



schaeffer's
investment research

GRAND SLAM COUNTDOWN
YOUR GO-TO GUIDE

Let's Get Started!

Welcome to Schaeffer's Investment Research!

We're thrilled that you've taken the leap to join us as we hunt down big trades and serious profits in today's fast-paced market environment.

This guide is your official introduction to Schaeffer's Grand Slam Countdown trading service. Continue reading for a brief overview of our new product, so you can get the most out of our knowledge and more than 40 years of trading expertise.



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An Introduction From Founder & CEO Bernie Schaeffer

The reward/risk equation for out-of-the-money call option buying is usually described as one of "unlimited upside potential, but strictly limited downside risk."

And so most of us have a decent understanding that if the underlying stock is below the strike price of our option at expiration, we'll lose the entire premium we paid (but no more, no matter how far below the strike the stock should decline).

And we have a fair idea that - above the strike price - we first need enough intrinsic value to recover that premium before we can begin to accrue profits on further gains in the share price.

And finally, we understand that there is no cap on the potential profits we can achieve on our call option - once the underlying stock has cleared the break-even level and moves higher. And while options traders do, on occasion, stumble across the odd 500% profit, we're also not surprised to learn that the probability of achieving such an outlier gain amounts to about six chances in 1,000.

So for most of us in the option buying game, profits of 100% and 200% (doubles and triples and occasionally the "home run" at 300%), which is consistent with crafting a winning reward-to-risk ratio since losses are capped at 100%, characterize the standard rules of our profit engagement.

An Introduction From Founder & CEO Bernie Schaeffer

Now, what if we told you that you could purchase a brand-new type of out-of-the-money (OOTM) call option that, when compared to buying traditional OOTM call options, had the following added benefits:

- 1. The price for the underlying stock at which your options trade will break even at expiration is lower (and is thus more easily attained).**
- 2. You can chalk up triple-digit option profits of 100% and 200% and even 300% at lower (and thus more achievable) prices for the underlying stock as the expiration date begins to approach.**
- 3. The inevitable daily time decay in your OOTM call option premium as expiration grows nearer is sharply reduced (and, in some cases, is effectively eliminated).**

And what if we told you that this "upgrade" to your out-of-the-money options trading experience is now immediately available to you, simply by adding one simple step to your OOTM options trading process? And that this same upgrade to your OOTM call trading experience is also available for your OOTM put trading?

What is this two-step process needed to achieve your upgraded OOTM options trading experience?

- 1. Your first step is simply to purchase your OOTM option.**
- 2. Your second step is to sell a further OOTM option against the option you purchased in step #1.**

An Introduction From Founder & CEO Bernie Schaeffer

After completing this second step, you have now created a vertical debit spread, and we will illustrate the upgraded experience you can expect with this strategy with a simple example.

Stock XYZ is trading at \$57, the XYZ July 60 call is at \$2.50, and the July 65 call is at \$1.25. You then purchase the July 60 call, and you simultaneously sell the July 65 call – for a net cost of \$1.25 (\$2.50-\$1.25). And now you've created the XYZ July 60/65 call vertical debit spread.

Let's now examine how the breakeven and profit parameters compare between a straight purchase of the out-of-the-money July 60 call and, alternatively, buying the July 60/65 call vertical spread.

Category	Buy July 60 Call	Buy July 60/65 Call Vertical
Net cost/break-even price	\$2.50	\$1.25
Break-even stock price**	\$62.50	\$61.25
Option double point (+100%)	\$5.00	\$2.50
Stock price** at double point	\$65.00	\$62.50
Option triple point (+200%)	\$7.50	\$3.75
Stock price** at triple point	\$67.50	\$63.75
Maximum Profit	No Max	300%

**** At Option Expiration**

An Introduction From Founder & CEO Bernie Schaeffer

Here are the key take-aways from the table:

1. The sale of the July 65 call against the purchase of the July 60 call – thus creating the July 60/65 call vertical debit spread – immediately reduces the breakeven stock price at expiration to \$61.25 from \$62.50.

