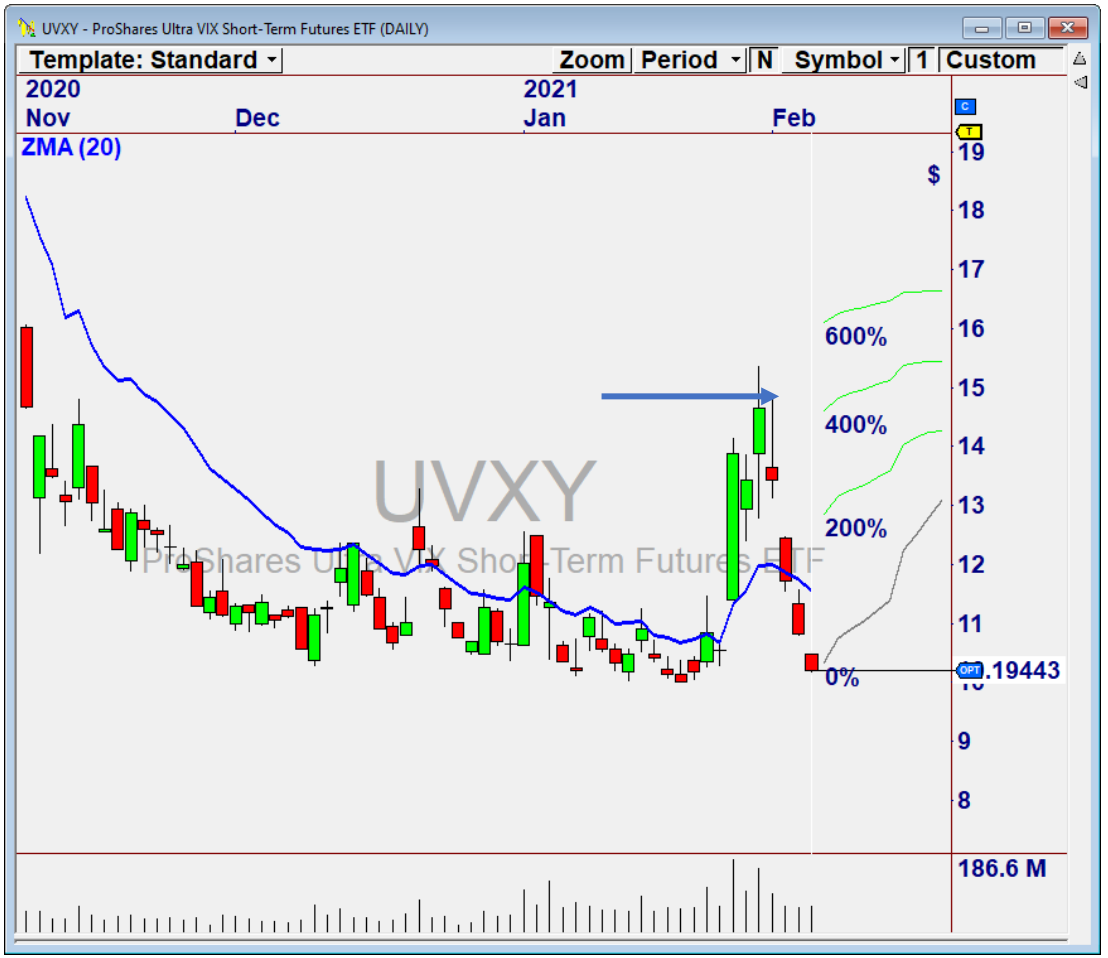
Buy Feb $12.5 Call $0.56

Cost $56 per Contract

One Contract:
Margin: $56
Risk: $56
Gain: $250

10 Contracts:
$560 Margin
$560 Cost

(protects account from a 2.5% Drop or $2,500)



UVXY Options 2-3 Weeks Out

Option Chain for UVXY

UVXY

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Calls

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11.00	0.76	0.75	0.77	0.5981	3,978	5,614	0.44	-0.04	0.14	1.310822	2/4/2021 3:40:
11.50	0.68	0.67	0.68	0.4978	1,145	1,989	0.39	-0.04	0.13	1.401935	2/4/2021 3:42:
12.00	0.60	0.61	0.62	0.4232	3,472	7,583	0.34	-0.04	0.12	1.479636	2/4/2021 3:41:
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13.00	0.50	0.50	0.51	0.3262	3,057	10,662	0.28	-0.04	0.10	1.622068	2/4/2021 3:32:
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14.50	0.36	0.39	0.40	0.2112	105	855	0.21	-0.04	0.08	1.790811	2/4/2021 3:04:

Puts

Strike	Last	Bid	Ask	TheoLast	Vol	OpInt	Delta	Theta	Gamma	IV	LastTraded
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11.00	1.60	1.58	1.59	1.3626	703	2,390	-0.56	-0.04	0.14	1.311046	2/4/2021 3:43:
10.50	1.20	1.18	1.19	0.998	678	4,365	-0.50	-0.03	0.16	1.211047	2/4/2021 3:38:
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7.50	0.02	0.01	0.02	0.0174	93	1,329	-0.02	0.00	0.03	.779450	2/4/2021 3:26:
7.00	0.03	0.02	0.03	0.0057	2	2,537	-0.03	0.00	0.03	1.015345	2/4/2021 3:26:

