

Playing Moneyball with \$RBAC

Over the past month, I've done three posts on SPAC / option trades: The curious case of PSTH's options, assessing IPOC's options, and a premium only post. Of those three, I'd say the most popular was PSTH, the most ignored was IPOC (perhaps correctly, as they set their shareholder vote for Jan. 6 literally one day after the post came out! Still, I think the risk / reward remains excellent there, though with a little bit more downside than originally expected), and the best risk / reward was the premium post (said with perhaps a bit of bias!).

The basics of those posts have all had two things in common:

1. Options are risky. Nothing on here is investment advice. That point (not investment advice) applies to everything on this site, but just want to particularly reiterate that here because options are risky.
2. There is currently an absolute craze when it comes to SPACs, and given the implied volatility in these SPACs is at bonkers levels, you can create some really interesting trade structures that gets you access to the stock at a huge discount and perhaps with added downside protection of being able to redeem your shares for cash if the SPAC craze ends suddenly.

Just to hammer that point home, underlying all of these trades is one simple belief: many SPACs are currently trading with implied volatility of 100% (or more). That's an absolutely insane level; a SPAC is either a simple cash shell (if it's pre-deal, like PSTH) or about to merge with a business (if

it's got an announced merger, like IPOC). You know the financials and the business if it's the later; often these businesses are reasonably storied. Why should they trade with implied volatility higher than pre-revenue biotech companies? As I write this, Moderna (MRNA) has an implied volatility of ~100. That's a pharma company working on a novel vaccine for COVID; yes, it'll almost certainly be approved, but we don't know when, we don't know how many other drugs will be approved, and we don't really know what the financials behind them look like. How can MRNA have an implied volatility of 100 while IPOC, a simple SPAC about to complete a merger with a known target that has a known set of financials and projections, has an implied volatility of 160? Insane.

Anyway, the basic theme I've tried to run with all of these trades is: find a SPAC that has not closed a deal yet but that is trading around trust value. Use options to create the stock for less than trust value, preferably with the options expiring before the shareholder date for the SPAC. If the shares run up into the meeting; awesome. If they don't, just redeem the shares and you'll have made a net profit. Heads, you win a lot (the stock runs into the meeting and your stock gets called away); tails, you win a little (you redeem and keep your option premium).

Unfortunately, there aren't many SPACs that meet all of those criteria. A lot of SPACs have options trading, but they're trading at enormous premiums to trust value. Given the implied volatility in those, there may be interesting trades to set up there, but you don't get that downside protection of the trust redemption feature and I have trouble understanding the fundamental case of a lot of those SPACs so without the redemption "put" I'm not crazy interested in them.

However, there are a few more that I haven't mentioned yet that I've found interesting. Today I wanted to talk about one more to add to the SPAC option basket. This trade is probably lower octane than the other three options, but it's also probably the lowest risk. All in, I like this trade more than I do PSTH and probably about equal to IPOC now that we know the shareholder date there will be a little before options expiration in January.

The trade? Buy RedBird Acquisition (RBAC) and sell the March \$12.50 calls to create the stock for less than \$10/share (currently, the shares are trading for ~\$10.70 and the March calls trade for ~\$1, creating the stock at \$9.70/share net). The March puts also look interesting (trading at ~\$0.60/share), but as I'll discuss in a second I like the buy/write of the equity/calls because it gives you upside if the stock pops on a deal (which I think is very possible).

