



## Engineered Income Investing

by Richard Berger

*"I find quality dividend stocks, fair value, & use covered options to boost yield to 8% to 20% range. Low Risk Stocks transformed to high yield income"*

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# Dominos Pizza Ex-Dividend DOPA Idea



An Olympics world class flip can bring home the gold. I have created the Dividend-Option Premium Arbitrage strategy to generate fast turn around high yield cash income at deep downside protection for low risk. The upcoming March 12, 2021 Dominos Pizza (DPZ) \$0.94 dividend offers an potential DOPA trade opportunity.

### Brief Summary:

Our Engineered Income Investing research report of December 16, 2020 introduced Dominos Pizza (DPZ) as a Storm Portfolio target ticker due to its number one position as the world's largest pizza chain. After record making sales in 2020, the latest earnings report and call of

2/25/21 delivered a miss on revenues and earnings as the covid19 lock-down eased and dine-out rebounded somewhat, impacting popular pizza takeout/delivery alternatives. This sent DPZ shares plunging in an over reaction to this news. Fundamentals still remain robust for Dominos and it has 2021 plans in place to open a record number of new stores, pressuring competition and making rapid delivery all the more dominant. 2021 also continues DPZ investment in strategic cost reduction with robotics and drones. All this, along with the very low <25% dividend payout ratios, make DPZ a very tasty investment target at the current lowered prices. The immediate DOPA opportunity is a way to fast profits or ultra low bargain entry price.

Dividend-Option Premium Arbitrage (DOPA) strategy is a new twist on long popular dividend capture strategies. Traditional dividend capture strategies seek to swoop in and buy shares shortly before ex-dividend, then harvest the dividend and sell shares soon after so as to free up the investment capital to target another dividend capture from a fresh ticker instead of waiting 3 months for the next dividend harvest. In this manner, they seek to harvest as many as 12 dividends per year from the same investment tranche capital instead of just 4. There are several flaws or weaknesses to this strategy that I have discussed previously, including the downward reset of trading price on many stocks going ex-dividend, directly offsetting the value of the dividend harvest, and normal price fluctuation creating downside risk greater than the dividend harvest. DOPA strategies avoid this pitfalls by using a short term buy-write strategy to buy shares shortly before ex-dividend, thereby avoiding longer term market risk from holding. This downside risk management is greatly magnified by concurrently writing deep in the money covered calls at share prices far below current market and expiring within 30 to 45 days generally, while expecting to be closed even sooner within a few days as shares are ready to go ex-dividend and get called away for dividend harvest by the deep in the money call option owner. So long as shares do not deeply plunge within the few days leading up to ex-dividend, they almost surely be called away for that dividend. Thus, no risk exists so long as shares remain above the call strike price. In the event shares are not called away, the position becomes a normal value bargain entry EII strategy entered at a huge discount to value and adding the almost immediate dividend harvest to the attractive option premium yield.

Let's look at the current DPZ DOPA opportunity. YDP fair value for Dominos shares is currently \$417.39. Shares are trading at \$354.08, on a mild short squeeze rebound after the recent plunge to the \$320 level.



A DOPA trade buy-write uses a market buy at \$354.08 and concurrently sells deep in the money short term covered calls using the 9 day call contracts for 3/19/21 \$345.00 @ \$11.50 premium, for a net debit cost break-even cost of \$342.58. If called away early by 3/11/21 for dividend harvest before the 3/12/21 ex-dividend date, the holding time will only be 2 days and the \$345 call price is a \$2.42 gain over your net \$342.58 cost. This quick return is a 128.92% annualized yield rate. If not called away, you harvest the \$0.91 dividend, lowering net break-even cost even further, to \$341.67. This is \$12.41 (3.5%) below current market with just 2 days of market exposure and is downside protection not provided by traditional dividend capture strategies.

