Ri$k Doctor Forums

Subject	Started by	Replies	Views	Last post
Dissection Question	Wlblount	16	572	July 31, 2008, 01:56:20 PM by pnftrader1
boxes	Wlblount	13	362	July 09, 2008, 06:21:52 AM by Ri$k Doctor
Risk Doctor training Part 4	leonidt	2	327	June 17, 2008, 01:07:20 PM by leonidt
Part 3 - Box Tool Confusion	OptionJedi	5	416	April 06, 2008, 07:00:54 PM by Ri$k Doctor
Questions on Risk Doctor Training Day 4	asetianto	3	165	April 06, 2008, 06:39:44 PM by Ri$k Doctor
Scope of Risk Doctor training	minnanotabo	3	372	January 27, 2008, 09:16:23 AM by Ri$k Doctor
page 22 synthetics	jimmyo	2	301	December 16, 2007, 09:08:01 AM by jimmyo
Welcome to OTTHR Lite Free Course	Ri$k Doctor	0	732	October 31, 2007, 11:08:53 AM by Admin

Author

Wlblount
Newbie
Posts: 13

Dissection Question
« **on:** May 18, 2008, 05:51:01 PM »

In going through the 1st Chapter...

I understand dissection when I look at what you have dissected. I also understand how to apply the synTool or the boxTool to a position although I do not really understand how to choose which tool or which way to apply the tool to get to a simpler position. Is this just trial and error... just throwing the kitchen sink at a position and looking at all the different transformations until you see something that looks better than the raw position or is there some part that you are always looking to eliminate/cancel?

Ri$k Doctor
Administrator
Hero Member
Posts: 3249

Dissection Question
« **Reply #1 on:** May 19, 2008, 06:57:24 AM »

Trial and error will help you get a sense of how different positions inter-relate but the usual objective is to eliminate in-the-money (ITM) options and their intrinsic (often offsetting) value. Using either dissectionTool to convert ITMs to OTMs.

Wlblount
Newbie
Posts: 13

Dissection Question
« **Reply #2 on:** May 19, 2008, 07:21:55 AM »

single strike = syth, multiple strikes = mult synth or box when you can?

Ri$k Doctor
Administrator
Hero Member
Posts: 3249

Dissection Question
« **Reply #3 on:** May 19, 2008, 07:35:28 AM »

If you have underlying you should simply use the synTool. Otherwise bring all ITMs to ATM (pivot strike near-to-the-money) using the boxTool.

pnftrader1
RDCC
Newbie
Posts: 9

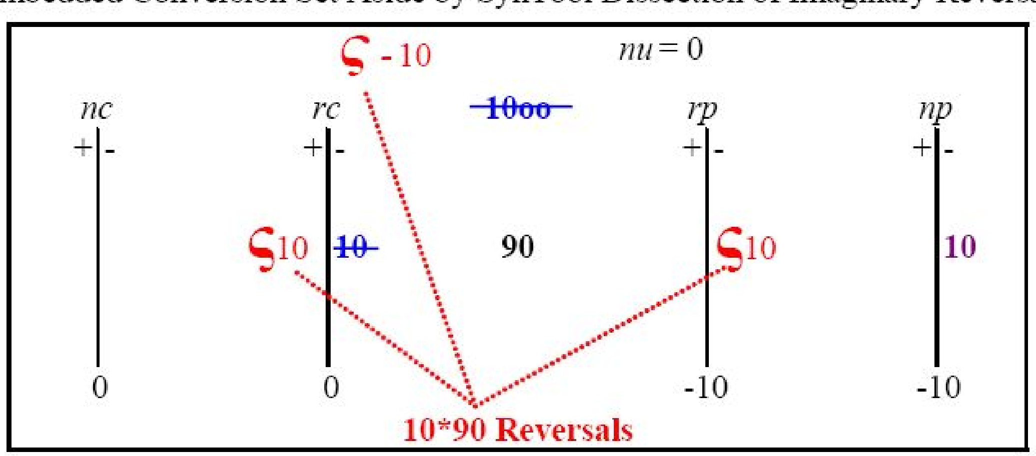
Dissection Question
« **Reply #4 on:** May 19, 2008, 02:12:28 PM »

Struggling to understand SynTool Dissection.

Q1. Exhibit 1-6, Page 16 of OTTHR:

EXHIBIT 1–6

Embedded Conversion Set Aside by SynTool Dissection of Imaginary Reversal



Please explain the **S**-10 in red, on top above rc column.

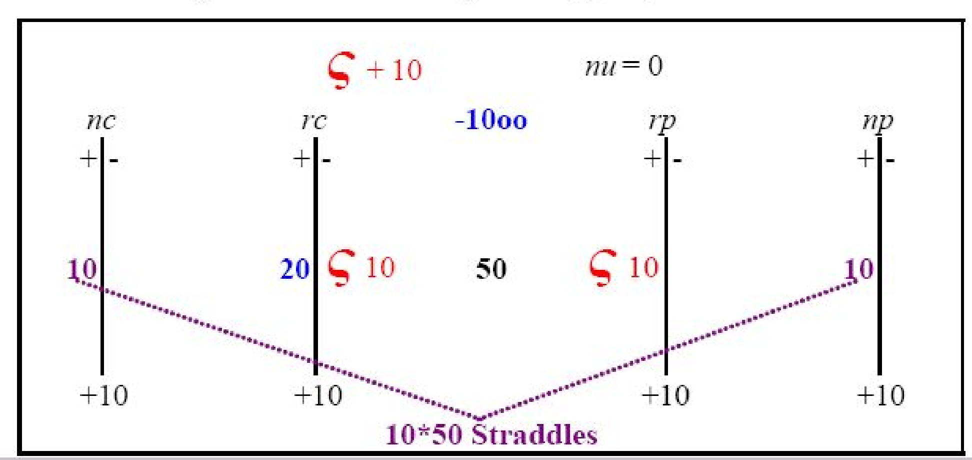
The other two SynTool legs are +10oou = +10c - 10p, correct?

Q2. Exhibit 1-7, Page 17 of OTTHR

EXHIBIT 1–7

+10 Synthetic Straddles

After Dissecting Out 10 Reversals by an Imaginary Trade of 10 Conversions



Please explain the S+10 in red, on the top above the rc column.

The other two SynTool legs are -1000u = -10c + 10p, correct?

Q3. Why do you exclude the S-10 and S+10 above the rc column from the nu which is shown to be = 0

Cheers,
Deepak

Wlblount
Newbie
Posts: 13

Dissection Question
« **Reply #5 on:** May 19, 2008, 05:06:21 PM »

1 - the red **S** at the top is the short underlying leg of the synTool reversal (long call, short put, and short underlying).

2 - In 1-7 the red **S**s are the opposite of 1-6 or the synTool conversion.

3 - I think the nu=o is just saying that the net underlying is zero after the synTool is applied.

Ri$k Doctor
Administrator
Hero Member
Posts: 3249

Dissection Question
« **Reply #6 on:** May 19, 2008, 05:55:29 PM »

All correct.
Thank you, wlbsr.

RDCC
Newbie
Posts: 9

Dissection Question
« **Reply #7 on:** May 20, 2008, 02:16:12 PM »

Thanks wlbsr :)

pnftrader1
RDCC
Newbie
Posts: 9

Dissection Question
« **Reply #8 on:** May 21, 2008, 02:05:25 PM »

In Chapter 2, in the section "An Argument for Box Dissection" , I understand that Exhibit 2-4 is an inventorization of Gil Bates position. The net position depicted in Exhibit 2-4 (page 32) is the final position arrived at after trades (A -G) show in Exhibit 2-2, (page 31)

Moving on to Exhibit 2-5 , i do not understand what specifically was done to translate

a) Raw position to Dissection 1
b) Raw position to Dissection 2
c) Raw position to Dissection 3
d) Raw position to Dissection 4
e) Raw position to Dissection 5

I picked up that RD is using the BoxTool to "remove each of the 4 corners of the box (Raw Position) and shows how Gil does an imaginary trade to liquidate each of the 4 positions depicted in the raw position shown in Exhibit 2-5 (page 33)

Without figuring this out, i can't proceed to RD's analysis of each Dissection that starts towards the end of Page 33.

