Options Trading with Over-Extended Stocks

1. What are over-extended stocks

2. Example trades + backtests

3. Specific trades

4. How to improve the trades with options

5. How to use option Samurai to find these opportunities quickly and consistently.

Disclaimer

Please be aware that trading stocks, futures, stock options, and futures options involves a substantial risk of loss and is not suitable for all investors. Please make sure trading is right for you and consult with a professional.

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SAMURAI

Options Trading with Over-Extended Stocks

Mean Revision Indicators
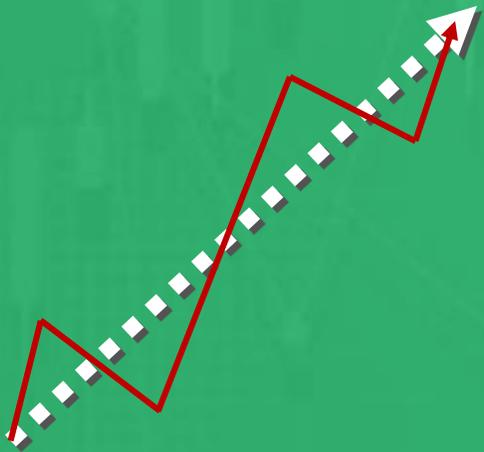
Mean Revision Indicators

