Ri$k Doctor Forums

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Ri$k Doctor
Administrator
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Transparency Issue 2

« **on:** July 17, 2005, 08:22:10 PM »

The BoxTool Shows Something Worth Knowing

The following presentation will use the BoxTool to demonstrate why the supposedly attractive criteria of executing a certain kinds of spread is really a joke.

Be warned: One famous Options Seminar / Advisory / Scanning Software / School touts spreads like the following and BTW the finds are usually in underlying stocks whose individual options markets?? (the bid/ask spreads) are way too wide to trade on. Hard to get in and harder to get out.

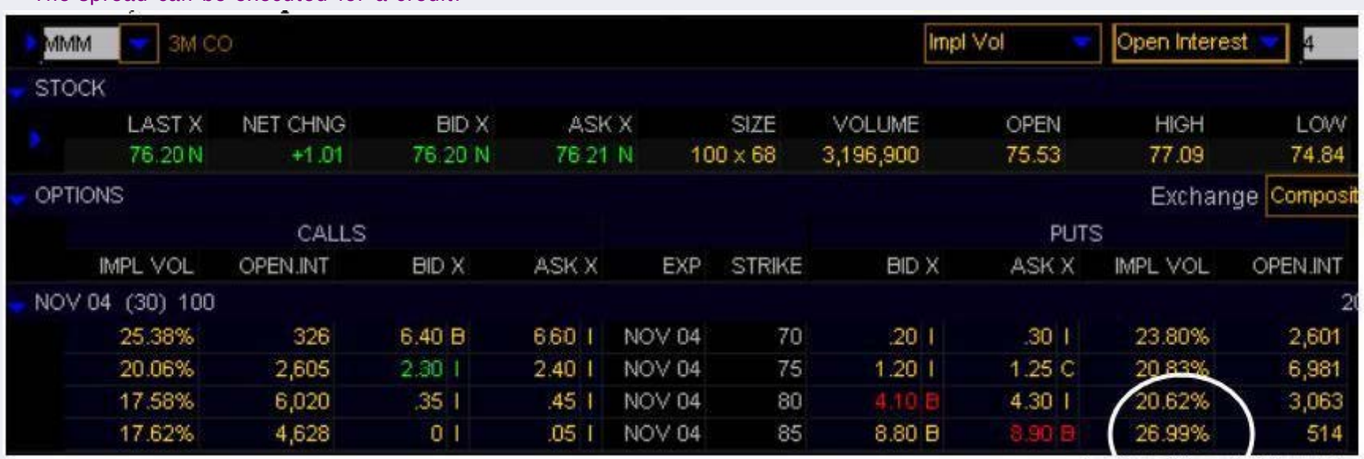
Attractive Back spread criteria:

1) A stock that can really move
2) Overall implied volatility levels are reasonably low
3) The spread can be executed for a credit.
4) The options to sell have greater implied volatility than the ones being bought.

MMM is a stock that can really move:

Overall implied volatility levels are reasonably low (not the lowest ever).

The spread can be executed for a credit.

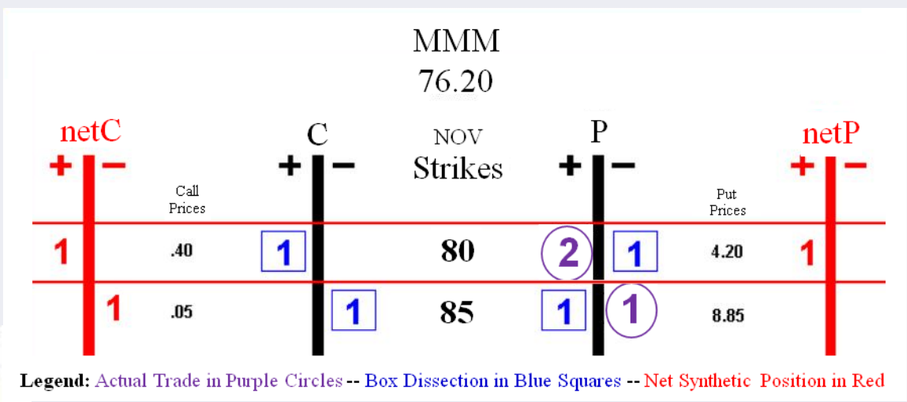


Courtesy of www.thinkorswim.com

The NOV 85/80 Put (+2*80P by -1*85P) Back spread for a credit of about .45 or so by buying 4.20s and selling at 8.85 (assuming middles knowing 8.85 not a tradable price):

The options to sell have greater implied volatility than the ones being bought. The two 80 Puts that are being bought have an IV of less than 21% for each 85 Put being sold with an IV of almost 27%.
So what's the problem?

1) The spread is synthetically a 4.55 debit and that is the most you could lose if the stock settles at 80.00 on expiration day. Meaning you have to like the idea of buying an ITM put for 4.20 and a call vertical for .35 (when a naked call is only .40).
2) Not too wise to sell the 85 call at .05 (synthetically that is what is being achieved on the vertical (especially because very little proceeds net of commissions).



	C	D	E	F	G	H	I	J	K
11			Raw Calls	Total Net Contracts			Raw Puts	1	
12									
13					PivotK	80			
14				Month	NOV			Inc Adj	Y
15		Raw Position							
16	nC	rC	Adj	Cur	K	Cur	Adj	rP	nP
35					70				
36					75				
37	1				80	2		2	1
38	(1)				85	(1)		(1)	
39					90				
40					95				
59					Net	1		1	1

Trade Allocation

« **on:** July 17, 2005, 08:39:44 PM »

You can probably recall that I mentioned that options are more for Week-Trading or Month-Trading and that would be a difficult transition to make for day traders unless they had a framework from which to build an overall game plan.

Realistically, you put an options trade on and have wait a few days, at least, because it is a play for a longer time horizon and a different trend dynamic (Sidewaysish or Explosivish in addition to Bullish or Bearish plays).

Unfortunately, people believe what they want to hear. For example, an instructor that I know used to say in his presentations that he often legs butterflies for credits. Of course this simply means that he had a hunch and was correct. He would buy a call vertical (bull spread), the market would rally and later when the adjacent vertical just above his original strikes was trading at a greater value than what he paid for the bull spread, he would do the bear spread resulting in a butterfly for a credit. What the student hears is that you can put butterflies on for credits (can only make money) and subsequently enters a bunch of orders do
just that. He is left to wonder why none of his orders get filled. In the early 80s we could do it on the Philly, but today??s market maker would ignore the order.

Model Portfolio of Options Only Strategies
Objective to Achieve 25% per Annum
Ideal world: Win when you??re right and win when you are wrong. Can this be done? High probability trades that take advantage of time erosion.
Also nice: Never getting scared out of a trade. How? Limited risk spreading.
Certain spreads have sort of, built-in stops. But what is better is that you??re not actually ??out? of the market, meaning that if the market moves back your way, you can get back some or all of the loss and even better, win.

Out of the 20-plus options spread strategies only about 4 or combinations of 2 or more of the 4 are worth trading. You are more than half way home when a position has a high probability of winning (more ways to win than lose), never getting scared out of a trade. That is my belief but there are those that believe keeping it simple by just buying calls when you are bullish and buying puts when your bearish is a better way to go.
For about a 25% annual return I suggest a diversified approach of carrying 10 or so simultaneous strategies limited risk strategies:
3 Bullish candidates
3 Bearish candidates
3 Sidewaysish candidates
1 Explosivish candidate or 1 Cheap shot lottery ticket type play occasionally.

For example, as a rough guideline, put no more than 7% of your account at risk on any one play. For a $25,000 account that means no more than risking $1750 per trade. In the table below, the size per trade (qty) is rounded down to the nearest whole number and it is assumed a round turn commission at the rate of $1.50 per contract plus a $10 ticket charge. The execution prices are sort of what you look for but it will vary so adjust the size accordingly.

$1,750 Trade Description ($5.00 strike widths)	Qty	Price	RTComm	MaxLoss	Margin per spd / Total	BP Reduced
1 Bull Credit Spread	5	1.80Credit	$50	$320	$500 / $2500	$1,650
1 Bull Credit Spread	5	1.80Credit	$50	$320	$500 / $2500	$1,650
1 Bull Credit Spread	5	1.80Credit	$50	$320	$500 / $2500	$1,650
1 Bear Credit Spread	5	1.80Credit	$50	$320	$500 / $2500	$1,650
1 Bear Credit Spread	5	1.80Credit	$50	$320	$500 / $2500	$1,650
1 Bear Credit Spread	5	1.80Credit	$50	$320	$500 / $2500	$1,650
1 Iron WingSpread	7	2.60Credit	$104	$240	$500 / $3500	$1,784
1 Calendar Spreads	4	1.00 Debit	$44	$400	$100 / $400	$ 444
1 Double Diagonal	2	3.00Debit	$44	$800	$500 / $1000	$1,644
1 Naked Call or Put or Strangle	4	4.00Debit	$32-$44	$400	$400 / $1600	$1,644
1 Cheap Shot Double Butterflies	14	.50 Debit	$188-$356	$100	$100 /1400	$1,756
Total at Risk - 7% of Account on any one play (You could start with half of that and add at better prices)						**$18,372**
Reserve for Adjustments						**$6,628**

Discussion from RD3:

13:01:21 {K3} Last week you mentioned that we all someday want to increase the size of our positions to much larger. What would change in our analysis and selection if our position size in bfly for example would go from 10 contracts per side to 100 per side. I know I would change my analysis.

{Ri$k Doctor} As your profits grow consistently, you want to increase your size commensurately with it and retract size when in a trading slump.

13:02:39 {K3} Just a couple of thoughts, and I know these are inconsistencies in psychology, but I would probably trade larger bflys in very liquid markets primarily indexes and be happy with smaller profits on the larger position.

{Ri$k Doctor} That represents an adjustment to your strategy/methodology. As you develope consistency then increase.

13:02:59 {drsynthetic} Odds don't change when size does only perceptions of reality. A good hand is a good hand for a buck or a million.

{Ri$k Doctor} Agree

13:04:50 {K3} I don't think the size can change in a straight linear fashion.

13:05:11 {K3} As a market maker, how did size influence your trading.

{Ri$k Doctor} I new what I knew and what I did not know. As I became more confident that what I was doing was cocnsistently profiting, I increased to achieve the same objective, multiplied.

13:06:39 {K3} Yes, but when all of us might not take a profit on a bfly for .35 on ten contracts I know I would look differently at that .35 on a hundred contract bfly.

13:08:23 {Tharma} K3, I think you are right in saying that there are inconsistencies in your psychology possibly. Sometimes if you are trading larger sizes and taking smaller profits you might be fundamentally changing your own trading rules for what is cheap optiona and what you may consider an expensive option. This may mean your whole trading style may be changing because your trading rules regarding risk and reward are changing so it would be important to keep this in mind.

{Ri$k Doctor} Tharma: I could not have said it better.

13:11:00 {K3} Yes but the size affects how the position feels when you are right or wrong.

{Ri$k Doctor} Revamping your methodology to going for a .35ish profits as opposed to your current consciousness of going for a buck or two represents a big shift. You need to prove to yourself for a while with an even smaller size than you currently use to see if you can do it because your timeframe is greatly reduced as well. You are getting closer to 'day-trading'. Your going from 'month-trading' down to perhaps 'week-trading', which is fine but recognize it for what it is, perfect your methods, develop a track record with this new trading tool (you will still use the longer timeframe butterflies at your current size and increase as your track record warrants). Consider it a totally new type of play event though this is also a butterfly because it is for a different timeframe.

13:12:34 {Tharma} you might only be focusing on what you need to make a certain earnings target is this correct?

13:10:36 {Ravi} Is there an issue here of % return and dollar return?

13:11:44 {K3} Ravi: Great point, make 10% a good return unless it is on a thousand compared to 10% on one hundred thousand.

13:12:41 {K3} The reason I mention this is when we review the different positions, I find myself reacting to the trades differently.

13:13:10 {janus} I would have thought the main difference other than psychology is the mechanics of getting fills for small vs larger positions.

13:14:21 {janus} Can you go after 0.35 profit on larger positions due to better fills/less commission impact?

{Ri$k Doctor} janus: At the same commission structure it would not be a huge factor but your bargaining power for cheaper rates can make a difference. Also a .05 edge on 100 spreads is more attractive to a market maker than .10 on 10 spreads. Good point.

13:18:18 {K3} The size issue transforms the percentage issue into total dollars returned issue.

