

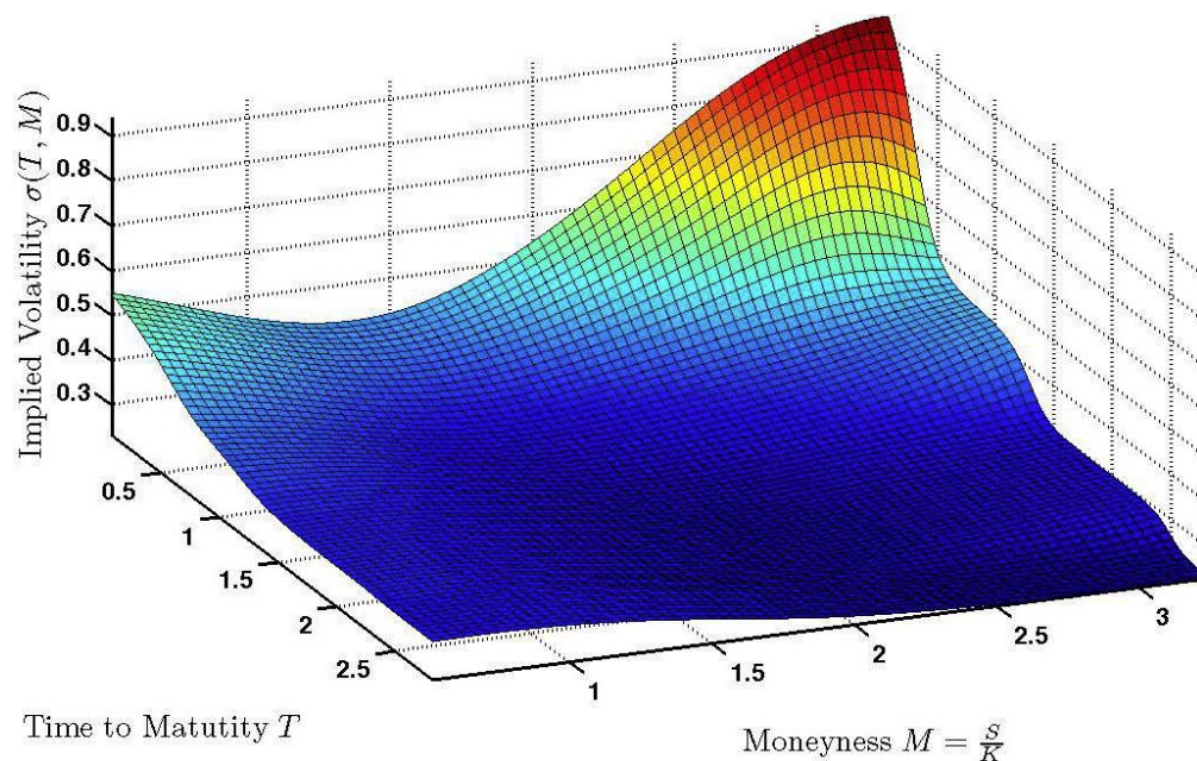
Tulsa CPA Continuing Education Presentation

March 27, 2025

Presented by Stephen Christoffersen, CFA
Range Opportunities Fund, LP
Founder and Chief Investment Officer

Goals of the Presentation

- **Comprehend** essential option Greeks (delta, gamma and theta) and option strategies (covered calls, cash-secured puts, covered strangles and hedging strategies)
- **Examine** the function of the VIX in hedging
- **Discover** how these strategies are implemented in actual fund operations
- **Recognize** accounting and tax implications related to derivatives





Options Refresher

Definition: An agreement that provides the **right (but not the obligation)** to purchase or sell an asset at a specified *strike price* prior to a designated *expiration date*.