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Mean Revision Indicators

Over Extended

Overbought

Normal

0

Oversold

Zone

Normal

0
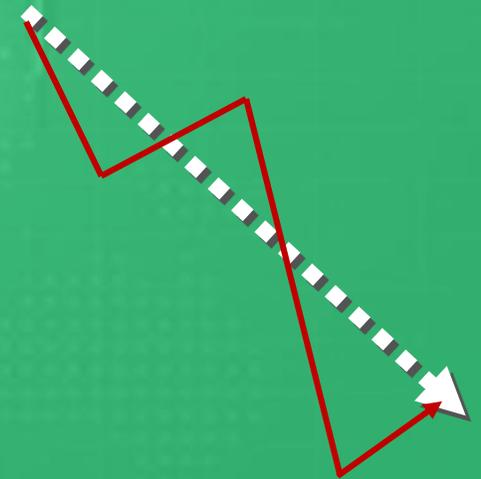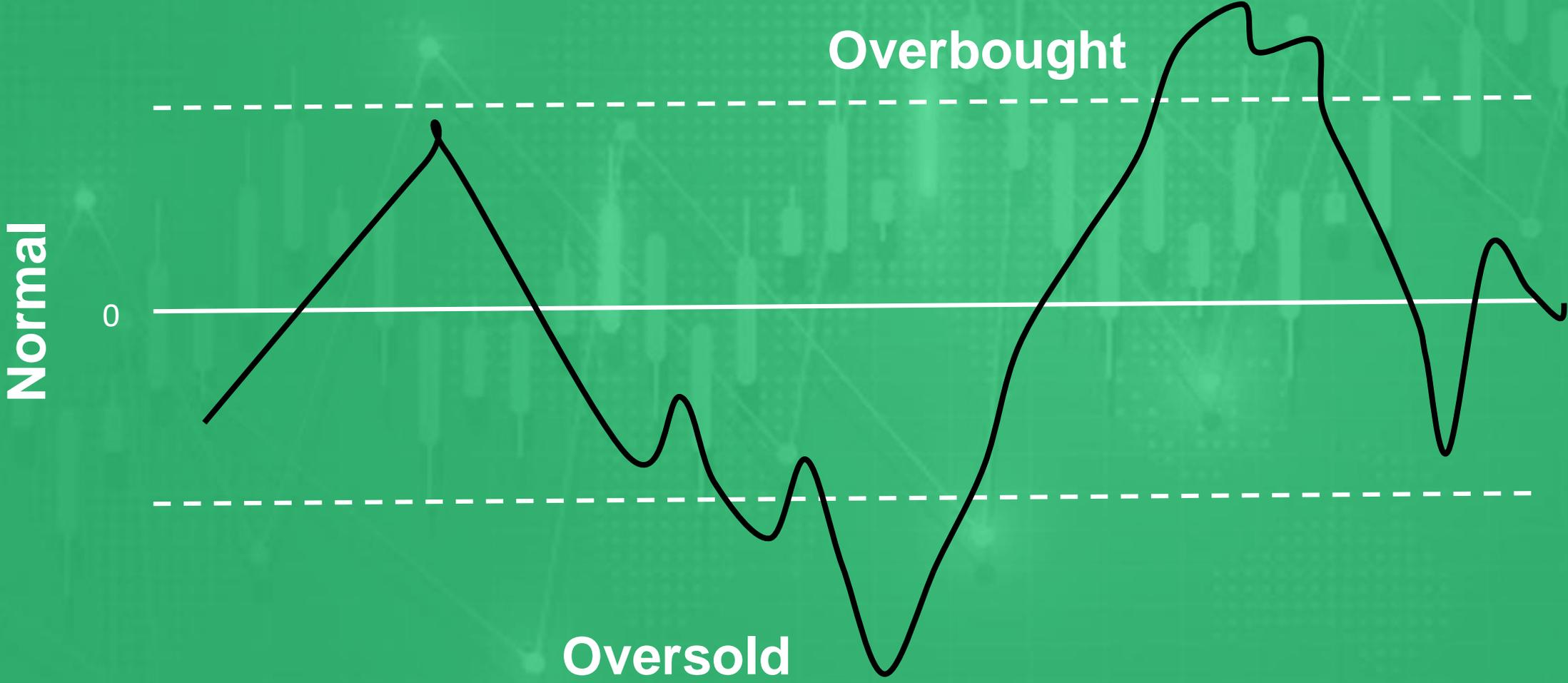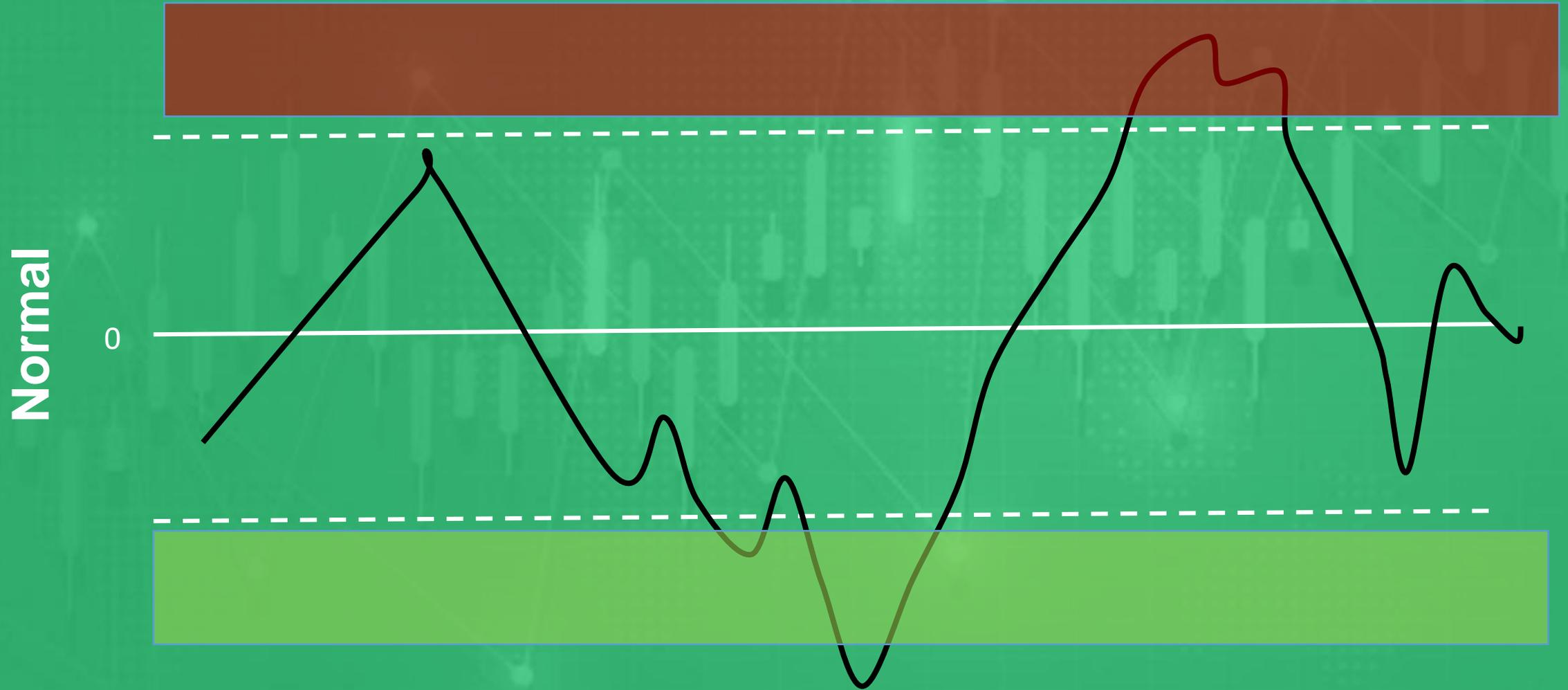
Cross