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ohlala
Newbie
Posts: 36

Trade Allocation

« **Reply #1 on:** September 01, 2005, 01:59:19 PM »

This is a very interesting and informative discussion, I was of the opinion that if we used a % profit/loss figure we could be more consistent in taking off/leaving on positions whether the position size was 100, 1000,10000 or even higher. If you we are comfortable and come to rely on a certain % mark you take your profits it would be the same level you would take your gains whether you put on $1000 or $10000. It could lower the "Fear Factor" of loosing bigger when trading larger sizes and also exiting the positions prematurely. Like to get your feedback on this.
On a lighter note, A show "Fear Factor" the traders version could be set up to see different peoples' reaction / strategies to loosing / winning money. For the winner, "Obviously fear or greed ain't a factor for you" would be quite a fitting saying.

Ri$k Doctor
Administrator
Hero Member

Trade Allocation

« **Reply #2 on:** September 02, 2005, 08:24:08 AM »

Personally, I have never agreed with the percentage profit/loss rules because I think it makes you lose track of the bigger picture. I look to put on plays based on forecasting an expiration range.

Let??s say that a particular strategy could sometimes cost .50 or 1.00 or 2.00. Let??s also say that I make the trade for .50 debit. With the ??100% Profit Rule??, if it goes to 1.00, making 100%, then I would have to get out. However, that 1.00 debit (to buy anew) may be desirable entry point. That is to say, it is desirable to keep the money where it is, to continue the play.

This is why I prefer to look at each situation and ask myself at each juncture, "Would I do the trade at the current price?" If I would put the trade on at 1.00, what would be the point of liquidating it at perhaps 1.90 and reentering it at perhaps 2.10 just so I can follow the arbitrary 100% rule? Unnecessary commissions and edges to give up.

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ohlala
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Trade Allocation

« **Reply #3 on:** September 03, 2005, 09:12:43 PM »

This is a combination of questions which could be split under different discussion topics, but since I started it in this forum, I'll continue with it here.

I agree that its no point in giving up the edge just to exit and re-enter (if the trade still appealed to you) based on %profit exits. But, when increasing your position size how do you keep the consistency "in mind"..... by that I mean when you're trading a smaller account size and putting positions of $1000 on you make a profit of $1000, a 100% return, now when increasing the position size to $5000, if just looking at the dollar amount it could be quite tempting to look at a $1000 profit and be inclined to take it off in fear of it loosing that gain, but when you look at a % gain its only a 20% return. I would be more confident to leave my trade on based on this ROI value and also the fact that I used to achieve results greater than 20% prior to increasing my position size.

Now you probably will be asking how my methodology was when putting on smaller positions and how I was comfortable leaving on a position that had only a 20% profit when it could go higher or lower. To put us on the same base, I have been paper trading over the past couple months and back testing calendars and fly's. I take a profit as the market dictates, rather than a set % profit stop, ie mostly the trade is on until the very last day before expiration if the trade is in its profitable range, looking at the dollar value but not tempted to take it off due to the relatively small profit in dollar terms, eg $600 profit on a $1000 trade, a 60% ROI when the max potential for the trade is a 160% ROI or $1600.

I haven??t looked at my positions from the point: examining the price everyday and thinking whether you'd put on the trade at those prices, if that's the case leaving it on, if not taking it off or adjusting....Actually this just hit me if you wouldn??t do it for those prices you adjust, I was only thinking off only taking off the position and this lead me to think that I would take off the positions very frequently as the stock moved up and down but within the profit range and hence this idea didn??t catch on quicker.

This is leading me to two important points:

1. Increasing the Reward to Risk of the trade in the first instance, would lead to the possibility of fewer adjustments when the stock moves up and down within the breakevens of the fly(if the market outlook is still similar to what it was at the initiation of the trade), as the prices at which the fly is currently at(more expensive than what it was put on for) is also a desirable entry point. You would have noticed that most of the language is future tense, that??s because I haven??t reached a stage where I have done it, but I'm being proactive and trying to think what I would come across when I do.

2. The point about adjustments: At what point do you start? At what point do you stop?

You look at a position's prices every day and ask yourself if you would put the trade at its current state, on in the first instance, if not you look at adjusting or "taking it off"?

Looking at a fly on INFY I have as a paper trade at the moment, the current price of the Fly is for a debit of $260, a max ROI of $240 or 92%. I wouldn??t put on this trade in the first instance so it??s time for adjustment. Is this the way you look at your positions? I have noticed that you look at predicting future expirations price ranges and hence the possibility of buying cheap fly??s is much greater than ATM fly??s which I have been looking at. To increase the reward to risk of a fly I am considering legging in the spreads, and getting overall a lower risk fly. What do you think about this?

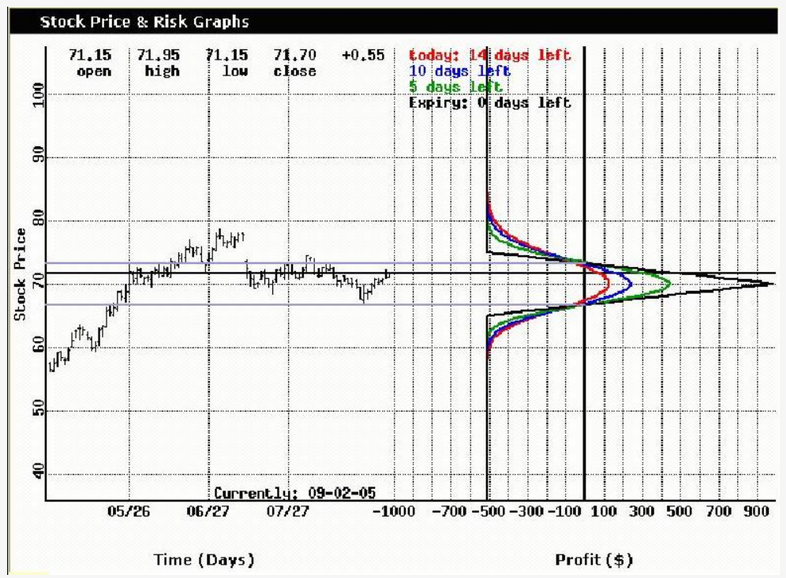
Risk Graph of INFY fly I put on AUG 22

INFOSYS TECHNOLOGIES ADS (INFY) Option Trade Stock News

Leg Date	Position	Num	OptSym	Expire	Strike	Type	Entry	Bid/Ask	Model	IV %	Vol	OI	Days
08-22-05	Bought	3	IUNIM	SEP05	65	Call	5.5	6.6/7	6.837	38.1	1	193	14
08-22-05	Sold	6	IUNIN	SEP05	70	Call	2.15	2.4/2.6	2.438	23.8	155	933	14
08-22-05	Bought	3	IUNIO	SEP05	75	Call	0.5	0.35/0.4	0.407	25.9	68	770	14

Entry Debit (Cost)	Profit	Max Profit	Max Risk	Delta (Shares)	Gamma	Vega	Theta
$510.00	$15.00	$989.90	$-510.00	-93.82	-29.108	$-10.22	$5.13

Downside Breakeven	Upside Breakeven	Max Profit/Max Risk	Max Profit/Cost
66.70	73.30	194%	194%



Below are the current month (SEP) options for INFY:

Calls											Puts									
Trade Num	OpSym	Bid (pts)	Ask (pts)	Extrinsic Bid/Ask (pts)	IV Bid/Ask (%)	Delta Bid/Ask (%)	Stock Pct to Double Bid/Ask (%)	Volume	Open Interest	Strike	Trade Num	OpSym	Bid (pts)	Ask (pts)	Extrinsic Bid/Ask (pts)	IV Bid/Ask (%)	Delta Bid/Ask (%)	Stock Pct to Double Bid/Ask (%)	Volume	Open Interest
0	IUNIL	11.600	12.000	0.00 0.30	0.00 60.64	100.00 94.19	16.04 17.15	0	51	60.000	0	IUNUL	0.000	0.150	0.00 0.15	0.00 55.81	0.00 -4.49	-16.74	0	71
0	IUNIM	6.600	7.000	0.00 0.30	0.00 38.07	100.00 91.48	9.07 10.18	1	193	65.000	0	IUNUM	0.050	0.150	0.05 0.15	27.84 34.83	-3.21 -6.79	-9.48 -9.76	16	384
0	IUNIN	2.400	2.600	0.70 0.90	23.78 27.88	71.45 68.82	4.32 4.88	155	933	70.000	0	IUNUN	0.650	0.850	0.65 0.85	24.63 28.70	-29.16 -31.62	-4.18 -4.74	0	840
	Stock									71.70		Stock								
0	IUNIO	0.350	0.400	0.35 0.40	24.61 25.90	18.86 20.15	5.58 5.72	68	770	75.000	0	IUNUO	3.500	3.800	0.20 0.50	22.70 30.38	-83.17 -75.95	-5.16 -6.00	0	75
0	IUNIP	0.000	0.150	0.00 0.15	0.00 36.33	0.00 6.86	11.99	2	212	80.000	0	IUNUP	8.100	8.500	0.00 0.20	0.00 42.44	-100.00 -89.64	-11.02 -12.13	0	5

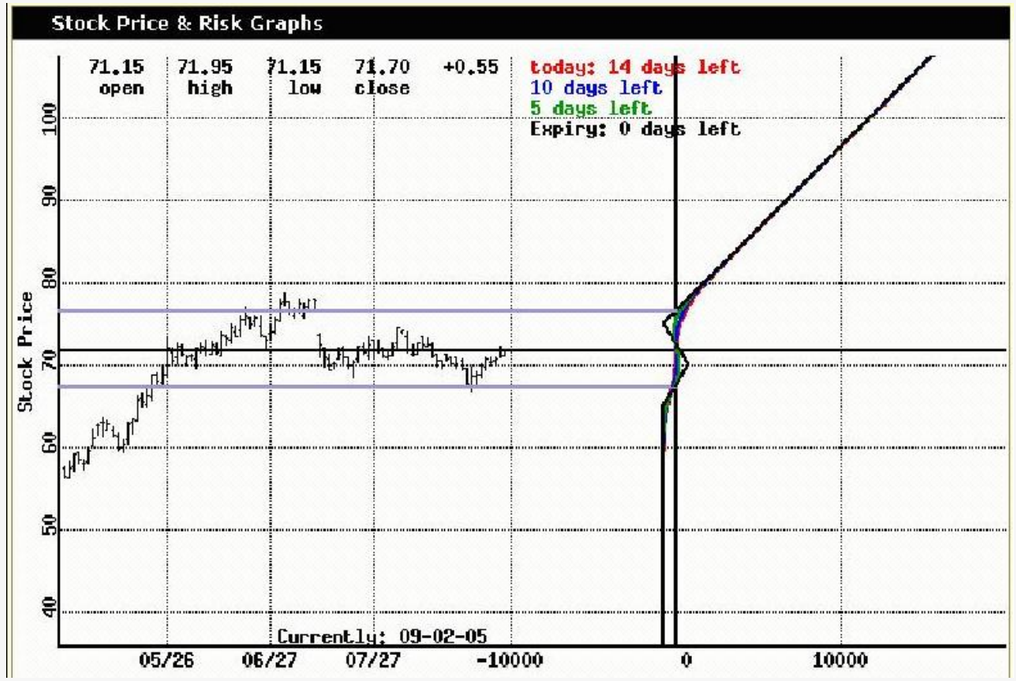
Before we get to what options to adjust with, I??m wondering how many deltas to hedge. The current delta is -93, so do we just hedge 93 deltas?
In the case we are hedging 93 deltas, we could buy 14 Sep 80 calls for a debit of $210 and slippage of $210, a delta of 96.04, making us fairly delta neutral for the current level.
OR
We could buy 5 Sep 75 calls for a debit of $200, slippage of $25, delta of 100, again keeping us fairly delta neutral.
I choose the 5 Sep 75 calls for a debit of $200, the adjusted trade has a risk graph as below:

INFOSYS TECHNOLOGIES ADS (INFY) Option Trade Stock News

Leg Date	Position	Num	OptSym	Expire	Strike	Type	Entry	Bid/Ask	Model	IV %	Vol	OI	Days
08-22-05	Bought	3	IUNIM	SEP05	65	Call	5.5	6.6/7	6.837	38.1	1	193	14
08-22-05	Sold	6	IUNIN	SEP05	70	Call	2.15	2.4/2.6	2.438	23.8	155	933	14
08-22-05	Bought	3	IUNIO	SEP05	75	Call	0.5	0.35/0.4	0.407	25.9	68	770	14
09-02-05	Bought	5	IUNIO	SEP05	75	Call	0.4	0.35/0.4	0.407	25.9	68	770	14

Entry Debit (Cost)	Profit	Max Profit	Max Risk	Delta (Shares)	Gamma	Vega	Theta
$710.00	$-10.00	$Unlimited	$-710.00	6.91	9.566	$9.53	$-13.78

Downside Breakeven	Upside Breakeven	Max Profit/Max Risk	Max Profit/Cost
67.37	76.42	Unlimited%	Unlimited%



The new debit for the trade is $710, Question: Would I put on this adjusted trade in the first instance: I really don't know, I haven't put on a trade like this to initiate a trade. Also the Theta value is negative, which is exactly the opposite of what we want in a fly. In CWS, you mentioned the trick is to have the negative gamma scalp loose less than the time value gain of the trade. I wonder how this could be achieved in this position, if it can.