Calls = each option worth 100 shares

Buying = Bullish

Selling = Bearish

Grants the **right to acquire** the underlying asset

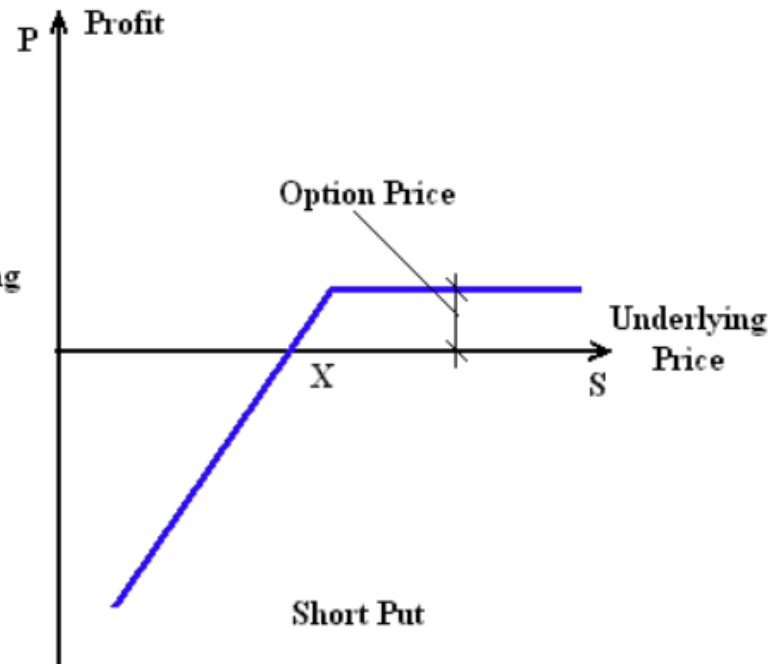
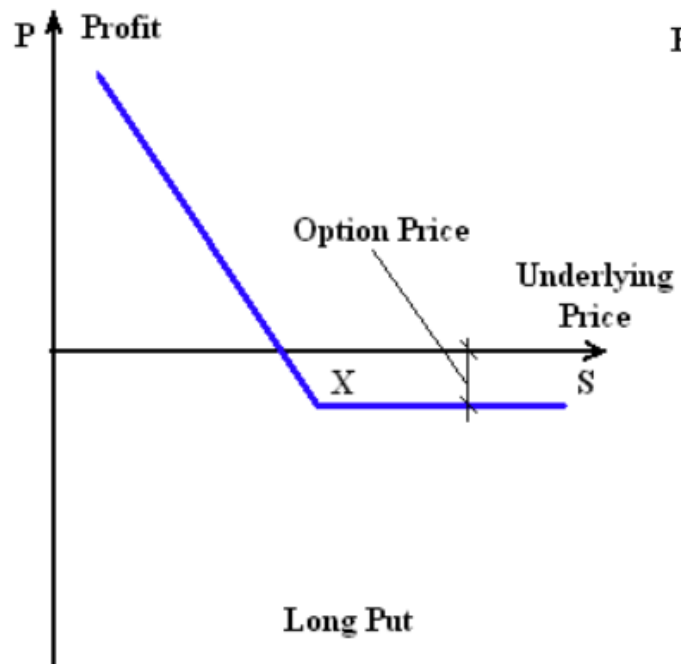
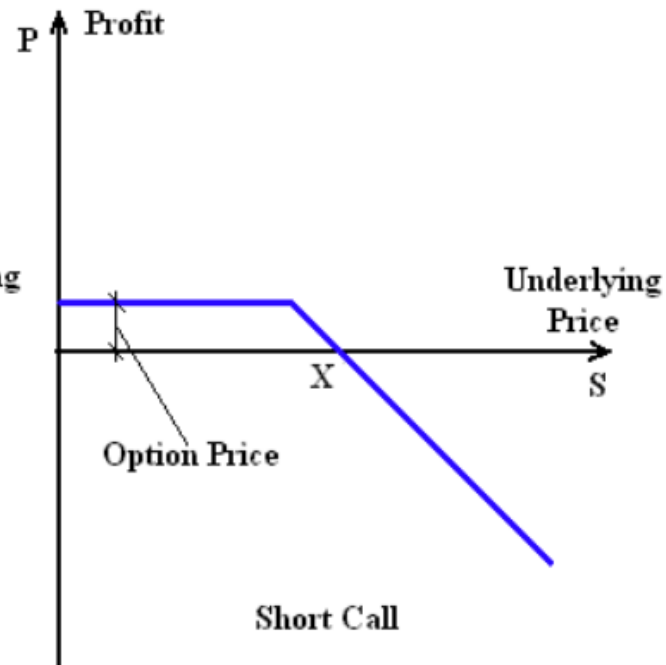
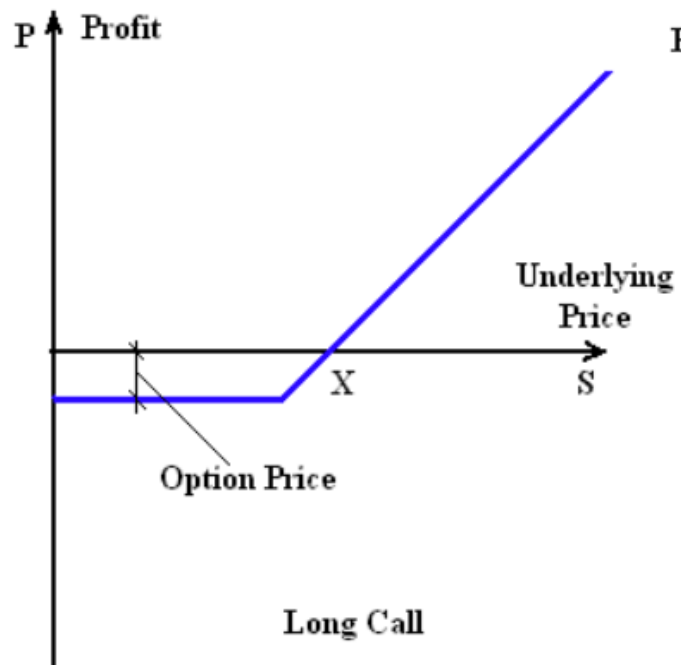
Puts = each option worth 100 shares

Buying = Bearish

Selling = Bullish

Grants the **right to dispose of** the underlying asset

Payoff Diagram of Calls and Puts



Theta, Delta & Gamma

Theta (Time Decay)

- Measures daily option value erosion
- Negative for longs, positive for shorts
- Accelerates near expiration (last 30–45 days)
- Highest at-the-money (ATM)

