From: Richard Kahn [redacted]
Sent: Wednesday, September 14, 2016 4:30 PM
To: jeffrey E.
Subject: Fwd: AAPL - now a good opportunity to overwrite

Richard Kahn
HBRK Associates Inc.
575 Lexington =venue 4th Floor
New York, NY 10022
tel [redacted]
fax
cell

Begin forwarded message:

From: =/b>"Ens, Amanda" [redacted]

Subject: =/b>AAPL - now a good =pportunity to overwrite

Date: =/b>September 14, 2016 at 10:53:56 =M EDT

To: =/b[redacted]

Rich,

AAPL October vols are up by about 5 =ol points from mid-August. Our trader now recommends call overwrites =selling vol). We aren't set up yet to sell options for our =ccount here but I'm happy to help if you'd like to discuss ideas.

Regards,

Amanda

From: Ens, Amanda
Sent: Tuesday, August 16, 2016 1:27 PM
To: 'Richard Kahn'
Subject: AAPL – Implied vols at extreme low =evels. Replace long AAPL positions with cheap call options

Rich,

I'm not sure =f you own AAPL but in case you do, I wanted to share our recommendation =o replace long AAPL positions with =heap call options to lock-in profits from the recent 14% rally after Q3 =arnings.

AAPL implied vol at extreme low levels => buy upside =alls. A two year look back for 2-month ATM implied vol is in =he 1st percentile. The company is supposed =o announce details for the iPhone 7 around Sept 7th, prior to October option expiration and we believe implied volatility is =oo low. After the last 5 earnings reports (excluding the earnings event =ove), AAPL has realized 19%, 21.5%, 27.5%, 32.5% and 19.75% - we =hus see limited downside to being long October vol at ~18.8%.

* Stock replacement: Buy =ct 21st expiry AAPL 115 calls @ 1.60 (1.4% =remium)

o or buy the Oct 21st expiry AAPL 110 calls @ 3.55 (3.2% premium)

If you would like to have exposure through Oct =4th earnings and the elections, we could look at =ovember but the vol is about 2.5 vol points higher.

* Buy Nov 18th expiry AAPL 115 calls @ 2.65 (2.3% =remium)

o or buy the Nov 18th expiry AAPL 110 calls @ 4.70 (4.3% premium)

Why replace stock with call =ptions?

Post AAPL =arnings on Jul 26th, nearer-dated (1 month to 3 =onth) implied volatility declined sharply. 2 month ATM options are =asically at 5 year lows. It's not to be ignored the =ompany holds a sizeable cash position on the balance sheet which can have a volatility =ampening effect on the shares. However, there may still be a key =atalyst - the company is supposed to announce details for their next =eneration iPhone prior to October expiration and we believe implied volatility is too low. Based on last year's timing, =pple is expected to host an event this year around September 7th to announce their new phone. The phone would typically come =vailable for purchase a week or so later.

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According to our =esearch analyst, through our own analysis and conversations with the =uyside:

* Positive catalysts needed are:

1. Better features than expected (unlikely)

2. Pricing of iPhone

3. Announcement of a much improved watch =possible)

4. New macs (not a needle mover)

* Negative catalysts could be:

1. Sell on the news on iPhone 7 =nnouncement

2. Early order sell out trends, if weak, can be =egative ahead of Oct expiry

I should also note that cash repatriation policy =ight change after the elections; a repatriation tax reduction could =mpact AAPL's return of capital to shareholders significantly =$153bn cash, 80% outside the US, cash is 28% of AAPL's market cap as of 1Q16). We can discuss our research on this further if =ou're interested.

Vol =urface

AAPL –=Two year look-back for = month ATM implied and 2 month implied - realized spread, all screen very cheap 1st =ercentile and 19th percentiles respectively (see =etails and charts below). Seems the options market is pricing the =ext product release announcement (IPhone 7, etc.) as not much of a catalyst at all. The current low level of implied volatility has =een carrying well with realized volatility higher than implieds on 30-, =0- and 100-day basis. We expect implied vols to find a =loor, and realized volatility continue to support this over the coming several weeks as we approach the new product release. =his options backdrop provides an opportunity if you are looking for =ays to add leverage or reduce risk into the event (stock replacement =ith call options.)

2 year look back of 2 month atm =mplied vol (absolute) – 1st percentile low

Source: Bloomberg

2 year =ook back 2 month implied – 40 day realized spread =9th percentile cheap

Source: Bloomberg

Regards,

Amanda

Amanda Ens

Director

Bank of America Merrill =ynch

Merrill Lynch, =ierce, Fenner & Smith Incorporated

One Bryant Park, 5th Floor, New York, NY 10036

Phone: [redacted]

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