Also, another question: In the case INFY was at 68, the delta would be positive, and in that instance to get delta neutral would you buy a put or short a call? I??m thinking that I wouldn't be comfortable being short, and also it may not be possible anyway because of the margin requirements.

Also, is it possible for us to load pictures/graphs on the forum?

tharma raj

Trade Allocation

« **Reply #4 on:** September 04, 2005, 04:43:03 AM »

Hi ohlala,

You asked a lot of very relevant questions. Let me see if I can help with some of these questions.

Firstly you asked the question of comparing a dollar return to a percentage return. Even though the $1000 return was the same dollar return in your example it was clearly a different percentage return. I think the important point here is that a system where you are exiting with a 20% profit is very different from a trading system where you are exiting with a 100% profit....But I think you have realised this yourself in the subsequent discussion you described about looking at the option prices today and making a decision whether the trade looks favourable or not at today's prices.

Dollar returns by themselves can be misleading. We all at some point try to gravitate to using a dollar return because it is easier to measure our financial performance and whether possibly we are meeting our financial targets we set ourselves. But somethimes this can be misleading. Let me give you an example...

Let's take the simplistic scenario where I have a trading system where half the trades are winning trades and half the trades are losing trades. Also assume that my average losing trade amount = 50% of the trade capital. Now in the system where the average winning trade is 100% you will make money over time but in the system where the average winning trade is 20% over time you will lose money, i.e. changing the profit % traget can mean that overall you go from a winning system to a losing system.

Secondly, your question about adjustments, "when do you start and when do you stop" is really a question you have answered yourself. If the prices are attractive for you to stay in the trade stay in, if the prices are making you nervous maybe exit your total position, or exit part of your position through some sort of adjustment. But when are prices attrative and when are prices not attractive? This is a very individual question.....because what may be attractive for me may not be attractive for you. Probably, at the extremes of price most people may agree. For example, when an option is priced at 5c we may all agree that it is too cheap to be short and when an option is priced at $15 we may all agree it is too expensive to be long, but this still leaves a lot of area in between where we may disagree. In this area there may be no hard and fast rules. Also, in this area, our decision may also be based on our perception on the future directional moves in the stock from now till option expiry.

Thirdly, you are right in saying that ATM flys are more expensive than the OTM flys and so the OTM flys have much better reward to risk profiles. However, the market has priced these OTM flys cheaper because it thinks there is lower probability that the stock will finish here. However, if you have some way of predicting that markets will finish in a certain range (like Charles does when he makes his predictions about the potential range of prices at option expiry using his Diamonetric grid) and if this price range is away from the current stock price than this is a way you can possibly use OTM flys as part of a trading method.

A lot of people (including myself) have thought about legging into the butterfly to reduce our costs and it is a strategy that can theoretically work. Just make sure you are also aware of all the risks inherent in legging in as opposed to putting on the butterfly straight away. For example, what if you never get a chance to finish the legging in process becasue of an adverse price move...how would you deal with this scenario? Would you be mentally beating yourself up because you did not just put on the whole butterfly in the first place, because now, in retrospect, this would have been the cheaper trade. Charles has written a really good article about the rationale one must go through in deciding when to leg into trades....I could not find it...but I'm sure Charles will let you know.

With regard to your INFY butterfly, if you are not happy with the prices of the butterfly any longer you have 2 options, to either exit the trade or to adjust the trade. If you choose to adjust the trade then you must make sure that today's prices of the adjusted trade are attractive to you and that the adjustment is in alignment with your current view of stock direction.

In the example you have given you said you wanted to hedge the -93 deltas. this means that your prediction is for a sideways movement in the stock, becasue if you were bearish you might be quite happy with a -93 deltas. So if your intention is for a sideways move than your thinking is correct. Also if you are happy with the new trade at current prices (I don't know if the new debit of $710 is taking account of all the current prices becauseI can't see any of the diagrams you have posted as yet) then, on the surface, this may seem the right adjustment for you.
However, you mentioned that you did not wish to have a negative theta. It is not surprising you have developed a negative theta because you have purchased 5 naked long september 75 calls. To reduce your theta risk you could:

1. Reduce the number of naked long 75 calls in september
2. Purchase some bullish verticals that may not have as much theta risk but could still hedge your deltas
3 Exit the trade because you could not find an appropriate adjustment.

Finally, in the case where INFY was at 68 and you had a positive delta which you wanted to hedge it would definitely be a far less risky transaction to buy a put rather than to sell a call. The first strategy gives you limited risk and large potential reward and the second strategy (selling the call) gives you unlimited risk and only a limited reward.

Hope this helps.

Kind regards

Tharma

Ri$k Doctor
Administrator

Trade Allocation

« **Reply #5 on:** September 04, 2005, 01:15:16 PM »

Thanks Tharma, I have read what you have said and agree completely.

ohlala
Newbie
Posts: 36

Trade Allocation
« **Reply #6 on:** September 07, 2005, 06:59:01 PM »

Please, Please call me Sathya!!'>
Thank you Tharma for the informative reply.

I think I just read the section on gamma scalping a few hours prior to the post and tried to apply my new found ??novelty? to my current positions. Looking at it now, I don??t think the gamma scalping would have been a suitable adjustment, Oh, by the way I didn't adjust the position and the stock is sort of hovering in the profitable range of the fly.

Firstly, what could it have achieved?

Well it would neutralize the delta so the position wouldn't loose as much if the stock continued to rally, but this would come with an additional loss of the debit paid for the scalp. This was the ??better? of the options/spreads available although not ideal. Theoretically could have adjusted with the 60-65 bull spread but the prices were ridiculous, so actually not possible to hedge using these spreads. So no adjustment hence I just left it.

I didn't exit the trade because; I had read a few times over that Charles insists of not letting the market scare you out of the trade, and also time is working on your side and the stock can just as easily come back within the profitable range. I tried to apply it here.

If the stock would have rallied up further I could have rolled the fly to 60-65-70-75 condor, with a reduced ROI or increased the upper BEV by buying 2*+70, 4*75, 2*80. Or if the stock rallied up higher than 75, I could sell the 75-70 bull spread to equal the debit on the 60-65-70 fly for even money or increase the number of bull spreads depending on risk tolerance.

Charles, I have several paper trades on at the moment, some where the stock has broken beyond the BEV's but I haven't exited the trade as the above reasoning. The thing is it??s well and good to be able to roll up or down but some of the prices aren't appealing, especially rolling the fly into a condor the ROI falls from over 100% to about 30%, would you put on a trade with 30%ROI with 9 days to expiration. To initiate a trade at that price I wouldn't, but I'm thinking differently when it comes to turning a loosing trade into either a less profitable trade or just scratch home.

What are your thought??s when it comes to turning a around a loosing position? In the case where the adjusted position doesn't meet the price criteria had you initiated the trade at those prices.

Also, I??m thinking that as my initial ROI has been a max of 194%, the adjustments aren't very attractive comparative to my max gain. But if I had an initial max ROI of 800-1000% my adjustment prices would look quite nice if the adjusted position would have a max ROI of ~100% and hence the saying would you put on the adjusted position if you were initiating today?

Oh by the way, nice presentation today on RD1. It??s bloody cool having these online webinars!!

I look forward to your insights.

Ri$k Doctor
Administrator
Hero Member
Posts: 3249

Trade Allocation
« **Reply #7 on:** August 23, 2006, 06:27:50 PM »

This had to have been responded to earlier but got lost for some reason. I maintain that adjustments must be consistent with: ask myself at each juncture, "Would I do the trade at the current price?" -- If I would initiate what I would be left with, then make the adjustment.

If not, then forget about the percentages and ROI -- Just "Ring the Cash Register".

Locking in Profits on a Butterfly

« **on:** August 15, 2005, 09:20:30 AM »

Ri$k Doctor
Administrator
Hero Member
Posts: 3249

pjs

Posted: Aug. 09 2005,15:02

I'm trying to solve a problem of locking profits on butterfly. The position is a single 1500/1550/1600 NDX call fly. (*this is not a current trade*). It's 4 days to expiration and NDX is at 1557. The fly is worth $18. Is there a way to lock in that profit and still benefit from the time decay over the next 4 days. NDX actually went down below 1500 over the next 3 days - so the position would never have realized any more of the $50 spread.

Ri$k Doctor

Posted: Aug. 09 2005,15:42

I do not know of a way to take very much profit off the table while still remaining in the trade but I do know a way to take some profits and maintain potential for more.

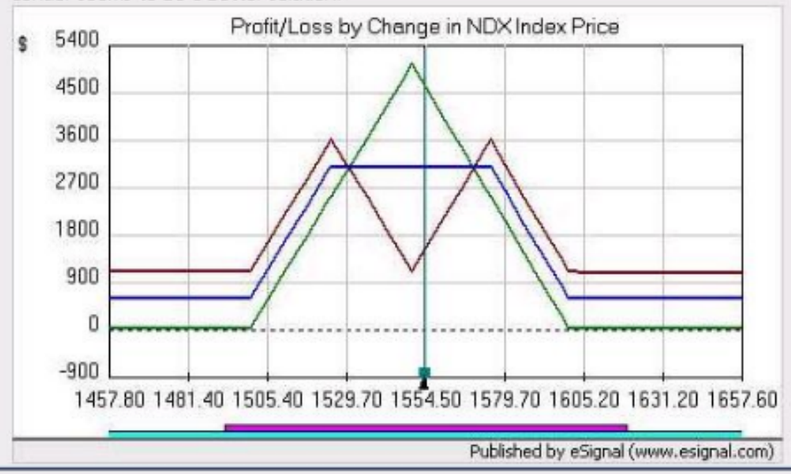
This is a pregnant butterfly so some of the babies can be sold off. There are two ATM babies for each wing baby so you can salvage one or both ATMs.

It is a little more conservative but the big question as always is would you put what remains on, as if initiating?

pjs

Posted: Aug. 09 2005,18:03

If understand it right I have 4 baby 25pt fly's that I could sell at: 1*1575 at 3.70, 2*1550 at 5.50 ea, and 1*1525 at 0.70db. So I can lock in about $1100 by selling 2*1550 flys leaving the 1525 and 1575 fly's or sell one of them and leave the 1500/1525/1575/1600 condor. The condor seems to be a better solution.



Ri$k Doctor

Posted: Aug. 09 2005,19:00

If in the middle, exactly.

GoldenBear
RD3
Jr. Member
Posts: 83

Locking in gains without exiting the trade
« **on:** July 20, 2005, 01:55:40 AM »

Charles,
We did not cover this subject as much as I had hoped we would in the seminar, but maybe we can use this forum to develop this theme, namely, "How do we lock in profits without exiting the trade?" In your book, you had mentioned that stock traders sell and exit their trades to take profits, whereas options traders 'adjust' their position to take profits (and when their sentiment for the underlying stock movement changes). Most of us are familiar with buying puts to lock in gains on stocks, but it only really provides us with 'catastrophic reversal' insurance. Since the underlying stock has a 100 delta and the ATM put delta is only 50, we are only able to lock in half of our profits. Is there something better we should do?

I have a case where I had 500 Laserscope (LSCP) stock. It had run up about $2000 profit when I bought 5 Dec protective puts. (I had bought the Dec puts because I planned to keep the stock for a while, and the one-time cost of the Dec put on a per-month basis was cheaper than rolling out each month for several months. The folly of my ways, as I was to soon discover and as you later pointed out, is that the far month options are not as liquid as the near term month options and, consequently, frequently the far month option prices do not track the movement of the stock as well as the near term option prices.) The stock ran up $2580 profits with the put showing a -$250 loss. An analyist downgrade sent the stock price crashing. I managed to sell the stock with a $279 profit. The puts were +$750 now. I decided to hold the puts because I expected the stock to drop much further. A week later, the puts are +$2100. I could lock in the profits from the puts by buying the LSCP stock back, but I am still strongly bearish on the play and it would not protect me from volatility in the puts drying up as the stock price stabilizes. Any suggestions?

I am also curious to know how to lock in profits from vertical spreads, butterflies, condors, time spreads, etc., without exiting the trade.