Last Updated: 2/4/2021 2:44:01 PM Last Quote: 2/4/2021 2:44:01 PM Stay on Top Lock Symbol Close

Feb 12.5 Call . . . $0.56 (Ask)

Feb 9.5 Put . . . $0.48 (Bid)

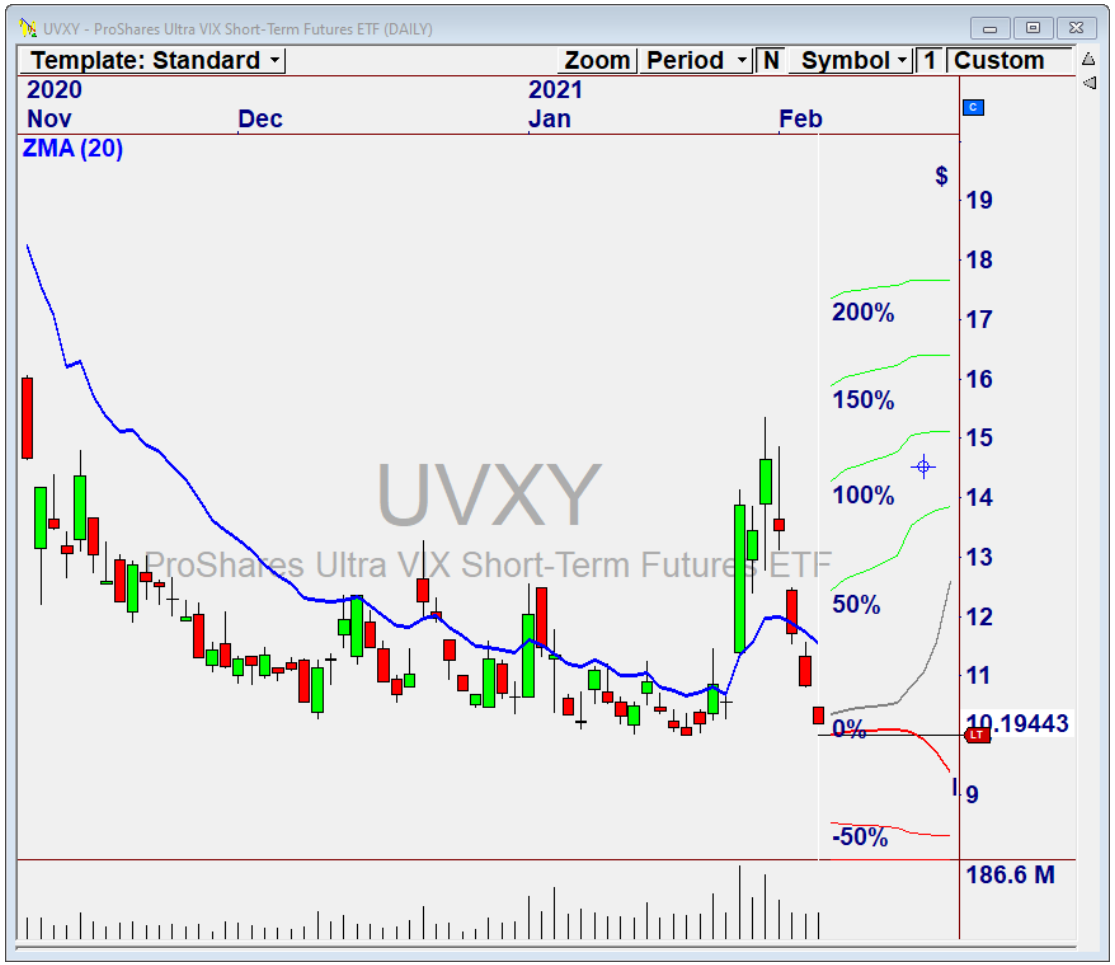
Synthetic Long

Buy Feb $12.5 Call $0.56
Sell Feb $9.5 Put $0.48
Net Credit $8 per Contract

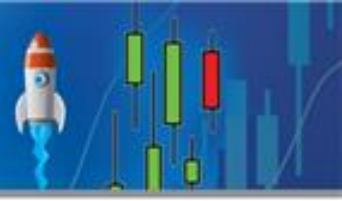
One Contract
Margin: **$500** ← Broker Req.
Risk: $100 (20%)
Gain: $500 (100%)

10 Contracts:
$5,000 Margin
$80 Cost

(protects account from a drop of $5,000 or 5%)



Cost Comparison



BUY CALL

Buy Feb $12.5 Call $0.56
Cost $56 per Contract

One Contract:
Margin: $56
Risk: $56 (100%)
Gain: $250 (400%)

10 Contracts:
$560 Margin
$560 Cost

Cost is $560 (expires)