(Also, i am unable to see images of the Exhibits that i try to cut from the OTTHRS PDF i have. Cant use the Image Tab as it asks me for a URL.)

Wlblount
Newbie
Posts: 13

Dissection Question
« **Reply #9 on:** May 21, 2008, 04:41:25 PM »

Exhibits 2-6 thru 2-10 on pp. 34-36 show which boxes were used. Each box was a -c/+p at the lower strike and a +c/-p at the higher strike. Each quantity was an amount equal to one of the corners in order to eliminate it and # 5, 30 was used to create a call back spread(-1 by +2) and a put ratio spread (+1 by-2).

20,10,50, 40, and 30 boxes dissected respectively.

Ri$k Doctor
Administrator
Hero Member
Posts: 3249

Dissection Question
« **Reply #10 on:** May 21, 2008, 06:59:56 PM »

Yes, thank you, wlbsr.

pnftrader1
RDCC
Newbie
Posts: 9

Dissection Question
« **Reply #11 on:** May 26, 2008, 02:15:03 PM »

Thanks much. Have now plodded my way to Option Metamorphosis on Page 45 and have hit a road block here, somewhat.

EXHIBIT 2-11

Options Metamorphosis
Transforming a Long Stock Position

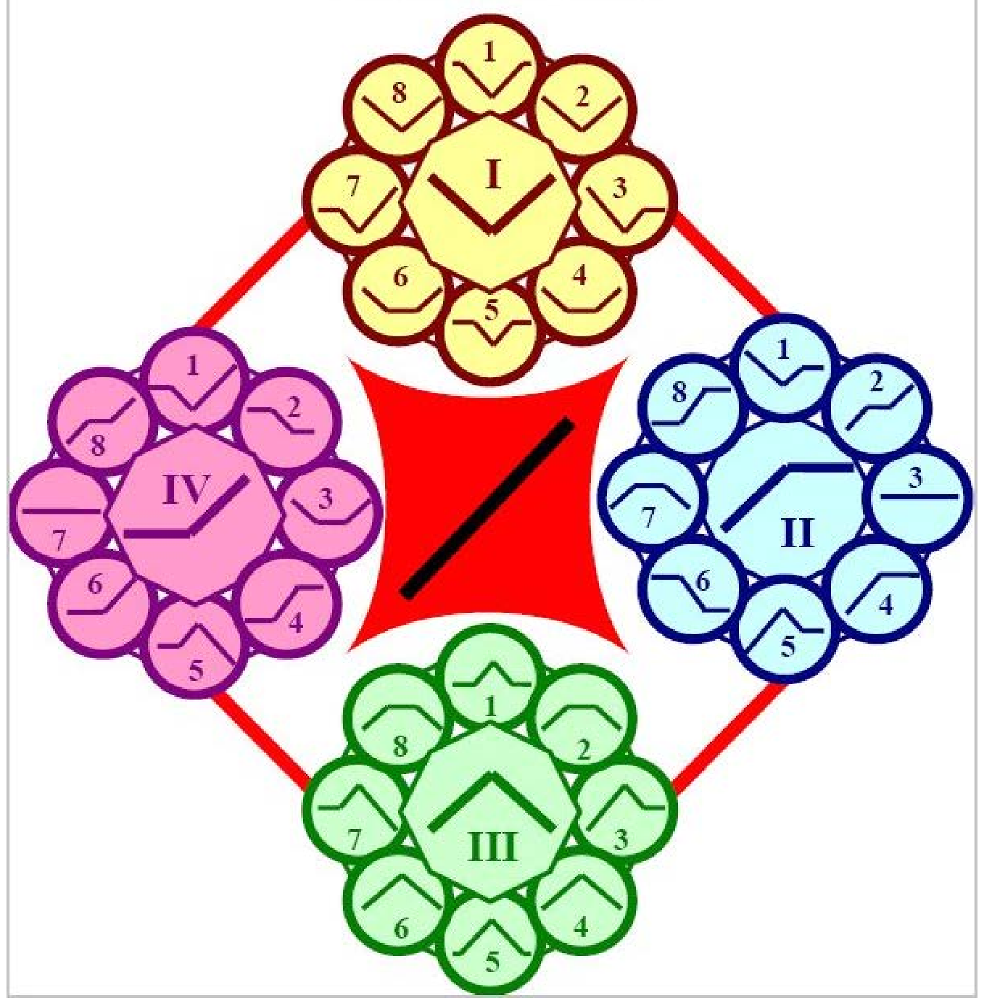


EXHIBIT 2-12

Explanation of Options Metamorphosis
Transforming a Long Stock Position

See Appendix for all Dissections for Proof

I LONG STRADDLE by BUYING twice the number of PUTS

1 SHORT BUTTERFLY with a 4 strike value range: by SELLING a STRANGLE two strikes out.
2 LONG STRADDLE rolled to a higher strike: by TRADING twice the amount of BEAR SPREADS with the sale strike = to the original hedge strike.
3 PUT (LongMore) BACK SPREAD: by SELLING a higher strike CALL
4 LONG STRANGLE : by TRADING a BEAR SPREAD with the sale strike = to the original hedge strike.
5 SHORT BUTTERFLY with a 2 strike value range: by SELLING a surrounding STRANGLE.
6 LONG STRANGLE : by TRADING a BULL SPREAD with the sale strike = to the original hedge strike.
7 CALL (LongMore) BACK SPREAD: by SELLING a lower strike PUT.
8 LONG STRADDLE rolled to a lower strike: by TRADING twice the amount of BULL SPREADS with the sale strike = to the original hedge strike.

II SHORT PUT (Covered Write) by SELLING a CALL

1 PUT (LongMore) BACK SPREAD: by BUYING twice the number of lower strike PUTS.
2 LONG SEMI-STOCK: by BUYING a higher strike CALL.
3 CONVERSION (Flat): by BUYING a same strike PUT.
4 SHORT PUT rolled to a different strike: by TRADING a VERTICAL SPREAD with the sale strike = to the original hedge strike.
5 PUT (ShortMore) RATIO SPREAD: by BUYING half the amount of higher strike PUTS.
6 BEAR SPREAD: by BUYING a higher strike PUT.
7 SHORT STRANGLE: by SELLING a different strike CALL.
8 BULL SPREAD: by BUYING a lower strike PUT.