Normal

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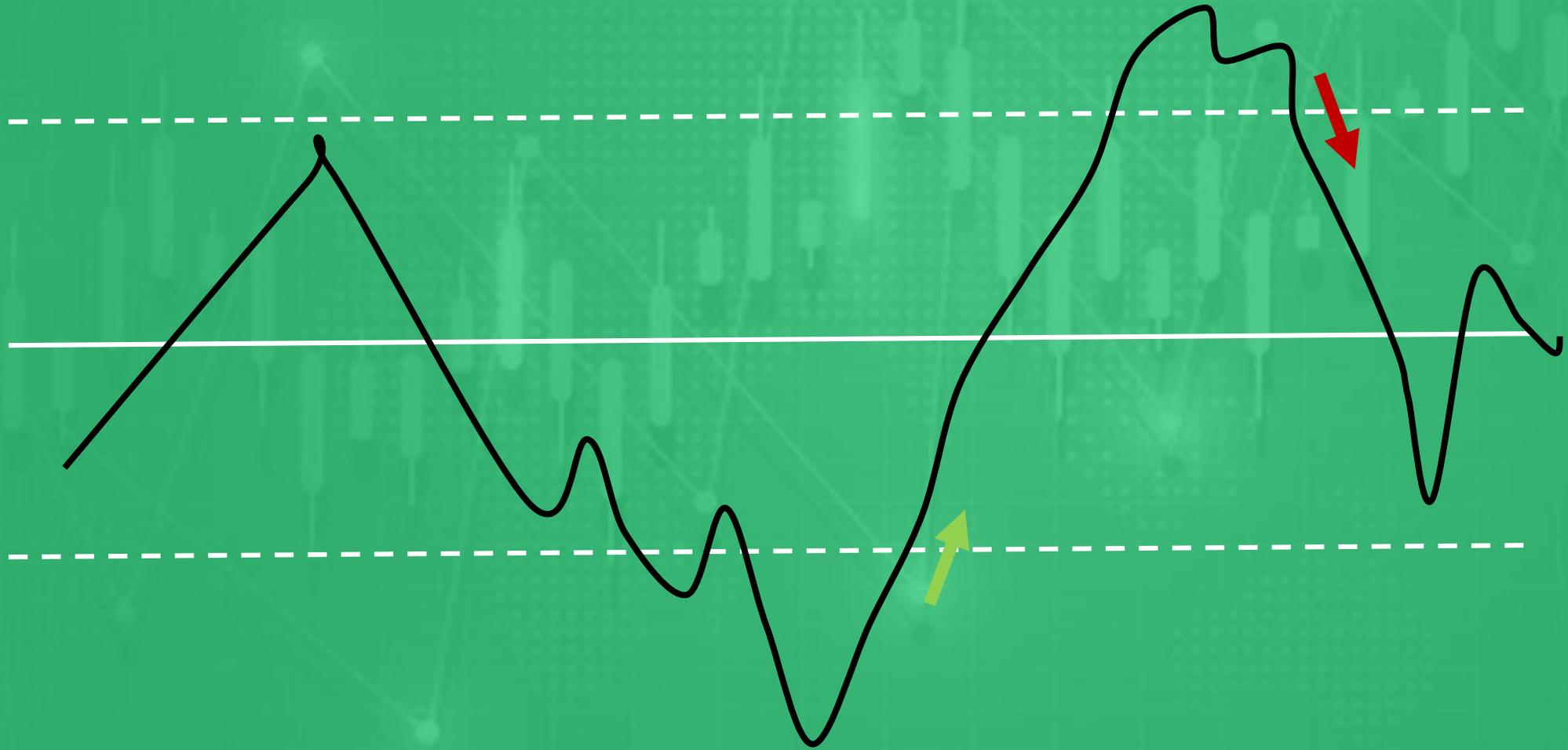
Breadth