2. The July 60/65 call vertical would double at expiration at a share price of \$62.50, compared to the \$65 double point for the stand-alone July 60 call purchase.

3. The July 60/65 call vertical would triple at expiration at a share price of \$63.75, compared to the \$67.50 triple point for the stand-alone July 60 call purchase.

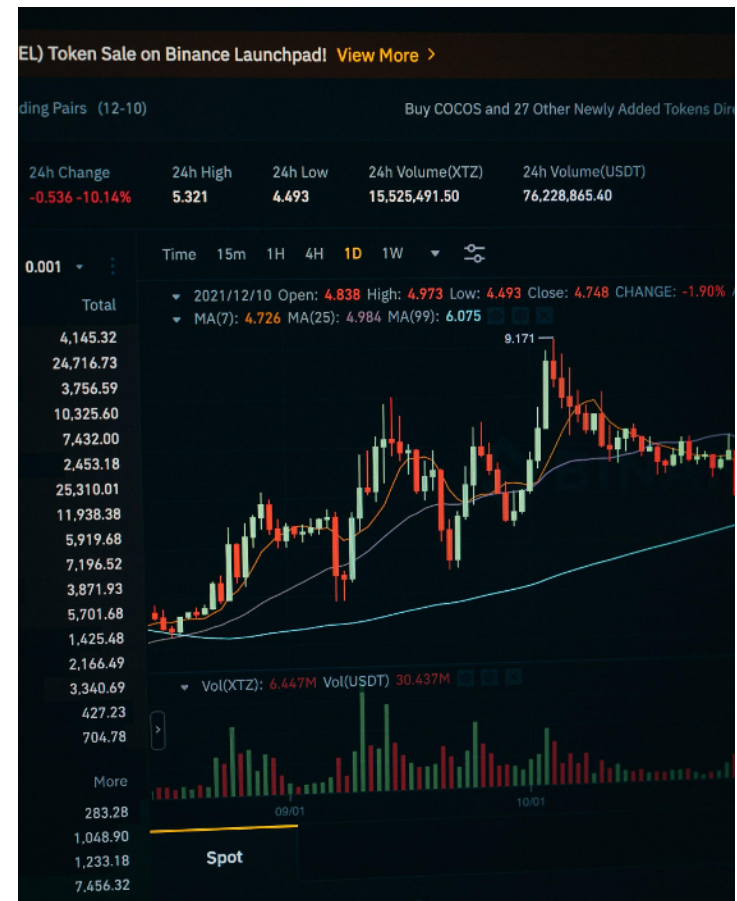
What is the trade-off (or cost) for the enormous benefits to the vertical debit spread buyer as listed in items #1-#3 above? It's simple.

There is no theoretical limit to the upside profit potential for the July 60 call buyer, whereas the profit for our July 60/65 call vertical is capped at 300% (at prices of \$65 or higher at expiration).

Put another way, buying the out-of-the-money call vertical produces a lower breakeven point and superior profit performance for all prices between \$61.25 and \$70 – and yields profits of up to 300%. If we do the math, bottom-line this means that the vertical call debit spread will outperform the straight out-of-the money call counterpart in 84% of all possible profitable situations. And if your "profit wheelhouse" is in the 100% to 300% range as we consider it to be at Schaeffer's, trading the vertical will upgrade your performance 100% of the time when compared to the out-of-the-money call trade.

Unique Features of Schaeffer's Grand Slam Countdown

- Option buyers are generally far better off owning out-of-the-money vertical debit spreads than owning straight out-of-the-money options. Verticals feature a more easily attainable break-even level and less challenging thresholds for achieving big gains of up to 300%.
- A mixture of call and put verticals each month. (There is no option buying strategy that better utilizes put options for optimal returns and a trading edge.)
- Time decay (theta) is muted, due to the long/short combination of out-of-the-money options that comprise our vertical debit spreads.
- The only SIR product that focuses exclusively on trading out-of-the-money options.
- Verticals are simply the best way for investors to trade out-of-the-money options!