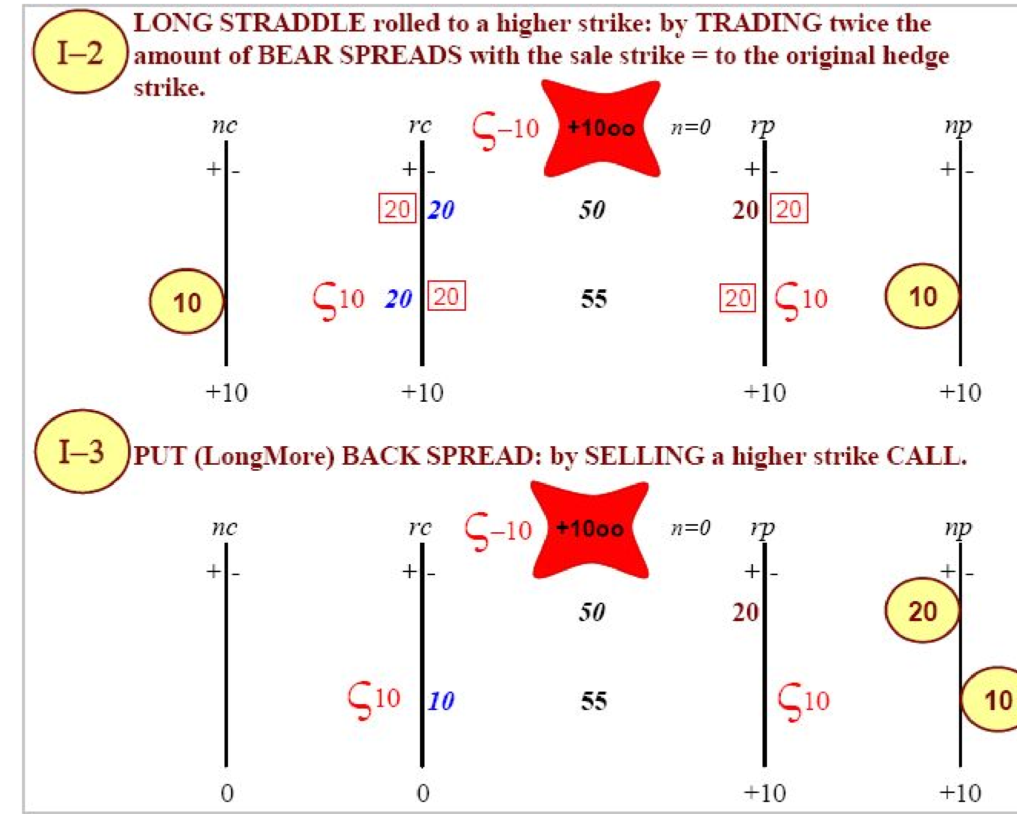
III SHORT STRADDLE by SELLING twice the number of CALLS

1 LONG BUTTERFLY with a 2 strike value range: by BUYING a surrounding STRANGLE
2 SHORT STRANGLE : by TRADING a BULL SPREAD with the purchase strike = to the original hedge strike.
3 PUT (ShortMore) RATIO SPREAD: by BUYING a higher strike CALL.
4 SHORT STRADDLE rolled to a higher strike: by TRADING twice the amount of BULL SPREADS with the purchase strike = to the original hedge strike.
5 LONG BUTTERFLY with a 4 strike value range: by BUYING a STRANGLE two strikes out.
6 SHORT STRADDLE rolled to a lower strike: by TRADING twice the amount of BEAR SPREADS with the purchase strike = to the original hedge strike.
7 CALL (ShortMore) RATIO SPREAD: by BUYING a lower strike PUT.
8 SHORT STRANGLE : by TRADING a BEAR SPREAD with the purchase strike = to the original hedge strike.

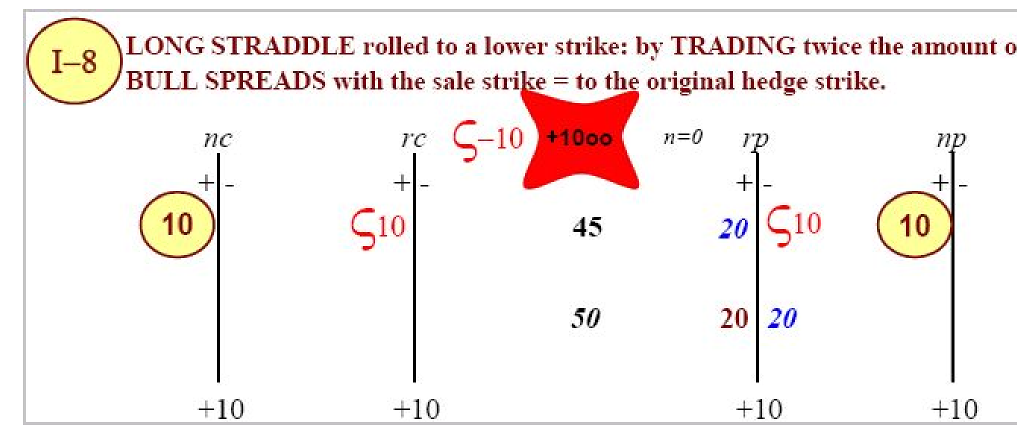
IV LONG CALL by BUYING a PUT

1 CALL (LongMore) BACK SPREAD: by SELLING HALF the number of lower strike CALLS.
2 BEAR SPREAD: by SELLING a lower strike CALL.
3 LONG STRANGLE: by BUYING a different strike PUT.
4 BULL SPREAD: by SELLING a higher strike CALL.
5 CALL (ShortMore) RATIO SPREAD: by SELLING twice the amount of higher strike CALLS.
6 LONG CALL rolled to a different strike: by TRADING a VERTICAL SPREAD with the sale strike = to the original hedge strike.
7 CONVERSION (Flat): by SELLING a same strike CALL.
8 LONG SEMI-STOCK: by SELLING a lower strike PUT.

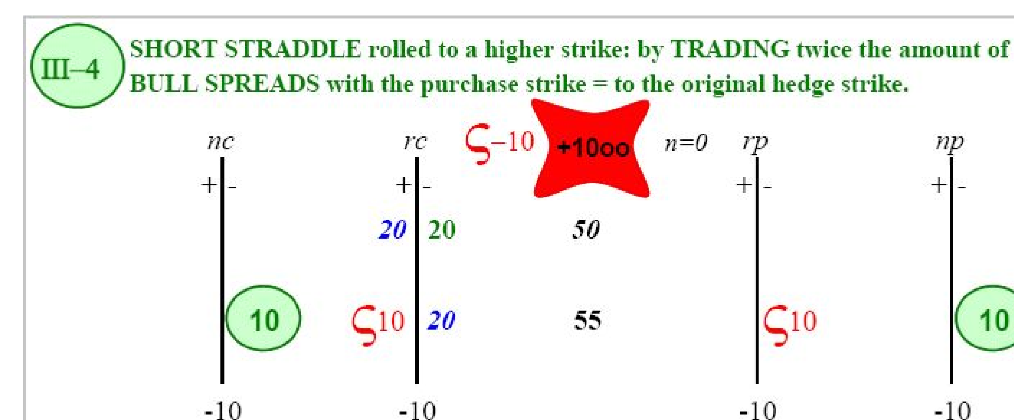
1. Refer to Page 353, I-2, I-3, why is the SynTool applied at a higher strike at 55. In all other instances of I the SynTool is applied at Strike 50.



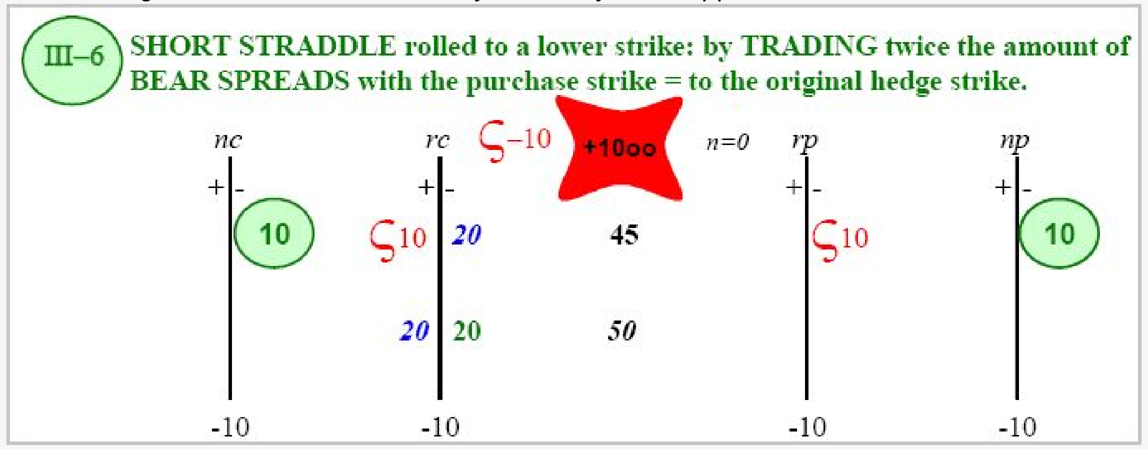
2. Refer to Page 355, I-8, why is the SynTool applied at a lower stirke of 45