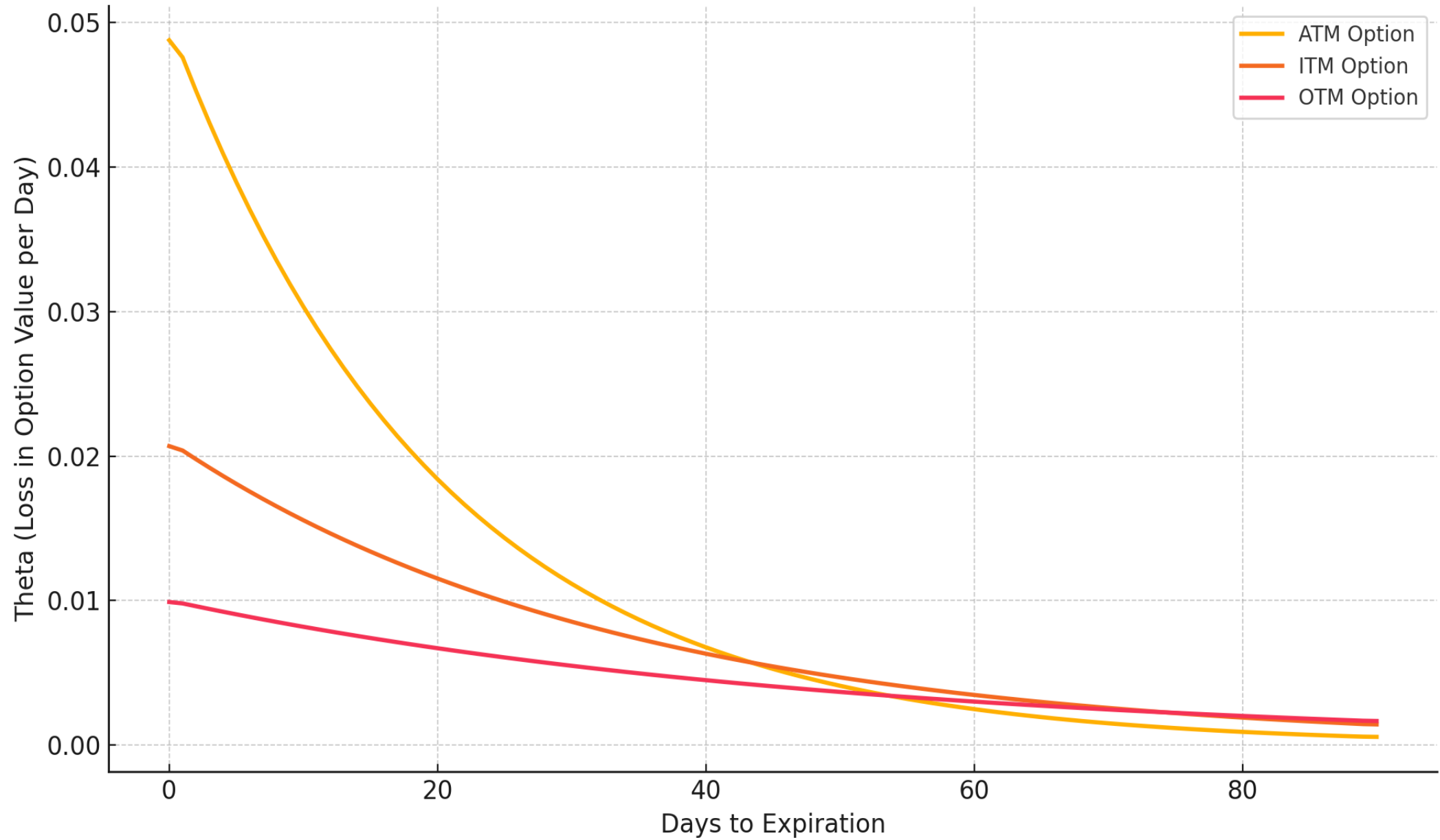
Delta (Directional Sensitivity)

- Option price change per \$1 move in underlying
- Call Delta: $0 \rightarrow +1$ | Put Delta: $0 \rightarrow -1$
- Also reflects probability of finishing in the money (ITM)

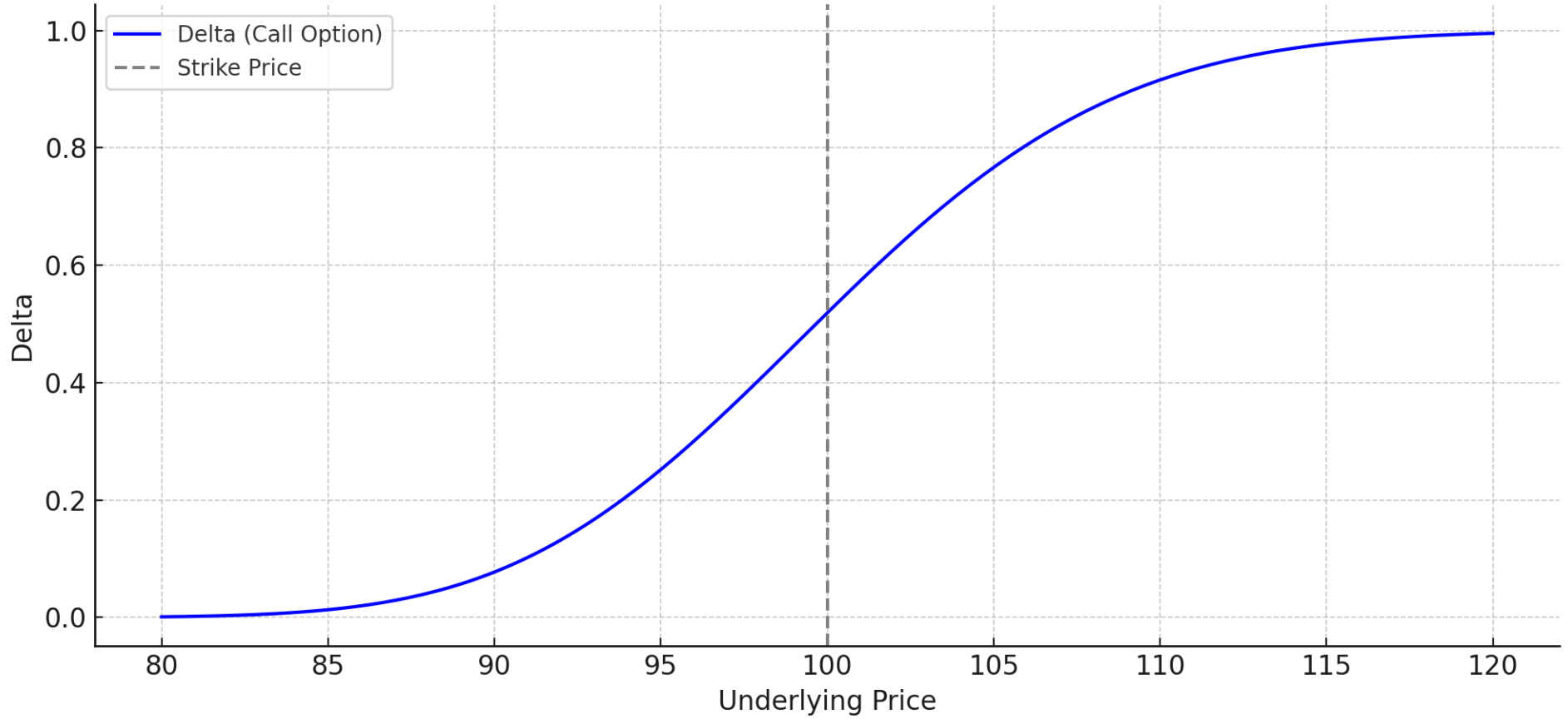
Gamma (Delta's Rate of Change)