Rob

Ri$k Doctor
Administrator
Hero Member
Posts: 3249

Locking in gains without exiting the trade
« **Reply #1 on:** August 15, 2005, 09:09:02 AM »

Sorry GoldenBear, I originally responded to this on July 22nd but unfortunately that was at the time when I switched Internet hosts and some things got lost. Luckily I still have some images from that post on my hard drive so here is a chart and an options chain. I know I had questions about which puts (month and strike) you bought but now that is too late. The puts you bought though went ITM quite a bit and if you had bought the stock against them it would have turned the puts into calls but you were bearish at the time. I would have recommended to roll the (35s if that's what they were) puts further down (to perhaps the 30s or 25s depending on the month) so as to not have so much money on the table. For your question about "locking profits from vertical spreads, butterflies, condors, time spreads, etc., without exiting the trade". It would take a book to answer this but I will place some current examples of adjusting from the RD3 Forum Look at Locking In Profits on a Butterfly and the LLTC Trades.

LSCP LASERSCOPE Hard to Borrow NASDAQ Volume Open Interest 5

UNDERLYING

LAST X	NET CHNG	BID X	ASK X	SIZE	VOLUME	OPEN	HIGH	LOW
29.44 Q	-1.92	29.45 C	29.47 C	1 x 1	738,785	31.37	31.60	29.21

TRADE GRID

OPTIONS Single Exchange Composite

CALLS VOLUME	CALLS OPEN.INT	CALLS BID X	CALLS ASK X	EXP	STRIKE	PUTS BID X	PUTS ASK X	PUTS VOLUME	PUTS OPEN.INT
AUG 05 (28) 100									59.89%
0	0	4.80 A	5.10 A	AUG 05	25	.35 A	.50 A	11	35
205	326	1.70 A	1.85 X	AUG 05	30	2.20 A	2.35 C	231	877
412	1,894	.50 A	.65 C	AUG 05	35	5.80 A	6.20 A	5	1,333
165	1,079	.15 C	.20 A	AUG 05	40	10.40 A	10.90 A	2	1,008
3	4,606	.05 C	.15 A	AUG 05	45	15.30 A	15.80 A	35	60
SEP 05 (56) 100									58.61%
0	27	7.30 A	7.70 P	SEP 05	22.5	.40 A	.45 X	0	122
4	63	5.30 A	5.70 A	SEP 05	25	.85 A	.95 C	10	164
49	410	2.50 C	2.60 X	SEP 05	30	2.90 A	3.00 X	10	221
87	654	.95 A	1.10 A	SEP 05	35	6.20 A	6.60 X	15	769
20	2,501	.35 C	.45 A	SEP 05	40	10.60 A	11.10 A	4	172
DEC 05 (147) 100									49.20%
0	5	8.20 X	8.60 A	DEC 05	22.5	1.00 A	1.10 X	20	45
1	25	6.30 X	6.60 A	DEC 05	25	1.55 X	1.70 A	73	220
85	122	3.50 A	3.80 A	DEC 05	30	3.60 A	3.90 A	40	292
2	506	1.80 A	1.90 X	DEC 05	35	6.80 A	7.20 A	2	264
19	470	.90 X	1.00 A	DEC 05	40	10.80 A	11.30 A	5	176

Rudi_P
RD3
Newbie
Posts: 32

LLTC - Sidewaysish Trade

« **on:** May 26, 2005, 07:40:57 AM »

LLTC has been trading in range from 35-40 for more than a year. I believe this is likely to continue for a couple more months, and after that I want to be prepared for a more pronounced move either side of that range.

My propsed trade for LLTC is thus long a Nov 35-40 strangle for an assumed fill of USD3.30 (bid-ask is 3.25-3.45 at present) and sell the Jun 37.50 straddle against this, for a credit of USD1.45 (range 1.40-1.60). The net debit is USD1.85. The goal is to be able to sell another 2-3 months' worth of straddles against the longs so as to own the Nov strangle for free as and when a move, either way, occurs.

For the overall portfolio I am assuming a 7% weighting, ie exposure of USD7,000. This will be taken up with the margin requirement, resulting in a target position of 10 contracts. The total position will cost USD1,850 plus the margin requirement of UDSD5,000, ie USD6,850 in total. If we feel comfortable with the position we could add to this after next month's credit.

What do you think?

Rudi

janus
Newbie
Posts: 12

LLTC - Sidewaysish Trade

« **Reply #1 on:** May 31, 2005, 07:34:10 AM »

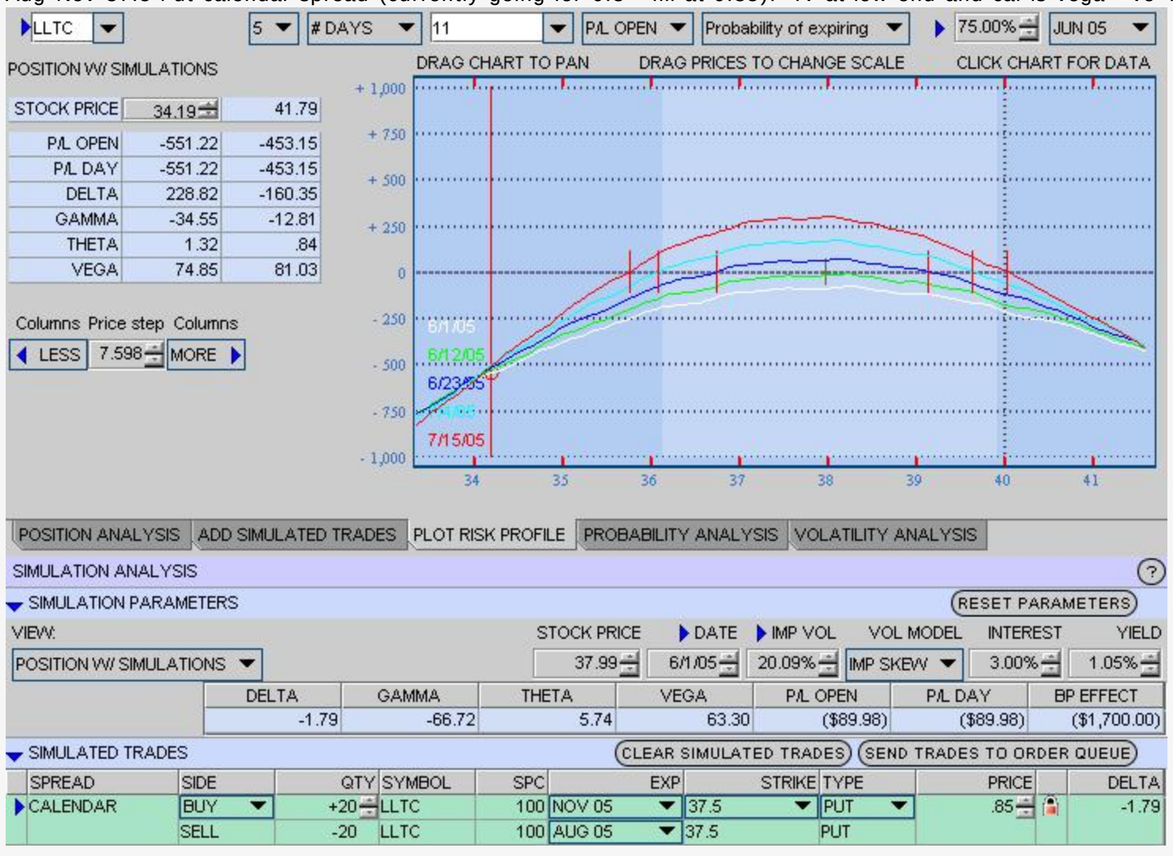
Hi Rudi,

Not sure about selling the Jun straddle. Premium received doesn't seem enough to offset Nov costs. The graph at Jun expiry has narrow BE (about 36.5 - 38.5) which is inside the range and within 'easy reach' of the typical price movements in LLTC. I know the intention is to roll the position but I think it's likely to be rolling a losing position forward.

I think the calendar style position is a good approach though.

In the short term LLTC has been moving up (will it reverse here or reach 38-39?). My alternate suggestion based on your approach would be :

Aug-Nov 37.5 Put calendar spread (currently going for 0.8 - fill at 0.85). IV at low end and cal is vega +ve*. BE for this spread are around 35.5-40.



Suggested plan is buy 1/2 position (ie 1/2 of normal size c. 1800 = about 20 contracts) - if LLTC keeps moving up buy some cheap Nov 32.5 or 35 puts. If LLTC moves down buy some cheap Nov 40 or 42.5 calls with other 1/2. As LLTC at 37.5 at the moment can't get either of these at good price.

Want to get to a calendar we can roll/profit from if continues stideways with cheap outside protection.

*IV for LLTC on ivolatility is at the low of the past years range. I know calendars are not typically thought of as low IV plays (there is no appreciable skew across months) but the calendar is long vega so with IV at low end of the range the risk of the calendar being crushed is less.

I couldn't find anything front month worth selling or with break-even points that made any sense vs. the chart so went longer term. I also thought Rudi's idea of picking up some hedging against breakout worth a try, but with the stock almost bang on 37.5 the wings seemed too expensive so I thought waiting for it to move further to once side of the range made sense, of course it could just keep on going meaning one's adding to a loser.....

Rudi_P

RD3
Newbie
Posts: 32

LLTC - Sidewaysish Trade

« **Reply #2 on:** May 31, 2005, 11:07:29 AM »

Janus

I also liked the idea of a calendar spread but was subsequently trying to figure out how best to take account of the trading range as well as the fact that LLTC may sooner or later move outside of this range.
The Aug-Nov calendar takes too long to benefit from time decay for my liking and if we were to go gor Jul the cost is roughly similar to my proposed position.
The issue with the adjustments may just be that we cover the wrong side, ie buy cheaper puts when the stock has permanently broken out to the upside.
Overall I would prefer to bide my time and roll the position.
Rudi

Ri$k Doctor
Administrator

LLTC - Sidewaysish Trade

« **Reply #3 on:** June 01, 2005, 08:38:38 AM »

Both plays seem reasonable and of course are very similar at the moment (both with a slight bias to the downside). It is interesting that there was not any consideration made to perhaps weighting it for more current neutrality. Rudi could have elected to sell a bit more put spreads and janus could have bought an extra put or two. As time goes by it will be interesting to see what adjustments are made.

Ri$k Doctor
Administrator
Hero Member
Posts: 3249

LLTC - Sidewaysish Trade

« **Reply #4 on:** June 05, 2005, 05:38:13 PM »

Interesting nuances in LLTC:
The proposed spreads above represent the characteristics that the market place has been putting on and continues to price for more.

Facts:

1. The near term options are offered in bigger size than what is bid for and the bids are not aggressive. We see that the ISE has boat laods offered at every strike and sometimes they are not the best bid for all strikes worth of premium.
2. Back month premium (JAN06) is bid 4% higher than JUN and JUL.
3. I olatility.com shows that implied vol is at all time lows.
4. The Vega in JAN06 is .12 per for the ATM while JUNs are .02 and JUL is .05. Therefore if both Vols corrected back up to 30, the JAN06 would gain .72 (6x.12) while the JUN05 would gain .20 (10x.02). VOL is not money.

In trying to get either of the above spreads executed it means that the market makers will need to be motivated much better than the middle because everyone sees the same writing on the wall. If you want to play you will have to pay.