3. Refer to Page 358, III-4, why is the SynTool applied at a higher strike of 55 and not the lower strike at 50



4. refer Page 359, III-6 and III-7 why is the SynTool applied at a lower strike of 45. In other cases of III except III-4, SynTool is applied at 50,



Cheers,

Ri$k Doctor
Administrator
Hero Member
Posts: 3249

Dissection Question
« **Reply #12 on:** May 27, 2008, 07:31:16 AM »

1. Position Dissection is a 'Trial and Error' approach. For the I-2 example was simply a choice of applying the 10 SynTools to the 55 strike. I could have applied the 10 SynTools to the 50 Strike and then applied only 10 BoxTools to achieve the same objective.

For I-3, we were trying to achieve the objective of a Put Back Spread and had to remove the calls that were at the 55 strike.

2. This was a synthetic **long** straddle at the higher strike but the 20 lot call vertical shifted the 20 short options to the lower strike where then the SynTool needed to be applied.

3. This was a synthetic **short** straddle at the lower strike but the 20 lot put vertical shifted the 20 long options to the higher strike where then the SynTool needed to be applied.

4. This was a synthetic **short** straddle at the higher strike but the 20 lot put vertical shifted the 20 long options to the lower strike where then the SynTool needed to be applied.

pnftrader1
RDCC
Newbie
Posts: 9

Dissection Question
« **Reply #13 on:** June 01, 2008, 02:53:35 PM »

Thank You, Charles. I am begining to get it. But I see there are so many ways to do it so that leaves me a overwhelmed.

Is now a good time to start exploring the open source dissector available on your website or should i wait till I get somewhere ahead in the book OTTHR? (Finished Options Metamorphosis)

Cheers,

pnftrader1
RDCC
Newbie
Posts: 9

Dissection Question
« **Reply #14 on:** July 28, 2008, 06:55:33 AM »

Could you please confirm if my understanding of Position 5 on Page 21 of OTTHRS is correct ?

What we have here is a Long 10 45 Puts, Short 20 50 Calls, Long 10 55 Calls in addition to 1000u, Call Bkfly using Syn 45 C

So the construction required to turn the long stock into call bkfly is -:

a. Buy long put at 45. This turn the Long Stock into a Long Call at 45 strike.
b. Sell twice the number of calls at 50
c. Buy long call 5 strikes away at 55

I guess you are applying similar logic for 6/7 also.

Cheers,
Deepak

Ri$k Doctor Forums

Author

Ri$k Doctor
Administrator
Hero Member
Posts: 3249

Dissection Question
« **Reply #15 on:** July 30, 2008, 04:36:53 PM »

1.	+10*45c /	–20*50c	/ +10*55c		Call Butterfly
2.	+10*45p /	–20*50p	/ +10*55p		Put Butterfly
3.	+10*45p /	–10*50p / –10*50c	/ +10*55c		Iron Butterfly
4.	+10*45c /	–10*50c / –10*50p	/ +10*55p		Gut Iron Butterfly
5.	+10*45p /	–20*50c	/ +10*55c	/ *+10oo*u*	Call Butterfly using ***Syn 45c***
6.	+10*45p /	–20*50c	/ +10*55p	/ *+20oo*u*	Put Butterfly using ***Syn 50p***
7.	+10*45c /	–20*50c	/ +10*55p	/ *+10oo*u*	Call Butterfly using ***Syn 55c***
8.	+10*45c /	–20*50p	/ +10*55p	/ *–10oo*u*	Put Butterfly using ***Syn 45p***
9.	+10*45c /	–20*50p	/ +10*55c	/ *–20oo*u*	Call Butterfly using ***Syn 50c***
10.	+10*45p /	–20*50p	/ +10*55c	/ *–10oo*u*	Put Butterfly using ***Syn 55p***

QUOTE
c. Buy long call 5 strikes away at 55

Yes, Confirmed but you mean 5 points away, not 5 strikes.

pnftrader1
RDCC
Newbie
Posts: 9

Dissection Question
« **Reply #16 on:** July 31, 2008, 01:56:20 PM »
Thank You for the prompt response.

Cheers,
Deepak

Author

Wlblount
Newbie
Posts: 13

boxes
« **on:** May 20, 2008, 05:29:01 PM »

In plugging in some prices to get a feel for boxes, it looks like the conversion at the lower strike is a credit and the conversion at the higher strike is a debit, both for the diffence in strikes. If these are both flat, what am I missing? I am sure its right in front of me.

Ri$k Doctor
Administrator
Hero Member
Posts: 3249

boxes
« **Reply #1 on:** May 20, 2008, 07:45:30 PM »

It is actually a conversion at one strike versus a reversal at the other (the long stock for the conversion and the short stock for the reversal cancel each other out).

Please provide the strike and option prices, that you are using, and I will be glad to explain it further.

Wlblount
Newbie
Posts: 13

boxes
« **Reply #2 on:** May 21, 2008, 05:05:53 PM »

650C - 64.5625
650P - 78.875
700C - 48.5
700P - 112.25

This box will be a 50 DR or a 50 CR (the difference between the strikes) depending on whether you convert or reverse the 650. What piece of the puzzle am I missing by thinking you can put on a flat possition for a 50 credit and why would anyone take the other side and pay 50 for a flat position?

Ri$k Doctor
Administrator
Hero Member
Posts: 3249

boxes
« **Reply #3 on:** May 21, 2008, 07:11:52 PM »

QUOTE
650C - 64.5625 (64 9/16)
650P - 78.875 (78 7/8)
700C - 48.5 (48 1/2)
700P - 112.25 (112 1/4)
(112.25 +64.5625) minus (78.875+48.5)=49.4375 (49 7/16).

I don't know how many days are left or the prevailing interest rate in this scenario but the box is worth the present value of 50.

The person short it will lose .5625 (9/16) by expiration but receive that much in interest due to the credit balance of 49.4375 (49 7/16), breaking even.

The person long it willl make .5625 (9/16) in the market but get charged that amount of interest, breaking even.

The bid/ask of the box would be surrounding 49.7/16 in order to profit, peraps 49 3/8 - 49 1/2.

The box, for the retail customer, is used purely for dissection and to prove synthetic relationships. Often, a retail trader, after getting in with a bull call spread, may get out (flatten) with a bear put spread, resulting in the box.

Wlblount
Newbie
Posts: 13

boxes
« **Reply #4 on:** May 22, 2008, 05:00:04 AM »

It looks like this 50 pt. box is always either a 50 DR or a 50 CR depending on which way you do it. By using other strikes, it looks like the box price is always the difference between the strikes.

The prices above are a little off but the value of the box is always a fraction from being the difference between the 2 strikes.

My question is why would someone pay 50 for a flat position or does the 50 come back through the strike component when you unwind.

The cost of money until expiration in this example is about 4. (these are CBOT Corn options, so we are talking cents here.)

Ri$k Doctor
Administrator
Hero Member
Posts: 3249

boxes
« **Reply #5 on:** May 22, 2008, 06:21:16 AM »
QUOTE
The cost of money until expiration in this example is about 4. (these are CBOT Corn options, so we are talking cents here.)
Example: a 50 cent, (6.50/7.00) Corn Box with 96 days to go using 3% is worth 49.6 cents becasue the carry cost is .4 cents (50 x 96/365 x 3%).