In the event the market plunges below \$345 and remains there to the 10 day expiration, this market risk is no different then that exposed by a traditional dividend capture strategy but we have the \$11.50 option premium harvest, giving us a great advantage over the traditional dividend capture strategy and a much deeper downside break-even position. The \$11.50 premium on our net debit \$342.58 buy-write cost held for the 10 day contract is an annualized yield rate of 122.53%

and our traditional EII strategies allow us to continue generating call option premium to boost the dividend income yield as we hold shares to recover towards fair value from the bargain entry position.

An alternative DOPA trade idea is to use the covered call leg for the longer 37 day 4/16/21 \$330.00 @ \$27.25 premium combined with the market buy leg for a net a debit cost of \$326.83. This is deeper downside protection \$28.75 (8.12%) below current market. The market risk holding period if called away early for dividend capture remains just 2 days. In that event, the net gain is \$3.17 on the \$330.00 call away strike price, for a 177% annualized yield rate. If shares should not be called away by expiration, we have added the dividend harvest, taking our break-even down to \$325.79 and providing a return on the net premium for the 37 day holding period on our \$326.83 net debit initial cost at an annualized yield rate of 82.85% to add on top of the 1.06% dividend yield. We then continue to write period fresh covered calls at above cost strikes to add more cash income boosting dividend yields and further lowering our total net break-even costs while we await share price recovery.

Remember in evaluating DOPA opportunities that call strike price plus option premium needs to always exceed the share market price in order for the buy-write to make sense. This excess should preferably be at least about the value of the dividend itself or more, so that if called away for dividend capture, the net from the option premium still is as much as that dividend would have provided.

