

# Introduction

The core of Jim Fink's Options for Income trading service are vertical put credit spreads of 1-4 months in duration, where the objective is for the underlying stock price to close at options expiration above the short put strike. The key to success is selecting stocks of companies with solid business that have intrinsic values above the short put strike. But the stock market is inefficient and stock prices can fluctuate below their fundamental values for short periods of time. Consequently, the best stock selection technique for put credit spreads is a combination of long-term fundamental valuation analysis with shorter-term analyses of price patterns based on both calendar-based seasonality and technical chart reading.

This software application focuses on the seasonality component of stock selection. It quantifies seasonal price increases by examining a stock's 10-year price history between a start date and the nearest six option expiration dates -- and isolating those stocks that have historically exhibited the most consistent one-way price direction during the calendar time period selected.

Seasonality refers to particular time frames during the calendar year when a company's stock price is influenced by recurring forces that produce a consistent price direction -- either bullish or bearish. Some stocks tend to go up consistently at certain times in the year. For example, consumer-related stocks (e.g., food, drugs, beer, leisure, utilities, media, and retail) outperform the overall market between May 1st and October 31st and manufacturing and production stocks (e.g., consumer durables, chemicals, construction, mining, steel) outperform between November 1st and April 30th.

Seasonal tendencies can be based on weather events (temperature, precipitation, planting cycle), spending surges (holiday and back-to-school shopping, end of government fiscal years, tax refunds), new-product announcements at industry conferences, or financial events (quarterly earnings reports, dividend hikes, and regulatory approvals.). The key is that the tendency is recurring and provides a high statistical probability that a stock price will continue to perform in the future in a manner consistent with previous price moves during a specific time of year. Of course, past performance is no guarantee of future results, but knowing historical seasonality can -- when combined with fundamental and technical analysis -- improve the odds of a winning trade.

Although one can speculate, exactly what causes stock-specific seasonality is somewhat of a mystery. Maybe an individual company chooses to announce a dividend hike at a certain time each year that other companies don't do, or a company has unique exposure in a foreign country that increases spending at a certain time of year when other countries don't, or a company purchases its raw materials from a special supplier that cuts its prices at a certain time of year, etc. As in physics, the behavior of objects is observable regardless of whether a good rationale for that behavior exists. The great physicist Niels Bohr once wrote:

In our description of nature the purpose is not to disclose the real essence of the phenomena but only to track down, as far as possible, relations between the manifold aspects of our experience.

# Description

## Frequency

## Strength

Symbol	Jan	Feb	Mar	Apr	May	Jun
GNC*	100	100	100	100	100	100
HES	80	100	100	100	80	70
LNKD*	100	100	100	100	100	100
SCTY*	100	100	100	100	100	100
SVXY*	100	100	100	100	100	50
BKE	70	100	90	100	100	90
ETP	70	100	90	100	90	90
MA*	57	86	86	100	86	86
PCLN	60	80	100	100	90	80
PNRA	40	80	70	100	60	60
LINE*	71	71	86	100	57	71
PX	50	70	70	100	80	100
VFC	30	70	70	100	90	100
SE*	50	67	67	100	67	83
HFC	60	90	90	90	90	80

BKE	Jan	Feb	Mar	Apr	May	Jun
2013	2.3	0.4	10.5	5.1	23.5	17.9
2012	9.8	18.9	26.0	18.7	8.7	-1.6
2011	-3.2	4.7	-4.9	19.6	7.0	7.1
2010	13.3	4.5	30.3	38.0	26.1	24.2
2009	-1.6	12.3	36.4	63.1	50.3	47.7
2008	2.6	8.5	27.7	34.9	39.1	31.5
2007	-1.2	5.3	0.9	8.4	5.4	17.2
2006	6.9	20.5	23.5	33.4	24.1	27.5
2005	2.7	5.8	8.2	20.0	34.4	51.2
2004	12.6	23.3	30.2	33.5	30.4	30.6
Wins %	70	100	90	100	100	90

\* Less than 10 years of data      Symbols: 122      F1 for help

The left-hand side of the seasonality app is a summary table of how each stock ticker symbol has performed over the past 10 years between the date in the top-left corner (which is adjustable) and the options expiration date over the next six months. The numbers are between 0 and 100 and represent the percentage of years where the stock rose in value. Consequently, the number “70” means that the stock rose between the start date and a particular month’s options expiration date in seven of the past ten years.

