Worth Charting

MONEY IN MOTION

August 1, 2023

Caterpillar Post Earnings

If one is long the stock, or, if one is not involved…

Here’s what we would do…

Trade well,

-Carter

Carter Braxton Worth **Kimberly Simon**

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Our thinking here is to try and have one's cake and eat it too..

Having one's cake, and eating it too, with regards to Caterpillar, here at the $286+/- level, following its news-related breakout, would be:

Selling a strangle is a bet against volatility. And, it's a bet that is often right to do, immediately after an especially volatile/dynamic moment.

Selling CAT Calls above the market and CAT Puts below the market is an attempt to "thread the needle", in this case the $260-$300 needle.

- Selling the Sep $300 Calls, one takes in $4.15 in premium
- Selling the Sep $250 Puts, one takes in $1.70 in premium
- Total premium received: $5.85

The thinking in selling Calls here (selling the September $300 Calls, expiring September 15th, specifically) is that Caterpillar, having just gapped up and broken out in response to quarterly results, might well have some follow through to the upside, yes, but not enough follow through to push the stock higher than $305.85 (7% higher than today's price) in the next six weeks.

The thinking in selling Puts here (selling the September $260 Puts, expiring September 15th, specifically) is that, Caterpillar, is unlikely to give back all of its "earnings-beat-gains" (and then some), sinking all the way down to $254.15 (11% lower than today's price) in the next six weeks.

Source: Worth Charting, Bloomberg, FactSet

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The tolerable risk to selling the $300 Calls (naked) is that CAT advances more than 7% in the coming 6 weeks, and actually advances as much as 9%, or 10% say. We would point out, that were CAT to do that, it would be trading more than 30% above its 150-day moving average, something that has almost never happened.

The intolerable/major risk to selling the $300 Calls (naked) is that CAT is 20% higher or 30% in the coming 6 weeks, or, the ultimate risk- that CAT is bought out 50% higher, perhaps, or 100% higher.

As to the latter, the odds of a CAT buyout are 1) exceedingly low, and 2) there's only one person we can think of that has the capacity to do it and, well, nobody ever knows when and where Warren Buffet will strike.

The idea of selling the $260 Puts is simple: after a company has released positive quarterly results and its stock has popped some 9% on the day in question, it is/always is - always will be/would be- a "dream" to be able to buy the stock at the price it was trading before the news was released.

The tolerable risk to selling $260 Puts (naked) is that CAT declines more than 11% in the coming 6 weeks. Note, most people, we dare say, would jump at the opportunity here and now, at 3pm on Tuesday, Aug 1st, to buy CAT shares at $254.15 (11% lower than where it is trading right now).

The intolerable/major risk to selling the $260 Puts (naked) is that CAT somehow crashes in the coming 6 weeks (immediately after gapping up 9% in response to good results, today) and is down more than 11% between now and September 15th, down say 20% or 30%. We would dare say that the odds of that are low, and further, were that to happen, CAT's said severe weakness would almost certainly not be idiosyncratic, but rather, would be concomitant weakness, with a general crash in the market.