Market makers would be profitable if they paid less than 49.6 or sold for greater than 49.6, right? How were you calculating it?

You are right about "why would anyone want to buy or sell this thing for 50 cents? A retail investor has no interest in anything like this but more likely if someone had bought a 50 cent call vertical for 20 cents and after a rally chose to lock-in the profits by purchasing the put vertical for 20 cents, the box would have been legged into for 40 cents making about a 10 cent profit.

Wlblount
Newbie
Posts: 13

boxes
« **Reply #6 on:** May 23, 2008, 01:11:45 AM »
I think I was looking at the cost of carry on 6.50 instead of .50.

So the lower strike combo of the box should trade for .50 (the strike difference) greater than the higher strike combo (less the cost of carry). When Time=0 the value reverts back to .50 so the Profit or Loss is limited to the cost of carry. If interest rates were zero then this should theoretically trade for .50.

When you are looking at real prices the small (fraction of a cent) cost of carry gets lost in the bid/ask. The bid ask spread on these underlying options was 2-3 c. I was taking the midpoint just to make sure it worked in real life.

Ri$k Doctor
Administrator
Hero Member
Posts: 3249

boxes
« **Reply #7 on:** May 23, 2008, 02:39:18 AM »
Right.

Wlblount
Newbie
Posts: 13

boxes
« **Reply #8 on:** May 23, 2008, 03:04:59 AM »
And I guess initial margin deposits on the short legs would only be an additional fraction of a cent carrying cost still not enough to show up because of the bid / ask spread.

Ri$k Doctor
Administrator
Hero Member
Posts: 3249

boxes
« **Reply #9 on:** May 23, 2008, 08:36:05 AM »
No margin on a long box -- Just the cost.

The credit for the short box is the margin requirement. You cannot withdrawl the credit amount to buy a boat, for example.

James Parker
RDCC
Full Member
Posts: 207

boxes
« **Reply #10 on:** July 02, 2008, 06:34:55 AM »

(Ri$k Doctor @ May 23 2008,12:36)
QUOTE
No margin on a long box -- Just the cost.

The credit for the short box is the margin requirement. You cannot withdrawl the credit amount to buy a boat, for example.

Charles

As I mainly trade European style cash settles Index Options on the FTSE 100, I have found your work on sythetics and box dissection invaluable ...

In OTTHR, Chapter 8, page 224, verse 3 '> "Thanks for the loan dude" you talk about how a Corporate managed to work round the bank's credit department by trading Deep in the Money conversions for a cheap loan but say this could not happen on a regulated exchange.

Couple of quick questions -

1. Why would it not work on a regulated exchange?
2. Would this work with SPAN margin?
3. Would this work with Selling Boxes rather than trading the conversion?

Cheers
James

Ri$k Doctor
Administrator
Hero Member
Posts: 3249

boxes
« **Reply #11 on:** July 09, 2008, 05:16:25 AM »

QUOTE
1. Why would it not work on a regulated exchange?
2. Would this work with SPAN margin?
3. Would this work with Selling Boxes rather than trading the conversion?

1. The credit must remain in the account. A withdrawl, would trigger a margin call.
2. SPAN would make no difference.
3. Same for a conversion, reversal or jelly roll.

James Parker
RDCC
Full Member
Posts: 207

boxes
« **Reply #12 on:** July 09, 2008, 06:07:18 AM »

(Ri$k Doctor @ Jul. 09 2008,9:16)
QUOTE
QUOTE
1. Why would it not work on a regulated exchange?
2. Would this work with SPAN margin?
3. Would this work with Selling Boxes rather than trading the conversion?

1. The credit must remain in the account. A withdrawl, would trigger a margin call.
2. SPAN would make no difference.
3. Same for a conversion, reversal or jelly roll.

Charles

Thanks for clarification ..... I presume the Corporate managed to work round bank credit department as they had a seperate unrestricted credit line with the derivatives desk who didn't require the conversion/reversal credit to be kept on account as margin?

Cheers
James

Ri$k Doctor
Administrator
Hero Member
Posts: 3249

boxes
« **Reply #13 on:** July 09, 2008, 06:21:52 AM »

Exactly.

Here is the excerpt from Chapter 8:

BAD CREDITOR BORROWING GAMES
Story: Thanks for the Loan Dude: A student of mine in a bank had been trading over-the-counter options in the foreign exchange market for five years. He could not understand why a certain customer was willing to trade $30 million worth of deep in-the-money conversion for a 50-pip edge to the trader. He thought it was like stealing.

It seemed to me that the customer was selling the deep call options on the conversion and collecting cash at an unattractive implied interest rate, so I asked, ??What does this customer do and how is his credit rating?? The student said, ??He has a company that is strapped to the gills with debt and he cannot borrow anymore from our bank. What has that got to do with a no-risk European-style conversion?? My reply was, ??There is your answer. The bank will not lend him another penny at even three times your rate, but you just lent him 30 million at a half of a percent over your rate.? The student was flabbergasted. This cannot happen on a regulated exchange, but it often occurs in the OTC market.

A market maker wears many hats. One of those hats comes with a three-piece suit and gold watch and chain. An options trader is a banker who borrows and lends. The premium trader, the directional trader, the skew trader, and the risk manager are other hats that the market maker wears from time to time. **End**

Author	
leonidt Newbie Posts: 4	**Risk Doctor training Part4** « **on:** June 15, 2008, 05:16:15 PM » I have a question about Question 2D in training day 4. Which one (only one) vehicle (futures or calls, or puts) would you like or buy or sell, and in what quantity in order to neutralize to a safe exposureD. The DJX is at 104.42. You are short 24 of the 102 calls and long 32 of the 102 Puts. Answer is to buy:Buy 26 futures. It leaves us with 2 calls and 6 puts. After answer is given it makes sense. A little bit confused here. It's probably generic question what makes position like this delta-neutral. Thanks
Ri$k Doctor Administrator Hero Member Posts: 3249	**Risk Doctor training Part 4** « **Reply #1 on:** June 17, 2008, 07:28:38 AM » The DJX is at 104.42 so the 102 Calls are in-the-money (ITM) while the 102 puts are out-of-the-money (OTM). Even if you do not have the exact deltas you would think that, on some sort of ratio, you would need fewer calls to balance off deltas with more puts. Granted, closer to expiration, it might require 1x7 (25 futrues to neutralize). It follows, that on expiration, you would do only 24 futures to offset the ITM calls while letting the puts go out worhtless.
leonidt Newbie Posts: 4	**Risk Doctor training Part 4** « **Reply #2 on:** June 17, 2008, 01:07:20 PM » Thanks for your time.

Author

OptionJedi
RDSI_ALL
Newbie
Posts: 10

Part 3 - Box Tool Confusion
« **on:** December 05, 2007, 06:30:25 PM »

In trying to follow the material for Day 4, Exhibit 1-10 which shows how the 10*36C/39P Guts Strangles equals 10*36P/36C Strangles is a little lost on me.