Normal

0
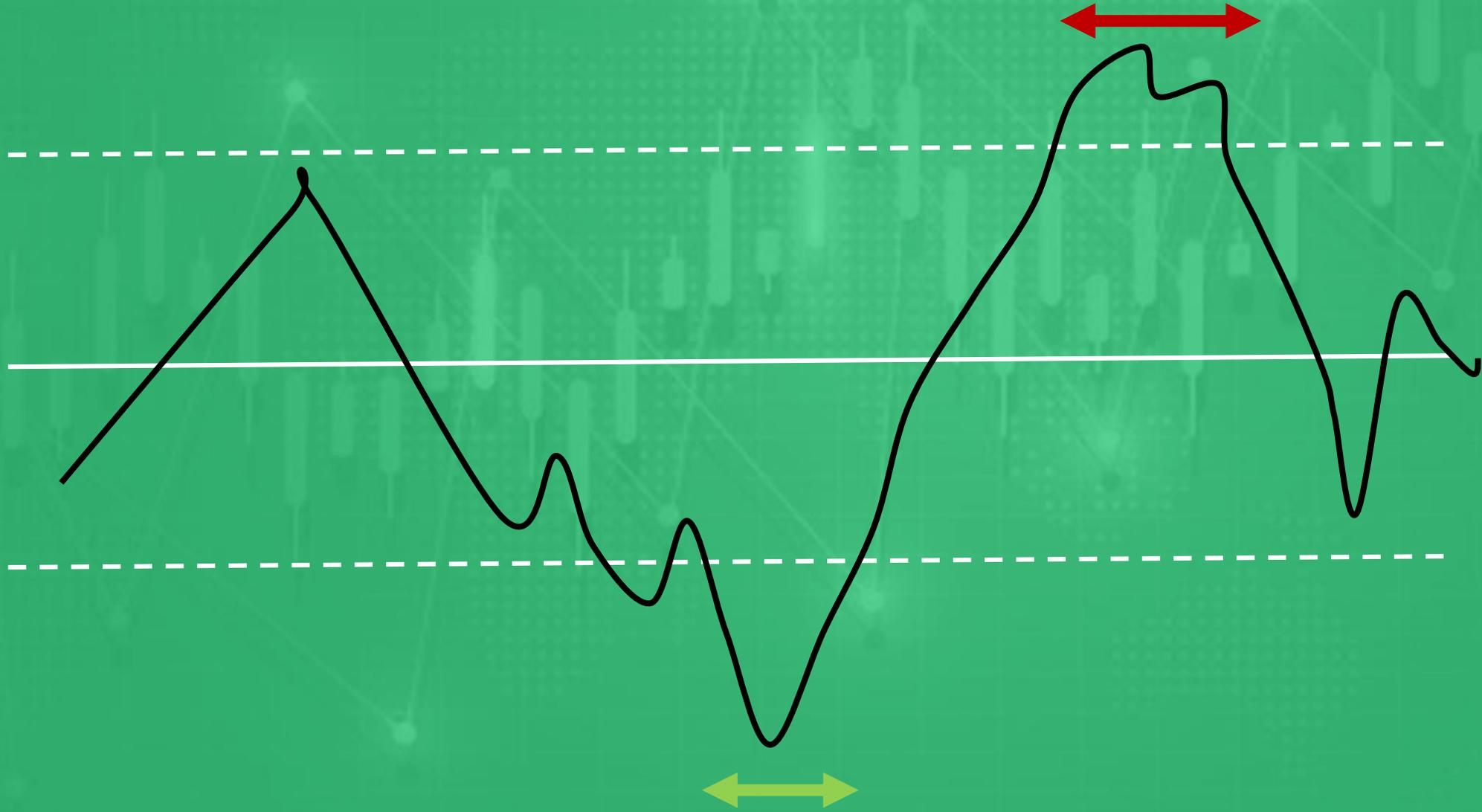
Relative Strength Index
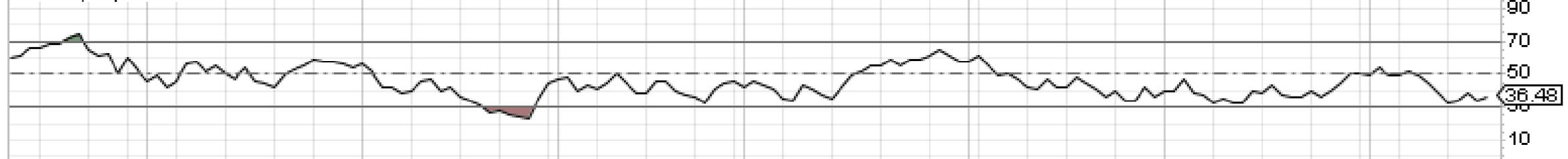
1. Momentum indicator (with over-extended zones)

