



ASK THE RISKDOCTOR:

LIVE Q&A

AUGUST 8TH, 2011

Rarely Answered Questions

Question:

I have a current position in NDX. I opened on the 18th Jul with an Aug. 2200/2260/2330 Put BWB and a 2425/2450/2500 Call BWB. I adjusted on the 19th with a 2450/2475/2520 Call BWB. Then on the 21st with a 2475/2505/2560 Call BWB. This has driven my Vega up to the extent that I would be uncomfortable adjusting again should the uptrend continue. On the 26th, I added a 2475/2500/2525 Call Bfly and a 2240/2300/2340 Put BWB. Apart from exiting the position are there any other adjustments I could consider?

Francis

07/26/2011	1	BUY	NDX 100	AUG 11	2240	PUT	\$826.00		826.00
07/26/2011	-2	SELL	NDX 100	AUG 11	2300	PUT	\$1,403.50	(6.00)	(2807.00)
07/26/2011	1	BUY	NDX 100	AUG 11	2340	PUT	\$2,036.00		2036.00
07/26/2011	1	BUY	NDX 100	AUG 11	2525	CALL	\$992.00		992.00
07/26/2011	-2	SELL	NDX 100	AUG 11	2500	CALL	\$1,614.00	(6.00)	(3228.00)
07/26/2011	1	BUY	NDX 100	AUG 11	2475	CALL	\$2,486.00		2486.00
07/21/2011	1	BUY	NDX 100	AUG 11	2560	CALL	\$268.00		268.00
07/21/2011	-2	SELL	NDX 100	AUG 11	2505	CALL	\$935.50	(6.00)	(1871.00)
07/21/2011	1	BUY	NDX 100	AUG 11	2475	CALL	\$1,703.00		1703.00
07/19/2011	1	BUY	NDX 100	AUG 11	2520	CALL	\$645.00		645.00
07/19/2011	-2	SELL	NDX 100	AUG 11	2475	CALL	\$1,527.00	(6.00)	(3054.00)
07/19/2011	1	BUY	NDX 100	AUG 11	2450	CALL	\$2,339.00		2339.00
07/18/2011	1	BUY	NDX 100	AUG 11	2200	PUT	\$1,928.00		1928.00
07/18/2011	-2	SELL	NDX 100	AUG 11	2260	PUT	\$3,056.00	(6.00)	(6112.00)
07/18/2011	1	BUY	NDX 100	AUG 11	2300	PUT	\$4,174.00		4174.00
07/18/2011	1	BUY	NDX 100	AUG 11	2500	CALL	\$438.00		438.00
07/18/2011	-2	SELL	NDX 100	AUG 11	2450	CALL	\$1,109.00	(6.00)	(2218.00)
07/18/2011	1	BUY	NDX 100	AUG 11	2425	CALL	\$1,715.00		1715.00
Total								(36.00)	260.00



Answer

Basically, you have way more strikes than RI can handle but what I will show is that you have Puts on the Left and Calls on the Right. More details for each Butterfly Dissection graphic are in the bottom image (Puts on left and Calls on Right).



Answer

(Cont.)

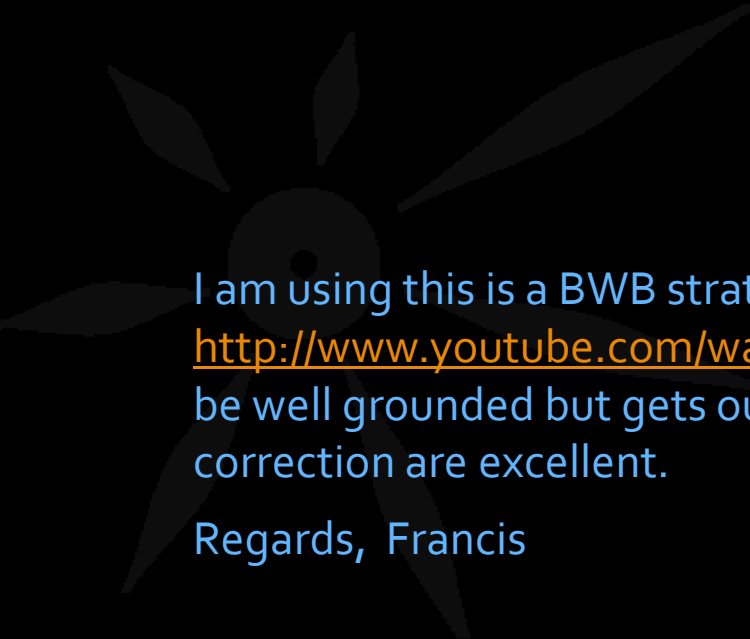
Obviously, you are more weighted with short Verticals on the call side. You own a lot of butterflies with a bias to the downside, as well. The risk reducing adjustments would be to cover some of the Call Verticals and while financing those purchases with funds harvesting some of the lower strike butterflies to create more of a balance.