The right-hand side of the seasonality app shows the specific rates of return each stock has generated during each year of the past 10 years between the start date and each month’s option expiration date. The detailed rates of return offered on the right-hand side of the app are useful for determining the strength of the seasonality. A stock that has generated double-digit percentage rates of return in all of its up years is a better bet to continue generating positive returns in future time periods than a stock that has generated 0.4 percent rates of return in many of its up years.

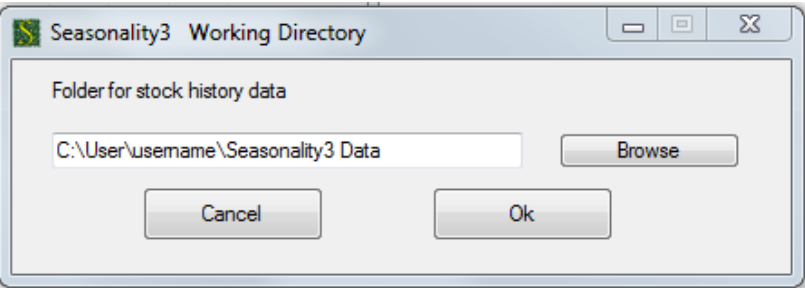
Frequency of gains (left-hand side of app) and strength of gains (right-hand side of app) are both important components of seasonality analysis.

The app displays up to 10 years of seasonality data. A business' focus and competitive positioning change significantly over time, so a stock's price action more than 10 years ago doesn't seem very relevant to its current price action (perhaps stable blue-chip businesses like Coke and Procter & Gamble are exceptions).

Time-value decay is very slow for options that expire more than six months out and credit spreads rely on time-value decay for their profit-making potential. Consequently, the app only provides seasonality data for the nearest six expiration months since those are the only months where the rate of time-value decay is fast enough to generate an attractive annualized rate of return -- for both new credit-spread trades and for existing credit-spread trades being rolled.

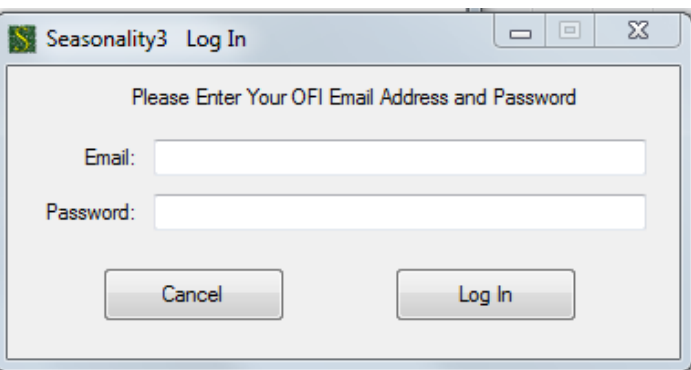
# Running the application for the first time

The first time you run the program it will ask you for a folder to save stock history data.



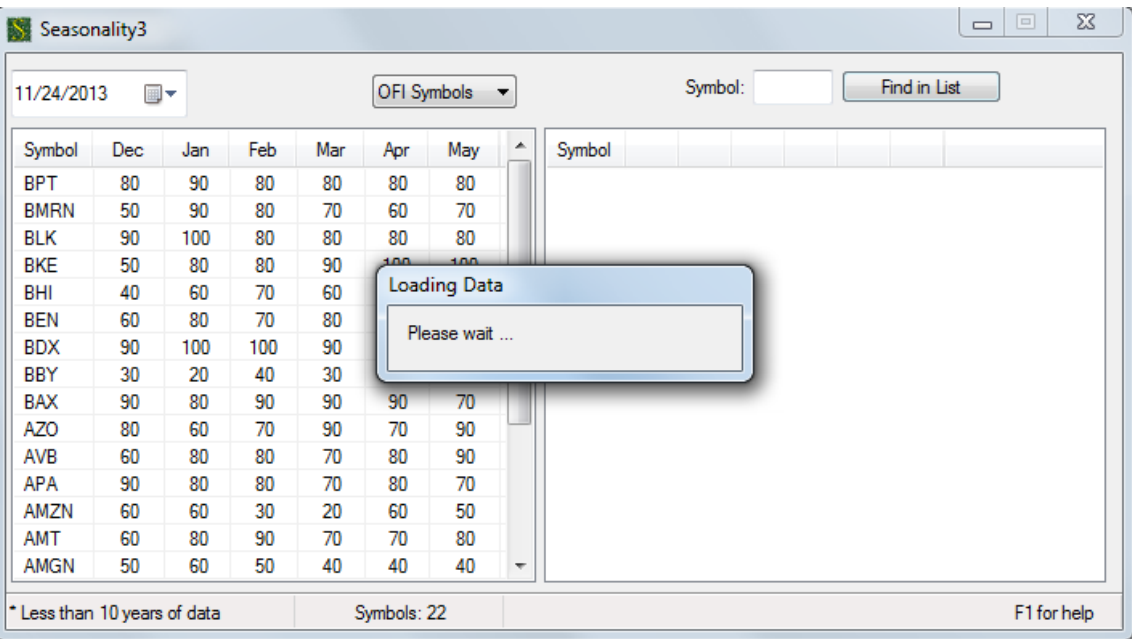
Click on OK to use the defaults.