LLTC | LINEAR TECHNOLOGY CORP | Easy to Borrow | NASDAQ | Open Interest | Vega | 6

STOCK

LAST X	NET CHNG	BID X	ASK X	SIZE	VOLUME	OPEN	HIGH	LOW
38.25 Q	-.37	37.28 A	39.38 A	10 x 10	3,362,228	38.62	38.79	38.14

YIELD	PE	EPS	DIV	DIV.FREQ	DIV.DATE	52HIGH	52LOW	BETA	SHARES
1.05%	28.33	1.35	.1	Q	4/26/05	40.73	34.01	2.356	305,993,000

OPTIONS | Single | Exchange: Composite

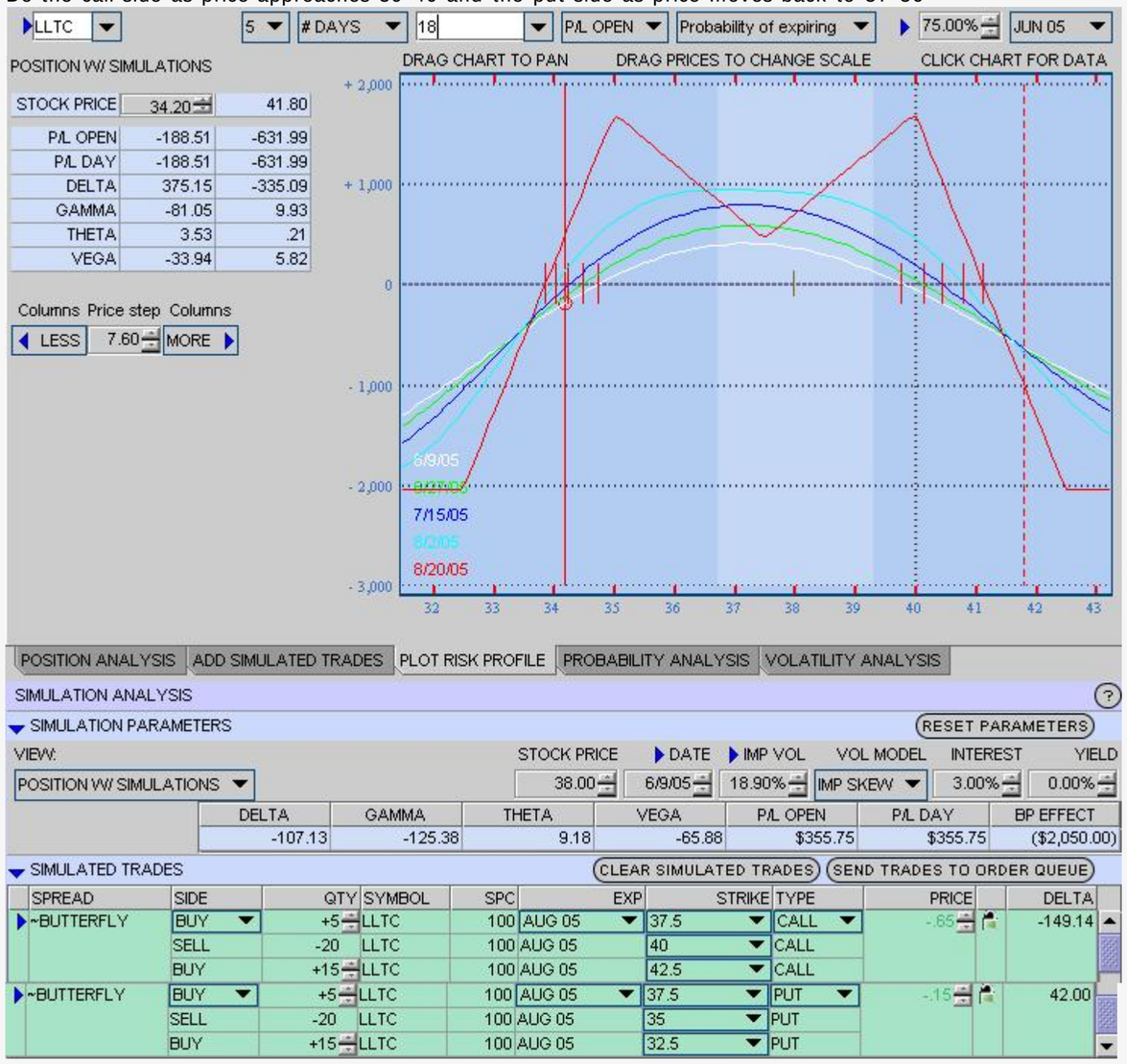
CALLS OPEN.INT	CALLS VEGA	CALLS BID X	CALLS ASK X	EXP	STRIKE	PUTS BID X	PUTS ASK X	PUTS OPEN.INT	PUTS VEGA
JUN 05 (11) 100									19.66%
26	.01	5.70 I	6.00 I	JUN 05	32.5	0 I	.05 I	131	.00
682	.01	3.20 I	3.50 I	JUN 05	35	0 I	.05 P	1,003	.01
5,270	.02	.95 C	1.10 P	JUN 05	37.5	.15 I	.30 I	1,661	.02
1,072	.02	.05 I	.15 I	JUN 05	40	1.65 I	1.80 P	100	.00
230	.01	0 I	.05 I	JUN 05	42.5	4.10 I	4.30 P	2	.00
0	.00	0 I	.05 I	JUN 05	45	6.60 I	6.80 P	18	.00
JUL 05 (39) 100									21.17%
AUG 05 (74) 100									23.87%
211	.03	6.00 I	6.30 I	AUG 05	32.5	.15 I	.25 I	709	.03
763	.05	3.80 I	4.10 I	AUG 05	35	.45 I	.55 I	2,550	.05
3,626	.07	2.05 I	2.25 P	AUG 05	37.5	1.15 I	1.25 I	3,075	.07
3,449	.06	.85 I	.95 I	AUG 05	40	2.40 I	2.55 I	3,886	.06
2,915	.04	.25 I	.35 I	AUG 05	42.5	4.20 I	4.50 I	256	.04
279	.02	.05 I	.15 I	AUG 05	45	6.60 I	6.90 I	50	.00
NOV 05 (165) 100									24.58%
JAN 06 (228) 100									24.51%
181	.04	13.60 I	14.00 I	JAN 06	25	.15 I	.20 C	542	.03
153	.07	9.20 I	9.50 I	JAN 06	30	.50 I	.65 I	3,885	.06
475	.10	5.30 I	5.50 I	JAN 06	35	1.50 I	1.65 I	3,305	.10
4,899	.12	2.40 I	2.60 I	JAN 06	40	3.50 I	3.80 I	3,391	.12
3,219	.09	.75 P	.95 I	JAN 06	45	6.90 I	7.20 I	639	.09
2,380	.05	.15 I	.30 I	JAN 06	50	11.50 I	11.90 I	46	.00

Guest

LLTC - Sidewaysish Trade

« **Reply #5 on:** June 07, 2005, 05:55:36 PM »

This may seem a little weird, but why not buy an ATM verticle and then sell enough OTM spreads to pay for it. Something like Aug 37/40/42 calls at +5/-20/+15 and the puts at 37/35/32 . Depending on fills this could move the PP (probability of profit) up to something more reasonable.
Do the call side as price approaches 39-40 and the put side as price moves back to 37-36



Ri$k Doctor
Administrator
Hero Member
Posts: 3249

LLTC - Sidewaysish Trade

« **Reply #6 on:** June 08, 2005, 08:35:43 AM »

The Big**M**. Very Cool. I understand that both sides are not intended to be put on together but I wanted to piece them side by side, based on your last post, to present the bigger picture. The only thing that will change is price, max reward and max risk.

Ri$k Doctor
Administrator
Hero Member

LLTC - Sidewaysish Trade

« **Reply #7 on:** June 16, 2005, 09:45:57 AM »

The downward bias is helping the Straddle Strangle Swap (up .25ish).

	SPREAD	SIDE	QTY	SYMBOL	SPC	EXP	STRIKE	TYPE	PRICE		DELTA
▶	DBL DIAG	BUY	+10	LLTC	100	NOV 05	40	CALL	2.10		461.74
		BUY	+10	LLTC	100	NOV 05	35	PUT			
		SELL	-10	LLTC	100	JUN 05	37.5	CALL			
		SELL	-10	LLTC	100	JUN 05	37.5	PUT			

LLTC has retraced back down about 50% of the up move from just 35ish to 39ish to 37ish.

If it were my money, I would hold off a day or two on rolling the JUN Straddle to JUL for 1.15ish (current quote: 1.05-1.40) for a bounce back to the strike and perhaps taking more like 1.50ish off of our 1.85ish investment.

ADD SIMULATED TRADES — RESET ALL | SETUP | DETACH | PRINT/EXPORT

symbol	description		information layouts		strike qty
LLTC	LINEAR TECHNOLOGY CORP	Easy to Borrow NASDAQ	Delta	Gamma	5

UNDERLYING

LAST X	NET CHNG	BID X	ASK X	SIZE	VOLUME	OPEN	HIGH	LOW
37.11 Q	-.33	37.11 C	37.13 Q	41 x 23	2,430,193	37.67	37.74	36.89

YIELD	PE	EPS	DIV	DIV FREQ	DIV DATE	52HIGH	52LOW	BETA	SHARES
1.08%	27.49	1.35	.1	Q	4/27/05	40.73	34.01	2.356	305,993,000

OPTIONS — Single — Exchange: Composite

CALLS DELTA	CALLS GAMMA	CALLS BID X	CALLS ASK X	EXP	STRIKE	PUTS BID X	PUTS ASK X	PUTS DELTA	PUTS GAMMA
JUN 05 (2) 100									20.02%
.97	.03	4.60 P	4.70 I	JUN 05	32.5	0 I	.05 I	-.03	.02
.94	.08	2.10 I	2.20 C	JUN 05	35	0 I	.05 I	-.05	.08
.29	.51	.10 I	.15 I	JUN 05	37.5	.45 I	.55 I	-.72	.52
.04	.06	0 I	.05 I	JUN 05	40	2.85 I	2.90 B	-1.00	.00
.03	.02	0 I	.05 I	JUN 05	42.5	5.30 I	5.40 P	-1.00	.00
JUL 05 (30) 100									21.05%
.92	.04	4.70 I	4.90 I	JUL 05	32.5	0 A	.10 I	-.04	.03
.80	.10	2.40 I	2.55 I	JUL 05	35	.20 I	.30 I	-.18	.11
.46	.17	.75 I	.85 I	JUL 05	37.5	1.00 I	1.10 I	-.55	.19
.12	.09	.10 X	.15 I	JUL 05	40	2.90 I	3.00 I	-.91	.09
.03	.02	0 I	.05 I	JUL 05	42.5	5.30 I	5.50 I	-.98	.03
AUG 05 (65) 100									22.95%
.88	.04	4.90 I	5.10 I	AUG 05	32.5	.20 I	.30 I	-.11	.04
.74	.08	2.85 I	2.95 I	AUG 05	35	.60 I	.70 I	-.26	.09
.49	.11	1.25 I	1.40 I	AUG 05	37.5	1.55 I	1.65 I	-.51	.11
.23	.09	.40 I	.50 I	AUG 05	40	3.20 C	3.30 I	-.77	.09
.08	.04	.10 B	.15 I	AUG 05	42.5	5.30 I	5.50 I	-.98	.04
NOV 05 (156) 100									24.42%
.80	.04	5.60 I	5.70 B	NOV 05	32.5	.75 I	.85 I	-.19	.04
.68	.06	3.80 X	3.90 I	NOV 05	35	1.35 I	1.45 C	-.32	.06
.52	.07	2.30 I	2.40 I	NOV 05	37.5	2.40 I	2.45 I	-.48	.07
.36	.07	1.25 X	1.35 I	NOV 05	40	3.80 I	3.90 I	-.66	.07
.21	.05	.55 I	.65 I	NOV 05	42.5	5.60 I	5.80 I	-.82	.06

The Big **M** is enjoying a good profit mostly from the initial short delta of 1.09 but has become a tad long down at 37.00ish on LLTC:

	SPREAD	SIDE	QTY	SYMBOL	SPC	EXP	STRIKE	TYPE	PRICE		DELTA
▶	~BUTTERFLY	BUY	+5	LLTC	100	AUG 05	37.5	CALL	.05		-78.07
		SELL	-20	LLTC	100	AUG 05	40	CALL			
		BUY	+15	LLTC	100	AUG 05	42.5	CALL			

	SPREAD	SIDE	QTY	SYMBOL	SPC	EXP	STRIKE	TYPE	PRICE		DELTA
▶	~BUTTERFLY	BUY	+5	LLTC	100	NOV 05	37.5	PUT	.80		135.15
		SELL	-20	LLTC	100	NOV 05	35	PUT			
		BUY	+15	LLTC	100	NOV 05	32.5	PUT			

The straight longer dated calendar is breaking even.

	SPREAD	SIDE	QTY	SYMBOL	SPC	EXP	STRIKE	TYPE	PRICE		DELTA
▶	CALENDAR	BUY	+20	LLTC	100	NOV 05	37.5	PUT	.85		63.53
		SELL	-20	LLTC	100	AUG 05	37.5	PUT			

Rudi_P
RD3
Newbie
Posts: 32

LLTC - Sidewaysish Trade

« **Reply #8 on:** June 16, 2005, 11:48:44 AM »

Following on from yesterday's discussion I would today roll the Jun05 37.50 straddle into a Jul05 37.50 straddle for a credit of 1.25, ie buy back the shorts for 0.45 and sell the Jul05s for a credit of 1.70.

The net debit of the position reduces to .60 ($600).

Rudi

Ri$k Doctor
Administrator
Hero Member
Posts: 3249

LLTC - Sidewaysish Trade

« **Reply #9 on:** June 17, 2005, 07:44:23 AM »

Good do Rudi. I am legging the JUN Straddle by buying the 37.50 Puts at .05.