2. Common and easy to use

3. Applicable to other indicators

Example - AMZN

Example - WFC

Example - WDC

Back Test – Table backtest

QQQ				
RSI(14)	5 days	10 days	15 days	20 days
>80	-1.01%	-1.83%	-1.71%	-1.64%
>70	-0.38%	-0.83%	-1.13%	-1.53%
>50	0.04%	-0.02%	-0.12%	-0.23%
all	0.00%	0.00%	0.00%	0.00%
<50	-0.09%	0.06%	0.28%	0.57%
<30	3.35%	3.00%	1.98%	2.09%
<20	-	-	-	-

* From 2016 to 17-June-2022

Back Test – Table backtest

One Week   Four Weeks

RSI(14)	5 days	10 days	15 days	20 days
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Events

* From 2016 to 17-June-2022

Back Test – Table backtest

One Week

Four Weeks

Events

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- When RSI closed below 30 – After 5 days QQQ Increased 3.35% **more than 'normal'**

- When RSI closed Above 80 – After 10 days QQQ decreased -1.83% **more than 'normal'**.

* From 2016 to 17-June-2022

Back Test – SPY

SPY				
RSI(14)	**5 days**	**10 days**	**15 days**	**20 days**
>80	-0.52%	-2.82%	-4.41%	-4.47%
>70	-0.27%	-0.68%	-0.88%	-1.06%
>50	-0.04%	-0.10%	-0.17%	-0.27%
all	0.00%	0.00%	0.00%	0.00%
<50	0.11%	0.25%	0.45%	0.71%
<30	1.55%	0.11%	-0.81%	-0.18%
<20	2.67%	-0.43%	-4.42%	-0.69%

* From 2016 to 17-June-2022

Back Test – AMZN

RSI(14)	5 days	10 days	15 days	20 days
>80	0.36%	-1.34%	0.06%	0.35%
>70	-0.42%	-0.77%	-1.60%	-1.59%
>50	-0.09%	-0.14%	-0.14%	-0.19%
all	0.00%	0.00%	0.00%	0.00%
<50	0.16%	0.25%	0.25%	0.35%
<30	1.50%	3.58%	4.46%	4.41%
<20	-	-	-	-