Next you will see a login window.



Enter your OFI login information.

If login is successful, the application will start downloading history data for the stocks in the *Options For Income* portfolios.



# Using the Application

Click on a row in the left hand view to display the yearly table in the right hand view.

Seasonality3

11/24/2013 OFI Symbols Symbol: Find in List

Symbol	Dec	Jan	Feb	Mar	Apr	May
A	70	60	60	60	70	60
AAP	40	50	60	60	80	70
AAPL	50	60	50	60	60	80
ACN	90	70	60	70	70	60
ADSK	100	80	60	50	70	80
AGN	90	80	80	70	80	60
ALXN	60	70	70	70	60	100
AMGN	50	60	50	40	40	40
AMT	60	80	90	70	70	80
AMZN	60	60	30	20	60	50
APA	90	80	80	70	80	70
AVB	60	80	80	70	80	90
AZO	80	60	70	90	70	90
BAX	90	80	90	90	90	70
BBY	30	20	40	30	40	30

\* Less than 10 years of data Symbols: 119 F1 for help

ADSK	Dec	Jan	Feb	Mar	Apr	May
2012	11.6	17.9	22.6	26.2	13.6	16.7
2011	3.9	16.6	29.5	36.2	34.6	0.7
2010	10.4	17.1	22.5	11.2	21.6	19.5
2009	3.1	9.2	8.8	21.9	32.1	23.0
2008	18.0	2.9	-2.7	-14.7	18.0	21.1
2007	11.4	-9.9	-16.7	-30.1	-27.3	-11.0
2006	0.6	1.6	1.5	-10.1	-4.6	6.5
2005	7.0	2.8	-11.6	-4.7	3.9	-9.1
2004	11.4	-3.2	-10.6	-8.2	-2.0	11.0
2003	7.0	12.3	16.4	25.0	48.5	41.0
Wins %	100	80	60	50	70	80

Click on any column header in the right hand view to sort that column in descending order.  
Click again to sort ascending.

Symbol	Dec	Jan	Feb	Mar	Apr	May
A	60	70	70	60	70	60
AAP	40	50	70	70	80	70
AAPL	50	60	60	70	70	80
ACN	100	70	70	70	70	50
ADSK	100	70	60	50	70	80
AGN	80	90	70	70	80	60
ALXN	70	80	70	70	80	80
AMGN	60	60	50	40	50	40
AMT	60	80	70	80	70	80
AMZN	60	60	40	30	60	50
APA	80	70	80	70	80	60
AVB	80	70	70	70	90	80
AZO	80	70	70	80	70	90
BAX	100	100	90	90	90	70
BBY	20	20	40	40	40	30

Sort

Symbol	Dec	Jan	Feb	Mar	Apr	May
FB*	100	100	100	100	0	100
GNC*	50	100	100	100	100	100
LNKD*	100	100	100	100	100	100
SVXY*	50	100	100	100	100	100
BDX	90	100	100	90	100	90
SXL	80	90	100	90	100	80
BAX	100	100	90	90	90	70
MON	80	100	90	90	90	90
KMP	50	100	90	80	80	80
CCK	90	90	90	90	90	80
SNA	90	90	90	90	80	90
CVD	80	90	90	70	90	80
ETP	80	80	90	90	90	80
HP	90	80	90	90	100	80
LH	90	80	90	80	80	90

To find a stock, enter the symbol in the input box. Click on “Find in List”, or press enter. The app remembers the last 15 entries.