- Measures how fast Delta shifts as price moves
- Highest at-the-money, fades ITM/OTM
- Crucial for managing hedging risk

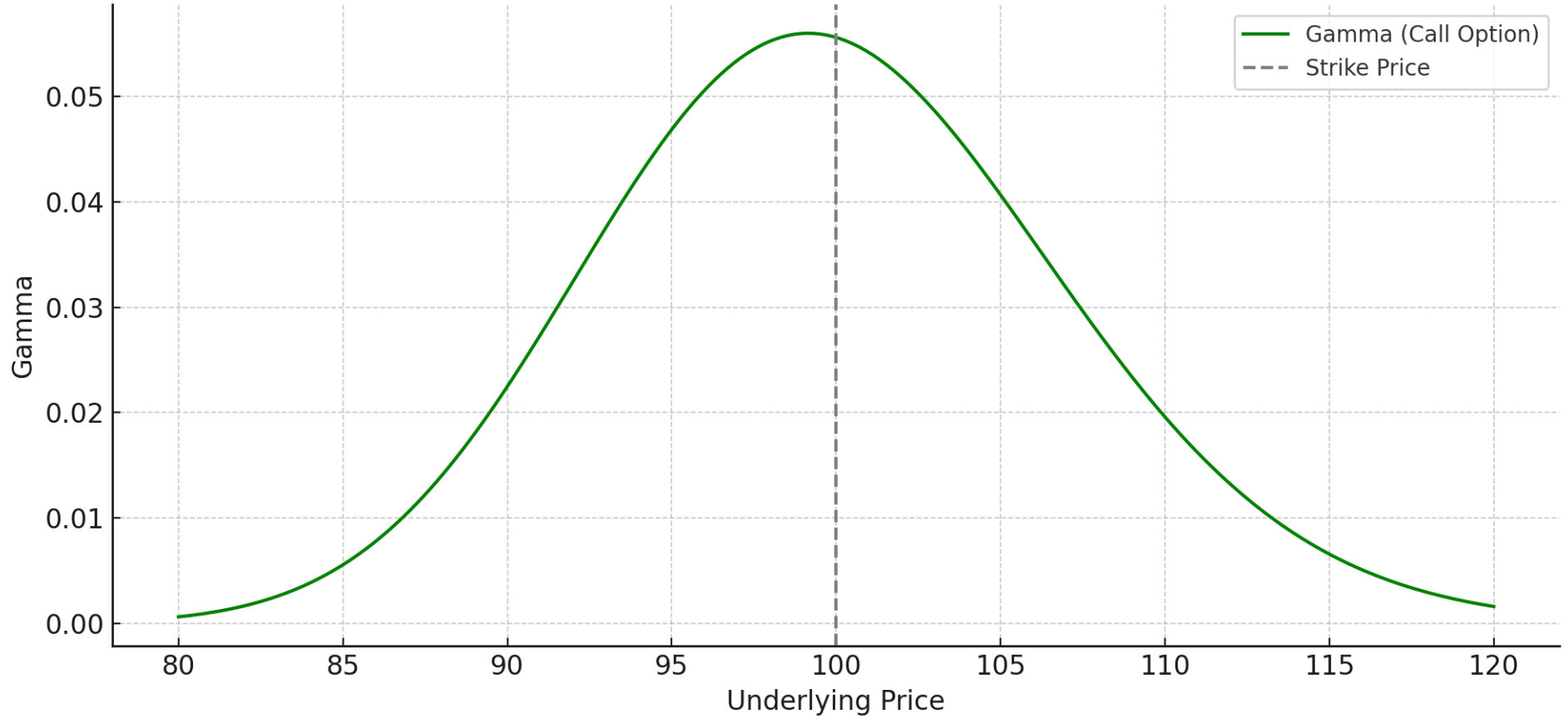
Theta (Daily Time Decay) of Options Over 90 Days



Delta vs Underlying Price (Call Option)



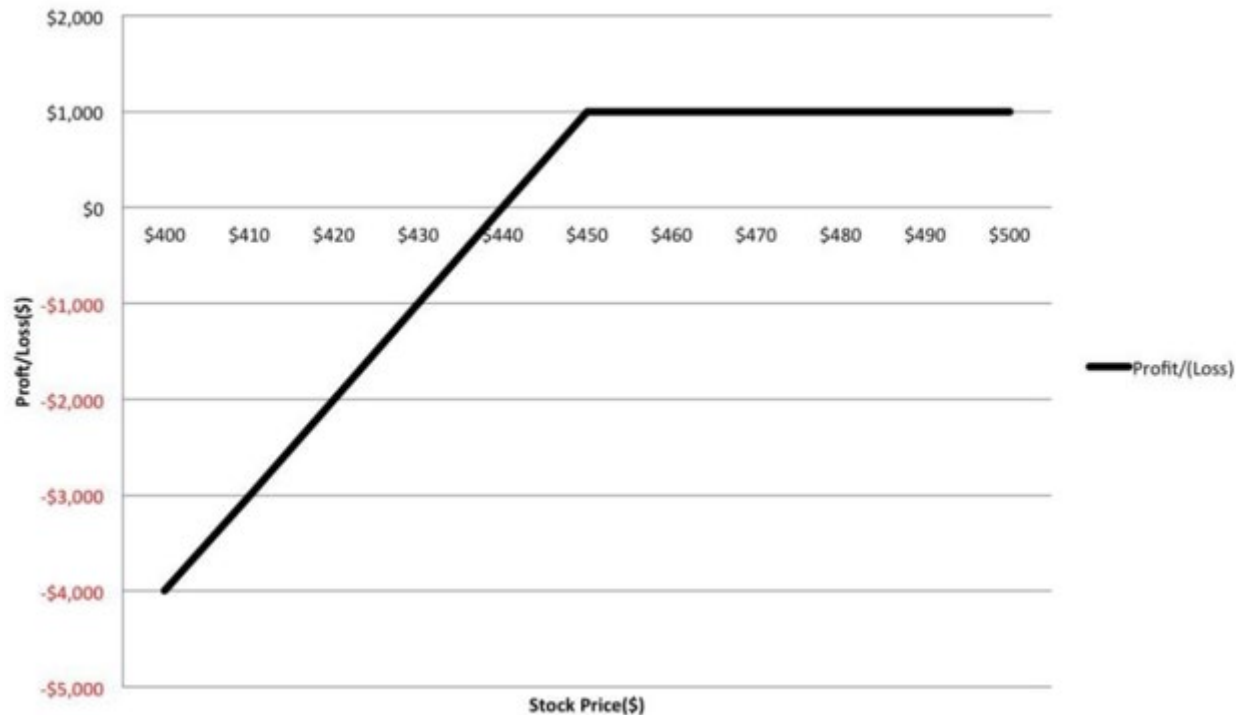
Gamma vs Underlying Price (Call Option)