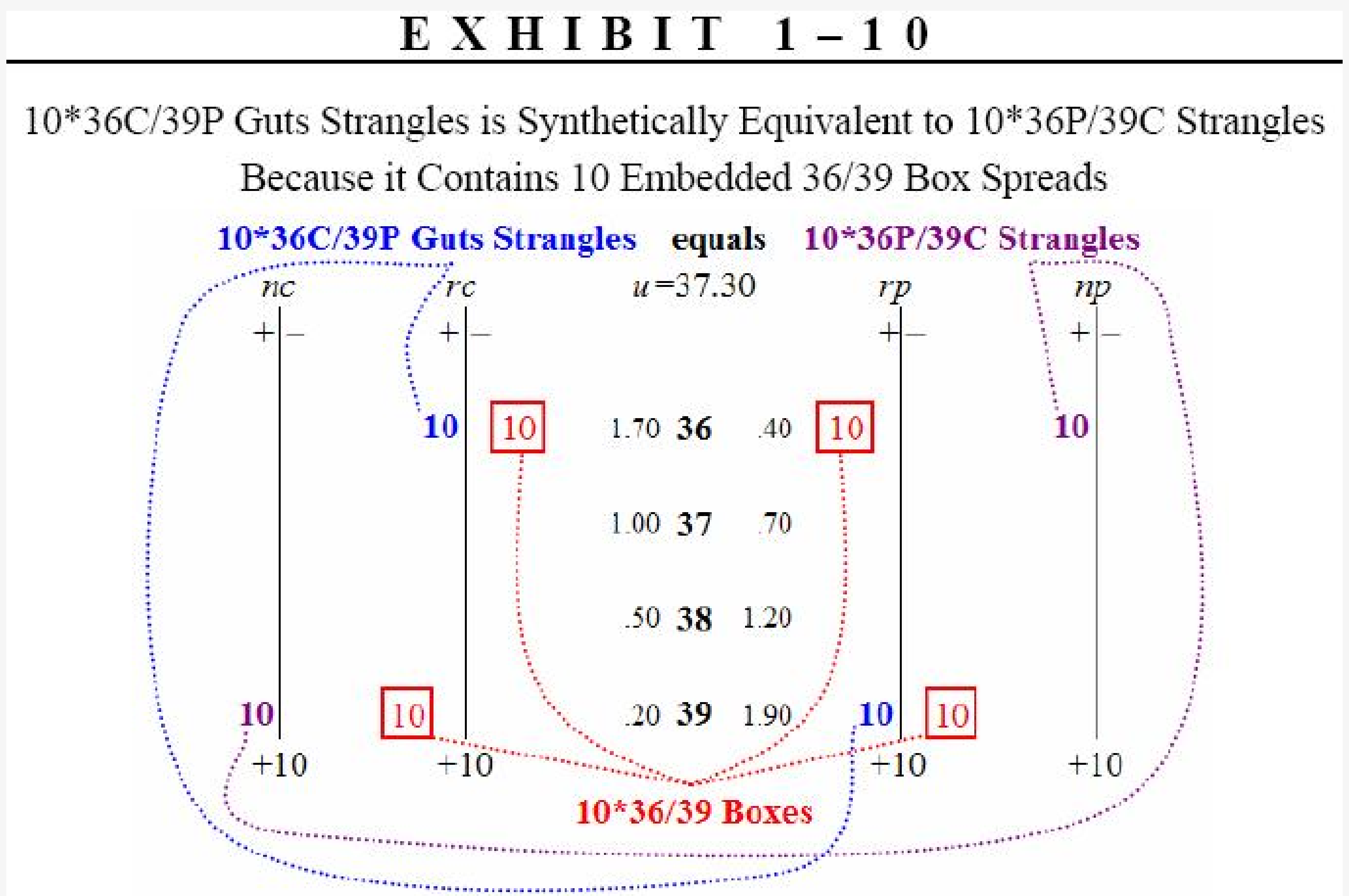
At least from the material in the PDF, I'm not sure how I would apply a box (short box or long box and how do you decide?) to show the equality of the two positions. I guess what's missing is a step by step construction and application of the box and the intermediate steps transitioning from raw calls and puts to net calls and puts (and how did the underlying get selected to be 37.5? mid-point between 36 and 39? why?).

thanks

Ri$k Doctor
Administrator
Hero Member
Posts: 3249

Part 3 - Box Tool Confusion
« **Reply #1 on:** December 10, 2007, 12:02:42 PM »

QUOTE
I'm not sure how I would apply a box (short box or long box and how do you decide?)

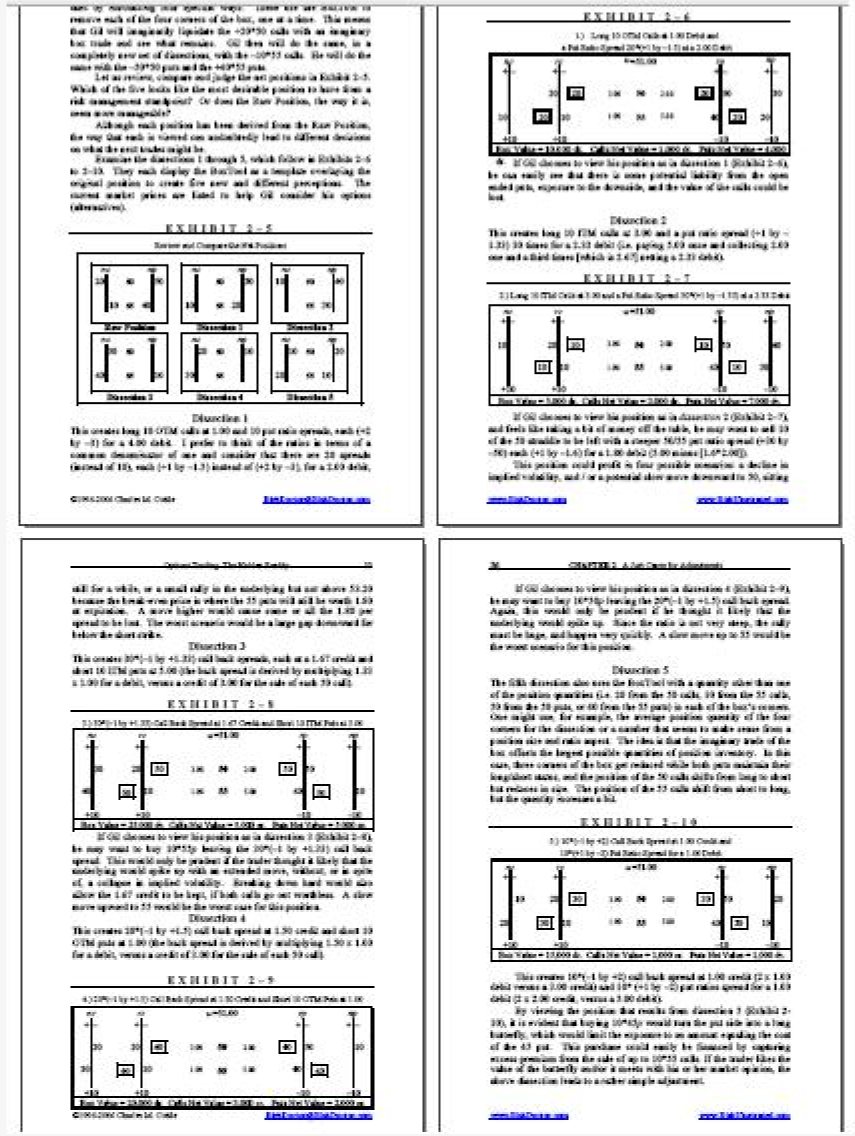


In this case, an imaginary trade (selling a box) liquidated the ITM options, leaving the simplefied OTM (pure extrinsic value) options.

$37.50 was selected, in the question, to make the math easy but the main point was to ask the question using a stock price somewhere between 36 and 39 so that the reader would erroneously assume that the position was worthless.

Chapter 1's purpose was to introduce the fact the there is much more to options than meets the eye.

In Chapter 2 there is more of the constructive examples:



For now, imagine that the BoxTool is no different to two separate sets of opposing SynTools (where the underlying is eliminated) at two different strikes.

OptionJedi
RDSI_ALL
Newbie
Posts: 10

Part 3 - Box Tool Confusion

« **Reply #2 on:** December 11, 2007, 04:51:59 PM »

Thanks Charles. I think I got it now. So a long box would reverse the process. I guess since the guts strangle has ITM options, and since the underlying can't be in two places at the same time, no matter where the underlying is, the 3 strike intrinsic value is "boxed" in.