The screenshot shows the Seasonality3 v1.2 application window. At the top, there is a date selector set to 3/23/2014 and a dropdown menu for OFI Symbols. A search bar contains the symbol "OXY", which is circled in red, and a "Find in List" button. Below this, there are two tables. The left table lists various stock symbols and their values for the months of April through September. The right table shows the seasonal data for the selected stock, OXY, for the years 2004 through 2013, with columns for the months April through September. At the bottom, there is a status bar indicating "Less than 10 years of data", "Symbols: 144", and "F1 for help".

Symbol	Apr	May	Jun	Jul	Aug	Sep
GNC*	100	100	100	100	100	100
SCTY*	100	100	100	100	100	100
CVS	70	70	90	80	70	80
DTV	90	90	90	100	80	90
ECL	90	90	90	90	70	100
ESRX	70	70	90	70	60	60
MCK	50	90	90	80	70	60
NEE	80	80	90	80	80	90
OXY	60	50	90	80	70	60
SNA	60	80	90	80	70	80
AMZN	80	70	80	70	70	90
AVB	70	70	80	80	70	90
BA	70	80	80	70	70	50
CB	80	70	80	60	60	100
D	90	60	80	90	90	90

OXY	Apr	May	Jun	Jul	Aug	Sep
2013	1.2	18.0	15.1	17.9	10.7	18.0
2012	-9.2	-18.4	-12.1	-10.1	-8.5	-9.3
2011	-1.3	0.3	2.5	5.7	-18.8	-15.9
2010	2.1	-4.7	4.9	-4.3	-9.5	-7.7
2009	-2.2	-1.5	6.3	11.6	23.2	27.7
2008	18.5	35.8	22.9	11.3	8.6	16.0
2007	7.1	13.2	23.3	29.1	13.0	34.5
2006	13.7	-0.0	3.2	6.2	11.8	-5.6
2005	-4.9	-1.2	16.8	14.9	15.5	26.7
2004	8.6	0.0	8.5	13.5	13.8	23.6
Wins %	60	50	90	80	70	60

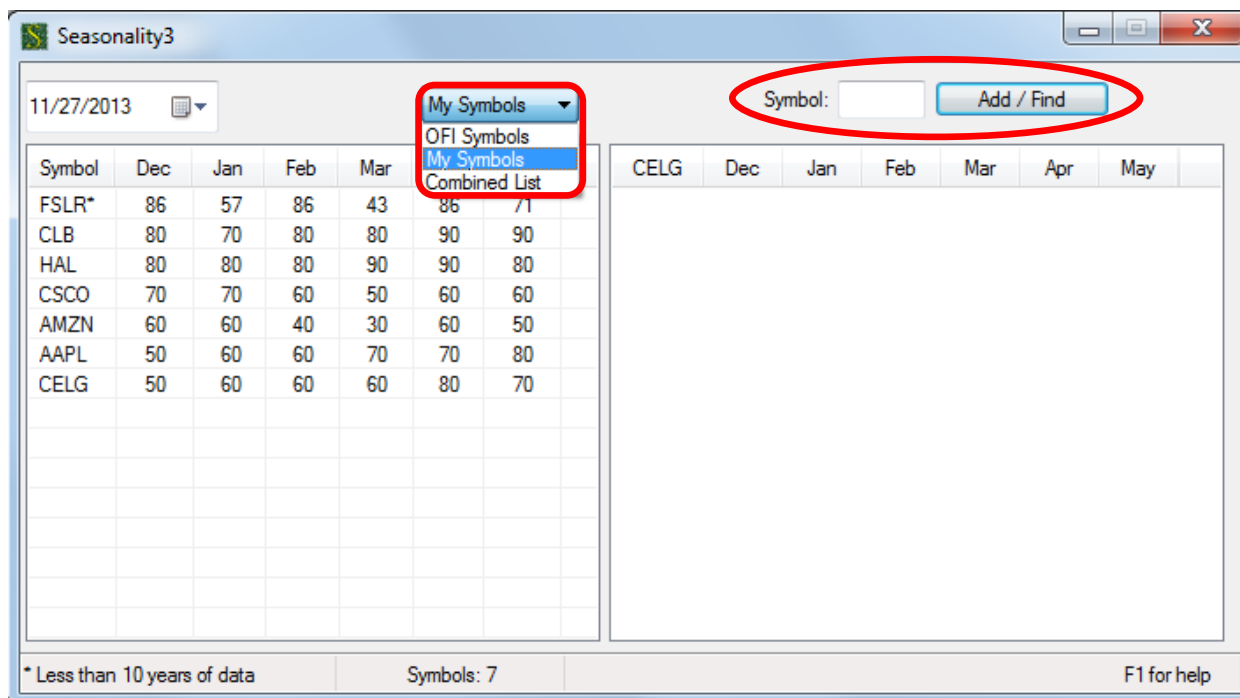
The application will recalculate for any date within 5 months of today's date. Use the pull-down to select a new date, then click on the Update button. Click on the symbol in the upper left corner of the right-hand view to display the new results.

