DISCLAIMER

The information immediately below is required by our registrations, and it includes the actual performance of our managed futures accounts, after fees and costs, (the managed futures program was only active for one month and one day in 2012).

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Actual performance of the Volatility Capture Total Return Strategy managed by McMillan Analysis Corp (after fees):

Strategy	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**Totals since**
Volatility Capture (Futures)	+13.17%	+2.68%	+18.20%	+13.19%	+8.17%	–9.63%	+53.7%

THE OPTION STRATEGIST NEWSLETTER
28-YEAR TRACK RECORD

The following performance results for The Option Strategist newsletter are hypothetical; these positions were not actually traded in an account.

The material assumptions made in calculating the hypothetical results are:

1) the investment for a position assumes exchange minimum margin requirements for normal customer account (*not* portfolio margin)
2) the average investment for a group of positions is the unweighted average of 1) above
3) the profit for a position includes a commission of $15 round turn in futures, $15 per side in futures options, $2.00 per option for stock and index options, and 2 cents per share for stock.
4) the average profit/loss for a group of positions is the unweighted average of 3) above
5) the average annual return for a group of positions is 4) divided by 2), divided by the average holding period (in years) for the same group of positions

Results of Recommendations for 2018

Two weeks ago, in the May 3rd issue, we published a brief summary of the recommendations made in 2018. This article is a more comprehensive look at those recommendations. These results have already been posted to the website.

The following table is a summary of the results, by strategy, showing the number of positions recommended in that category; the number of wins and losses, the win percentage rate, the total profit or loss in that category, and the average return at annual rate (the average return, annualized using the average holding period).

2018 Results	**Anlzd ROI**	**Tot Profit**	**Positions**	**Wins**	**Losses**	**% Wins**
Hedged Fut	**0.79%**	**846**	**35**	**19**	**16**	**54.3%**
naked puts	40.4	2209	18	16	2	88.9
earnings	341.96	8210	36	22	14	61.1
Hedged Eq	**151.8**	**10419**	**54**	**38**	**16**	**70.4**
Hedged Idx	**-4.04**	**-4392**	**36**	**19**	**17**	**52.8**
Intmkt	**1294.73**	**23246**	**9**	**5**	**4**	**55.6**
ALL HEDGED	**17.17**	**30119**	**134**	**81**	**53**	**60.4**
biotech	-1173.25	-5647	7	0	7	0
non-SPY	25.78	250	5	1	4	20
SPY etc.	456.63	17419	36	17	19	47.2
Spec Non P-C	**232.38**	**12022**	**48**	**18**	**30**	**37.5**
pc: fut	-486.48	-10336	15	1	14	6.7
pc: indx	-109.77	-1046	6	2	4	33.3
pc: stocks	20.9	2051	44	15	29	34.1
Spec P-C	**-72.91**	**-9331**	**65**	**18**	**47**	**27.7**
ALL SPEC	**15.18**	**2691**	**113**	**36**	**77**	**31.9**
ALL	**15.06%**	**32810**	**247**	**117**	**130**	**47.4%**

Overall, there was a profit for 2018, over 247 total recommendations. The average return, at annual rate, was 15.1% (first number in the bottom line of the above table). All hedged positions ("ALL HEDGED") delivered a strong return, while all speculative ("ALL SPEC") returned a small profit. Note: an erroneous figure for "Hedged Futures" profit was posted in the May 3rd article; it has been corrected.

Let's delve into the data that makes up these broad areas:

Hedged Futures Positions

Total Profit: +$846
Average Investment: $36,623
19 Wins, 16 losses (54% wins)
Average Return at annual rate: 0.8%

This category in 2018 was completely comprised of e-mini S&P futures put ratio spreads, and their accompanying $VIX or VXX hedges. The hedges were counted as separate positions, so that there were 35 positions in all. Of the ratio spreads themselves, it was one of the poorest years on record. Four times the ratios had to be rolled down, sustaining fairly large losses in order to do so. These were caused by the sharp market declines in February, March, October, and December. But overall, the strategy managed to about break even, mostly because of the roll-down approach that we used once those losses were taken. In all four cases, the next position that we established made money; we did not experience any market decline that was large enough to cause back-to-back losses.

If one were to combine the hedged and put ratio spreads, there would have been only 20 positions during the year, and the average investment was $64,019. The profit remains the same, of course, but the Average Return at annual rate drops to 0.45% in that case. Of those 20 positions, 16 were profitable and 4 were losses.