Greek Characteristics of Out-of-the-Money Calls / Puts

- **<30-Day Out-of-the-Money (OTM) Calls (Delta <0.30):** Opting for short-term options (with less than 30 days until expiration) that have a delta below 0.30 – a favorable premium while ensuring a safe margin above the existing stock price.
- **Typical Gamma (0.02–0.06):** Within this delta range, gamma values are typically around 0.02–0.06
- **Theta Range:** Usually around **0.02 to 0.04**

Payoff profile of both a Covered Call and Cash Secured Put



Real Life Example – Nu Financial

Opportunity to Monetize Recent Gains: By selling weekly calls on Nu Financial after its upward move, we capture premium income that capitalizes on short-term optimism in the stock's price while locking in some of the recent performance gains.

Maintain Long Exposure: This approach keeps the fund fully invested in Nu Financial and provides additional cash flow in the form of option premium.

Economics: \$14 strike weekly call sells for .17 when stock is ~\$13.70, equating to a 64% "option ROI" $[(.17 * 52) / 13.70]$



Real Life Example - Nike

Reducing Entry Cost: By selling puts on NKE, we collect premium and potentially acquire shares at a lower strike, effectively improving our overall cost basis if assigned.

Aligned with Bullish Outlook: We remain fundamentally long on NKE, so selling puts and calls within a channel lets us generate income from near-term downside volatility while maintaining our long-term conviction in the stock.

