Worth Charting

January 25, 2024

IBM Current Price: $196.25

Action: Selling a strangle (selling Calls and Puts)

Feb 16th $200 Calls: **$1.94** (selling them for a credit)
Feb 16th $180 Puts: **$0.46** (selling them for a credit)

Total Credit: **$2.40** ($1.94 + $0.46)

Scenario 1:

IBM stays between $200 and $180 between now and Friday, February 16

Outcome

Keep the entire $2.40 credit
$2.40 = 1.23% of the value of IBM
1.23% = 20.91% annualized return

Scenario 2:

IBM rises above $200 between now and Friday, February 16

Outcome

One gets short IBM at $200 but keeps the $2.40 credit.
So, one is short IBM at $202.40 (3.13% higher) than where it is now

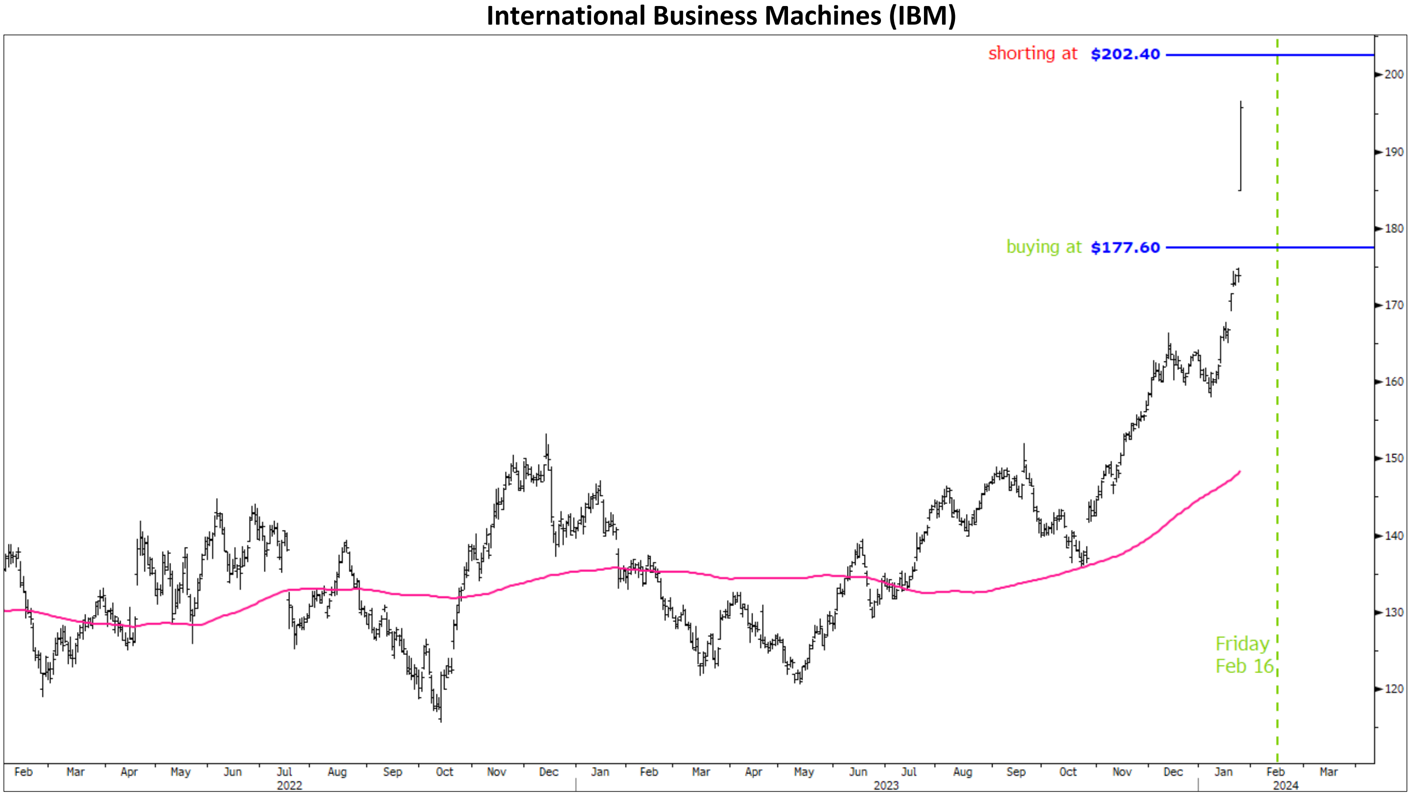
Scenario 3:

IBM falls below $180 between now and Friday, February 16

Outcome

One gets long IBM at $180 but keeps the $2.40 credit.
So, one is long IBM at $177.60 (9.50% lower) than where it is now

International Business Machines (IBM)



Bottom Line:

If one is thinking – as we are – that IBM is stretched day to day, week over week, but one doesn't want to short the stock here, but would be interested in shorting it higher (or buying it lower) ... then selling a **Strangle** is a good 3-week play on the board, by our work.

Simply stated, if one deploys this strategy, one is willing to:

- Get short IBM **3.13% higher** than where it is now (see upper horizontal blue line drawn)
- Get long IBM **9.50% lower** than where it is now (see lower horizontal blue line drawn)
- Collect premium & generate a "standstill yield" if IBM stays between $200 and $180 in the coming 15 sessions

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