2x the Margin

1/10 the Cost

Moves Sideways to Expiration

SYNTHETIC

Buy Feb $12.5 Call $0.56
Sell Feb $9.5 Put $0.48
Net Credit $8 per Contract

One Contract
Margin: $500 ← Broker Req.
Risk: $100 (20%)
Gain: $500 (100%)

10 Contracts:
$5,000 Margin
$80 Cost

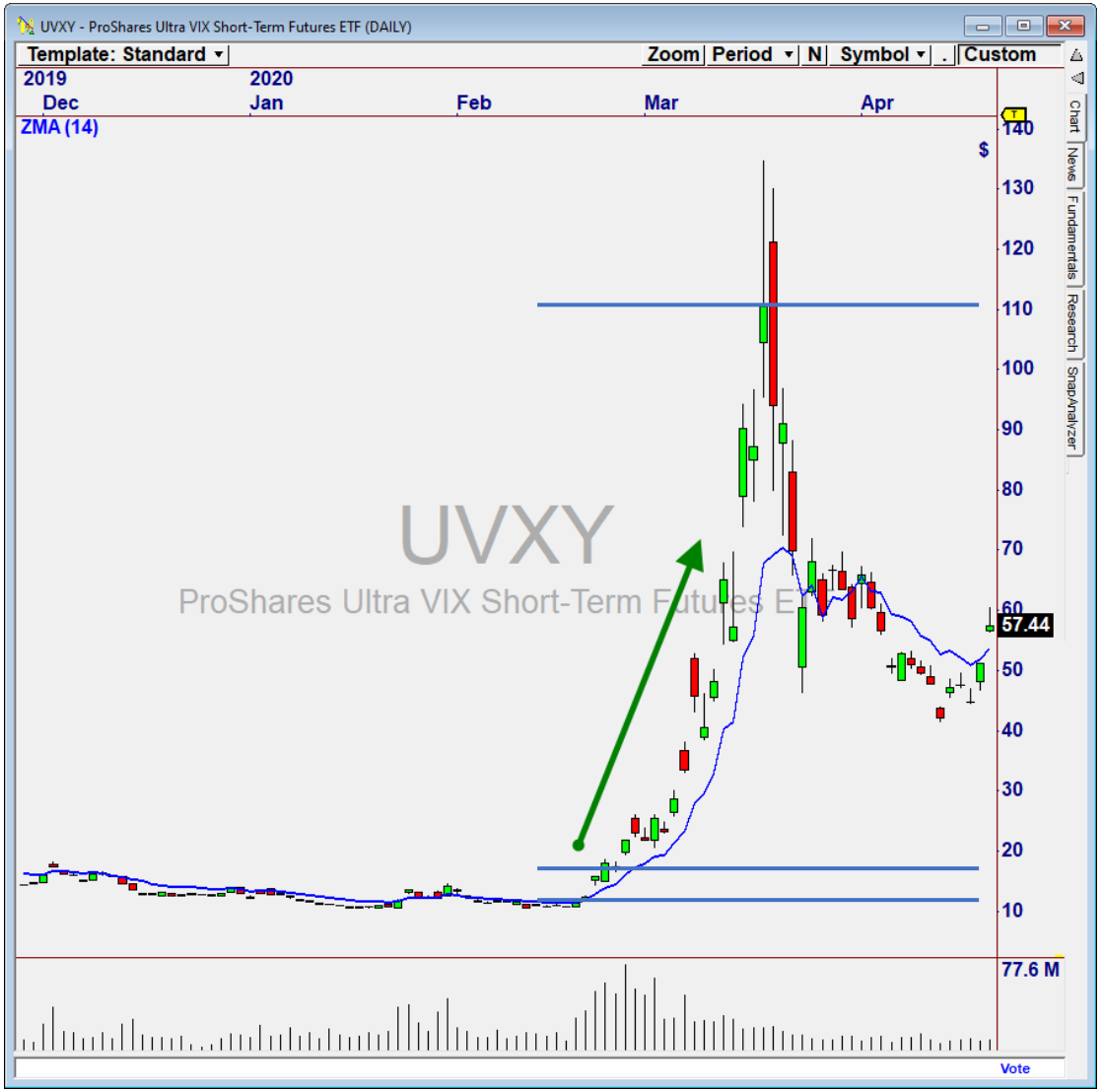
Cost is $0 (both expire)

Over-Achieving

If something like the Covid Correction were to happen again, the Call Options will get extremely valuable.

A Call that cost $1.60 when UVXY was at 10 will be worth $100 when UVXY reaches $110.

10 Contracts will be worth $100,000



Closing the Hedge

When Trading a Synthetic Option Position, **Sale of the Naked Put pays for the Call**.

That's Good.

BUT, if UVXY starts trending below the Support Level, <u>you MUST close the Hedge</u>.

Selling the Call and Covering the Put results in risk of about 20% of the Margin used for the hedge.

However, if UVXY goes sideways, both options expire worthless and THE HEDGE COST is $0.

Ed's
RocketTrade Method
Thank you!

Ed's

RocketTrade Method