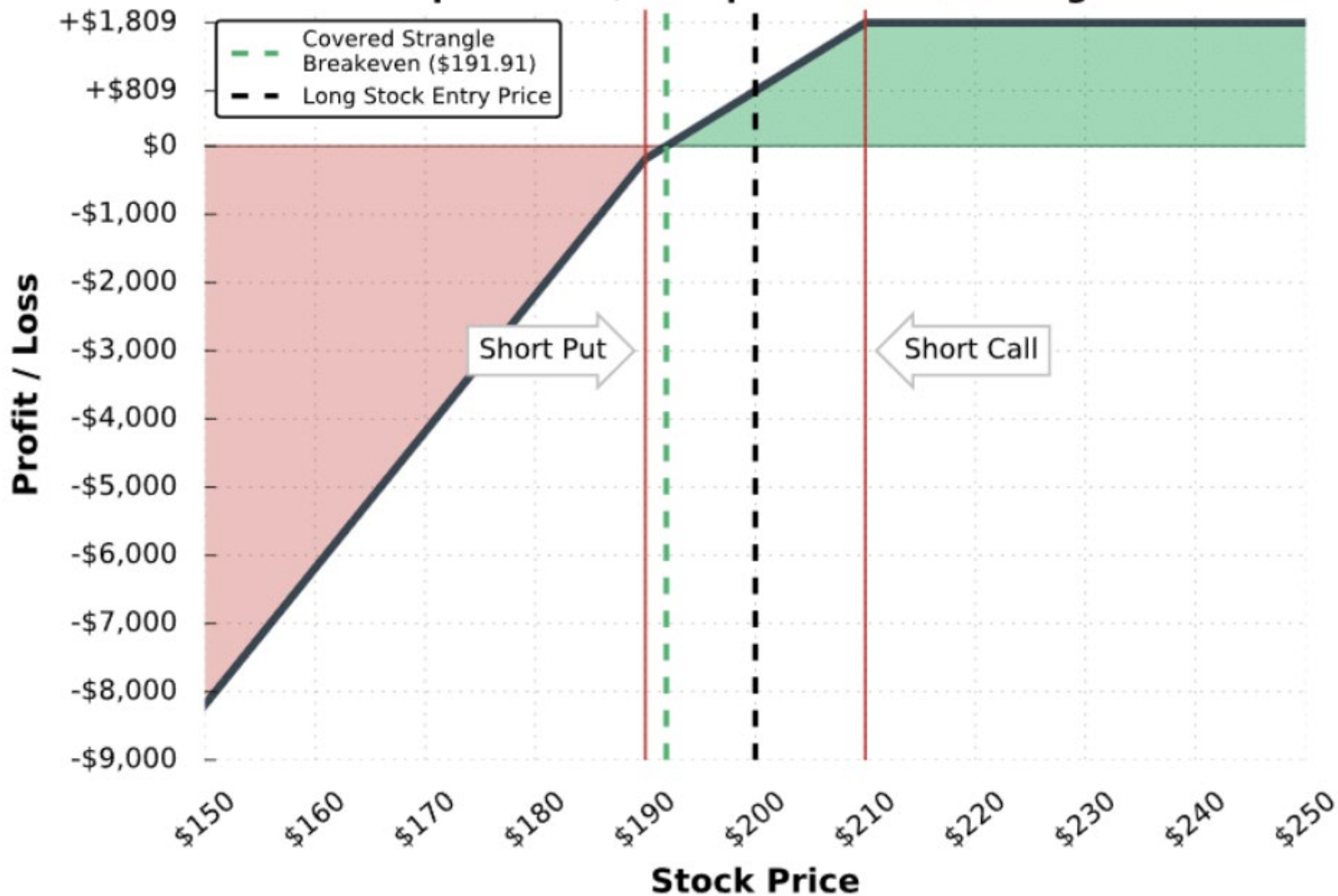


Collar Hedging Strategy

- **Uses:** Hedge a stock position while waiting holding the stock for some future even – better tax treatment (LT vs ST), lock up period etc
- **Collar Strategy:** An option collar involves holding a long position in an underlying stock while simultaneously purchasing a put and selling a call. The protective put limits downside risk, while the covered call generates premium income, which helps offset the cost of the put.
- **Future Event Hedge:** By limiting downside risk with the put and capping upside potential with the call, they maintain a position in the stock without selling.



Expiration P/L Graph: Covered Strangle



Real Life Example – Oscar Health (OSCR)

Dual-Premium Income: By writing both out-of-the-money calls and puts against our OSCR position, we collect two streams of option premium, monetizing short-term volatility while retaining core ownership.

Lowered Cost Basis: Since we're fundamentally long OSCR, if the put options are assigned, we acquire additional shares at a discount, effectively reducing our overall cost basis over time.



Portfolio Hedging Using Options on S&P 500



Modified Put Spread Strategy – S&P 500 Hedge

Objective:

To cost-effectively hedge portfolio downside risk using S&P 500 ETF (SPY) while maintaining strategic flexibility through daily premium collection. At time of this writing SPY was at ~\$574 per share

Structure:

•Long-Term Protective Put

- *Instrument:* SPY August 15, 2025 Put
- *Strike:* 561
- *Cost:* \$15.40 per contract
- *Purpose:* Acts as a hedge against broad market declines

•Daily Short-Term Option Sales (0-1 Day To Expiration) – Theta scalping

- *Instruments:* Daily SPY options (puts or calls based on market trend)
- *Example:*
 - Based on the long term put price of \$15.40, I need to generate \$0.21 of income daily on average over 72 trading days to pay for the cost of the put
 - Sell SPY 578 call for \$0.19
 - Sell SPY 567 put for \$0.08
- *Goal:* Generate daily premium income to offset the cost of the long-term put

Execution:

- Enter short-term option trades during the day that expire at the close of each day
- Adjust call/put selection based on market trend and positioning
- Repeat daily over 72 trading days (through August 15 expiration)

Outcome:

- Daily premiums accumulate to neutralize the cost of the long put
- Strategy offers downside protection while allowing flexible income generation
- Designed to provide a low-cost hedge on the entire portfolio via short SPY exposure

Using the VIX as a Strategic Tool

Definition: The VIX (Volatility Index) is often called the "fear gauge" of the U.S. stock market. It measures the market's expectation of 30-day forward-looking volatility, derived from the prices of S&P 500 Index (SPX) options.

Focus on Near-Term Options: The index is primarily calculated from out-of-the-money (OTM) SPX call and put options that have a maturity close to 30 days.

Annualized Volatility Measure: Although it focuses on the next 30 days, the VIX is expressed as an annualized figure. For example, a VIX of 20 implies an expected annualized 20% volatility for the S&P 500 over the next 30 days. When applying the standard convention that volatility (standard deviation of returns) scales with the square root of time, **a 20% annualized volatility translates to roughly a 5.8% monthly volatility**. Mathematically:

$$\text{Monthly Volatility} \approx \frac{\text{Annual Volatility}}{\sqrt{12}} \approx \frac{20\%}{\sqrt{12}} \approx 5.8\%.$$

This means that instead of expecting annual swings of about $\pm 20\%$ (around the mean) with a 68% probability, you can expect monthly swings of about $\pm 5.8\%$ over that same probability range.

Calculation Methodology: The VIX uses a specific formula developed by the Chicago Board Options Exchange (CBOE). It aggregates a range of OTM option prices, weighting them based on strike prices and expirations, and then applies a volatility calculation framework to produce one index value.

VIX Levels vs Monthly Implied Volatility

VIX (Annualized Implied Volatility %)	Monthly Std Dev (%)
10	2.89
15	4.33
20	5.77
25	7.22
30	8.66
35	10.1
40	11.55
45	12.99
50	14.43
55	15.88
60	17.32

- **1 standard deviation:** ~68.27% of the data falls within this range
- **2 standard deviation:** ~95.45% of the data is within this range
- **3 standard deviation:** ~99.73% of the data is within this range

Why I Like Using the VIX as a Hedge

•Identifiable Floor

- The VIX can't go below zero in theory (and in practice, it rarely ventures into single digits).
- By contrast, if you short a stock or an index directly, the potential loss is unbounded because the underlying can keep rising indefinitely.

•Cost-Effective Structure

- It's possible to create hedging strategies (e.g., spreads or collars) on VIX options/futures that limit or even *negate* the net premium outlay.
- You can pair short puts (to collect premium) with long calls (for upside exposure) or use call spreads to reduce costs, all while defining maximum risk.

•Historically Negative Correlation to Equities

- The VIX typically shows about a **-0.75** correlation with the S&P 500, meaning it tends to rise when stocks fall.

•Not a One-Way Street

- VIX can **also go up** while your portfolio rises if the market starts pricing in future uncertainty (e.g., around earnings, macro events, or geopolitical risks) unlike some hedges that strictly lose value in a rising market.

•Direct Play on "Fear"/Implied Volatility

- Since the VIX is a *pure* volatility gauge (based on S&P 500 options), it can spike more dramatically than the underlying market declines - amplifying hedge effectiveness in panic-driven sell-offs.