RBAC US Equity												
Calls						Puts						
Ticker	Bid	Ask	Last	IVM	Volm	Ticker	Bid	Ask	Last	IVM	Volm	
18-Dec-20 (5d); CSize 100; R .22												
1) RBAC 12 C7.5	1.10y	5.10y				25) RBAC 12 P7.5		2.85y		912.98		
2) RBAC 12 C10	.50y	.90y	.60y	27.93	2	26) RBAC 12 P10		.10y	.10y	59.41		
3) RBAC 12 C12.5	.05y	.20y	.25y	106.07		27) RBAC 12 P12.5		.55y	2.90y	1.90y		
4) RBAC 12 C15		.10y	.10y	170.20	2	28) RBAC 12 P15		2.10y	5.80y			
15-Jan-21 (33d); CSize 100; R .22												
5) RBAC 1/21 C7.5	3.20y	5.10y	3.20y	196.41		29) RBAC 1/21 P7.5		2.90y		415.19		
6) RBAC 1/21 C10	.70y	.90y	.75y	21.94	320	30) RBAC 1/21 P10		.05y	.10y	24.65		
7) RBAC 1/21 C12.5	.40y	.50y	.45y	78.15	114	31) RBAC 1/21 P12.5		1.70y	2.30y	57.01		
8) RBAC 1/21 C15	.05y	2.85y		202.15		32) RBAC 1/21 P15		2.05y	6.70y	74.14		
19-Mar-21 (96d); CSize 100; R .21												
9) RBAC 3/21 C7.5	3.10y	3.50y	3.40y	48.00	1	33) RBAC 3/21 P7.5		2.95y		251.53		
10) RBAC 3/21 C10	1.25y	2.00y	1.62y	57.56	182	34) RBAC 3/21 P10		.60y	.65y	44.22	405	
11) RBAC 3/21 C12.5	.80y	1.20y	1.05y	73.29	564	35) RBAC 3/21 P12.5		2.45y	3.30y	2.90y	77.89	25
12) RBAC 3/21 C15	.75y	.90y	.75y	90.99	117	36) RBAC 3/21 P15		4.00y	5.50y	5.00y	71.62	35

The overall thought here is very similar to PSTH: RBAC has yet to announce a merger; at this point, I think it's extremely unlikely that RBAC will be able to announce a merger and hold their shareholder vote before the March options expire. In general, it takes ~3 months for a SPAC to go from merger announcement to shareholder vote and merger close, so if they

don't announce a deal this week there will simply not be enough time for a vote to happen before the options expire. Even if they did announce a deal this week, I think it's likely the vote would be after options expiration, though it would be close.

Why does this matter? SPACs have the right to redeem their shares for trust value at the shareholder vote, so if the shareholder vote happens after options expiration, this trade has created the SPAC for less than trust value while giving you access to significant upside if the stock pops on a potential deal announcement.

That stock pop is an interesting angle to this trade. It's tough to predict if a SPAC will "pop" on deal announcement. I mean, if the SPAC announces a merger with an EV company, a triple on the announcement is basically a given, but outside of that it's tough to figure out what companies will catch the imagination of the "investors" who traffic in SPACs.

Still, I think RBAC is more set up than most to capture traders attention. RBAC is the SPAC backed by Billy Beane (of Moneyball fame), and it's trying to find a sports focused target. There were rumors of a Red Sox merger early October, but to date nothing has come of those rumors. Still, it's not hard to imagine traders getting captivated by the story of applying a "moneyball" process to any team that Beane merges with. Imagine if RBAC announced a merger with a perennial laughing stock like the "Washington Football Team" or the Knicks? Couldn't you see traders bidding that stock up on a bright future that involved turning storied franchises in major markets into a dominant force?

And, while it seems RBAC will target a sports team, there's no reason it has to be a sports team. What if they announced a merger with a sports betting or sports data analytics company? Again, this is speculation, but I'd have to imagine investors go absolutely bonkers for that merger. It practically sells itself ("The godfather of analytics turns his talents to gambling").

Who knows? The most important thing is that, by buy writing the stock, you are creating it for less than trust value. If the market goes bonkers and bids this up into a merger, fantastic! You've made a huge profit. If the market doesn't care... whelp, you'll eventually redeem your shares and have made a small profit anyway.

Win / win.

Three last notes while I'm here.

First, a reminder that options are risky and nothing

Second, in general, SPACs get mergers done ~90 days after they announce. There's a chance that an RBAC merger takes slightly longer; if RBAC intends to merge with a sports team, they'll need clearance from the league. RBAC probably holds their shareholder vote on a normal schedule regardless of what the league does, but there's a chance whatever league RBAC targets is a little slower to give clearance than RBAC would like, and if RBAC doesn't want to hold their shareholder vote before getting clearance than that would push out redemption day, which would obviously be great for the buy/write strategy.

Third, I've written this article like RBAC will announce a merger imminently. I wrote it like that because I'm most focused on downside risk, and the downside risk is that shares collapse after the merger goes through. As long as the merger hasn't gone through before the options expire, that downside risk shouldn't exist as you always have the put option of redeeming your shares for trust value. RBAC IPO'd on August 17 and has 24 months to find a target, so there's absolutely no reason that they need to announce a merger in the near future. Heck, it's possible they don't announce a merger till 2022! If that happens, investors who wrote options against RBAC will likely be very happy, as the shares will just linger around trust value while the investors are collecting option premium the whole time.