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Positioning For A Rebound: Take Profit

On **12 March 2020**, I wrote to you with suggestions for ways to play a rebound during the Covid-19 crisis. At that moment you'll remember that the S&P 500 index had traded down to 2500 after President Donald Trump gave a fumbled public address showing some unpreparedness for the spread of the coronavirus pandemic. Not long afterwards it traded as low as 2237, which was the low of the year so far.

The trading suggestion for active investors willing to spend a small amount of premium on a long-dated out-of-the-money option was to buy the "**SPX US 03/19/21 C3050**" exchange-traded call option. Following the note to clients we executed investments at \$90 per contract providing a notional \$1m exposure with 3 x contracts, for \$27'000 premium.

Today the **SPX US 03/19/21 C3050** has traded above \$153 and prior to the extended Easter weekend break we recommend taking profit.

The trading profit on the call option is just over +70%.

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Fig 1 - S&P500 Index 5 Year Chart with Relative Strength Indicator (50, 100, 200)

It is possible that equity markets will re-test lower levels over the coming quarter as jobless figures remain high and the corporate reporting season commences. The course of the Covid-19 is still uncertain so this can affect projections for markets into the second half of 2020 and beyond however our base case scenario remains the same. Any moves lower may provide those investors who have the risk appetite to add to portfolio gearing a second opportunity to repeat the out-of-the-money option strategy.

Happy Easter holidays and Stay Safe.

Lorne Baring
Managing Director

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