•Ease of Implementation

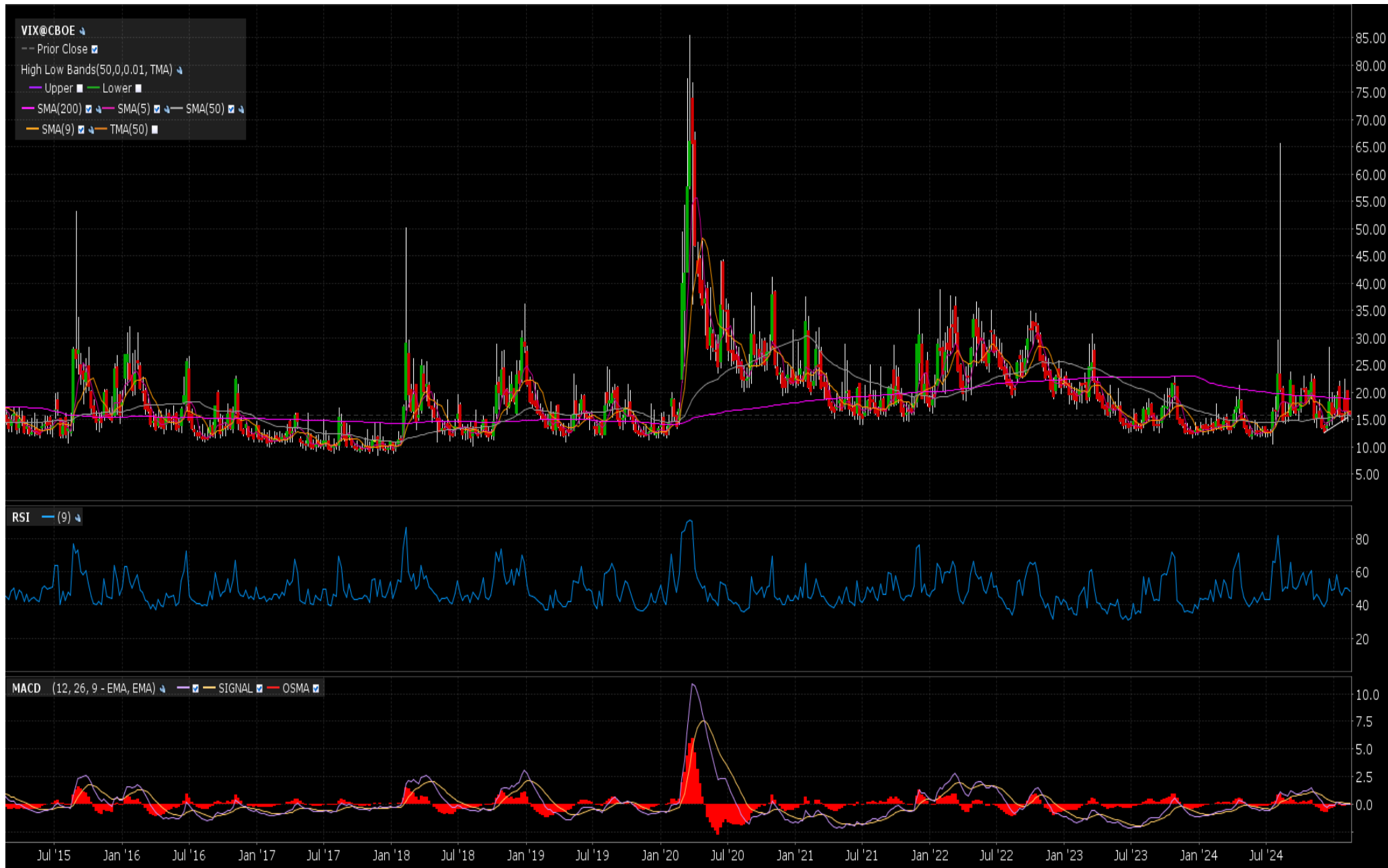
- VIX futures and options are liquid, exchange-traded products.

VIX Performance vs S&P 500 Over Last 7 Years



10 Year Price History of the VIX

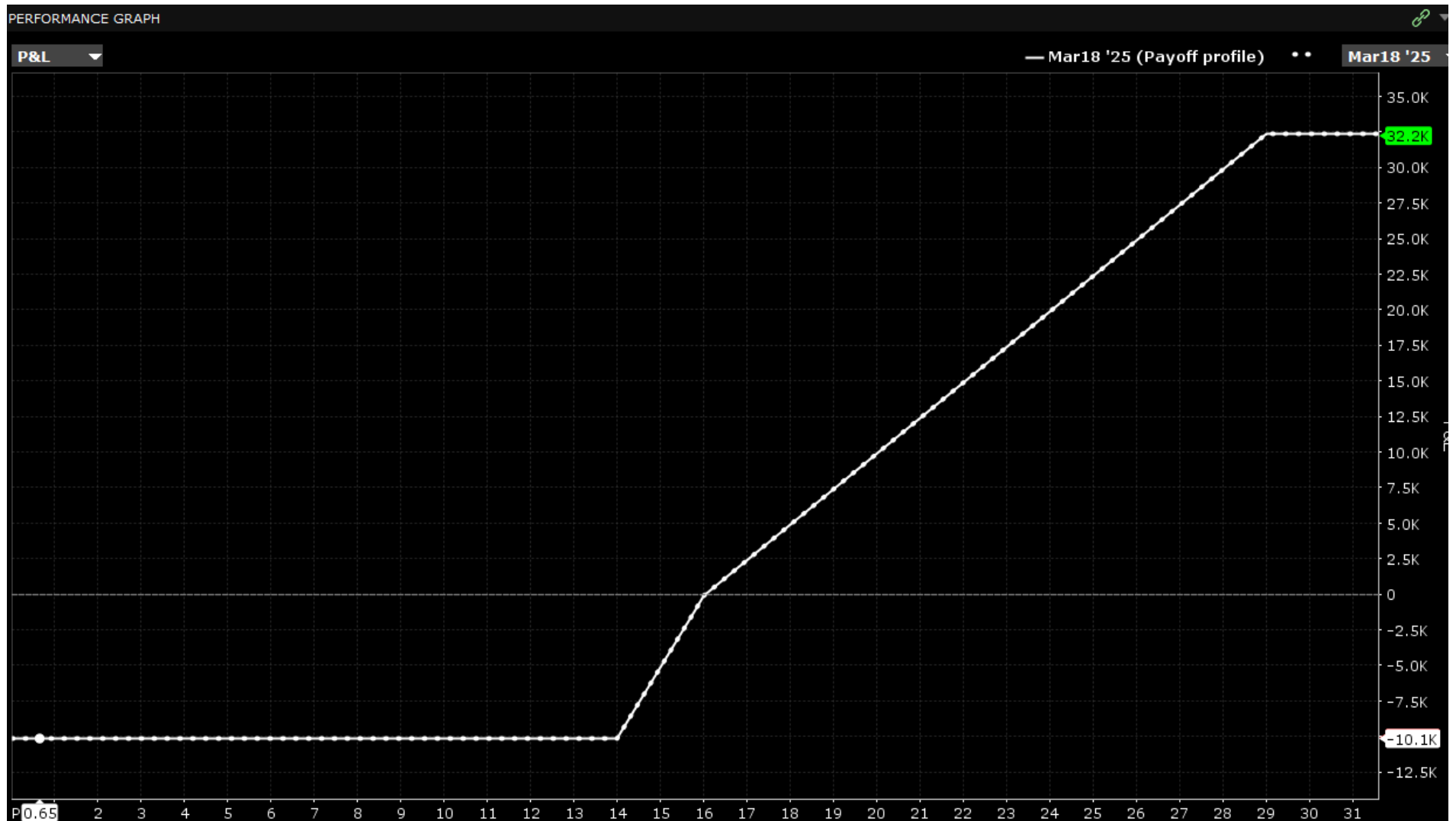
50 week moving average ~16
200 week moving average ~19