Source: Worth Charting, Bloomberg, FactSet

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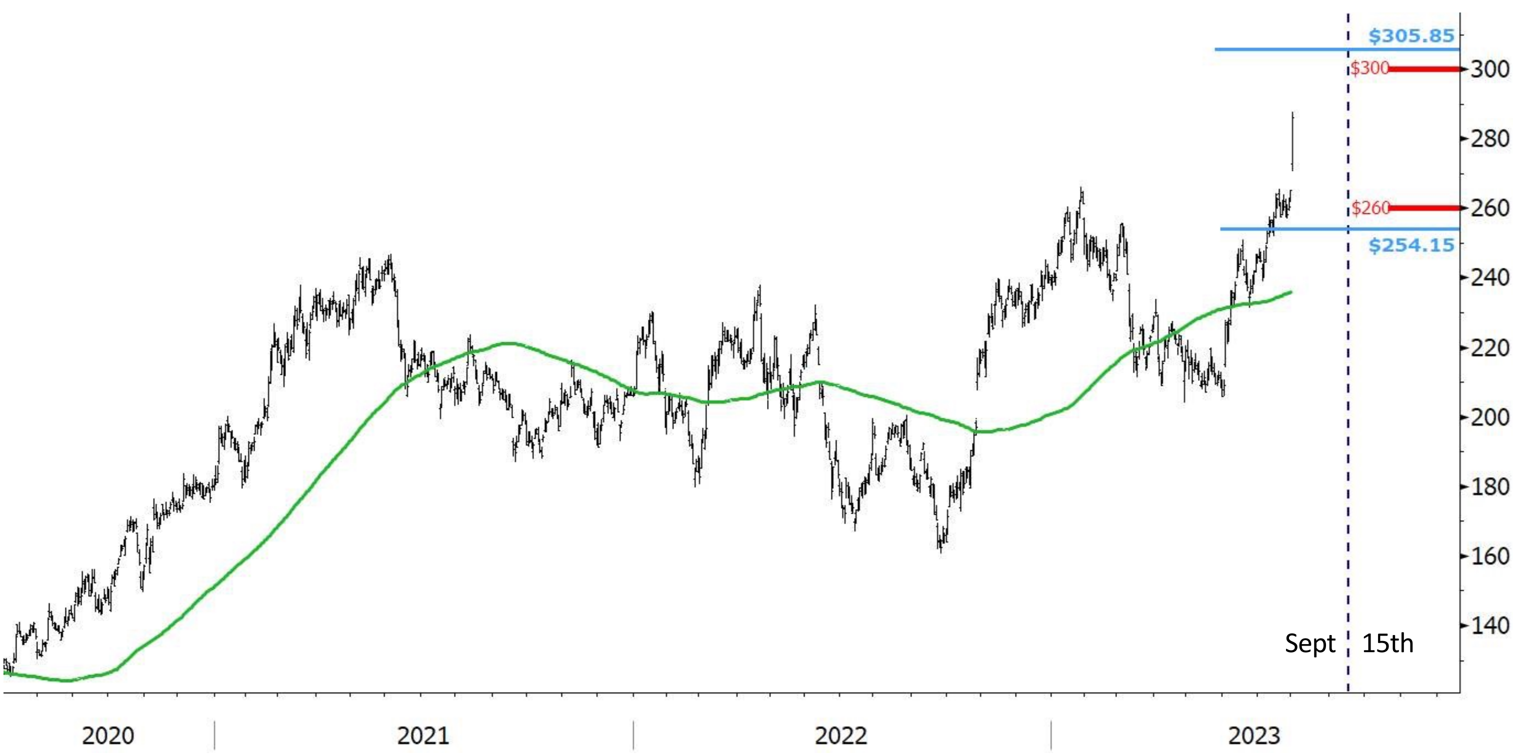
CAT chart 1 of 3:

Sell the Sep **$300 Calls**, taking in $4.15
Sell the Sep **$260 Puts**, taking in $1.70
Total premium received: $5.85

"Lose" if CAT is higher than **$305.85** in the coming 6 weeks
"Lose" if CAT is lower than **$254.15** in the coming 6 weeks