Trade Parameters (What You're Getting)

- Out-of-the money vertical debit spreads on equities, index, or ETF options.
- Three to five trade recommendations per month.
- Holding Period: All vertical debit spreads will expire on the Friday following the release of the trades. The maximum holding period is five days.
- Entry window: One day – on the Monday following monthly option expiration Friday. Recommendations are delivered in a Sunday evening bulletin.
- Target profits: 300% per trade, or 4x the original investment (“grand slam profits”).

Average Number of Trades:

- Three to five trade recommendations per month.
- Recommendations will be delivered on the Sunday following the third Friday of every month.

Managing the Service:

Be sure to read the information regarding money management in the subscriber handbook. Follow the trade instructions precisely, especially when entering and exiting a trade.

The Basics of Call and Put Debit Spreads

What is a Vertical Call Debit Spread?

A vertical call debit spread is a bullish options trade with a maximum profit and maximum loss defined upon entering. You can construct a vertical call debit spread by purchasing a call option and simultaneously selling another call option against it, with a higher strike price within the same expiration date. This trade will result in you paying a net debit to open it since the call you buy will be more expensive than the one you sell.

Vertical call debit spreads are an efficient way to speculate on a stock moving up in the short term. You can open a call debit spread on high-priced stocks for as little as \$100 in buying power. The buying power efficiency of debit spreads allows traders with smaller accounts to trade high-priced stocks on the market effectively.

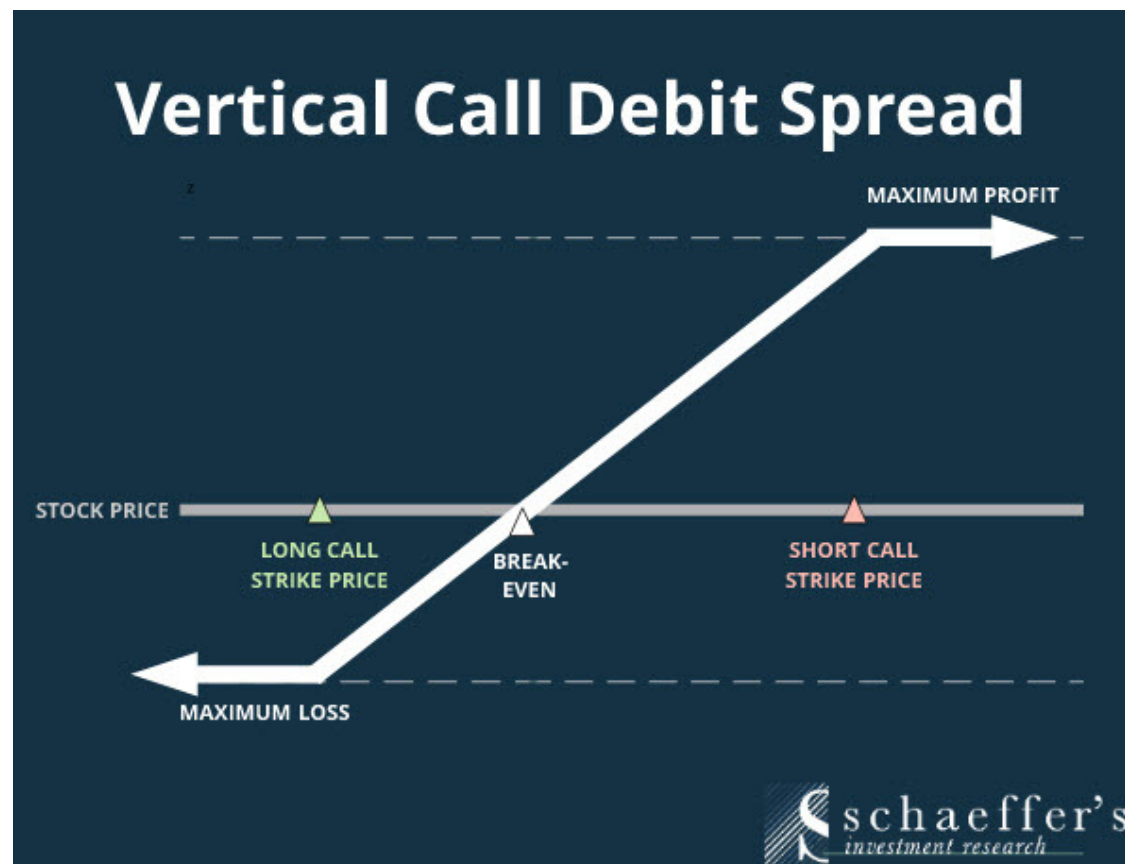
How to Trade Out-of-the-Money Vertical Call Debit Spreads