* From 2016 to 17-June-2022

Back Test – WDC

WDC				
RSI(14)	**5 days**	**10 days**	**15 days**	**20 days**
>80	-3.41%	-12.10%	-13.52%	-14.17%
>70	-0.19%	-0.58%	-2.35%	-2.39%
>50	-0.17%	-0.11%	-0.46%	-0.54%
all	0.00%	0.00%	0.00%	0.00%
<50	0.18%	0.11%	0.46%	0.54%
<30	1.28%	0.50%	1.30%	1.22%
<20	5.80%	0.71%	0.68%	-1.42%

* From 2016 to 17-June-2022

Example Trade - WDC

Example Trades

	Stock
	100 Shares

Trade 1	Amount invested	5384
	Value after 5 days	5229
	Profit	**-155**
	ROI (cash)	**-2.9%**
	Value after 10 days	5409
	Profit	**25**
	ROI (cash)	**0.5%**

		100 Shares

Trade 2	Amount invested	4990
	Value after 5 days	5181
	Profit	**191**
	ROI (cash)	**3.8%**
	Value after 10 days	5373
	Profit	**383**
	ROI (cash)	**7.7%**

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More over-extended = better

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Loss is lower than it could have been (-7.5%)

Trade over-extended with Options

	Example Strategies	Pros	Cons
Debit	But calls / But call spreads	• Good risk-reward profile • Stop-loss is built in the position	• Time is against us • If IV is higher than realized move, we will not profit.
Credit	Sell Puts / Sell Puts spreads	• Even higher probability trade • Time is on our side	• If we are wrong, losses can be more significant than profits.

* For overbought replace strategies

Example Trades

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		100 Shares	*Call 55, 8 DTE*	*Call 53, 15 DTE*	*Put 50, 8 DTE*	*Put 50, 15 DTE*
Trade 1	Amount invested	5384	224	362.5	5000	5000
	Value after 5 days	5229	3		0	
	Profit	**-155**	**-221**		**134.5**	
	ROI (cash)	**-2.9%**	**-98.7%**		**2.7%**	
	Value after 10 days	5409		121.5		3.5
	Profit	**25**		**-241**		**157**
	ROI (cash)	**0.5%**		**-66.5%**		**3.1%**
		100 Shares	*Call 50, 7 DTE*	*Call 50, 14 DTE*	*Put 50, 7 DTE*	*Put 50, 14 DTE*
Trade 2	Amount invested	4990	137	195.5	5000	5000
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	ROI (cash)	**3.8%**	**47.4%**		**2.7%**	
	Value after 10 days	5373		380		0
	Profit	**383**		**185**		**208**
	ROI (cash)	**7.7%**		**94.4%**		**4.2%**

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Summary and tips

- Buying options provide leverage + built-in stop-loss.

- Selling options increases the probability of profit.

- When IV is high, selling options is better.

- When IV is low, buying options is better (or if you expect volatility to remain high).

- Patience. Wait for extreme conditions.

- Track the over-extended stocks to learn the behavior (you can use Option Samurai for that – scanner + trade log).

Wrapping up

- Stocks don't move in a straight line. The mean revert.

- Mean-reversion indicators help us identify the turning points.

- Backtests show that indexes and most stocks are mean-reverting (at least for the short term).

- We measured mean-reversion with RSI(14), but the same concept will work with other parameters and indicators.

- Use options to reduce risk (debit strategies) or further increase the probability of profit (sell OTM options).

- Experience will help. Use our scanner + trade log to track stocks over time and see the behavior.

Your Next Steps

1. Signup for a FREE Samurai account (no credit card needed). **OptionSamurai.com** ⓘ

2. Check the 'Research' tag in our blog. ⓘ

3. You can email me or message me in the chat to get the materials for this presentation.

Domo Arigato!

Leav Graves, CEO

leav@optionsamurai.com

www.OptionSamurai.com