The screenshot shows the Seasonality3 application window with a date selection calendar open. The calendar is for November 2013, and the date 24 is selected. The "Update" button is highlighted with a red box. The search bar is empty, and the "Find in List" button is visible. The left table lists various stock symbols and their values for the months of April and May. The right table shows the seasonal data for the selected stock, CELG, for the years 2003 through 2012, with columns for the months December through May. At the bottom, there is a status bar indicating "Less than 10 years of data", "Symbols: 119", and "F1 for help".

Symbol	Apr	May
AMGN	50	60
AMT	60	80
AMZN	60	30
APA	90	80
AVB	60	80
AZO	80	60
BAX	90	80
BBY	30	20

CELG	Dec	Jan	Feb	Mar	Apr	May
2012	1.5	27.4	25.8	43.2	55.9	59.1
2011	5.4	22.2	23.5	25.1	30.9	12.7
2010	-3.8	-9.0	-13.2	-14.0	-7.5	-1.8
2009	1.0	3.9	8.4	16.2	10.0	1.4
2008	8.7	-0.1	7.3	-9.5	-23.9	-20.9
2007	-23.0	-12.2	-10.6	-7.1	3.4	-2.0
2006	6.1	-0.3	-3.1	-5.7	9.3	17.0
2005	-7.3	7.1	12.0	33.9	20.4	25.2
2004	-0.7	5.7	1.0	21.5	36.3	44.9
2003	-4.6	-7.5	-13.0	3.6	14.9	19.3
Wins %	50	50	60	60	80	70

To add your own stocks, click on the pull-down to display My Stocks. Enter symbols in the input box and click on the Add / Find button.



To remove a stock from your list, right click on the row and select Remove. Or, click on any row to select a stock, then press the delete key.

When displaying **OFI symbols**, you cannot add or delete anything, and the add/find button changes to Find in List. Press **F5** to refresh the list from the OFI server.

When displaying **My Symbols** you can add and delete whatever you want. In fact, you can have duplicates of the OFI symbols. This allows you to have your own portfolio.

When displaying **Combined List**, you can add and delete your own symbols, but you cannot delete OFI Symbols.

These two keys are only used if there was an error downloading historical data.

F6 — Refresh highlighted symbol from server

F8 — Refresh ALL symbols in the displayed list

Disclaimer: This application does not provide trading or investment advice. The information provided is for informational purposes only. The application is provided as-is. The data is from public sources and the developer is not responsible for errors and omissions. Historical price patterns are unstable and could be temporary and coincidental. There is no guarantee that future price patterns will mimic the past.

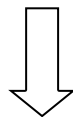
# Credit Spread Calculator

First display any stock in the right-hand strength view. Then click on a month header in the right-hand strength view. This should bring up a new window called Spread Calculator. Enter numbers for a Call or Put Credit spread. Click calculate or press Enter. You can reposition this window and it will remember the location.

The screenshot shows the 'Seasonality3 v1.2' application. The main window has a date of 3/23/2014 and a dropdown for 'OFI Symbols'. A 'Find in List' button is present. Below this is a table with columns for months (Apr, May, Jun, Jul, Aug, Sep) and rows for various stock symbols. The 'Jun' column header is circled in red. A 'Spread Calculator' window is open in the foreground. It contains the following fields and buttons:

- Credit Spread for: Amazon.com, Inc. Price: 360.62
- Buy June:
- Sell June:
- Net Credit:
- Contracts:
- Buttons: Close, Calculate

Click Calculate or press Enter



The screenshot shows the 'Spread Calculator' window after the calculation. The fields are now populated with values, and additional calculation results are displayed on the right side of the window.

Credit Spread for	Amazon.com, Inc.	Price: 360.62
Buy June	340	Put Credit Spread
Sell June	350	margin requirement: \$2000
Net Credit	2.25	89 day return on risk: 29.0%
Contracts	2	maximum gain: \$450
		maximum loss: \$1550
		net purchase price \$69,550
		discount to current price 3.6%
		break even: 347.75

Buttons: Close, Calculate