A call option is considered **out-of-the-money** (OOTM) when its strike price is above the current stock price. Traders can buy OOTM calls if they believe a stock will move up significantly in the near future. Buying one call option is cheaper than buying 100 shares of a stock and can provide a higher reward potential. However, it is possible to lose all your investment buying call options if they expire with the stock above your strike price.

The higher the strike price of a call option, the further out of the money the option is. Far OOTM calls have a lower chance of profiting but can provide fantastic profit potential if you are right. Since the probability of profit is so low, far OOTM call options are cheap to purchase.

The Basics of Vertical Call and Put Debit Spreads

Traders may prefer to buy a vertical call debit spread instead of a single call option to increase their probability of profit. You simply sell a higher strike call option within the same expiration to turn a single long call option into a debit spread. The benefit of trading a vertical call debit spread over a single call is that the call you sell finances some of the cost of the single call. However, a downside to call debit spreads is they limit the amount of profit you can make. A single call option technically has unlimited profit potential, but a vertical call debit spread comes with a defined max profit and max loss.



The Basics of Vertical Call and Put Debit Spreads

Learn more about the vertical call debit spread graph (shown on previous page) below:

Based on stock prices at option expiration, the vertical call debit spread experiences its maximum loss when the underlying stock finishes at or below the strike price for the long call component of the spread. This result is illustrated by the "Maximum Loss" line on the graph, which extends from the long call strike price to all prices for the stock below that strike price.

This maximum loss begins to decrease as the price at expiration for the underlying stock moves above the long call strike price, until the stock exceeds the long call strike price by an amount equal to the premium paid for the vertical call debit spread. This point is illustrated by the arrow that delineates the stock price at which the break-even level for the vertical call spread is achieved.

Finally, as prices for the stock at expiration begin to increase above the break-even level, the profit for the vertical spread increases at the same rate - until the stock rises to the level of the short call strike price. At that point, the maximum profit for the vertical call debit spread is reached - as illustrated by the "Maximum Profit" line on the graph that extends from the short call strike price to all prices for the stock above that price.

The Basics of Vertical Call and Put Debit Spreads

What is a Vertical Put Debit Spread?

A vertical put debit spread is a bearish options trade with a defined max profit and loss. It is constructed by purchasing a put and simultaneously selling a lower strike put against it within the same expiration date. The purchased put will cost more than the lower strike put you sell, which means you pay a net debit to open this trade, hence the name.

Vertical put debit spreads are beneficial to speculate on a stock moving down and for hedging purposes. You will likely make money if you buy a put debit spread and the stock moves down. Additionally, put debit spreads have positive vega meaning they benefit from an increase in implied volatility.