LLTC | LINEAR TECHNOLOGY CORP | Easy to Borrow | NASDAQ | Last X | Net Change | 4

UNDERLYING

LAST X	NET CHNG	BID X	ASK X	SIZE	VOLUME	OPEN	HIGH	LOW
37.74 C	+.05	37.73 A	37.74 P	10 x 25	3,095,532	38.13	38.31	37.49

OPTIONS | Single | Exchange Composite

CALLS LAST X	CALLS NET CHNG	CALLS BID X	CALLS ASK X	EXP	STRIKE	PUTS BID X	PUTS ASK X	PUTS LAST X	PUTS NET CHNG
JUN 05 (0) 100									11.88%
2.10 X	0	2.70 B	2.80 I	JUN 05	35	0 I	.05 I	.05 I	0
.20 I	-.10	.20 I	.30 I	JUN 05	37.5	0 A	.05 I	.10 I	0
.05 C	0	0 I	.05 I	JUN 05	40	2.20 I	2.30 B	2.30 I	-.25
.05 I	0	0 I	.05 I	JUN 05	42.5	4.70 I	4.80 B	4.40 I	-.60
JUL 05 (28) 100									20.10%
3.10 C	+.10	2.90 B	3.00 I	JUL 05	35	.10 I	.15 I	.15 I	-.10
1.00 B	0	1.00 B	1.05 I	JUL 05	37.5	.65 B	.75 I	.79 B	+.14
.15 B	0	.15 A	.20 I	JUL 05	40	2.30 I	2.40 I	2.40 I	0
.05 I	0	0 I	.05 I	JUL 05	42.5	4.70 I	4.90 I	4.60 C	0
AUG 05 (63) 100									22.73%

Market Depth @ thinkorswim [build 543]

MARKET DEPTH | PRINT/EXPORT | ?

LLTC 100 JUN 05 37.5 PUT

SYMBOL	EXCHANGE	BID	BID SIZE	ASK	ASK SIZE	LAST	LAST SIZE	VOLUME
.LLQRU	COMPOSI...	0	0	.05	95	.10	5	5
.LLQRU&A	AMEX	0	0	.25	67	.60	2	0
.LLQRU&B	BOX	0	0	.10	120	.30	2	0
.LLQRU&C	CBOE	0	0	.10	427	.30	60	0
.LLQRU&I	ISE	0	0	.05	95	.10	5	5
.LLQRU&P	PSE	0	0	.10	36	.60	1	0
.LLQRU&X	PHLX	0	0	.10	71	.15	30	0

.34%
.27%
.21%

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LLTC - Sidewaysish Trade

« **Reply #10 on:** June 17, 2005, 12:10:02 PM »

I am buying 10oo shares on the close at 37.66 instead of buying the JUN Calls at .20 and will most lilely be assigned. I will sell the JUL Straddle on Monday because they already took the premium out for the weekend and I don't think that I will do worse than getting 1.55. Had I sold to the bid of 1.55 that would be effectively doing the roll for 1.34 (straddle leg = .21).

LLTC — LINEAR TECHNOLOGY CORP — Easy to Borrow — NASDAQ — Vega — Theta — 4

UNDERLYING

LAST X	NET CHNG	BID X	ASK X	SIZE	VOLUME	OPEN	HIGH	LOW
37.66 Q	-.03	37.63 Q	37.66 C	10 x 3	4,573,071	38.13	38.31	37.49

YIELD	PE	EPS	DIV	DIV.FREQ	DIV.DATE	52HIGH	52LOW	BETA	SHARES
1.06%	27.9	1.35	.1	Q	4/27/05	40.73	34.01	2.356	305,993,000

OPTIONS — Single — Exchange: Composite

CALLS VEGA	CALLS THETA	CALLS BID X	CALLS ASK X	EXP	STRIKE	PUTS BID X	PUTS ASK X	PUTS VEGA	PUTS THETA
JUN 05 (0) 100									11.14%
.00	.00	2.60 A	2.70 I	JUN 05	35	0 I	.05 I	.00	-.07
.00	.00	.10 C	.20 B	JUN 05	37.5	0 A	.05 A	.01	-.03
.00	-.07	0 I	.05 I	JUN 05	40	2.30 I	2.40 B	.00	-.04
.00	-.09	0 I	.05 I	JUN 05	42.5	4.80 I	4.90 B	.00	-.04
JUL 05 (28) 100									19.33%
.02	-.01	2.80 A	2.90 I	JUL 05	35	.10 I	.15 I	.02	-.01
.04	-.02	.90 X	1.00 I	JUL 05	37.5	.65 I	.75 I	.04	-.01
.02	-.01	.10 A	.20 I	JUL 05	40	2.35 I	2.50 I	.02	-.01

Market Depth @ thinkorswim [build 543]

MARKET DEPTH — PRINT/EXPORT

LLTC 100 JUN 05 37.5 PUT
LLTC 100 JUN 05 37.5 CALL

SYMBOL	EXCHAN...	BID	BID SIZE	ASK	ASK SIZE	LAST	LAST SIZE	VOLUME
.LLQFU	COMPOSI...	.10	12	.20	110	.20	11	3,292
.LLQFU&A	AMEX	0	0	.25	10	.25	20	55
.LLQFU&B	BOX	.10	10	.20	110	.16	30	441
.LLQFU&C	CBOE	.10	12	.25	311	.20	11	511
.LLQFU&I	ISE	.10	20	.20	110	.20	10	1,544
.LLQFU&P	PSE	.10	10	.20	50	.20	10	282
.LLQFU&X	PHLX	.05	111	.20	100	.15	100	459

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LLTC - Sidewaysish Trade

« **Reply #11 on:** June 23, 2005, 01:21:19 PM »

Caught a rally and sold the JUL 37.5 Calls that I did not sell on the roll on Friday. Thought about only selling only 5 but sold 10.

LLTC — LINEAR TECHNOLOGY CORP — Easy to Borrow — NASDAQ — Open Interest — Volume — 5

UNDERLYING

LAST X	NET CHNG	BID X	ASK X	SIZE	VOLUME	OPEN	HIGH	LOW
38.18 C	+.44	38.18 A	38.19 Q	10 x 36	790,817	37.84	38.27	37.62

OPTIONS — Single — Exchange: Composite

CALLS OPEN.INT	CALLS VOLUME	CALLS BID X	CALLS ASK X	EXP	STRIKE	PUTS BID X	PUTS ASK X	PUTS OPEN.INT	PUTS VOLUME
JUL 05 (22) 100									17.08%
33	0	5.60 I	5.80 I	JUL 05	32.5	0 I	.05 I	34	0
60	1,010	3.30 P	3.40 I	JUL 05	35	0 A	.10 I	526	0
3,084	57	1.05 I	1.10 B	JUL 05	37.5	.30 I	.40 I	1,037	100
5,193	10	.05 I	.15 I	JUL 05	40	1.80 I	1.90 I	113	0
92	0	0 I	.05 I	JUL 05	42.5	4.20 I	4.40 I	0	0

A little later: Coulda Woulda Shoulda waited and thought about buying more of the 37.5 Puts that I still need to sell but didn't.

LLTC LINEAR TECHNOLOGY CORP Easy to Borrow NASDAQ High Volume 5

UNDERLYING

LAST X	NET CHNG	BID X	ASK X	SIZE	VOLUME	OPEN	HIGH	LOW
38.90 C	+1.16	38.89 Q	38.90 P	44 x 13	2,387,674	37.84	39.03	37.62

OPTIONS Single Exchange Composite

CALLS						PUTS			
HIGH	VOLUME	BID X	ASK X	EXP	STRIKE	BID X	ASK X	HIGH	VOLUME
JUL 05 (22) 100									15.76%
0	0	6.40 C	6.60 I	JUL 05	32.5	0 I	.05 I	0	0
4.10	1,198	4.00 I	4.10 I	JUL 05	35	0 A	.05 I	.05	62
1.70	604	1.60 I	1.70 I	JUL 05	37.5	.15 I	.20 I	.45	429
.30	484	.20 I	.30 I	JUL 05	40	1.25 I	1.30 B	1.40	55
0	0	0 I	.05 I	JUL 05	42.5	3.50 I	3.70 I	0	0

Came back down, late in the day and will hold out to sell the puts, hopefully will LLTC down to 37.00 in the next few sessions.

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LLTC - Sidewaysish Trade
« **Reply #12 on:** June 27, 2005, 07:14:43 AM »

Selling the JUL 37.50 puts at .70 completing the rolling of the JUN straddle.

LLTC LINEAR TECHNOLOGY CORP Easy to Borrow NASDAQ High Size (Bid x Ask) 5

UNDERLYING

LAST X		NET CHNG	BID X		ASK X		SIZE	VOLUME	OPEN	HIGH	LOW
37.26	C	-.29	37.25	A	37.26	A	10 x 10	606,092	37.50	37.64	37.20

OPTIONS Single Exchange Composite

CALLS							PUTS				
HIGH	SIZE	BID X		ASK X		EXP	STRIKE	BID X		ASK X		HIGH	SIZE
JUL 05 (18) 100													18.50%
0	161 x 73	4.70	X	4.90	I	JUL 05	32.5	0	I	.05	I	0	0 x 170
2.65	60 x 146	2.35	B	2.50	C	JUL 05	35	.10	B	.15	I	.10	193 x 244
.65	190 x 364	.50	X	.60	I	JUL 05	37.5	.70	X	.75	I	0	60 x 102
0	372 x 155	.05	B	.10	C	JUL 05	40	2.60	C	2.80	C	2.65	306 x 100
0	0 x 200	0	I	.05	X	JUL 05	42.5	5.10	X	5.30	B	0	161 x 60

Straddle rolled for 1.54 credit. Running cost on remaining JUL/AUG Straddle Strangle Swap is .31 debit.
What is the lesson here? It is not about luck. It is about risk/reward consciousness along the way.
Summary:
Two Days before Expiration: Charles held off rolling for 1.15ish in hopes of getting 1.50ish.
1 Day before expiration:[/b] Rudi, in Hong Kong -- his 16th was our 17th -- opted for rolling for a 1.25 credit which is what you should do most of the time.
Expiration Morning: Charles buys back the 37.5P at .05, intending to scoop the calls cheap and sell the JUL straddle. Could have gotten .60 for the JUL puts but chanced getting more later in the day and did not take .65 on the close.
Expiration Close: Charles allows buys the stock at 37.66, .16 ITM providing the shares that he would be assigned. JUL Staraddle is only 1.55 bid that would give him a roll price of 1.34. **Consciuusness of risk:** LLTC gets these little pops now and then so give it a week and then either blow the remaining NOV out or complete the roll to JUL.
6 Days Pass: The straddle erodes to 1.25 a rally ensued allowing 1.05 for the call side as it eventually topped out that day at 1.75 (LLTC over 39.00) while the puts got slammed to .20 -- too cheap to sell. **Consciuusness of risk:** Long cheap .20 puts -- worst case: never sell the JUL puts and end up with a partial roll for .84 instead of 1.25 like Rudi achieved.
Remember though that a sideways market is characterized by rallies followed by breaks.
Two Days Later: The break LLTC came off 1.80ish from the recent high. Take the .70 for the puts (wouldn't by them there -- have to let them go).

Guest

LLTC - Sidewaysish Trade
« **Reply #13 on:** June 27, 2005, 05:04:49 PM »

If the risk consciousness was "long cheap puts at .20" 2 days ago why be in such a hurry to sell the puts for .70 now? After all LLTC is testing the June 15 low and if that gives way then it could easily head towards 36. By legging in you are expressing a directional bias. Is your view that it is done falling?

Ri$k Doctor
Administrator
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LLTC - Sidewaysish Trade
« **Reply #14 on:** June 27, 2005, 06:14:01 PM »

Had a plan. Executed it. Not really bearish or bullish at the moment. If you were berish and had the position, you could lift the puts. Trader's choice.

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LLTC - Sidewaysish Trade

« **Reply #15 on:** July 13, 2005, 09:03:03 AM »

An opportunity has arrived on a silver platter. We can roll a week early as a spread without legging for the same price achieved at JUN expiration (1.50ish).