Hedged Index Positions

All Hedged Index Positions:
Total Loss: –$4,392
Average Investment: $35,158
19 Wins, 17 losses (53% wins)
Average Return at annual rate: –4.0%

Strategy Breakdown	**Gain/Loss**	**Wins**	**Losses**
SPY put ratio spreads	–$221	19	16
SPY weekly calendars	–$4,171	0	1

These Hedged Index Positions were the SPY put ratio spreads (and the $VIX and VXX hedges that accompanied them), and the weekly SPY calendar spreads.

Most of the loss was due to the SPY dual calendar spreads (Position W1), which lost $4,171 for the year. We eventually widened the strikes out between the spreads far enough to stop the incessant re-centering of the spread. But the losses taken earlier in the year made the strategy an overall loser. It is doing much better this year, with the wider strikes.

The SPY put ratio spreads registered a small loss for the year of $221. The results were a little worse than the futures put ratio spreads, but essentially the same. Again, this is a strategy that has made money every year until 2018; so we expect it to return to its winning ways this year.

Hedged Equity Positions

All Hedged Equity Positions:
Total Profit: +$10,419
Average Investment: $3,266
38 Wins, 16 losses (70% wins)
Average Return at annual rate: +151.8%

Strategy Breakdown	**Gain/Loss**	**Wins**	**Losses**
Naked Put Sales	+$2,209	16	2
Earnings Straddle buys	+$8,210	22	14

This was one of our most profitable areas in 2018. We selectively sold naked puts – only when our strict criteria were met. For the most part, we were not in naked put positions when the market collapsed and volatility exploded (in February and October, in particular). All of the 16 gains were relatively small, since this is a strategy with limited profit potential (the put expires worthless); the two losses were not overly large, though, because we use relatively tight stops. Hence there was a decent overall profit.

The "event-driven earnings straddle buy" continues to be a viable strategy, using our rather strict set of criteria (the stock must have moved a distance equal to or greater than the current straddle price in at least 6 of the previous 10 earnings reports). Plus, there must be a noticeable horizontal skew in the options.

Intermarket Spreads

All Intermarket Spreads:
Total Profit: +$23,246
Average Investment: $5,080
5 Wins, 4 losses (55% wins)
Average Return at annual rate: +1,294%

Strategy Breakdown	**Gain/Loss**	**Wins**	**Losses**
Heating Oil-RBOB Spread	+$23,155	1	0
$VIX/SPY hedges	+$91	4	4

The biggest winning trade of the year, for any strategy, was the Heating Oil – RBOB Gasoline spread, which made over $23,000. It was held for 24 days, with an investment of $6,240. That annualizes out to a ridiculous return, of course, but it can't really be annualized since the spread is only available once per year, for a brief period of time (about a month, or less). While this was a good year for the strategy, which has a long and profitable track record, it was by no means the best year we've ever had with this spread.

The remaining Intermarket Spreads were eight various times when we attempted to capitalize on what we perceived as large discounts in the $VIX futures. When that happens, we buy calls on both $VIX (or VXX) and SPY. The results were somewhat disappointing in 2018, because this strategy has a built-in edge (the discount on the futures), but the downside is the time value expense of the calls. The best profit we had was in one position where we used *futures* instead of options. So, should the opportunity arise in 2019, we will likely lean towards the futures version of the strategy.

All Hedged Positions

Summing the results of the categories above (Hedged Futures, Hedged Equity, Hedged Index, and Intermarket spreads), we get the following results for all hedged positions recommended in 2018:

All Hedged Positions:
Total Profit:+$30,119
Average Investment: $20,668
81 Wins, 53 losses (60% wins)
Average Return at annual rate: +17.2%

SPECULATIVE POSITIONS:

Let's now move on to the speculative positions. Profits and losses swing much more violently in these categories, because we are generally buying options without any hedge or protection. In a few cases, we used bull or bear spreads, but those are very speculative too – they only make money if the underlying entity moves in the direction that one wants it too.

Speculative option buys *not* based on put-call ratios:
Total Profit: +$12,022
Average Investment: $1,719
18 Wins, 30 losses (38% wins)
Average Return at annual rate: +232%

Strategy Breakdown	**Gain/Loss**	**Wins**	**Losses**

Biotech-driven straddle buy	–$5,647	0	7
Volatility Call buys	+$250	1	4
$SPX/SPY trading systems	+$17,419	17	19

Because our indicators and systems were working well in 2018, there was a sizeable profit in speculative SPY option purchases of over $17,000. These trades included $VIX "spike peak" buy signals (7 trades), mBB buy and sell signals (7 signals), Week after June expiration and Week after September expiration systems, SPY straddle buys (7 positions), the January Defect Trade, the Oct Seasonal trade, one "$VIX Crossover" trade, and 9 positions of outright call or put buys, based on technical levels being broken or on other indicators.