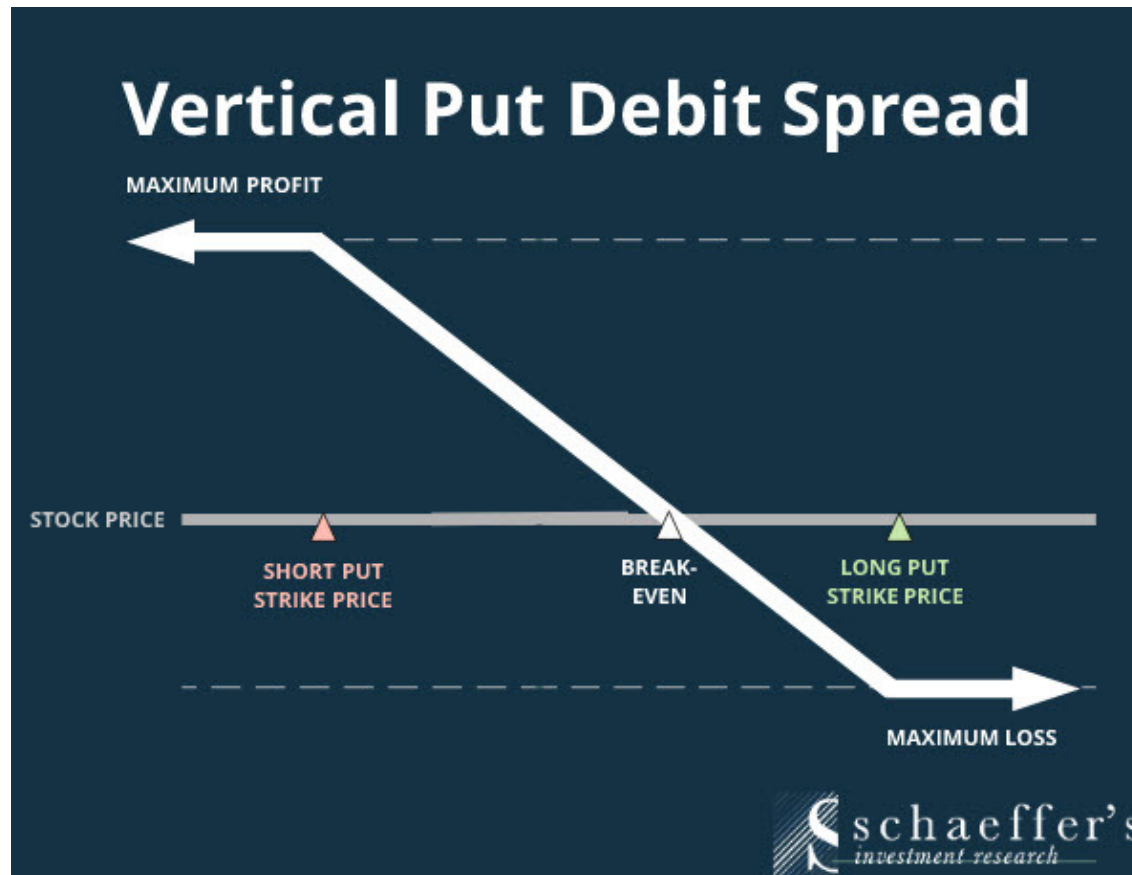
How to Trade Out-of-the-Money Vertical Put Debit Spreads?

A put option is considered out-of-the-money when its strike price is below the current stock price. Purchasing OOTM put options is a common way for investors to hedge their stock portfolios if the market falls. Buying put options is like buying insurance on your stock holdings.

The lower the strike price of a put, the more out-of-the-money the option is. Far OOTM puts have a lower chance of profiting for the buyer because they are far below the stock price. However, the far OOTM puts are much cheaper to compensate for the low probability of profiting. OOTM vertical put debit spreads are great to purchase if you are bearish on the stock and believe it will go down in the near future.

The Basics of Vertical Call and Put Debit Spreads

Instead of just purchasing a single OOTM put option, investors can increase their probability of profit by trading a vertical put debit spread. To make a single long put into a vertical put debit spread, you simply sell a lower strike put within the same expiration. A downside of a vertical put debit spread compared to a long put is that the max profit is no longer unlimited. However, hedging with a vertical put debit spread is cheaper since some of the cost of the long put is financed by selling the lower strike put.



The Basics of Vertical Call and Put Debit Spreads

Learn more about the vertical put debit spread graph (shown on previous page) below:

Based on stock prices at option expiration, the vertical put debit spread experiences its maximum loss when the underlying stock finishes at or above the strike price for the long put component of the spread. This result is illustrated by the "Maximum Loss" line on the previous graph, which extends from the long put strike price to all prices for the stock above that strike price.