Real Life Hedge Example

VIX Mar17 +16 Call -2x16 Put -29 Call +2x14 Put	15.90	25	559	0.05 ⁶
VIX Mar17'25 16 CALL	15.90	25	5,815	2.29 ²
VIX Mar17'25 29 CALL	15.90	-25	-1,694	0.65 ¹
VIX Mar17'25 14 PUT	15.90	50	650	0.16 ⁹
VIX Mar17'25 16 PUT	15.90	-50	-4,212	0.96 ¹

Payoff Profile



Tax Treatment Overview

Capital Gains Treatment and Holding Periods

- In general, both gains and losses from trading listed equity options are subject to capital gains taxation.
- The typical holding period for options that are purchased tends to be short term, unless you continue to hold the underlying shares after exercising the option.
- When you exercise a call option, the cost of the option is added to the basis of the acquired stock, which may influence whether any future gains are categorized as long term or short term.

Tax Implications of Expired and Assigned Options

- If an option you have sold expires without value, the premium you received at the outset is generally considered a short-term capital gain.
- An assigned option (where the other party exercises) can lead to the recognition of capital gains or losses tied to the underlying stock transaction.
- For instance, if a short call option is assigned, it is treated as if you sold the underlying stock; conversely, if a short put option is assigned, it is seen as if you purchased the underlying stock.

Wash Sale and Straddle Regulations

- Transactions involving options can activate the wash sale rule if you sell a position at a loss and then acquire a substantially identical position (including calls or puts on the same underlying asset) within a 30-day period.
- The straddle regulations may limit or postpone certain losses when you hold offsetting positions, such as having both a stock and an option on that same stock.

Special Regulations for Certain Index Options (Section 1256)

- Broad-based index options are frequently taxed under Section 1256, which applies a 60/40 division for capital gains (60% long-term and 40% short-term), irrespective of the actual holding duration.
- This taxation approach can be advantageous compared to standard short-term capital gains rates.

Manager Bio

Stephen Christoffersen, Founder and Chief Investment Officer of the Range Opportunities Fund, is an accomplished executive with an exceptional track record in investment management. With almost 20 years of experience in corporate finance, active investing and trading, Stephen brings a unique investing style, one that combines his deep understanding of accounting and fundamental analysis with insider experience on the way capital markets function. Having raised and managed over \$1B throughout his career, he has originated, invested and managed capital throughout the entire capital structure of various businesses. As both a public company CEO and CFO, he gained a comprehensive understanding of inter-working of deal structures and corporate actions within the capital markets. He is passionate for optimizing risk / reward scenarios which are expressed in the structuring around each of his investments.

Stephen is an investor, Board Member and Chairman of the Special Committee at XS Financial (CSE: XSF), an equipment financing company which announced an acquisition by AXR and Mavik Capital in September 2024. He served as the CEO and Board Member of Western Acquisition Ventures (NASDAQ: WAVS), a special-purpose acquisition company which announced a merger with Cycurion in November 2022. Previously he was the Chief Financial Officer of KushCo Holdings Inc, where he led a successful business turnaround resulting in its acquisition by Greenlane Holdings in 2021. Prior to KushCo, Stephen managed a \$500 million multi-asset investment portfolio at Comerica Bank in Beverly Hills, CA.

Throughout his nearly two-decade career, he has invested in public and private companies. The investment strategy employed in the Range Opportunities Fund is a culmination of his hands on experience trading and investing throughout multiple market environments.

This is Stephen's first fund and career long dream. Stephen lives in Tulsa with his wife and two boys, which provides him with a supportive and balanced environment to focus on his investments. He holds a Bachelors in Finance from UNLV and received his CFA designation in 2015.

Fund Structure and Partners

We are excited to announce that our fund officially opened to new investors on January 1, 2025.

- **Minimum Investment:** \$25,000
- **Management Fee:** 1.25% per year
- **Share Class:** Founder Shares
- **Performance Fee:** 15% on annual returns exceeding a 15% hurdle rate
- **Redemption and Funding Periods:** Quarterly
- **Broker:** Interactive Brokers LLC
- **Legal:** Barrow & Grimm LLP
- **Fund Administrator:** Liccar Fund Services

For inquiries, please reach out to:

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