LLTC LINEAR TECHNOLOGY CORP Easy to Borrow NASDAQ Vega Impl Vol 5

UNDERLYING

LAST X	NET CHNG	BID X	ASK X	SIZE	VOLUME	OPEN	HIGH	LOW
37.49 C	+.49	37.48 C	37.49 Q	28 x 3	2,599,521	36.91	37.51	36.82

OPTIONS Single Exchange Composite

CALLS VEGA	CALLS IMPL VOL	CALLS BID X	CALLS ASK X	EXP	STRIKE	PUTS BID X	PUTS ASK X	PUTS VEGA	PUTS IMPL VOL
JUL 05 (9) 100									17.63%
.00	0.00%	4.90 I	5.10 C	JUL 05	32.5	0 I	.05 I	.00	45.08%
.01	23.76%	2.50 B	2.55 B	JUL 05	35	0 A	.05 I	.01	25.12%
.02	17.96%	.40 I	.50 I	JUL 05	37.5	.40 B	.45 I	.02	17.29%
.01	22.62%	0 A	.05 A	JUL 05	40	2.50 C	2.60 I	.01	26.90%
.00	39.04%	0 I	.05 I	JUL 05	42.5	4.90 I	5.10 I	.00	--
AUG 05 (44) 100									22.76%
.02	27.07%	5.10 I	5.20 I	AUG 05	32.5	.10 B	.15 I	.02	29.23%
.04	24.51%	2.85 I	3.00 I	AUG 05	35	.35 I	.40 A	.04	24.99%
.05	22.55%	1.20 B	1.25 B	AUG 05	37.5	1.15 I	1.20 B	.05	22.97%
.04	21.25%	.30 B	.35 I	AUG 05	40	2.75 I	2.85 I	.04	22.29%
.02	22.26%	.05 I	.10 I	AUG 05	42.5	4.90 I	5.10 B	.00	--
NOV 05 (135) 100									23.43%
.06	27.59%	5.70 I	5.90 I	NOV 05	32.5	.55 I	.65 I	.06	27.59%
.08	25.36%	3.80 B	3.90 I	NOV 05	35	1.05 I	1.15 C	.08	25.00%
.09	23.63%	2.20 I	2.35 I	NOV 05	37.5	1.95 I	2.05 B	.09	23.23%
.09	22.39%	1.10 I	1.25 I	NOV 05	40	3.30 I	3.50 I	.09	21.92%

POSITION AND ORDER ENTRY TOOLS

	DELTA	GAMMA	THETA	VEGA	P/L OPEN	P/L DAY	BP EFFEC
LLTC	.00	.00	.00	.00	$0.00	$0.00	$0.0

ORDER ENTRY AND ORDER QUEUE

ORDER ENTRY | ORDER QUEUE

SPREAD	SIDE	QTY	SYMBOL	SPC	EXP	STRIKE	TYPE	PRICE		ORDER	RULES	EXCHA...
DBL DIAG	SELL	-10	LLTC	100	AUG 05	37.5	CALL	1.50	LMT	LIMIT	DAY	BEST
	SELL	-10	LLTC	100	AUG 05	37.5	PUT					
	BUY	+10	LLTC	100	JUL 05	37.5	CALL					
	BUY	+10	LLTC	100	JUL 05	37.5	PUT					

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LLTC - Sidewaysish Trade

« **Reply #17 on:** July 20, 2005, 09:02:21 AM »

Looks like a break-out. I suspect a fake-out and will wait a few days to see if I am right and hold on. Otherwise I will change the beast.

LLTC | LINEAR TECHNOLOGY CORP | Easy to Borrow | NASDAQ | Gamma | Vega | 5

UNDERLYING

LAST X	NET CHNG	BID X	ASK X	SIZE	VOLUME	OPEN	HIGH	LOW
39.77 C	+.19	39.76 C	39.78 A	22 x 10	1,244,099	39.595	39.78	39.25

YIELD	PE	EPS	DIV	DIV.FREQ	DIV.DATE	52HIGH	52LOW	BETA	SHARES
1.01%	29.46	1.35	.1	Q	4/27/05	40.73	34.01	2.351	305,993,000

OPTIONS | Single | Exchange Composite

CALLS GAMMA	CALLS VEGA	CALLS BID X	CALLS ASK X	EXP	STRIKE	PUTS BID X	PUTS ASK X	PUTS GAMMA	PUTS VEGA
JUL 05 (2) 100									19.81%
.02	.00	4.70 C	4.90 C	JUL 05	35	0 I	.05 I	.02	.00
.07	.00	2.25 I	2.35 C	JUL 05	37.5	0 I	.05 C	.07	.00
.56	.01	.15 I	.20 P	JUL 05	40	.40 C	.45 C	.52	.01
.06	.00	0 I	.05 I	JUL 05	42.5	2.70 B	2.80 C	.06	.00
.02	.00	0 I	.05 I	JUL 05	45	5.20 B	5.30 I	.02	.00
AUG 05 (37) 100									21.27%
.03	.01	4.80 I	5.00 I	AUG 05	35	.10 I	.15 I	.04	.02
.09	.04	2.65 C	2.75 I	AUG 05	37.5	.35 C	.40 X	.09	.04
.15	.05	.95 I	1.05 I	AUG 05	40	1.15 I	1.25 I	.15	.05
.10	.03	.20 C	.25 I	AUG 05	42.5	2.90 C	3.00 C	.10	.04
.03	.01	0 I	.05 I	AUG 05	45	5.20 C	5.40 I	.05	.02
NOV 05 (128) 100									21.75%
.04	.06	5.50 C	5.70 I	NOV 05	35	.55 C	.60 I	.04	.06
.06	.08	3.60 C	3.70 I	NOV 05	37.5	1.05 I	1.15 I	.06	.08
.08	.09	2.00 I	2.15 I	NOV 05	40	2.00 C	2.10 I	.08	.09
.08	.09	.95 I	1.05 I	NOV 05	42.5	3.40 I	3.60 I	.08	.09
.06	.06	.35 I	.45 I	NOV 05	45	5.40 C	5.50 I	.06	.06

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LLTC - Sidewaysish Trade

« **Reply #16 on:** July 13, 2005, 09:04:30 AM »

Covering the AUG 37.5P at .45, reducing the 1.21 credit to .76 credit.

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Posts: 3249

LLTC - Sidewaysish Trade

« **Reply #18 on:** July 27, 2005, 06:52:42 AM »

Fake Out

LOS ANGELES, July 26 (Reuters) - Circuit maker Linear Technology Corp.(LLTC.O: Quote, Profile, Research) on Tuesday beat analysts' estimates and reported higher fourth-quarter earnings due to stronger sales.
Linear posted quarterly net earnings of $106 million, or 34 cents per shares, compared with $98.8 million, or 31 cents per share, a year earlier.

Analysts, on average, had expected the company to post 33 cents per share and revenue of $256.8 million, according to Reuters Estimates.

The company said it will pay a cash dividend of 10 cents per share on Aug. 24 to shareholders of record as of Aug. 5.

Shares of Linear Technology were down 4.6 percent at $38.81 in after-hours trade on Inet, after closing at $40.68 on Tuesday on Nasdaq.

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LLTC - Sidewaysish Trade

« **Reply #19 on:** August 08, 2005, 02:46:07 PM »

Reason for the trade is over-we are out of the projected sideways area and would not initiate the trade today. The liquidating value has recently fluctuated between .50 debit and .50 credit. Covering the remainder of the position (Short the AUG 37.5C and Long NOV 35P/NOV 40C strangle) .25 debit leaves us with .51 profit.

LLTC | LINEAR TECHNOL... | Easy to Borrow | NASDAQ | Open Interest | Volume | 5

UNDERLYING

LAST X	NET CHNG	BID X	ASK X	SIZE	VOLUME	OPEN	HIGH	LOW
39.95 C	-.13	39.94 C	39.95 Q	24 x 16	3,357,545	39.90	40.13	39.65

TRADE GRID

OPTIONS | Single | Exchange: Composite

CALLS OPEN.INT	CALLS VOLUME	CALLS BID X	CALLS ASK X	EXP	STRI...	PUTS BID X	PUTS ASK X	PUTS OPEN.INT	PUTS VOLUME
AUG 05 (16) 100									18.44%
282	101	4.90 C	5.10 C	AUG 05	35	0 B	.05 I	4,082	20
6,542	145	2.55 I	2.65 C	AUG 05	37.5	.05 I	.15 I	4,822	17
8,648	1,202	.60 I	.65 I	AUG 05	40	.60 I	.70 I	7,215	151
4,476	107	.05 B	.10 I	AUG 05	42.5	2.55 I	2.65 C	935	40
1,317	670	0 I	.05 I	AUG 05	45	5.00 C	5.20 C	153	110
SEP 05 (44) 100									20.45%
92	72	5.10 I	5.30 I	SEP 05	35	.05 I	.15 I	223	118
687	3	2.90 I	3.00 C	SEP 05	37.5	.30 I	.40 I	978	4
4,955	35	1.15 I	1.25 I	SEP 05	40	1.05 I	1.15 I	715	100
1,407	7	.25 I	.35 I	SEP 05	42.5	2.70 I	2.80 I	428	219
380	75	0 A	.10 I	SEP 05	45	5.00 I	5.20 I	10	10
NOV 05 (107) 100									21.56%
272	110	5.50 I	5.70 I	NOV 05	35	.40 B	.45 I	710	20
1,108	5	3.50 I	3.70 I	NOV 05	37.5	.85 I	.90 B	1,254	150
2,835	56	1.95 I	2.05 I	NOV 05	40	1.70 I	1.80 I	1,028	50
1,239	5	.85 I	.95 B	NOV 05	42.5	3.10 I	3.30 I	282	25
438	115	.30 I	.40 I	NOV 05	45	5.10 C	5.30 I	16	4

wmillows
Guest

How does option market work?
« **on:** August 07, 2005, 06:33:06 PM »

Hi Charles,

I am trying to understand how option market works? From what I understand from your seminar, a retail customer can only buy ask, sell bid. When a market maker sells a contract, he/she will either long or short same delta underlying to hedge his/her exposure.

In reading the option transaction tape, I noticed that some contracts are traded together. For example, in one of the GM options, the current market is 1.25 bid, 1.30 ask, if there are 7930 contracts traded at 1.30, the next trade is 7930 contracts traded at 1.25. There are a number of trades like this. Would you explain what market maker might've don there?

Thanks,

Ri$k Doctor
Administrator
Hero Member
Posts: 3249

How does option market work?
« **Reply #1 on:** August 08, 2005, 07:30:17 AM »

I could be wrong about this because I do not have all the details but this clearly looks like 15,860 were traded at 1.275.

For clearling purposes this trade, entered on what we call "splits" can only clear on legal tradable increments (.05). The two parties verbally agree on 1.275 but the order has to split up for the clearing process with half at 1.25 and the other half at 1.30.

You stated above that a customer can only trade with MMs but that is only mostly true. Keep in mind that often customers meet somewhere in the middle and avoid the bid and ask prices.

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Transparency Example 1

« **on:** July 17, 2005, 08:13:14 PM »

Try to solve the following exercise in less than 60 seconds. (In live audience presentations over 90% get the answer wrong.)
Exercise: What amount of money is the most that one can lose with the following position?
QQQQ is trading at 37.30,
The 36 call is going for 1.70 and
The 39 put is going for 1.90.

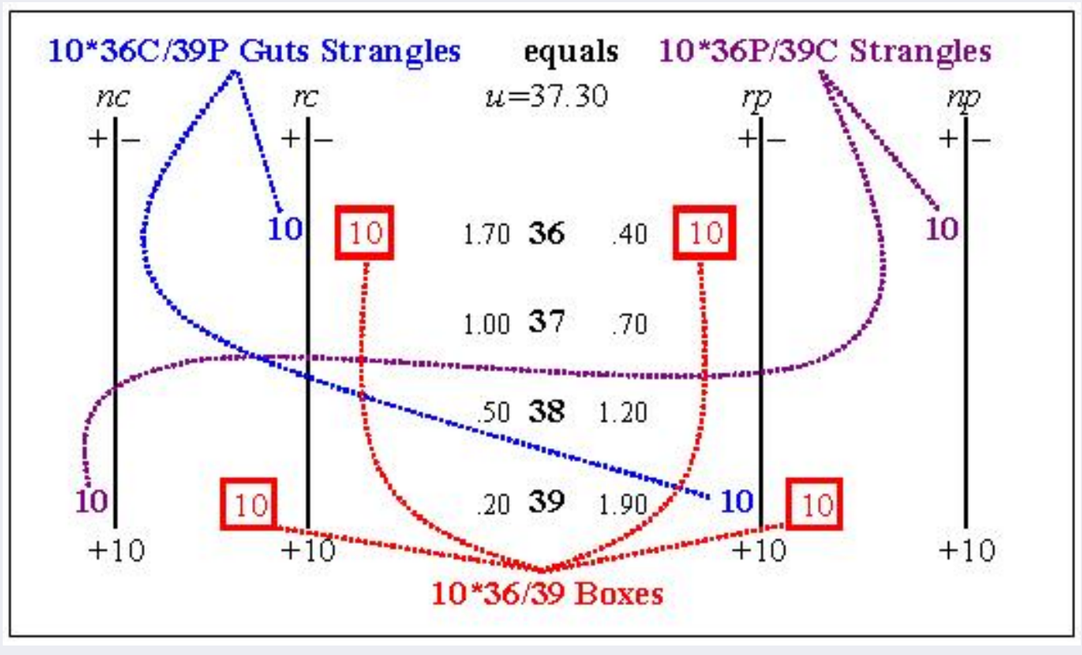
A trader buys ten of each. Obviously, this is a good position if there is a large move in either direction but what is the worst-case scenario? Owning ten calls at 1.70 and ten puts at 1.90 is 3.60 ten times making a total investment of $3600 (10 x (1.70 + 1.90) x 100 shares).