This maximum loss begins to decrease as the price at expiration for the underlying stock moves below the long call strike price, until the stock is lower than the long put strike price by an amount equal to the premium paid for the vertical put debit spread. This point is illustrated by the arrow that delineates the stock price at which the break-even level for the vertical put spread is achieved.

Finally, as prices for the stock at expiration begin to decline below the break-even level, the profit for the vertical debit spread increases at the same rate - until the stock declines to the level of the short put strike price. At that point, the maximum profit for the vertical put debit spread is reached - as illustrated by the "Maximum Profit" line on the graph that extends from the short put strike price to all prices for the stock below that price.

Frequently Asked Questions With Bernie Schaeffer

Q. I currently trade out-of-the-money options, and it is quite exciting but is also quite challenging. Can you again go over the trade-offs involved with purchasing a vertical debit spread using out-of-the-money options, compared to the straight purchase of an out-of-the money option?

A. What if someone was to offer you (as an out-of-the-money call buyer) the following bargain:

1. A lower (and thus more easily achievable) break-even price for your trade at expiration.
2. You begin to chalk up profits of 100%, 200%, and 300% at lower (and thus more achievable) price points for the underlying stock.

So far, this sounds like a deal made in heaven - easier to break even, and easier to achieve your "bread and butter" triple-digit gains.

Though yes, there is a "catch" - namely, that the maximum profit from your trades would be capped at somewhere between 200% and 300%.

But most out-of-the-money options traders live in the word of doubling and tripling their investments on the profit side and looking for trades with achievable break-evens - so this trade-off works out to be a great deal.

You as an the out-of-the-money options trader agree to pass on the "lottery ticket" profits (that collectively have about one chance), and in exchange you will have a much better opportunity to make money under all other possible circumstances!

Frequently Asked Questions With Bernie Schaeffer

Q. Can you please explain how buying a vertical call debit spread can be viewed as buying an overhead share price interval at a discount to its potential value?

A. Let's go back to the example where stock XYZ was trading at \$57, and we purchased the July 60 call and sold the July 65 call vertical debit spread for a net cost of \$1.25.

If the stock trades at \$65 or higher at July expiration, then this interval between \$60 and \$65 is worth \$5. The bad news is the stock is now trading for \$58, but the good news is there is at least a week before the options expire - and so there is the opportunity for the stock to first rally above \$60 and then possibly also above \$65 by July option expiration day.

Right now, the options market is valuing that \$60 to \$65 share price interval at \$1.25, and it is allowing us to buy the interval at that discounted price using the July 60 and July 65 calls as our vehicles.

But we at Schaeffer's are at the same time saying "Wait a minute. Our analysis of the price action for XYZ underlying stock is telling us that there is a good set-up - right here and now - for a rally that could carry XYZ above \$60 and perhaps to \$65 or even higher by July expiration and in that case, the interval will be worth as much as \$5."

And so we find this discounted interval cost of \$1.25 to be very compelling. And we recommend the purchase of the July 60/65 call vertical - as we like the chances for doubling, tripling, or quadrupling that \$1.25 in option premium by July expiration, as the interval's value begins to approach \$5.

So essentially, by purchasing this vertical debit spread we are buying that 5-point (\$60 to \$65 share price) interval at a discounted price of 1¼ points (or \$1.25).

Frequently Asked Questions With Bernie Schaeffer

Because we think there's a strong chance that this interval will become monetized by July expiration into a value of as much as \$5.00.

On a bottom-line basis, we also like the fact that with buying vertical debit spreads, all the information about potential outcomes – on the profit side and on the loss side – is known at the time of trade entry.

The interval we are purchasing is clearly laid out in advance, along with the maximum profit and the maximum loss at option expiration for our purchase of this interval at a discount. And we can clearly see - at the time of entry for the vertical debit spreads we recommend with our *Schaeffer's Grand Slam Countdown* service – that the maximum profit generally is a multiple of at least twice the maximum loss.



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