Ri$k Doctor
Administrator
Hero Member
Posts: 3249

Part 3 - Box Tool Confusion

« **Reply #3 on:** December 11, 2007, 05:44:48 PM »

By Yoda, I think you've got it

asetianto
Newbie

Part 3 - Box Tool Confusion

« **Reply #4 on:** April 04, 2008, 09:13:13 PM »

Posts: 4

On this particular example of 10*36C/39P I approached it graphically (by carding up) with the objective to neutralize the original position. So when I see +10*36c (rc) and +10*39p (rp) I naturally add -10*36c (rc) and -10*39p (rp) thus I am left with adding +10*39c (rc) and +10*36p (rp) or equal to 10*36P/39C.

Honestly, it is still quite vague as to why the above 36/39 box is considered as short box.

When I dissect the 36/39 box spreads:
-10*36c / +10*39c, I got a bear call (credit spread)
-10*39p / +10*36p, I got a bull put (credit spread)

I guess this is why the 36/39 box is considered as short box since it is a credit spread.

Since before this I am used to drawing hockey sticks graph, my simple drawing suggest by adding the bear call and bull put above suggests a flat line, or locks formation, just like the syn tool (conversion/reversal).

Thus this reminds me that the 36/39 box is a lock but with possibility of getting a credit (when selling) or requiring a debit (when buying) to establish.

I am hoping that I am (close to) getting it too ...

Ri$k Doctor
Administrator
Hero Member
Posts: 3249

Part 3 - Box Tool Confusion
« **Reply #5 on:** April 06, 2008, 07:00:54 PM »

The 4 Red BoxTools in Exhibit 1-10 above is the synthtic selling of that box to dissect out the deep ITMs.

If there was no initial position and that sale of the box was in fact a real trade, then yes, the two credit spreads would result in a short box. That credit however is not yours to keep. It is a liability that will have to be paid back when the position is liquidated or assigned away. The eventual liquidation will be the offsetting debit.

The Box is explained more in Chapters 2, 6 and 8 but I wanted to plant the seed very early on because it is an incredible tool for uncovering risk.

Author

asetianto
Newbie
Posts: 4

Questions on Risk Doctor Training Part 4
« **on:** April 04, 2008, 04:39:55 AM »

Dear Charles,

On the exercise second question on "a government estimate will be announced in one minute ... to neutralize to a safe exposure"

Answer A. Understood.

Answer B. The position is equal to -14oo u / -1 * 103 c / -1 * 103 p.
Thus to neutralize, your answer is to buy 14 futures, right? What about the -1 * 103 c / -1 * 103 p ?

Answer C. The position is equal to +3 * 103 c / +23 * 103 p.
Thus to neutralize, your answer is to sell 20 puts. Does -3 * 103 c / -23 * 103 p equals -20 * 103p ?

Answer D. The position is equal to -26oo u / +2 * 102 c / +6 * 102 p.
Thus to neutralize, your answer is to buy 26 futures. What about the +2 * 102 c / +6 * 102 p ? Does +2 * 102 c / +6 * 102 p have lesser delta than +4 * 102 c / +4 * 102 p ?

I am very interested to learn further from you.

Kind regards,

Andi from Jakarta, Indonesia

Ri$k Doctor
Administrator
Hero Member
Posts: 3249

Questions on Risk Doctor Training Part 4
« **Reply #1 on:** April 04, 2008, 08:00:10 AM »

QUOTE
Answer B. The position is equal to -14oo u / -1 * 103 c / -1 * 103 p.
Thus to neutralize, your answer is to buy 14 futures, right? What about the -1 * 103 c / -1 * 103 p ?
Yes. Priority 1 is to remove 95% of the risk in a single trade. The remaining short one-lot straddle is risky, to be sure. However, relative to the unadjusted position, the first trade of 14 futures addresses the most exposure. Although the one-lot straddle has unlimited risk, it is, at the moment, delta neuetral and quite small.
QUOTE
Answer C. The position is equal to +3 * 103 c / +23 * 103 p.
Thus to neutralize, your answer is to sell 20 puts. Does -3 * 103 c / -23 * 103 p equals -20 * 103p ?
No, but I think you are confused. After selling the 20 puts, the remaining position is long 3 straddles (+3 calls and + 3 puts).
QUOTE
Answer D. The position is equal to -26oo u / +2 * 102 c / +6 * 102 p.
Thus to neutralize, your answer is to buy 26 futures. What about the +2 * 102 c / +6 * 102 p ? Does +2 * 102 c / +6 * 102 p have lesser delta than +4 * 102 c / +4 * 102 p ?
Yes. The futures are at 104.42 and because the calls are ITM and the puts are OTM then a ratioed straddle of 1c : 3p has less delta (bias) than a straddle that is 1c : 1p.

asetianto
Newbie
Posts: 4

Questions on Risk Doctor Training Part 4
« **Reply #2 on:** April 04, 2008, 08:37:00 PM »

Answer B:
QUOTE
Yes. Priority 1 is to remove 95% of the risk in a single trade. The remaining short one-lot straddle is risky, to be sure. However, relative to the unadjusted position, the first trade of 14 futures addresses the most exposure. Although the one-lot straddle has unlimited risk, it is, at the moment, delta neuetral and quite small.
Ok. The objective is to neutralize the position (which means include delta neutrality).
Answer C:

QUOTE
No, but I think you are confused. After selling the 20 puts, the remaining position is long 3 straddles (+3 calls and + 3 puts).
Yes I was confused, thank you for clarification. With selling 20 puts you neutralize the position (delta neutral as well).
Answer D:
QUOTE
Yes. The futures are at 104.42 and because the calls are ITM and the puts are OTM then a ratioed straddle of 1c : 3p has less delta (bias) than a straddle that is 1c : 1p.
This concept is a bit advanced for me as I am still novice on greeks. I am guessing that +2*102c (ITM) / +6*102p (OTM) or ratio 1 (ITM) : 3 (OTM), with ITM having more delta than OTM, suggesting a lesser delta (bias) than a +4*102c (ITM) / +4*102p (OTM) or ratio 1 (ITM) : 1 (OTM). Is this correct? I hope greeks are covered in RD course. I have to pay extra attention to underlying and strike next time. Thank you for clarification.

Ri$k Doctor
Administrator
Hero Member

Questions on Risk Doctor Training Part 4
« **Reply #3 on:** April 06, 2008, 06:39:44 PM »
All Correct!

Author

minnanotabo
Newbie
Posts: 10

Scope of Risk Doctor training
« **on:** January 20, 2008, 12:21:10 PM »

Risk Doctor: I have taken your free course (ch 1) and am contemplating purchasing the full book, pending your response. I would like to know your views on your four (4) webinars. What is your justification for their pricing? Obviously, you are in the business of teaching because you enjoy it, and it's a great way to generate income. But having lost tons of money on real estate investing and small web businesses, I'd like to be really careful how I invest my remaining budget.

I want to lower my risk (as I embark on your training) and ensure that I ask myself the right questions and to be as prudent as possible. I don't want to have high hopes, baseless confidence and inflated expectations, as I am not familiar with the options trading arena. For example, the options game may be "rigged" such that only those with specific knowledge, skills, or people connections can play the game well. I don't know.

I ask for your sincere interpretation of the options arena in the next few years and potential outlook for novice "playability". That is, even if a novice learns and grows by following the Risk Doctor, what are the chances that they will be able to play the game and actually stay in and be fruitful? By fruitful, I mean that if I were to put up $20,000 to play the game, and I knew everything you knew about options, would I have a decent chance of making 2 to 3 % as you proposed in ch 1? (with all your applicable disclaimers of course..)