We also attempted to trade volatility outright a few times, but only one was profitable – a long VXX call position right before volatility exploded in early February, 2018. That was merely being in the right place at the right time, as similarly-based positions throughout the rest of the year were 0-for-4.

Finally, event-driven biotech straddle buys did terribly, as all 7 positions taken in 2018 lost money. We should be able to improve on that. A few of them *were* in stocks where a fairly large move occurred, but it was just about the same as the straddle price. Perhaps traders of these biotech announcements have gotten better at predicting the expected move. We are not giving up on this strategy.

All Put-Call Ratio Recommendations:

Speculative option buys *based on put-call ratios:*
Total Loss:–$9,331
Average Investment: $1,945
18 Wins, 47 losses (28% wins)
Average Return at annual rate: –73%

Strategy Breakdown	**Gain/Loss**	**Wins**	**Losses**
Futures option based	–$10,336	1	14
Index option based	–$1,046	2	4
Stock option based	+$2,051	15	29

The only category here that made money was positions based on individual stock option put-call ratios. It was a profit, but not anywhere near as large of a profit as the last three years had been. When we altered this strategy (in 2015) to use only ones where the signal comes with the put-call ratio above the 95th percentile or below the 5th percentile, (plus a few other additions, such as a favorable stock chart), that produced large profits for 2015, 2016, and 2017. During 2018, those large profits continued up through about July. After that, even though there was a mixture of calls and puts being bought, the results suffered.

I considered this to be such an outlier from the previous 3 and a half years, that I took a detailed look at every equity-based put-call recommendation since July 2018. There were 34 of them. In about half of them, there wasn't anything I could see that I would have traded differently. But I *did* notice one thing that might have made a difference – and I stress *might* – in the others.

The thing I noticed was that the time to expiration of the options being purchased was quite short. Originally, when we researched put-call ratio-based trading years ago, we had recommended using 3-month at-the-money options, as a balance between risk and reward. Put-call ratio signals don't always take hold right away, and this type of option gives one the ability to wait for a move without risking the price of an in-the-money option, say. Back then, there were no weeklys. However, as time has progressed and there is more emphasis on weeklys, we have inadvertently shortened the time horizon of the options we're buying. I'm not saying this just happened since last July. Rather, it has been happening over a longer period of time. But in several of the recommendations since last July, if one had had the luxury of a little more time without having had to add additional dollars to a recommendation, it could have made a difference. So, we will make that adjustment. We are not planning on spending any more *dollars* per position, though, so the quantity of options will be smaller if we're buying a 3-month option instead of a 1-month option.

In dollar terms, the worst performance (a loss of over $10,000) was in put-call ratios on *futures* positions, where 14 of 15 positions lost money. Essentially, the futures markets have continued to be mired in extremely bearish states, despite being oversold and generating put-call ratio buy signals. We have tried to be more selective, requiring breakouts, etc., but that hasn't been enough. In a few of these, a longer-term option might have made a difference (one TLT call buy, in particular), but even that is not going to improve results all that much. The only broad observation that can be made is that until this bear market in commodities persists – particularly grains and softs – the extremes in put buying are just not producing rallies large enough to capitalize for anything more than a very short-term trade, perhaps.

SUMMARY OF ALL POSITIONS FOR 2018:

All positions initiated in 2018:
Total Gain: +$32,810
Average Investment: $12,059
117 Wins, 130 losses (47% wins)
Average Return at annual rate: +15.1%

Strategy Breakdown	**Gain/Loss**	**Wins**	**Losses**
All hedged positions	$30,119	81	53
All speculative positions	$2,691	36	77

SUMMARY OF ALL POSITIONS SINCE INCEPTION IN 1992:

All Trades**
5,258 positions (50% winners)
Average Investment: $6,216
Average Trade: +$119
Average Return at annual rate: +13.6%

All Hedged Positions:
2,874 positions (60% winners)
Average Investment: $9,781
Average Trade: +$219
Average Return at annual rate: +13.6%

All Speculative Positions:
2,384 positions (38% winners)
Average Investment: $1,918
Average Trade: –$2
Average Return at annual rate: –1.0%

These figures show that hedge positions are a more reliable strategy than speculation. Having said that, our speculative results have improved greatly in the last five years, with better restrictions on put-call ratio trading and with the introduction of more system trades in $SPX/SPY.

**: summary of all trades does not include the "Expiration" trades that we used to make back in the days when $OEX options were dominant. That was a profitable strategy, but hasn't been used in a long time.