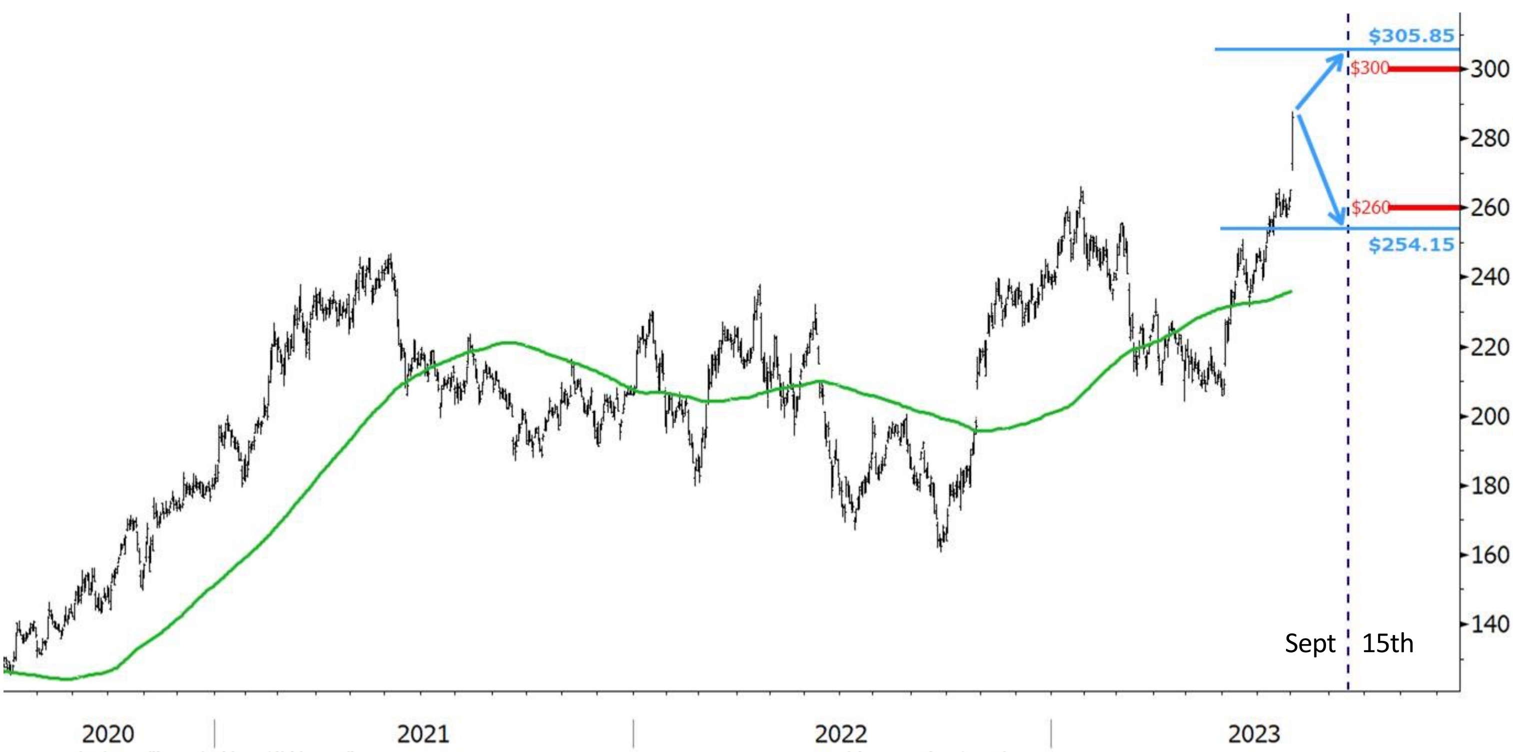
Source: Worth Charting, Bloomberg, FactSet

MONEY IN MOTION

CAT chart 2 of 3:

Sell the Sep **$300 Calls**, taking in $4.15
Sell the Sep **$260 Puts**, taking in $1.70
Total premium received: $5.85

“Lose” if CAT is higher than **$305.85** in the coming 6 weeks
“Lose” if CAT is lower than **$254.15** in the coming 6 weeks