Look forward to your response.
Ken

Ri$k Doctor
Administrator
Hero Member
Posts: 3249

Scope of Risk Doctor training
« **Reply #1 on:** January 21, 2008, 12:20:56 PM »

QUOTE
I would like to know your views on your four (4) webinars. What is your justification for their pricing? Obviously, you are in the business of teaching because you enjoy it, and it's a great way to generate income.

Which 4 Webinars are you refering to?

As far as pricing?....It has always been a tough question. If something is free (like 15,000 copies of Coulda Would Shoulda were) then the perception is that it has no value. If it is too cheap then the perception is that it has little value. You see so many sights that have trading books that are priced at 10% of there original price. Would you buy any of those books?

When you could no longer get "Options: Perception and Deception" I know students who paid as high around $500 on Amazon. CWS, eventhough it was a free give-away to thinkorswim account funders, went for around $150, after the give-away stopped.

I brought it all back, expanded, and in color as "Options Trading: The Hidden Reality". This new version is better and more affordable. The price is kept up there to maintain, what many to believe, the perception that the book should be a must to own by serious options enthusiasts.

I would actually like to discourage buyers who are not serious about options so that they quit earlier than losing serious amounts of money in the marktes.

The free course is intended to give you an accurate glimpse into the real landscape of the options world and provide a wake-up call:

"QUIT Wondering about Options"
"You won't make a gazillion percent" like others say.
"IT IS NOT EASY! It takes work. Simple. You don't have to be a rocket scientist. You have to work.

I was happy to find that the recent survey showed that the free course discouraged about 15% of the people. That is Awesome! I hope they get "Options" out of there system. I achieve my objective if someone quits before thay throw away serious money on the markets or expensive seminars that are worthless.

I have lost count of all the people who told me that they learned more in Chapter 1 than all the $10,000 courses offered by mainstream seminar companies.

Too bad they did not find RiskDoctor sooner. Better late than never.

If one can get through Chapter 1 with a good understanding, they can take the risk of a $91 book (half for the PDF). After the book, perhaps after 4 reads (it is amazing but people are happy to fdo that) they know if Options are for them and if RiskDoctor has the right content for them to proceed to the webinars. Priced High? Maybe, but again--"Perception of Value".

QUOTE
I don't want to have high hopes, baseless confidence and inflated expectations

I also hate the 'Pie in the Sky" promises and unrealistic projections and I get more emails in that genre almost as much as I get about Viagra.
QUOTE
I ask for your sincere interpretation of the options arena in the next few years and potential outlook for novice "playability".

Options are still in their infancy. It just keeps getting better for the retail trader. Access gets better and more competitive all the time. The transparency and software is improving. Newer products coming on board (ETFs and Futures). More control to be had. I don't imagine that it will ever reverse. The momentum is awesome. Why should it ever stop. The only thing that ever got bad was for Market Makers because the edge (illustrated in Chapter 1) keeps shrinking for their profitability. That happens to be the driving force of why it gets better for customers.

So: Either Quit while you are ahead and save that $20K or invest wisely in a tuition plan with someone you develop faith in.

minnanotabo
Newbie
Posts: 10

Scope of Risk Doctor training
« **Reply #2 on:** January 27, 2008, 08:15:46 AM »

Charles, fair enough!
Thank you for answering my questions in such detail.

On pages 21 to 28 of your free PDF, you have diagrams of risk profiles for many different trades. Should I study ALL of these diagrams thoroughly prior to proceeding to Chapter 2? Or are you simply showing them here for reference purposes (that one can refer to when needed later on)?

Please let me know and I'll be off to buy the full book!

Thanks, bud!
Ken

Ri$k Doctor
Administrator
Hero Member
Posts: 3249

Scope of Risk Doctor training
« **Reply #3 on:** January 27, 2008, 09:16:23 AM »

Referrence only. Your most common trades will most likely be;
Verticals (Chapter 5),
WingSpreads (Butterflies and Condors in Chapter 6) and
Calendar Configurations (Chapter 7).

Ri$k Doctor Forums

Author

jimmyo
Newbie
Posts: 3

page 22 synthetics
« **on:** December 13, 2007, 09:45:29 AM »

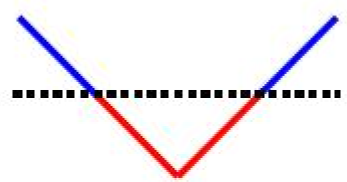
Hi Charles:
On page 22 with the synthetics for the long 70 straddle.
The synthetic is long 2*70 calls and short the underlying.
Why 2 calls? I think this question would apply also to the short straddle.
Thanks: Jimmyo

Ri$k Doctor
Administrator
Hero Member
Posts: 3249

page 22 synthetics
« **Reply #1 on:** December 16, 2007, 08:36:13 AM »

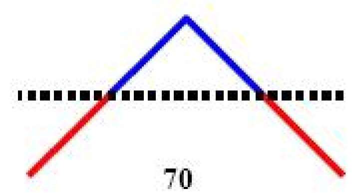
I am not sure what you are asking. Here is the image from Page 22:

Long Straddle



Long 70 Straddle
Long 70 Call / Long 70 Put (+70*c* / +70*p*)
Long 2*70 Calls / Short Underlying
(+2*70*c* / −*u*)
Long 2*70 Puts / Long Underlying
(+2*70*p* / + *u*)

Short Straddle



Short 70 Straddle
Short 70 Call / Short 70 Put (−70*c* / −70*p*)
Short 2*70 Calls / Long Underlying
(−2*70*c* / +*u*)
Short 2*70 Puts / Short Underlying
(−2*70*p* / −*u*)

Synthetic Long Straddle can be;
Long 2 Calls and Short 1oo Underlying
or
Long 2 Puts and Long 1oo Underlying

The opposite for a Synthetic Short Straddle;
Short 2 Calls and Long 1oo Underlying
or
Short 2 Puts and Short 1oo Underlying

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jimmyo
Newbie
Posts: 3

page 22 synthetics
« **Reply #2 on:** December 16, 2007, 09:08:01 AM »

Under the long 70 graph. I see long 70 call /long 70 put.
I am interpreting that as long 1 put and 1 call.
Below that is:

Long 2*70 calls / short underlying. (+2*70c /-u).
That is where I am seeing the 2 calls.

I have the above figured out. Thanks.
I'm a babe in the woods here but I'm learning.
I'm working my way through the book.
I'll keep in touch here.
Cheers: Jimmyo

Author

Ri$k Doctor

Welcome to OTTHR Lite Free Course
« **on:** October 31, 2007, 11:08:53 AM »

Welcome to the Ri$k Doctor's OTTHR Lite Free Course Forum.

"Tell me and I will forget. Show me and I will remember. Involve me and I will understand."
Aristotle

This forum is to be used for any questions or comments you might have concerning the free course that takes you through Chapter 1 of "Options Trading: The Hidden Reality.

Enjoy!

The Ri$k Doctor

Ri$k Doctor Free Crash Course to Higher Options Consciousness,

Who should take this course?
Option Speculators
Option Hedgers

What should I expect to gain from learning what is in Chapter 1?
Higher trading consciousness
New way to view options trading
Learn from past trading pitfalls for profitability
Become a more efficant options trader

'Charles explains strategies and risk in ways that most traders today have never imagined. If you're managing an options position by deltas, gammas, vegas, and thetas alone, Charles shows that imperfections in the models hide certain risks. A trader must understand his or her position beyond the popular measures of risk'
Thomas R. Preston, thinkorswim

'Since I have been a derivatives trader, there is no one who has given me as many ideas about trading concepts as the author of Options: Perception and Deception. Besides teaching me new ways to scrutinize positions and their risk profiles, Charles Cottle taught me how to learn from the markets. This book provides the reader with with deep insights into options trading. It is exciting, inspiring, and far from being dry.'
Olaf Pilz, West Deutsche Landesbank, Dusseldorf