Most people figure the answer to be $3600, the limited risk amount invested??the loss is limited to the amount paid. This is incorrect. The answer is only $600 (10 x .60) x 100 shares. The proof and full explanation is in Chapter 1 just following Exhibit 1-9.

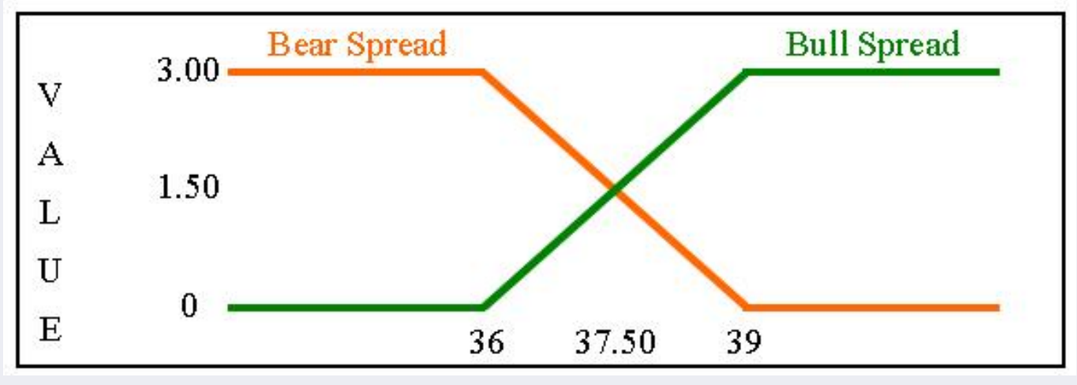
After learning the market maker methods and grasping the concepts (which may be confusing at first, but it gets easier with practice), it will be possible to answer similar questions in less than 5 seconds. Such clarity can make a huge difference in one??s trading.

To demonstrate the answer, alter the view of the Raw Position (see Exhibit 1-9): 10*36C/39P Guts Strangles going for 3.60 by applying -10*3.00 BoxTools (+10 36/39 Boxes are embedded in the position). One can much more easily answer a new question, and this time get it right: What amount of money is the most one can lose with 10*36 Puts bought at .40 and 10*39 Calls bought at .20, making a total investment of $600 (10 x (.40 + .20) x 100 shares)?

EXHIBIT 1-9
10*36C/39P Guts Strangles is Synthetically Equivalent to 10*36P/39C Strangles
Because it Contains 10 Embedded 36/39 Box Spreads



The minimum value for this position is not "zero" as human nature forces us to believe. Rather it is $3000 (10x 3.00 x 100 shares). The 3.00 Box will hold that value all the way to expiration. Exhibit 1-10 shows the conventional approach to demonstrating the expiration value of a box.



It is difficult to understand merging hockey-stick graphs as in Exhibit 1-10 in order to assess risk. Imagine the confusion when positions with more strikes and different ratios are introduced. Learning the dissection methods presented in this book will be a little unusual at first, but can soon become second nature, with a little practice.

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Diagonals and Double Diagonals

« **on:** July 17, 2005, 07:50:00 PM »

Diagonals

A diagonal is a long call (put) in one month and a short call (put) in another month with different strikes. We usually like to sell the near month options and buy further dated ones in order to have time erosion on our side as well as sell the closer to the money option and buy the one that is further away for better odds of winning. Since diagonals can be confusing, to make it more intuitive, it may be helpful to think of one in terms of a vertical credit spread that intersects with a long calendar spread. Perceiving diagonals in this way will help you to understand how to tweak gamma, theta, and vega more to your favor.

Entrance Criteria for each spread will best understood if you already have entry criteria for individual vertical and calendar spreads. Obviously, if the criteria are met for both or rather close there is a strong case for entering the diagonal. The price will simply be the debit price for the calendar minus the credit for the vertical. Prices will vary depending on the underlying price, the strikes involved, time until expiration and implied volatility levels.

Using a diagonal spread is a way to control how time will affect a vertical spread. To put it more simply, it is another way for a trader to optimize his or her market objectives based on an analysis of implied volatility levels and may provide the trader with alternative, less costly, and even creative ways to lock in value or eliminate risk.

	Calls				Strikes
	JUL		APR		
	+	-	+	-	
Original Call Diagonal				10	27.5
	10				30
Equals					
	JUL		APR		
	+	-	+	-	
Short APR OTM Call Vertical				10	27.5
PLUS					
30 Call Calendar	10		10	10	30
OR					
	JUL		APR		
	+	-	+	-	
27.5 Call Calendar	10	10		10	27.5
PLUS					
Short JUL Call Vertical	10				30

Double Diagonal aka Straddle Strangle Swap or Calendarized Iron

A Double Diagonal is two diagonal spreads, one in the calls and the other in the puts and wins in a stable market. It consists of short a straddle or a strangle in the current month and long a further dated strangle at strikes further away. It is a trading vehicle that combines the best characteristics of time/calendar spreads and short iron wing spreads (butterfly for 3 strikes and condor for 4 or more) i.e., long the wings / short the body or middle strike(s) ?? betting that the underlying to land within a certain range. The short iron condors reduce the cost of the calendar spreads much the same way short put and / or call vertical spreads reduce the cost of the butterflies in a convoluted position.

The advantage of using calendar spreads in conjunction with butterflies or condors is that calendar spreads create additional positive theta creating cash flow (time decay in your favor) every day. Butterflies will only have a significant positive theta when they become within the strikes during expiration week.

The original position is created on a fairly delta neutral basis and adjusted periodically by using vertical spreads or calendar spreads depending on market conditions. Prior to entering positions a range of acceptable deltas should be established. This range is the basis for making position adjustments. In order to remain reasonably market neutral, a disciplined trader will always try to keep positions within this delta range. The bigger the size the more important this becomes. Also, keeping gamma within a range is just as important as deltas but the concepts and strategies needed are more sophisticated. These gamma adjustments require the use of calendar spreads to achieve your desired gamma.

Pricing of time / calendar spreads is mostly determined by monitoring the relationships between volatilities that exist in all listed months. For our purposes, looking at the front month and the following three months is more than sufficient because a majority of our strategies do not extend beyond six months. As a general rule it is desirable to sell options in the front month at an implied volatility level that is higher than the back month options you are buying. Sometimes this relationship doesn't exist so we would most likely not enter a new position. The basic volatility skew (aberration between implied volatilities) that generally exists in most underlying equities and indexes is less pronounced as you move out in time. The above guidelines will prevent traders from selling the front month options too cheap. Also basic probability assumptions can be used to determine the ideal strikes to employ to open positions.

Exiting and rolling time calendar spreads involves several assessments. First, in a perfect scenario, these positions would never have to be adjusted, so when the front month options become cheap enough it is advisable to either closing or roll the shorts to the next month where premiums are meatier and therefore a better short.

What;s a good price? What do you look for?

Well, most of our clients are generally knowledgeable about attractive opportunities to enter Short Iron Condors and buying cheap calendar spreads. You know your entry criteria for a long butterfly and since a condor is two butterflies in a row, you may use similar criteria. Remember that a long condor for a debit acts the same as a short iron condor for a credit
(provided that the credit is close to the short vertical??s basic value minus the debit of the long condor). Also remember the entry criteria for entering OTM calendar spreads. Knowledge is power so all you have to do is combine the two separate understandings. Depending on implied volatilities and stock price, our clients have been happy to get a credit of anywhere between 40% to the value to 60% of the potential liability. In other words, for a 4-strike 5-point iron condor with $500 margin, we have taken in between 2.00 ($200 per spread) to 3.00 leaving risk of 3.00 (5.00 margin minus the 2.00 credit) to 2.00 (5.00 margin minus 3.00 credit). For 2.5-point spreads, about half of that credit but most people trade it at twice the size of a 5-pointer. If you have not yet realized, If you go through a 2 for 1 stock split with a 5-pointer you end up with twice as many 2.5-pointers.

Again, depending on implied volatilities and stock price, attractive calendar spreads that have roughly been within 10% of the strike have been bought for between .25 and 1.00.

So it is basically the Iron Condor's credit less the two long calendar spreads?? debits. Therefore if it is attractive to do a 2.5-point Iron for a 1.30 credit and at the same time buying the two outer strike calendar spreads for .65 debit each then the whole deal will be even money ($1.30 credit minus two $.65 debits). The example below shows what happens when **10 Short 22.5P/25P/27.5C/30C Iron Condors** become combined with *10 Long 22.5P Calendars* and *10 Long 30 Call Calendars:*

	Calls			Strikes		Puts	
	JUL	APR			APR	JUL	
	+ -	+ -			+ -	+ -	
22.5 Put Calendar				22.5	10 *10*	*10*	
				25	10		
Short 10 Iron Condors							
		10		27.5			
30 Call Calendar	*10*	10	*10*	30			

Guest

Synthetic Butterfly

« **on:** July 12, 2005, 10:12:26 AM »

Hello Charles

Yesterday during your presentations every thing look very easy and incredible nice, but when I went home last night
and start applying what you just taught us I go all confuse. I really like your CPA Approach of Credit and debit so I use the same technique

I was looking at the follow trade: CAT is look bullish to me. The current price is 99.83 and my target price is around 103-105. At first, I looked at the vertical call spread, but 4 months ago I had the same configuration and bought a vertical. Because the stock did not move too much and the spread was expensive I lost a little bit of money.

So this time I think in a butterfly will be better and I am looking at the following call butterfly +1 AUG 100C / - 2 AUG 105C / +1 AUG 110C for a .90 Debit. This butterfly matches my target price.

I then applied your dissection technique and this
butterfly becomes like a put butterfly +1 AUG 100P / - 2 AUG 105P / +1 AUG 110P for a .95 Debit, but in this case the Butterfly is in the Money.

For my both numbers look very similar and my potential profit are the same. Am I doing something wrong or is this correct thinking? Either way, it has the same risk/reward proile.

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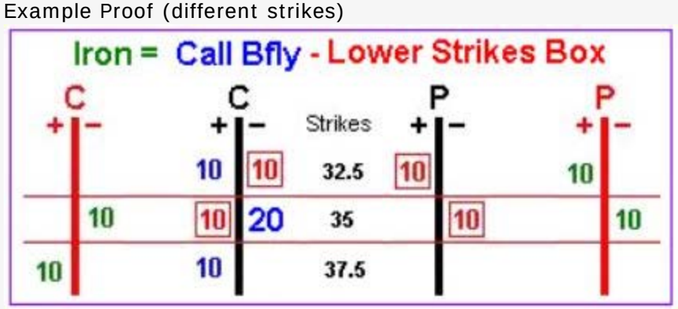
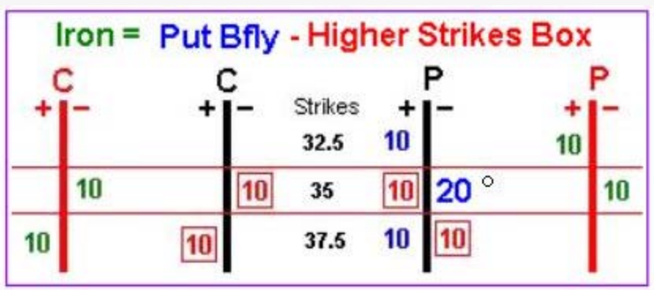
Synthetic Butterfly

« **Reply #1 on:** July 15, 2005, 06:56:25 AM »

MacGeek: It would seem that the call butterfly is a little cheaper and that from a theoretical point of view has to do with the fact that the 110 Put is a candidate for early exercise allowing certain traders to receive interest payments (short stock rebate) on the short stock position until AUG expiration, if they exercise the put.

You are right however in that they have the same risk/reward profile and so would the iron butterfly (+1 AUG 100P / -1 AUG 105 Straddle / +1 AUG 110C) for about a 4.05 credit. Example Proof (different strikes)





Bottom Line: Risking almost a buck to make almost 4 bucks but realistically taking profits if you can make closer to 3 bucks.