Source: Worth Charting, Bloomberg, FactSet

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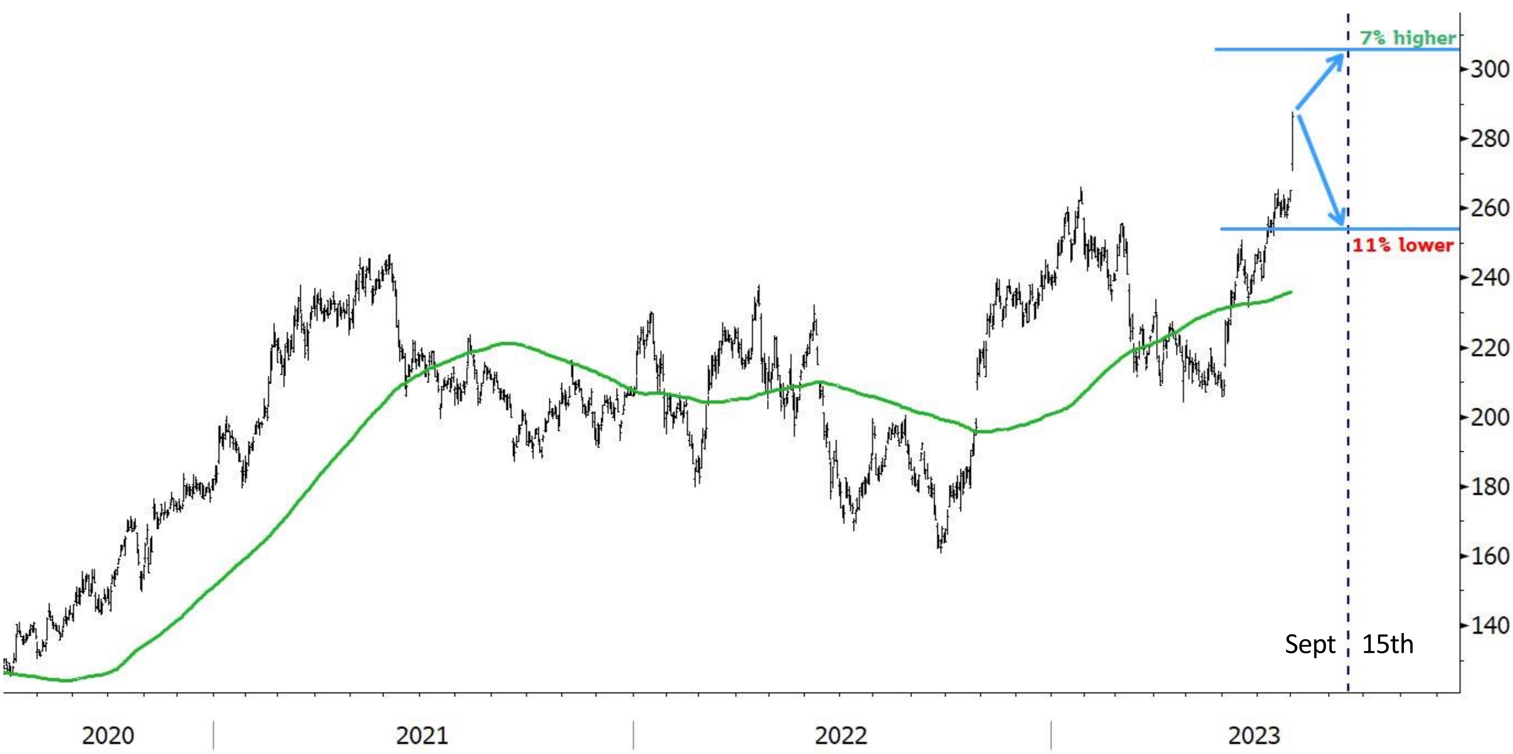
CAT chart 3 of 3:

Sell the Sep **$300 Calls**, taking in $4.15
Sell the Sep **$260 Puts**, taking in $1.70
Total premium received: $5.85

“Lose” if CAT advances more than **7%** in the coming 6 weeks
“Lose” if CAT declines more than **11%** in the coming 6 weeks



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