Risk Illustrator

Risk Illustrator		RI v4.01 / Eurocent	
Butterfly Dissection	NDX	Expiry	19-Aug-11
Underlying	NDX	Expiry	19-Aug-11
Spot Price	2371.10	Today	28-Jul-11
Volatility %	25.20%	Actual DTE	22
Delta %	0.25%	Ass'd DTE	0
Option Chain			
Skew/Kurt	Smile	Delta %	100
Included Adjustment	Y	NDX	28-Jul
Profit/Kand	2370	Profit/K	2370
Adjusted Position (Net)		Premium\$	Liq Val \$
Profit / Loss	\$203	(\$157)	\$260
Lock Basket (BD)		Liq Val \$	Net O
		\$0	
Butterfly Dissection		Liq Val \$	Net Bfly
Butterfly Dissection 1	USA	\$273	40
Butterfly Dissection 2	USA	\$452	72
Butterfly Dissection 3	USA	\$0	
Butterfly Dissection 4	USA	\$0	
Butterfly Dissection 5	USA	\$0	
Butterfly Dissection 6	USA	\$0	
BD Total	USA	\$725	112
Remnant Basket		Liq Val \$	Net O
		(\$465)	
Risk Summary		Profit / Loss	NDX DTE
		\$203	28-Jul-11
Underlying	NDX	Expiry	19-Aug-11
Spot Price	2371.10	Today	28-Jul-11
Volatility %	25.20%	Actual DTE	22
Delta %	0.25%	Ass'd DTE	0
Graph Central			
Skew/Kurt	Smile	Premium\$	Liq Val \$
Remnant Basket	N/A	(\$465)	RemC
Butterfly Basket	N/A	\$725	112
Lock Basket	N/A	\$0	Bfly
Adjusted Position (Net)		NetC	NetP
		(\$157)	
Greeks	Remnant	Bfly	Lock (BD)
Delta	\$ 5.30	(\$ 6.66)	\$ 0.00
Gamma	\$ (0.06)	(0.02)	\$ 0.00
Vega	\$ (33.46)	(11.09)	\$ 0.00
Theta	\$ 19.31	6.41	\$ 0.00
Rho	\$ 7.85	(7.10)	\$ 0.00

Risk Illustrator

Risk Illustrator		RI v4.01 / Eurocent	
Butterfly Dissection	NDX	Expiry	19-Aug-11
Underlying	NDX	Expiry	19-Aug-11
Spot Price	2371.05	Today	28-Jul-11
Volatility %	25.20%	Actual DTE	22
Delta %	0.25%	Ass'd DTE	0
Option Chain			
Skew/Kurt	Smile	Delta	100
Included Adjustment	Y	NDX	28-Jul
Profit/Kand	2370	Profit/K	2370
Adjusted Position (Net)		Premium\$	Liab Val \$
Profit/Loss	(\$209)	(\$209)	(\$399)
Lock Basket (BD)		Liab Val \$	Net O
		\$0	Net Calls
			Net Puts
Butterfly Dissection		Liab Val \$	Net Bfly
		\$0	Liab Val \$
Butterfly Dissection 1	USA	\$363	70
Butterfly Dissection 2	USA	\$0	
Butterfly Dissection 3	USA	\$0	
Butterfly Dissection 4	USA	\$0	
Butterfly Dissection 5	USA	\$0	
Butterfly Dissection 6	USA	\$0	
BD Total	USA	\$363	70
Remnant Basket		Liab Val \$	Net O
		(\$762)	Rem Calls
			Rem Puts
Risk Summary		Profit/Loss	NDX DTE
		(\$598)	28-Jul-11
Underlying	NDX	Expiry	19-Aug-11
Spot Price	2371.05	Today	28-Jul-11
Volatility %	25.20%	Actual DTE	22
Delta %	0.25%	Ass'd DTE	0
Graph Central		Max Scale	5,000
		Min Scale	(8,000)
		Major Unit	1,000
		Show EDT-6	No
Skew/Kurt	Smile	Premium\$	Liab Val \$
Remnant Basket		N / A	(\$762)
Butterfly Basket		N / A	\$363
Lock Basket		N / A	\$0
Adjusted Position (Net)		(\$209)	(\$399)
Greeks		Remnant	Bfly
Delta	(8.64)	2.52	0.00
Gamma	(0.10)	(0.03)	0.00
Vega	(50.25)	(9.45)	0.00
Theta	29.34	1.85	0.00
Rho	(11.83)	3.35	0.00



I am using this is a BWB strategy as explained by Rob Chastain on YouTube (link: <http://www.youtube.com/watch?v=ooOFGNnNtg8&feature=related>) it seems to be well grounded but gets out of control sometimes and your ideas for correction are excellent.

Regards, Francis

Diamonetric Grids Follow