DPZ		DOMINOS PIZZA INC COM		354.08	0	0.00%	B 347.51	NYSE	W +4.504
Underlying									
Last X		Net Chng		Bid X		Ask X		Size	Volume
354.08 N		0		347.51 P		359.00 P		N/A	N/A
Last Size		Yield		PE		Div		Div.Freq	Ex Div.Date
0		1.06%		28.58		.94		Q	3/12/21
Trade Grid									
Option Chain									
Sides: Both Exp. types: Regular, Weeklys, Quarterlys Deliverables: Regular Spread: Single Layout: Volume, Mark, Last X, Open Interest, Co...									
CALLS									
Volume		Mark	Last X	Open.....	Cov R...	Bid X	Ask X	Strikes: 14	PUTS
19 MAR 21 (9) 100									
Engineered Income Investing: Exclusive Research									
0		18.400	9.40 C	5	18.77%	16.00 I	20.80 I	19 MAR 21	337.5
0		14.900	15.00 N	67	8.46%	13.60 I	16.20 I	19 MAR 21	340
0		13.250	11.50 C	19	17.23%	12.50 A	14.00 A	19 MAR 21	342.5
0		11.500	10.25 Q	41	24.96%	10.80 I	12.20 I	19 MAR 21	345
0		9.850	10.00 Q	45	33.73%	9.40 A	10.30 I	19 MAR 21	347.5
0		8.450	7.10 I	133	45.08%	7.90 A	9.00 W	19 MAR 21	350
0		6.950	5.20 Z	36	55.39%	6.50 A	7.40 A	19 MAR 21	352.5
0		5.800	4.75 I	35	59.83%	5.30 I	6.30 A	19 MAR 21	355
0		5.050	2.35 Q	54	52.09%	4.30 A	5.80 A	19 MAR 21	357.5
0		4.200	3.22 E	166	43.32%	3.50 W	4.90 A	19 MAR 21	360
0		3.275	2.54 I	13	33.78%	2.65 W	3.90 I	19 MAR 21	362.5
0		2.325	2.25 N	81	23.98%	2.05 Z	2.60 I	19 MAR 21	365
0		1.975	1.71 X	22	20.37%	1.60 Z	2.35 A	19 MAR 21	367.5
0		1.550	1.40 Q	258	15.99%	1.20 Z	1.90 E	19 MAR 21	370
16 APR 21 (37) 100									
0		64.250	40.77 E	2	0.46%	59.50 W	69.00 P	16 APR 21	290
0		54.300	48.00 X	4	0.60%	49.60 P	59.00 C	16 APR 21	300
0		45.250	18.60 T	4	3.18%	41.00 W	49.50 Z	16 APR 21	310
0		35.750	28.00 E	5	4.53%	34.60 I	36.90 A	16 APR 21	320
0		27.250	26.59 C	38	8.61%	25.40 I	29.10 I	16 APR 21	330
0		20.150	20.00 N	91	16.48%	19.60 I	20.70 X	16 APR 21	340
0		14.000	14.30 N	63	26.93%	12.30 X	15.70 X	16 APR 21	350
0		9.250	9.48 I	1,424	25.11%	8.70 X	9.80 X	16 APR 21	360
0		6.000	5.43 I	923	16.29%	5.40 X	6.60 Z	16 APR 21	370
PUTS									
Volume		Mark	Last X	Open.....	Cov R...	Bid X	Ask X	Strikes: 14	PUTS
19 MAR 21 (9) 100									
0		2.225	3.30 M	44	22.95%	1.25 Z	3.20 A	19 MAR 21	337.5
0		2.675	1.90 E	423	27.59%	1.65 I	3.70 I	19 MAR 21	340
0		2.925	2.50 Q	96	30.17%	2.25 I	3.60 P	19 MAR 21	342.5
0		3.575	4.89 A	32	36.88%	2.85 A	4.30 A	19 MAR 21	345
0		3.950	8.10 Z	13	40.75%	3.50 I	4.40 A	19 MAR 21	347.5
0		4.950	4.80 W	638	51.06%	4.60 I	5.30 Q	19 MAR 21	350
0		6.050	9.20 E	6	62.41%	5.60 I	6.50 A	19 MAR 21	352.5
0		7.500	8.50 W	39	67.87%	6.60 I	8.40 Q	19 MAR 21	355
0		9.100	10.50 A	16	58.59%	8.20 I	10.00 A	19 MAR 21	357.5
0		10.550	11.90 Q	253	47.76%	9.70 X	11.40 A	19 MAR 21	360
0		12.400	33.00 A	6	41.05%	11.50 I	13.30 I	19 MAR 21	362.5
0		13.950	35.85 Z	20	31.26%	11.70 I	16.20 I	19 MAR 21	365
0		15.500	21.55 I	9	21.46%	13.50 I	17.50 I	19 MAR 21	367.5
0		20.150	20.10 M	584	43.63%	17.30 I	23.00 C	19 MAR 21	370
16 APR 21 (37) 100									
0		.275	.45 I	911	0.75%	0 P	.55 A	16 APR 21	290
0		.475	.82 A	501	1.29%	.05 E	.90 X	16 APR 21	300
0		1.300	1.30 Z	1,458	3.53%	1.20 A	1.40 Z	16 APR 21	310
0		2.325	2.35 M	187	6.31%	2.20 Z	2.45 Z	16 APR 21	320
0		3.950	4.12 C	605	10.72%	3.70 X	4.20 Z	16 APR 21	330
0		6.550	6.70 I	104	17.78%	6.10 E	7.00 A	16 APR 21	340
0		11.000	10.67 A	56	29.86%	9.70 I	12.30 I	16 APR 21	350
0		16.200	16.50 H	51	27.91%	15.10 I	17.30 X	16 APR 21	360
0		22.800	43.61 F	40	18.68%	21.50 A	24.10 X	16 APR 21	370

### **Closing Thoughts:**

I continue to focus on deep downside protection and high quality tickers as market uncertainty and new frothy highs prevail. I am vaccinated now (1<sup>st</sup> shot) and in the Tampa area at least through April 19<sup>th</sup> should anyone wish to meet for a beverage or meal.

As always, I remain available to discuss anything on your mind, via chat, direct message, or email.

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